



GOVERNMENT SERVICES

Administrative Burdens – HMRC Measurement Project

20 March 2006

Restricted – Commercial

TAX



HMRC

Administrative Burdens: HMRC Measurement Project

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KPMG LLP
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1 **Report overview**

1.1 **How to use this report**

This report seeks to give an overview of the model that has been built to measure the tax administrative burden for UK business. The report gives examples of some early analysis of areas of high burden, outlines how the model was built and the size and format of the resulting data framework.

Like the UK tax system the model is large and complex. Thus the report can only give a flavour of the model's full potential. The detailed analysis looking at specific pieces of tax regulation, the setting of the baseline and targets, how to link the administrative burden to the full range of impact assessments and wider policy initiatives will be done by HMRC as it takes the model forward, using the data framework.

This report is a good starting point for an overview of the model and the dynamics of the tax administration burden for UK business. The main body of the report provides a brief description of the background to the model, how the model was built, some examples of early analysis at a total level and a summary of the overall themes arising from business interviews. This report uses, from time to time, technical terms set out in the Standard Cost Model. The Glossary seeks to give a practical explanation of each term.

There are a series of Annexes to this report:

- **Annex A** is a detailed description of the methodology and how the model was applied in practice
- **Annex B** provides an example of the guide used to interview businesses
- **Annex C** provides a summary of the overall themes arising from interviews with businesses. The focus is on issues that do not relate to one specific tax but were raised in the context of interviews on many different subjects
- **Annex D** addresses demarcation issues: what regulation is included in the model and what is not

1.2 **Table conventions**

The early analysis in this report is based on tables of monetary amounts and percentages derived from the data framework. These tables look at the administrative burden in a number of ways, at different levels of detail, to give examples of how the model can be used. This means that different measurement units are used for the monetary amounts and percentages, depending on which aspect of the model is being looked at. For example, some tables show monetary amounts to the nearest £ million and percentages in whole numbers. Other tables use different conventions. The overarching aim is that a monetary amount or percentage is shown and that the tables are as helpful as possible.



The underlying data held in the data framework is extremely detailed and has been rounded up or down to prepare the tables. Due to complex roundings not all the tables, as presented, will add up to the total shown on the table.

A dash ‘-’ in the tables indicates a genuine zero value. By contrast, the figure ‘0’ indicates a negligible number in the context of that table.

2 **Executive Summary**

2.1 **Background**

The Government wants to reduce the administrative burden on business in a progressive and sustained manner for years into the future. To do that it has to start by gaining an accurate picture of the administrative burden regulation currently causes.

2.2 **The model**

KPMG, working closely with HMRC, have built a model that maps UK tax legislation to the activities that business actually has to do to be compliant. For example, in the model it is now possible to look at one form and to see, for each entry on that form, what it means for all sorts of different businesses with different business processes.

The model includes estimates of price (that is, the cost to business of the activities it has to do to be compliant) and quantity (the number of businesses affected by a particular piece of regulation). These estimates are just that: estimates. But they are clear, consistent and informed by a wide range of experience; by the experience of the businesses we have interviewed; the experience of our economists and statisticians; our independent network of accountants who work with small businesses and sole traders and by our own experience as a leading supplier of tax compliance services to our clients.

The model does not, of itself, provide the answers. Its potential is as a diagnostic tool for HMRC to use to see where the issues are, to diagnose the problem and prescribe solutions.

This report sets out some high level findings from an initial analysis of the data. The data framework, with over 2.5 million data points, has now been transferred to HMRC to allow a full and detailed analysis.

2.3 **Overview of the tax administration burden**

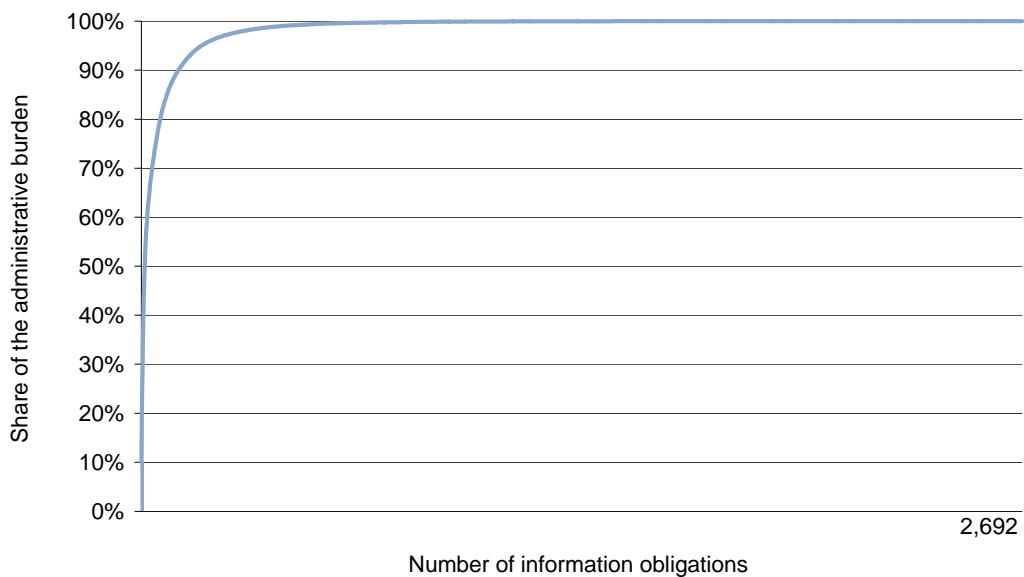
The administrative burden of UK tax regulation is £5.1 billion. Of this, 41% represents internal costs (that is, the costs of activities that business undertakes in order to be compliant), 49% represents external costs (the costs of working with intermediaries) and 9% represents acquisition costs (the non-time costs incurred by business). The split among these three types of costs varies considerably among tax areas. The key factors that influence the level of use of intermediaries seem to be the complexity of the tax regulation (that is, the need to understand the regulation), the number of businesses affected (that is, the size of the potential market for intermediaries) and the extent to which the regulation goes to the heart of a business' operations (that is, the need to understand the business operations). As a general principle, the greater the complexity of tax regulation and the greater the number of businesses affected, the greater the use of intermediaries.

The biggest single activity business has to carry out is information gathering: finding the information needed to be compliant. This information is often not readily available from accounting systems. This being the case, businesses incur costs in finding the underlying data behind the accounting system or by investing in reconfiguring their accounting systems.

2.4 Initial findings

A significant reduction in the total administrative burden will require radical change in the tax system. This is clearly shown by the fact that 86% of the tax burden is created by 85 information obligations (in simple terms, the blocks of information business is required to submit to HMRC or keep on record). These all fall within the areas that raise significant amounts of revenue and affect very large numbers of businesses. This distribution of burden is clearly show by the diagram below:

Figure 1: The distribution of the administrative burden



This suggests that HMRC needs to examine not only the main planks of the tax system that cause the majority of the burden, but also the long tail of minor obligations if it is to reduce the perception of complexity and make the most effective use of its processes.

Three themes have emerged from our work that we suggest are looked at in more detail. These are:

- the burden created by change;
- the burden created by complexity; and

- the burden created by ‘grit in the system’, that is, how HMRC responds at an operational level to its customers.

The model does not measure these costs but feedback from interviews makes it clear they are seen as a cost by business.

Change: Change creates both cost and uncertainty. There is a strong theme that much of tax administration works reasonably well once it is certain and has been around for long enough for business to set up a smooth machine to deal with the administrative requirements. What causes either actual or perceived increased costs is change that interferes with the smooth machine. One example is the frequent change in detailed legislation or, indeed, the introduction of new areas of legislation. These include provisions designed to provide relief as well as revenue raising provisions. Alternatively, it may be the impact of a change in a business model: taking on employees or expanding the business so that a threshold is passed.

Complexity: The analysis done in the model shows clearly the ‘elective’ nature of the tax system. There is a huge amount of legislation that may, or may not, apply to a business. This contributes to the perception that business operates in a complex tax environment. Examples are: the cost of working out whether to do something or not to do something, whether to make a claim, whether to take advantage of a relief, whether a threshold has been passed and so on. Feedback from interviews suggests that business is often not aware of some of the reliefs available.

Grit in the system: There are many reasons why a tax system may be complex and why it may change: this is part of the policy choices made by government. If, however, the tax system is complex then this puts ever greater focus on operational issues – how the tax authority works with its customers – as much as on regulation change itself. Feedback from business interviews shows that there are many areas where HMRC could look at how it responds to its customers.

Tax complexity is a creature of the policy choices made by government. True simplicity can only be achieved if one simplifies the many objectives that are asked of the tax system. Though very worthy of focus, this is not an easy task. This makes it all the more important that the problem – the perception that the tax system is “costly and reduces incentives to work, to invest and to innovate”¹ – is properly understood.

KPMG believes that the model, properly used by HMRC, is a powerful tool to help do this. Once the data is analysed, the diagnoses made and the problems understood, the Government and HMRC can then prescribe solutions, whether through legislation or operational strategies.

¹ Article by Anthony Hilton in *London Evening Standard*, 7 March 2006

3 Introduction

3.1 Background

3.1.1 Overview

The Government wants to reduce the administrative burden on business in a progressive and sustained manner for years into the future. To do that it has to start by gaining an accurate picture of the administrative burden regulation currently causes. This creates a baseline against which targets can be set and actual reductions tracked.

This is in line with the recommendation from the Better Regulation Task Force ('BRTF') report '*Less is more*'. Recommendation 1 of the report states: "*The UK can considerably reduce the regulatory burden on business by adopting the successful Dutch approach to reducing the administrative costs. This approach involves first measuring administrative burden and then setting a target to reduce them. The golden rule is that what gets measured gets done.*"

HMRC is not within the scope of the BRTF report because HMRC is a taxing authority and not a business regulator, but it is committed to measuring the administrative burden and setting a challenging but achievable target to reduce it.

KPMG has been appointed to conduct a measurement across the tax and duty system ('the Project'). A parallel exercise is being conducted by the Better Regulation Executive for the rest of the government ('the BRE project'). The approach being used for both measurement exercises is called the Standard Cost Model ('SCM').

The SCM – also known as the Dutch model – provides a framework methodology for measuring administrative costs. To implement this model in the UK, a number of specific implementation and methodological choices need to be made.

The BRTF recommended that the UK adapt the international Standard Cost Model as used in the Netherlands and Denmark. The BRE has done this and published a manual dated 30 September 2005, '*Measuring Administrative Costs: UK Standard Cost Model*'. This manual has been used, with certain adaptations for specific issues, to measure the tax administrative burden.

3.1.2 Objectives of HMRC Project

The following extract from the HMRC website sets out the scope and objectives of HMRC:

"HM Revenue & Customs (HMRC) was formed on the 18 April 2005, following the merger of Inland Revenue and HM Customs and Excise Departments. We are here to ensure the correct tax is paid at the right time, whether this relates to payment of taxes received by the department or entitlement to benefits paid."

The Project will provide HMRC with:

- a consistent and informed model of the administrative burden. This will enable HMRC to set a baseline from which it can identify priorities for action and track progress
- a powerful tool to inform operational and regulatory impact assessments, linking to wider policy and operational initiatives
- a better understanding of what drives the perception of tax ‘red tape’ and the different component parts of compliance costs, only one of which is the administrative burden
- a common basis to enable all stakeholders to discuss proposals for regulation and simplification

3.1.3 **Scope of the HMRC Project**

The scope of the Project is to measure the tax administrative burden imposed on UK business as at 31 May 2005. To do this the Project measures tax regulation enacted and in force at 31 May 2005. All tables in this report are therefore based on regulation enacted and in force at that date.

The Project measures the burden on compliant businesses. This means that regulation relating to non-compliance is not covered.

There are some areas where the policy belongs to other government departments but certain aspects of the administration of that policy belong to HMRC. In these cases, only the regulations owned by HMRC which govern these administrative aspects of that policy are included. So, for example, HMRC regulations covering the administration of the various statutory payments are covered, but not other aspects of the regulation for statutory payments which are owned by the Department for Work and Pensions (DWP) or the Department for Trade and Industry (DTI).

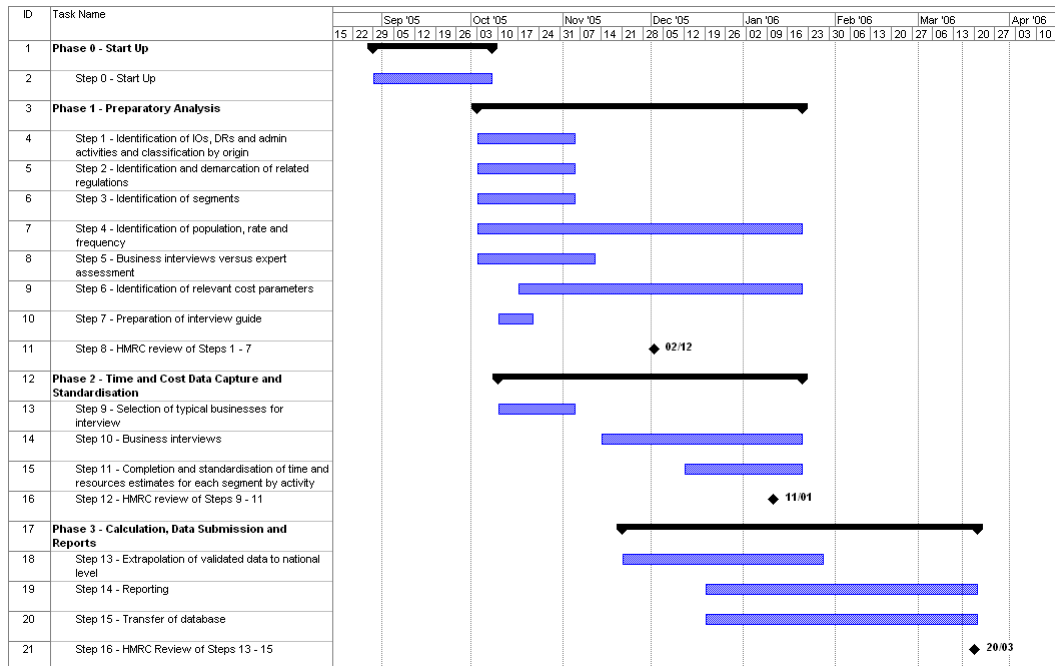
There are some areas where business and non-business regulations converge. Again, only the regulations relating to business are measured. So, for example, individuals with business income have to complete an income tax return with personal income as well. Only the burden relating to the supplementary pages relevant to the business income is included.

3.1.4 **Project timeline**

The Project took place between September 2005 and March 2006. The timing of the SCM steps is shown in the high level Gantt chart below: this clearly shows that the steps were carried out in parallel and not sequentially. This was necessary to meet the very tight timetable to complete the Project before the end of March. This meant more iteration throughout the process, as planning for the next step had to begin before the previous step was completed. Therefore, at all stages in the process, both HMRC and KPMG had to begin work before the practical applications of various concepts taken from

the SCM had been fully developed. Therefore, a very practical and constructive approach was required on both sides.

Figure 2: High level Project Timeline



3.1.5 Roles and Responsibilities

The Project was carried out by a team with clear roles and responsibilities. A Project Board was set up, comprising representatives from HMRC and KPMG, to authorise plans, review progress and confirm tasks were completed. The Project Board reported to the HMRC Steering Group, the key decision-making body for strategic issues affecting the Project. The Project Board gained valuable feedback, guidance and advice from an Advisory Board, comprising members of representative bodies and business representatives.

An SCM measurement exercise has not been conducted before in a country with a business community as large and diverse as that of the UK, or in such a short timeframe. Early on in the planning process, KPMG therefore recognised the importance of incorporating the experiences of those from other organisations who have carried out similar measurements exercises in Europe.

KPMG partnered with a team from Rambøll Management, a Danish based company that has carried out similar SCM projects in Denmark, Sweden and other parts of Europe. Rambøll has provided expertise and experience from previous exercises and has allowed us to anticipate possible methodological issues that have arisen in previous exercises.

Rambøll has licensed KPMG with Ramvab, a tool to support the measurement process. Ramvab enables capture of all data relevant to an Administrative Burdens measurement exercise and enables efficient standardisation of the results and reporting.

3.2 **Approach and methodology**

3.2.1 **What does the model do?**

The SCM applies a base formula: Activity Cost = Price (*tariff x time*) x Quantity (*population x frequency x rate*).

The resulting Activity Cost does not measure the full cost of compliance to business: the cost of change, the cost of uncertainty, the cost of working out whether or not to do something. It does not measure HMRC's cost of administration and does not provide a benchmark for individual businesses.

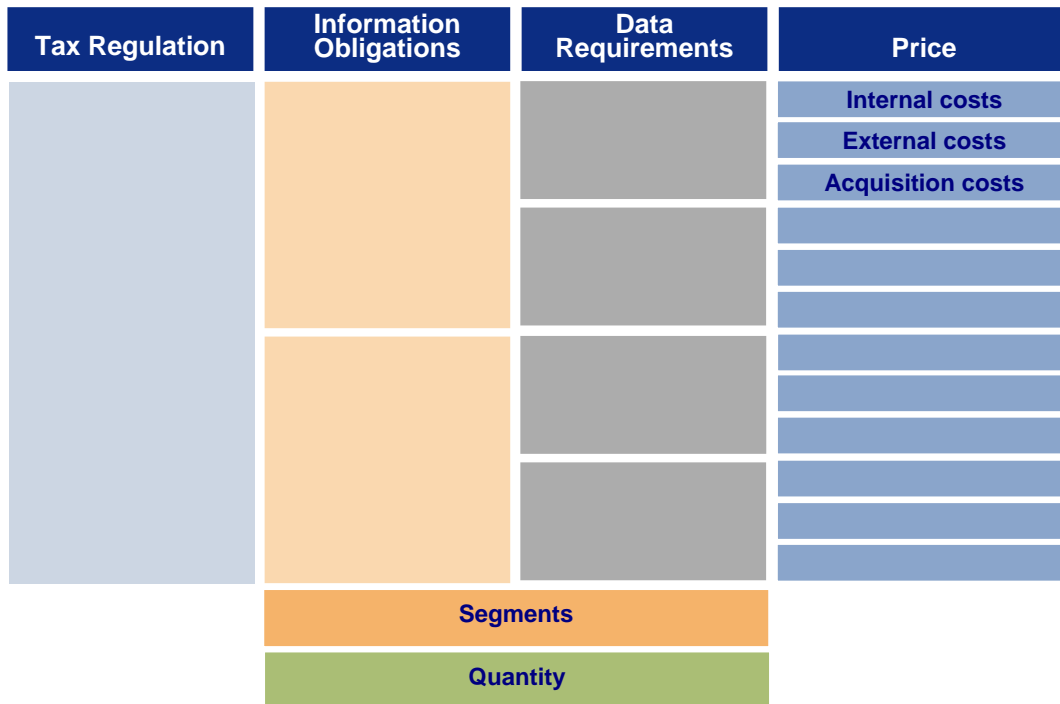
What the resulting Activity Cost does measure is the administrative burden of UK tax regulation. It does so by modelling a consistently calculated and informed set of estimated costs for each burden. The estimates are informed by the experience of a wide range of businesses interviewed, and by KPMG's broad experience as a supplier of tax compliance services. Going forward, as the model is taken forward by HMRC, the estimates will be further enhanced by HMRC's experience. Because the estimates are consistent they can be used to compare relativities. This means the database can be used to show where the most onerous areas of regulation are and which areas of tax regulation require a disproportionate amount of administrative effort. *Consistency* is the key word. There is a huge focus, at each stage of the Project, in ensuring consistency as much as possible.

3.2.2 **How has the model been applied?**

Full details of the methodology and how it has been applied in practice are set out in Annex A.

The model has certain key concepts that need to be understood if the full potential of the data framework is to be realised and the early analysis in this report to be interpreted appropriately. These concepts are set out in the diagram below and are explained in more detail in the notes that follow.

Figure 2: The key concepts of the SCM



Tax Regulation: Regulation enacted and in force at 31 May 2005 was analysed and fully modelled. A regulation origin (UK or international) was set. Thus, it is possible to model the burden by reference to pieces of regulation, to the origin of legislation, to the number of sources of regulation.

Price: The price is made up of three key building blocks:

- internal costs, that is the cost of 16 administrative activities that business actually has to carry out to be compliant. These 16 activities were set out by the SCM and are at the heart of the model. The time and costs measured comprise internal time multiplied by pre-determined wage rates taken from National Statistics
- external costs, that is the costs of working with intermediaries
- acquisition costs, that is the non-time costs of dealing with a specific obligation

Information Obligations ('IOs') and Data Requirements ('DRs'): The tax regulation has been linked to the activities and costs that business incurs by first breaking regulation down into IOs (the blocks of information business is required by law either to submit to HMRC or keep on record) and DRs (particular data fields business needs to fill in to comply with those IOs). This analysis was done in a consistent way that made it most practical to collect price and quantity data. The time spent on each of the 16 types of administrative activity has been estimated for each DR. External costs and acquisition costs have been estimated for each IO. Each IO has been categorised into one of 13 types, each type representing a particular process: filing a return, providing information

to third parties, and so on. Where appropriate, IOs have been linked to an HMRC form. Details of the 13 IO types are given in Section 6, Glossary.

It is important to bear in mind the distinction between IO types and administrative activities. For example, there is an IO type ‘Co-operating with inspections’. There is also an activity type ‘Inspection by public authorities’. The administrative activity measures time spent assisting HMRC when they carry out their inspection at the business. It does not relate to the time spent on information retrieval and assessment that will be required in advance of, or during the inspection. The IO type ‘Co-operating with inspections’ therefore comprises a range of administrative activities. Assisting HMRC is only one small part of the range of activities undertaken as part of an inspection.

Segments: The model recognises that there may be differences in business process that impact on price, depending on the type of business. Where this is the case, separate segments have been set up and the price components estimated separately for each IO and DR in each segment. The main segments used have been by size of business; other segments include the use of e-government solutions and the use of intermediaries.

These price components are a series of consistent estimates of the costs that a ‘normally efficient business’ in that segment might incur. A ‘normally efficient business’ is hard to define. The factors considered included the likely level of automation in that segment, the likely approach to risk, how familiar the process is (how often or regularly does business have to deal with the IO) and so on. The team then looked at the mass of quantitative and qualitative data from interviews with business, looking for patterns across the data and between similar IOs, using their judgement as experienced tax professionals in order to reach a consistent estimate of costs. These decisions were taken at a very detailed level: often by activities for DRs for each segment. The decisions were not all straightforward.

The quantitative and qualitative data from interviews was key in informing the estimates. Full details of the interview process are given in Annex A. Over 50% of the IOs were interviewed and over 70% of the administrative burden was directly informed by IOs that were interviewed.

Quantity: The quantity is made up of three key building blocks: population (that is, the number of businesses affected by an IO), frequency (how many times a year the IO has to be complied with) and rate (the proportion of businesses complying with the IO that comply with a given DR within that IO). Population and frequency estimates have been made for each IO; rate estimates have been made for each DR.

A number of different population types have been used. The key was to ensure consistency between population type and the estimate of price. For example, the price of a VAT invoice is estimated ‘per incident’, that is for a single VAT invoice. The population type is also ‘per incident’, that is the number of VAT invoices issued by UK business each year. Similarly, the price for year end PAYE returns to HMRC is estimated ‘per employer’, that is the cost of a PAYE return to an individual employer. The population type is also ‘per employer’, that is the number of employers affected.

Data framework: The analysis of tax regulation using these different concepts creates a huge data framework of over 2.5 million data points. These are either:

- navigational points: points to help navigate around the data framework, such as ID codes, regulation reference numbers, descriptions and so on. These number around 1.4 million
- reference points: points of data that are not part of the price data but are still an integral part of the model. Reference points include, for example, IO names, IO types, estimates of population, rate and frequency. These number around 650,000
- measurement units: the price data, that is internal costs (internal activity time and wage rates), external costs and acquisition costs. These number around 470,000

3.2.3 **Key methodology issues**

Key methodology issues that users of the data framework or readers of the report should take into account are set out below.

3.2.3.1 **Population**

It became clear early on that HMRC would only be able to provide population numbers for some of the IOs. The concept of an IO is new and HMRC management information systems are not structured in such a way as to record this information. After much work it was decided that the only practical way forward was to rely on informed estimates. Considerable efforts were made to ensure the estimates were not unreasonable at a total level.

The allocation of total population numbers to size segments has been done using a series of generic allocations based on the percentage numbers of businesses in each size segment. A generic approach was used as the only practical way forward, as HMRC management information systems do not have this information. The generic allocations may mean that the segment population in the model is out of line with the segment population in practice. This is because the allocations are generic: in reality some segments are more likely to be affected by an IO than others and this may not be reflected in the generic percentages. Thus, the interpretation of the analysis of the burden by segment needs to be done with care. Further details of the generic percentages are given in 3.3 below.

We recommend that more work is done by HMRC on population numbers, both in taking the model forward and to better inform operational and policy decisions.

The population numbers were the best estimates of annualised population as at 31 May 2005. This is appropriate where the number of businesses affected by an IO is stable. Where, however, there is new regulation, it may take time for the stable population of businesses to emerge. Further thought should be given on whether to update the model to maintain trends and assess the impact of new legislation.

3.2.3.2 *Understanding the administrative burden*

When looking at the administrative burden, whether for a segment, an IO, a regulation or any other measurement unit, the burden will always be a function of price or quantity. Put simply, a burden may be high because it has a high population, not because it is particularly onerous for any individual business. Conversely, a burden may not seem high because it has a low population but, for the individual businesses affected, it is very onerous. Generally speaking the areas of high burden – whether measured by IOs, forms or segments – are high due to high population numbers. This is important when interpreting the results and using them to set targets: the high burden IOs at a total level may not necessarily be the most burdensome at an individual business level.

3.2.3.3 *Using the data framework*

Initial analysis to date suggests the data framework is very powerful in analysing the overall dynamics of the administrative burden or as a very detailed tool for analysing the nuts and bolts of a particular administrative requirement. It shows some high level themes, some of which are discussed in this report. It has already proved very helpful in pilots with HMRC teams, using the model to analyse the possible impact of adding a box to a form or of changing a particular requirement.

The data framework is less helpful when data is aggregated to provide certain summaries. For example, calculating the average of the three building blocks for price (internal cost, external cost and acquisition cost) across segments may seem to offer a helpful statistic. However this is not necessarily the case. This is because the resulting statistic is a very broad measure, cannot be applied to any particular business and inevitably loses the detail and precision in the model.

3.2.3.4 *Marginal cost*

The aim of the model is to measure the ‘marginal cost’ of tax, that is, the additional burden caused by the tax system and not the ‘business as usual’ costs. Another way of putting this is that we aimed to measure the cost that would fall away if tax were abolished overnight. The way the Project has been conducted means that only marginal costs have been collected. Full details are given in Annex A (Appendix 1).

3.3 *Businesses affected by the tax regulations*

3.3.1 *What population data has been used?*

As noted in 3.2.3.1 above, population data is a key factor in calculating the administrative burden. It also provides an interesting overview on some likely dynamics within the tax system. The individual IOs have individual population numbers. All these, however, are driven by certain overall parameters that reflect the make-up of the UK economy.

3.3.2 Businesses

Number of businesses:

Number of unincorporated businesses filing the Self-Employment supplementary pages to the Income Tax return	3,064,891
Number of incorporated businesses filing a Corporation Tax return	1,097,586
Total number of businesses	4,162,477

Source: HMRC.

Percentage of businesses by size segment:

	%
Nano: 0 employees	72.0
Micro: 1-9 employees	23.0
Small: 10-49 employees	4.0
Medium : 50-249 employees	0.8
Large: 250+ employees	0.2
Total	100.0

Source: SBS data issued August 2005.

The high population number of unincorporated businesses (nano businesses) and the high percentage of small incorporated businesses mean that regulation affecting most of these businesses is likely to show a high burden even if not particularly onerous at an individual business level.

These percentages show how heavily the numbers of businesses are skewed to nano businesses. As discussed in 3.2.3.1 above, the allocation of certain IO population numbers to size segments has been done using a generic process applying these percentages. This means the resulting allocation will reflect the skew in these percentages.

The percentage of businesses by size segment has been used when it was felt that population numbers should be skewed in favour of nano and small businesses, for example, for IOs that will affect all nano and small businesses. For IOs which are not appropriate to nano businesses, percentages have been calculated to allocate the population over the four remaining segments

3.3.3 Employment

The total number of employers in the UK is 1,163,330; the total number of employees is 17,786,000 while the total number of employments is 50,000,000 (as people may have more than one job).

Source: SBS data issued August 2005.

Percentage of employees by size segment:

	%
Nano: 0 employees	0.0
Micro: 1-9 employees	17.0
Small: 10-49 employees	17.0
Medium: 50-249 employees	14.0
Large: 250+ employees	52.0
Total	100.0

Source: SBS data issued August 2005.

This shows how heavily the numbers of employees are skewed to large businesses. As discussed in 3.2.3.1 above, the allocation of certain IO population numbers to size segments has been done using a generic process applying these percentages. This means the resulting allocation will reflect the skew in these percentages.

The percentage of employees by size segment has been used when it was felt that population numbers should be skewed in favour of large businesses, for example, for IOs that are more likely to affect large businesses.

3.3.4 Indirect tax and frontiers

Number of VAT-registered businesses and declarations:

Total number of VAT-registered businesses	1,814,811
Total number of customs declarations	10,354,970

Source: HMRC

4 Administrative burden on business

4.1 Overview

4.1.1 Summary statistics relating to the regulations included within the scope of the measurement exercise

Table 1 shows the number of sources of regulation, forms, IOs and DRs for each Tax Area.

Table 1: Number of Regulations, HMRC Forms, Information Obligations and Data Requirements by Tax Area

Tax Area	Number of sources of regulations	Number of HMRC forms	Number of Information Obligations	Number of Data Requirements
Aggregates Levy	3	5	28	78
Air Passenger Duty	4	2	13	34
Capital Allowances	3	-	51	113
Capital Gains Tax	8	2	68	141
Climate Change Levy	4	5	48	191
Construction Industry Scheme	2	14	63	234
Corporation Tax	43	11	326	714
Customs	43	29	349	861
Double Tax Treaties	2	-	6	22
EC Sales List	2	2	8	12
Employer Taxes	22	27	164	580
Excise Duties	70	38	378	625
Gaming Duties	15	19	66	147
Income Tax for Businesses	34	12	194	531
Inheritance Tax	5	-	40	66
Insurance Premium Tax	5	7	48	108
Intrastat	2	1	13	25
Landfill Tax	2	10	47	232
Pensions	17	40	157	381
Petroleum Revenue Tax	10	12	63	75
Stamp Duty	23	-	51	107
Stamp Duty Land Tax	3	2	71	114
Stamp Duty Reserve Tax	3	-	18	48
Tax Credits	1	1	15	20
Tax Management Provisions	5	4	68	145
Tonnage Tax	2	1	15	24
Value Added Tax	63	30	299	954
Withholding Tax	4	5	25	32
HMRC Total		279	2,692	6,614

How the table is derived from the model

- sources of regulation are EU Regulations and Directives, Acts of Parliament, Statutory Instruments, Statements of Practice, Extra-Statutory concessions and any other HMRC published material with the force of law
- it is not uncommon for a regulation to apply to more than one Tax Area. In this case the regulation has been included each time it applies. Therefore, the figures in Table 1 may include the same regulation more than once in order to represent the position for each individual Tax Area. For this reason the column is not totalled

Interpreting the table

- the number of sources of legislation provides one indication of the relative complexity of the different tax areas – this is the number of different places that a business has to look in order to ensure that it has identified all its obligations. Excise duty (70), a long-established tax and VAT (63) have the highest number. Other newer or more industry-specific tax areas have far fewer sources e.g. SDLT (3)
- Excise also has the largest number of IOs (378). This is followed by Customs, Corporation Tax and Value Added Tax. There is clearly some correlation between the number of sources of legislation and the total number of IOs and DRs
- Pensions has the largest number of forms (40). Many of these forms are only required if a particular event occurs. Some tax areas have no forms, such as capital allowances. This is because, in practice, capital allowance claims are made in the Income Tax or Corporation Tax returns, both of which are included in other tax areas

4.1.2 **Description and commentary on the type of Information Obligations**

Table 2 shows the number of IOs analysed by type of obligation. As set out in 3.2.2 above, the SCM prescribes 13 types of IO. These types each represent a particular process. They are thus very helpful in seeing the overall dynamics in the tax system: the sort of processes the tax regulation requires businesses to carry out, how those processes may be perceived by business and the way their complexity impacts business.

Table 2 uses the terminology in the SCM; please refer to Section 6 – Glossary for a practical explanation of each term.

Table 2: Number of Information Obligations by type of obligation

Information Obligation Type	Number	Share of HMRC Total
Notification of activities/registration	540	20%
Applications for subsidies, grants, allowances or credits for ...	449	17%
Returns and reports	288	11%
Applications for authorisation	282	10%
Cooperating with audits/inspections of ...	272	10%
Keeping commercial emergency plans and programmes updates etc. (note: includes record keeping)	255	9%
Providing statutory information for third parties	201	7%
Applications for permission for or exemption from ...	184	7%
Framing complaints and appeals	159	6%
Applications for guidance	27	1%
Entry in a register	21	1%
Carrying out inspections of...	9	0%
Statutory labelling for the third parties	5	0%
HMRC Total	2,692	100%

Interpreting the table

- ‘notification of activities/registration’ is the most common type of IO, making up 20% of the total. Notifications and registrations are contingent obligations that only arise in a particular set of circumstances. This shows that there are a large number of potential obligations of which businesses might need to be aware. How does a business know whether or not it needs to do something? If it does have to do something it is more likely to be a one-off and thus unfamiliar. This is likely even if the IOs themselves, where applicable, do not create a high burden
- ‘application for allowances’ is the second most common type of IO (17%). Tax legislation contains a large number of potential claims. A business needs to be aware of the claim, decide whether it is eligible to claim, and decide if it has the relevant information to make and support such a claim. Again, this is likely to add considerably to the sense of complexity even if the IOs themselves, when applicable, do not create a high burden
- ‘returns and reports’, the routine interactions between business and HMRC, make up only 11% of the IOs

4.1.3 Summary of the administrative burden by tax area

This table shows the total administration burden on business, broken down by tax area. This shows that the highest burden is in Value Added Tax (‘VAT’), then Income Tax for Businesses, Customs, Employer Taxes and Corporation Tax. The burden then tails off quite sharply.

Table 3: Administrative burden – overview

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Value Added Tax	1,020	20%
Income Tax for Businesses	857	17%
Customs	793	16%
Employer Taxes	759	15%
Corporation Tax	608	12%
Construction Industry Scheme	321	6%
Pensions	294	6%
Capital Allowances	151	3%
Tax Management Provisions	66	1%
Stamp Duty	49	1%
Excise Duties	49	1%
Stamp Duty Land Tax	45	1%
Intrastat	18	0%
Climate Change Levy	13	0%
Tax Credits	12	0%
Insurance Premium Tax	10	0%
Petroleum Revenue Tax	8	0%
Capital Gains Tax	7	0%
Landfill Tax	4	0%
Gaming Duties	4	0%
EC Sales List	2	0%
Withholding Tax	2	0%
Air Passenger Duty	1	0%
Double Tax Treaties	1	0%
Tonnage Tax	1	0%
Stamp Duty Reserve Tax	1	0%
Aggregates Levy	0	0%
Inheritance Tax	0	0%
HMRC Total	5,100	100%

Interpreting the table

- this table shows how – at tax area level – the burden is likely to be high if it affects a large number of businesses (a high population) rather than because it is particularly onerous for individual businesses (a high price). This is where the population data outlined in Section 3.3 has a high impact. For example, the total Income Tax burden is higher than Corporation Tax because there are significantly more unincorporated businesses than limited companies. VAT is high because it applies not only to all VAT registered businesses but to all transactions within the scope of VAT. By contrast, Excise Duties has the largest number of IOs but a lower administrative burden. This simply reflects the relatively small number of businesses paying Excise Duties

- this table shows a theme that will emerge more clearly in later tables: the ‘tax tail’. There is a lot of tax regulation that creates very little burden but may contribute significantly to the perception of complexity
- this raises an interesting question when looking at how the tax system affects business. Should the focus be on the high burden tax areas that affect most businesses, such as Income Tax for Businesses? Should it be on tax areas that occasionally affect business, but create a sense of complexity due to their unfamiliarity such as Stamp Duty Land Tax? Should the focus be on tax areas that are very industry-specific and highly technical, yet may have a significant impact on the industry affected, such as Aggregates Levy? These are matters for HMRC and business to consider going forward

4.2 **Administrative burden by type of Information Obligation**

Table 4 shows the number of IOs analysed by type of obligation and the administrative burden analysed by type of obligation. It thus expands on Table 2. As set out in 3.2.2 above, there are 13 IO types. These types each represent a particular process. They are thus very helpful in seeing the overall dynamics in the tax system: the sort of processes the tax regulation requires businesses to carry out, how those processes may be perceived by business and the way that their complexity impacts business.

Table 4 uses the terminology in the SCM; please refer to Section 6 – Glossary for a practical explanation of each term.

Table 4: Burden by Information Obligation type

Information Obligation type	Administrative burden £m	Share of HMRC total	Number of IOs	Share of HMRC total
Returns and reports	2,942	58%	288	11%
Providing statutory information for third parties	892	17%	201	7%
Applications for subsidies, grants, allowances or credits for ...	327	6%	449	17%
Notification of activities/registration	278	5%	540	20%
Applications for authorisation	183	4%	282	10%
Keeping commercial emergency plans and programmes updates etc.	183	4%	255	9%
Cooperating with audits/inspections of...	141	3%	272	10%
Applications for permission for or exemption from ...	100	2%	184	7%
Framing complaints and appeals	16	0%	159	6%
Statutory labelling for the third parties	15	0%	5	0%
Applications for guidance	12	0%	27	1%
Carrying out inspections of ...	11	0%	9	0%
Entry in a register	0	0%	21	1%
HMRC Total	5,100	100.00%	2,692	100.00%

Interpreting the table

- there is a striking difference between the number of IOs by type and the administrative burden by type. For example, ‘notification of activities/registration’ is 5% of the burden but 20% of all IOs. As discussed in 4.1.2 above, one interpretation is that the large numbers of notifications creates the perception of complexity, the anxiety of whether or not something should have been done. The actual administrative cost of doing the notification is not particularly significant. Also, only a small proportion of the business population registers in a given year
- the model does not capture the cost to business of worrying over whether or not something should have been done. Nevertheless, it is clear from business feedback that this is seen by business as a real issue
- there is a strong recurrent theme that it is change – whether legislative or a change to the business model – that causes the sense of undue burden. Change means having to think about the large amount of regulation that might – or might not – apply. Business is fearful of getting it wrong; as a result it may seem simpler to business to stick to a tried and tested method (see Annex C 3.1, 3.2 and 4.3)
- the table also shows that two types of IOs constitute 75% of the burden: ‘returns and reports’ and ‘information to third parties’. Once again, this reflects the fact that these

types of IOs tend to affect a lot of businesses (high populations). Nearly all businesses file annual tax returns and reports; all employers provide information to third parties (their employees)

This table raises some interesting questions:

- should the focus be on IOs that affect the most businesses? These are often familiar IOs with well established processes. The burden is high simply because of the high population
- should the focus be on IOs that potentially affect all business but do not do so very often? Many IOs fall into this category. The burden may not be high overall but at an individual business level, they create the sense of complexity and uncertainty that can make tax seem an inhibitor of business. Are all these IOs needed? Are there ways HMRC could run its operations that would help business deal with these occasional IOs? Further analysis of these IOs and their interaction with wider policy objectives is needed as part of wider target setting

4.3 **Administrative burden by origin of Information Obligation**

The tables that follow split down the administrative burden by the origin classifications set out in the SCM. Full details of how origin classification has been applied are given in Annex A.

Table 5.1

Category A IOs that are exclusively and completely a consequence of EU rules and other international rules. The international rules describe which information businesses have to produce

Table 5.1

Category B IOs that are a consequence of EU rules and other international rules. The purpose will be formulated in the international rules, while implementation (including formulation of the specific DRs) will be left to the member states. The international rules do not describe which information businesses have to produce

Table 5.1

Category C IOs that are exclusively a consequence of rules formulated at national level

Table 5.1: Administrative burden by origin of Information Obligation

Tax Area	International, no domestic discretion (A)				Share of HMRC Total
	1: EU Regulation	2: EU Directive	3: Other Int'l	Total	
	£m	£m	£m	£m	
Aggregates Levy	-	-	-	-	-
Air Passenger Duty	-	-	-	-	-
Capital Allowances	-	-	-	-	-
Capital Gains Tax	-	-	-	-	-
Climate Change Levy	-	-	-	-	-
Construction Industry Scheme	-	-	-	-	-
Corporation Tax	0	-	-	0	0%
Customs	764	-	-	764	15%
Double Tax Treaties	-	-	-	-	-
EC Sales List	-	2	-	2	0%
Employer Taxes	2	-	-	2	0%
Excise Duties	-	-	-	-	-
Gaming Duties	-	-	-	-	-
Income Tax for Businesses	-	-	-	-	-
Inheritance Tax	-	-	-	-	-
Insurance Premium Tax	-	-	-	-	-
Intrastat	-	18	-	18	0%
Landfill Tax	-	-	-	-	-
Pensions	-	-	-	-	-
Petroleum Revenue Tax	-	-	-	-	-
Stamp Duty	-	-	-	-	-
Stamp Duty Land Tax	-	-	-	-	-
Stamp Duty Reserve Tax	-	-	-	-	-
Tax Credits	-	-	-	-	-
Tax Management Provisions	-	0	-	0	0%
Tonnage Tax	-	-	-	-	-
Value Added Tax	-	821	-	821	16%
Withholding Tax	-	-	-	-	-
HMRC Total	766	842	-	1,608	32%

Table 5.2: Administrative burden by origin of Information Obligation (cont'd)

Tax Area	International, domestic discretion (B)				Share of HMRC Total
	1: EU Regulation	2: EU Directive	3: Other Int'l	Total	
	£m	£m	£m	£m	
Aggregates Levy	-	-	-	-	-
Air Passenger Duty	-	-	-	-	-
Capital Allowances	-	-	-	-	-
Capital Gains Tax	-	0	-	0	0%
Climate Change Levy	-	-	-	-	-
Construction Industry Scheme	-	-	-	-	-
Corporation Tax	-	0	-	0	0%
Customs	-	-	-	-	-
Double Tax Treaties	-	-	1	1	0%
EC Sales List	-	-	-	-	-
Employer Taxes	-	-	0	0	0%
Excise Duties	-	6	-	6	0%
Gaming Duties	-	-	-	-	-
Income Tax for Businesses	-	-	-	-	-
Inheritance Tax	-	-	-	-	-
Insurance Premium Tax	-	-	-	-	-
Intrastat	-	-	-	-	-
Landfill Tax	-	-	-	-	-
Pensions	-	-	-	-	-
Petroleum Revenue Tax	-	-	-	-	-
Stamp Duty	-	-	-	-	-
Stamp Duty Land Tax	-	-	-	-	-
Stamp Duty Reserve Tax	-	-	-	-	-
Tax Credits	-	-	-	-	-
Tax Management Provisions	-	-	-	-	-
Tonnage Tax	-	-	-	-	-
Value Added Tax	-	91	-	91	2%
Withholding Tax	-	-	-	-	-
HMRC Total	-	97	1	98	2%

Table 5.3: Administrative burden by origin of Information Obligation (cont'd)

Tax Area	Domestic (C)	
	Total	Share of HMRC Total
	£m	
Aggregates Levy	0	0%
Air Passenger Duty	1	0%
Capital Allowances	151	3%
Capital Gains Tax	7	0%
Climate Change Levy	13	0%
Construction Industry Scheme	321	6%
Corporation Tax	608	12%
Customs	29	1%
Double Tax Treaties	1	0%
EC Sales List	-	0%
Employer Taxes	758	15%
Excise Duties	43	1%
Gaming Duties	4	0%
Income Tax for Businesses	857	17%
Inheritance Tax	0	0%
Insurance Premium Tax	10	0%
Intrastat	-	0%
Landfill Tax	4	0%
Pensions	294	6%
Petroleum Revenue Tax	8	0%
Stamp Duty	49	1%
Stamp Duty Land Tax	45	1%
Stamp Duty Reserve Tax	1	0%
Tax Credits	12	0%
Tax Management Provisions	66	1%
Tonnage Tax	1	0%
Value Added Tax	108	2%
Withholding Tax	2	0%
HMRC Total	3,394	67%

Interpreting the tables

- these tables above show that 32% of the burden derives directly from EU rules and other international rules where there is no domestic discretion in determining which information businesses have to produce. This is mainly in the area of Customs and Value Added Tax
- a very small proportion of the burden relates to EU rules and other international rules where there is some UK discretion in implementation and formulation of the specific Data Requirements
- as will be seen later, in 4.5 below, international regulation is the source of three of the top four obligations, making up 20% of the total administrative burden but 48% of the

burden imposed by the top ten IOs. This may, in part, explain the perception that international regulation is significantly adding to the administrative burden

4.4 **Administrative burden by business size**

Table 6 shows the administrative burden for each tax area broken down by business size.

Table 6: Administrative burden by business size

Tax Area	Total administrative burden					
	Nano	Micro	Small	Medium	Large	Total
	0	1 – 9	10 – 49	50 – 249	250 +	
	employees	employees	employees	employees	employees	
	£m	£m	£m	£m	£m	£m
Aggregates Levy	-	0	0	0	0	0
Air Passenger Duty	-	0	0	0	1	1
Capital Allowances	90	42	12	5	2	151
Capital Gains Tax	3	2	0	0	2	7
Climate Change Levy	-	-	3	2	8	13
Construction Industry Scheme	96	181	37	6	1	321
Corporation Tax	2	267	89	76	174	608
Customs	242	126	366	48	12	793
Double Tax Treaties	-	0	0	0	1	1
EC Sales List	-	2	0	0	0	2
Employer Taxes	0	523	131	47	59	759
Excise Duties	-	3	3	5	38	49
Gaming Duties	3	1	1	0	0	4
Income Tax for Businesses	511	230	60	51	5	857
Inheritance Tax	0	0	0	0	0	0
Insurance Premium Tax	0	3	2	1	4	10
Intrastat	-	-	6	9	3	18
Landfill Tax	-	0	0	0	4	4
Pensions	-	186	41	14	53	294
Petroleum Revenue Tax	-	-	-	2	7	8
Stamp Duty	34	12	2	1	0	49
Stamp Duty Land Tax	30	12	2	1	0	45
Stamp Duty Reserve Tax	1	0	0	0	0	1
Tax Credits	-	3	2	1	5	12
Tax Management Provisions	43	14	2	1	5	66
Tonnage Tax	-	0	0	0	1	1
Value Added Tax	160	343	166	94	256	1,020
Withholding Tax	1	1	0	0	0	2
HMRC total	1,216	1,952	925	364	642	5,100

How the table is derived from the model

- as outlined in 3.2.3.2, the administrative burden is a function of price and quantity. Thus, the burden shown in a particular size segment is largely driven by the number of businesses affected by the IOs in that size segment (the segment population)
- as outlined in 3.2.3.1 considerable efforts have been made to ensure the population numbers are not unreasonable at total level. As outlined at 3.2.3.1 and 3.3, the allocation of total population to segment populations has been done using a generic model. This means that Table 6, the analysis of the burden by size segment, needs to be interpreted with care

Interpreting the table

- an initial interpretation is that in absolute terms, nano businesses (those with no employees) bear a proportionately lower burden than large businesses (those with over 250 employees). This is shown in the table below:

	% of burden	% of businesses
Nano: 0 employees	24.0	72.0
Micro: 1-9 employees	38.0	23.0
Small: 10-49 employees	18.0	4.0
Medium: 50-249 employees	8.0	0.8
Large: 250+ employees	12.0	0.2
Total	100.0	100.0

- the above table looks at the average burden across all tax areas. Some taxes are clearly much more likely to affect larger businesses than nano businesses. If the allocation of burden is looked at for a tax area that affects all nano businesses, such as Income Tax, the proportion of burden borne by nano businesses (60%) is more in line with the proportion of nano businesses to the total number of businesses (72%)
- even if the burden is lower in absolute terms for nano businesses it is still likely to be higher for nano businesses than large businesses in relative terms, that is, higher relative to the total resources available to a particular business. This is not measured in the model. This difference between absolute burden (in total terms) and relative burden may explain why the burden is generally regarded as regressive, falling harder on smaller businesses
- in addition, the costs of change, complexity and ‘grit in the system’, outlined in Section 2, may fall disproportionately on smaller business. For example, in the interview feedback many businesses were extremely critical of HMRC’s Call Centre. It is smaller businesses, not large businesses, that are most likely to use the Call Centre

- it is also worth considering why, in absolute terms, nano businesses bear a proportionately lower burden than large businesses. From the initial analysis a number of possible explanations emerge:
 - as businesses become larger, more regulation applies to them. For example, once a nano business takes on employees to become a micro business, employment regulation applies. Similarly, a large business is more likely than any other sized business to deal with transfer pricing regulation
 - as businesses become larger, they have a greater volume of transactions handled by staff with greater separation of duties. Thus the staff responsible for recording transactions, the accounting records and tax administration may all be different people working in different offices or, even, in different countries. This means the unit cost of each IO is likely to be higher as a business becomes larger. For example, all businesses will incur capital expenditure from time to time. However, a large business is more likely to have a complex ongoing expenditure program so that each year it is claiming relief for new expenditure as well as the annual claims on past expenditure
- although nano businesses do not have any employees, there is a small burden for nano businesses under Employer Taxes. This is due to one obligation, to reclaim overpaid National Insurance Contributions deducted from the earnings of a self-employed entertainer. This claim can either be made by the engager or by the self-employed entertainer himself
- although nano businesses are not incorporated, there is a small burden for nano businesses under Corporation Tax. This is because there is some regulation that applies to both unincorporated and incorporated businesses but, because it is highly technical and very miscellaneous, does not warrant a separate tax area. As this regulation mainly applies to corporates, it has been allocated to the Corporation Tax tax area. An example is the IO relating to the provision of information by holders of loan notes in companies, which applies to unincorporated as well as incorporated businesses

4.5 **Administrative burden by most burdensome Information Obligation**

Table 7.1 below shows the top ten obligations by total burden, together with the origin of the obligation.

Table 7.1: Top ten Information Obligations by total administrative burden

Obligation	Tax Area	Total administrative burden		Origin of obligation		
		£m	Share of HMRC total	International £m A	UK application of International £m B	UK £m C
Issuing of VAT invoices	Value Added Tax	474	9%	474	-	-
Submission of a VAT return quarterly	Value Added Tax	287	6%	287	-	-
Income Tax return - Self Employed supplementary pages	Income Tax for Businesses	273	5%	-	-	273
The submission of customs declarations	Customs	254	5%	254	-	-
Corporation Tax return - Make a self-assessment of profits attributable to Schedule DI (trade)	Corporation Tax	210	4%	-	-	210
Form P35 and P14 year end returns to HMRC (PAYE)	Employer Taxes	131	3%	-	-	131
Annual Return to HMRC for each employee and director provided with expenses and benefits in kind	Employer Taxes	131	3%	-	-	131
Partnership Tax Return	Income Tax for Businesses	130	3%	-	-	130
Claim for plant and machinery capital allowances from the general pool	Capital Allowances	119	2%	-	-	119
Corporation Tax Return - Deliver a correct and complete return, including a self-assessment of the amount of tax payable for the period	Corporation Tax	115	2%	-	-	115
Top 10 total		2,124	42%	1,015	-	1,109
HMRC total		5,100	100%	1,608	98	3,394

How the table is derived from the model

- interpretation of the origin of obligation is set out in 4.3 above
- as outlined in 3.2.2 above, the analysis of IOs was done consistently in a way that made it most practical to collect price and quantity data. This means that:
 - the VAT return is split into three IOs: one for monthly VAT returns, one for quarterly and one for annual VAT returns. Only the quarterly return burden is on the top ten list; the burden for the monthly and annual VAT returns is measured separately
 - the Corporation Tax return is analysed into a number of separate IOs. These include the computation of trading profits, profits from property and the actual completion of the return. There are other regulations that typically interact closely with the Corporation Tax return such as capital allowances, transfer pricing and so on. These have all been analysed as separate IOs. This means that all the key components can be readily looked at separately, even though as a matter of administration they come together through the Corporation Tax return
- the IO for the company tax return shown in Table 7.1 is for the filling in of the Corporation Tax return only. As such, it is number ten on the list. An alternative analysis would be to group the key IOs – and this could be done in many ways depending on how HMRC wish to use the data framework going forward – that build up to the Corporation Tax return. In simple terms, one approach would be to add together the cost of assessing Schedule D Case 1 profits, a claim for plant and machinery allowances and completing the CT600
- the principle applied for the Corporation Tax return was also applied to the self-employed supplementary pages of the Income Tax return

Interpretation of the table

- this table highlights a key theme of the findings: the ‘long tail’ of the tax administrative burden. This was first indicated in Table 3 which showed how five tax areas cover 80% of the burden. Table 7.1 shows how ten IOs cover 42% of the burden
- the ‘long tail’ is shown even more clearly by further analysis. This shows that the top 85 IOs represent 86% of the burden, with the remaining 2,607 IOs representing only 14% of the burden. This ‘long tail’ supports the view that administrative burden itself is created by a few key areas, many of which are well understood and running in a steady state – both for business and HMRC. However the ‘long tail’ – the huge mass of regulation and IOs that rarely apply to business or which only applies to a small number of businesses, perhaps on a contingent basis only – creates a sense of complexity and uncertainty that is difficult to manage
- eight out of the top ten IOs in this table are the IO type ‘returns and reports’ (see Section 4.2 above)
- the table shows clearly that three of the top four obligations are from international regulation, making up 20% of the total administrative burden and 48% of the burden

imposed by the top ten IOs. This may, in part, explain the perception that international regulation is significantly adding to the administrative burden

Table 7.2 below shows the top ten obligations by total burden (that is the obligations in Table 7.1) but this time with an indicative unit cost by IO and the population type used to multiply up the unit cost to the total burden. This table shows, very clearly, the impact of the formula Activity Cost = Price x Quantity.

Table 7.2: Top ten Information Obligations by total administrative burden (cont'd)

Obligation	Breakdown of costs	
	Population type	Indicative unit cost £
Issuing of VAT invoices	Per incident	1.58
Submission of a VAT return quarterly	Per business	166.64
Income tax return - Self Employment supplementary pages	Per incident	88.94
The submission of customs declarations	Per incident	24.56
Corporation Tax Return - Make a self-assessment of profits attributable to Schedule DI (trade)	Per incident	318.00
Form P35 and P14 year end returns to HMRC (PAYE)	Per employer	93.73
Annual Return to HMRC for each employee and director provided with expenses and benefits in kind	Per employer	262.29
Partnership Tax Return	Per incident	221.47
Claim for plant and machinery capital allowances from the general pool	Per incident	59.47
Corporation Tax Return Deliver a correct and complete return, including a self-assessment of the amount of tax payable for the period	Per incident	105.20

How the table is derived from the model:

- the unit cost is indicative only. As outlined in 3.2.3.3 above, the model is best suited to looking at unit cost at IO (or even DR) level, by segment. The indicative unit cost in Table 7.2 averages unit costs across segments, all of which have different time estimates. The indicative unit cost is therefore an average of consistent estimates only; it cannot be used as a benchmark for any particular business. It is still, however, of interest as an indicator of relativities: first, between IOs and second, in highlighting the interaction between unit cost and population
- the population type, and basis on which unit cost estimates were done, was consistent. The background to population type is set out in 3.2.2 above

Interpreting the table

- the table shows clearly that a key reason these IOs are a high burden is that they affect a large number of businesses on a regular, recurring basis. A striking example is the VAT invoice. This has a low unit cost. Feedback from business interviews did not suggest that this is seen as a high irritant. This was supported by the feedback

from the Advisory Board. Nevertheless, it has the highest burden of any IO, simply because business issues so many VAT invoices

- this may be an interesting line of future analysis, particularly in target setting. It is important to be clear if an IO is a high burden because it affects a large number of businesses, not because it is particularly onerous for business. The high burden IOs at the total level may not be the most burdensome at individual level

4.6 **Administrative burden by most burdensome forms by business size**

The table below sets out the twelve most burdensome forms, measured by looking at the total burden imposed by the form on business. A form is, of course, one of the most usual ways that business interacts with HMRC. It is clear that a simple, well set out form is very much appreciated by business (see Annex C - 4.1).

Table 8: Top twelve most burdensome forms by total administrative burden

Form	Administrative burden					Share of HMRC total
	Nano £m	Micro £m	Small £m	Medium £m	Large £m	
VAT return	105	156	37	12	2	6%
Income Tax Return - Self Employment supplementary pages	168	65	31	41	0	6%
The submission of customs declarations	-	0	227	30	8	5%
Form P35 and P14 year end returns to HMRC (PAYE and NIC)	-	133	48	19	9	4%
Annual Return to HMRC for each employee and director provided with expenses and benefits in kind	-	102	22	6	2	3%
Partnership Tax Return	64	47	10	6	3	3%
Corporation Tax return	-	45	11	8	52	2%
Income Tax Return - Land and Property supplementary pages	67	36	5	1	0	2%
Partnership pages to the individual and trust tax returns	70	24	3	1	0	2%
Member choosing an Appropriate Personal Pension (APP) - notice from provider	-	21	15	10	34	2%
Requirement to make annual return of payments made to and deductions made from subcontractors	43	14	2	0	0	1%
Form 42 (share schemes)	-	45	6	1	0	1%

Interpreting the table

- table 8 shows that the top twelve forms account for 37% of the administrative burden. This is not surprising as a form is, of course, one of the most usual ways that business interacts with HMRC. However the impact of forms on business is complex and needs to be considered together with the analysis of administrative burden by activity in 4.8 below
- table 10.1 in 4.8 below shows that forms – as a whole – account for 50% of the total administrative burden. This 50% can be further broken down as follows:

	£	%
Internal costs	755,451	30.0
Acquisition costs	247,397	10.0
External costs	1,541,565	60.0
Total	2,544,413	100.0

- the level of external costs shows that business makes significant use of intermediaries in dealing with forms
- table 10.2 in 4.8 below shows the different administrative activities that business carries out to complete forms, where the work is done by business not an intermediary. This shows that the main activity is ‘information retrieval’, that is, gathering the information that allows the form to be completed
- the interaction of forms and e-government solutions is considered in 4.7 below
- all this suggests that if the burden of forms is to be reduced, the underlying data gathering challenges need to be considered as well as form design, increased use of e-government solutions and so on
- some forms have more than one related IO, though there is usually one clear dominant IO. This table includes all the IOs related to the form. For example, the ‘Income Tax Self Employment supplementary pages’ form has five IOs. One of these is the dominant IO, the ‘Income Tax return – Self Employment supplementary pages’ IO. The other four IOs are claims relating to losses that are made on the form
- whether a business prepares a VAT return monthly, quarterly or annually, the same form is used. The total burden shown therefore represents the total burden of a VAT return, for whatever frequency.

4.7 **Where e-government solutions makes a difference**

The use of e-government solutions is increasingly discussed by HMRC and business. It potentially requires significant investment by HMRC, business and intermediaries. It has therefore been looked at separately to see what impact, if any, can yet be seen in the administrative burden.

What is electronic filing?

For the purposes of the model, e-government solutions cover business to HMRC activities such as electronic filing and interacting with HMRC online.

Where did electronic filing make a difference?

The work done found that the only areas where electronic filing made a difference were:

- EC Sales List - Table 9.1
- Customs declaration - Table 9.2

No difference in the administrative burden was found for other areas. These areas measured include Payroll End of Year returns (P14 and P35), Corporation Tax return (CT600), Income Tax return and supplementary pages, Stamp Duty Land Tax and Intrastat return. Interview feedback indicates that this is because businesses felt that typing into a box on screen was no quicker than writing a number in a box, and the same amount of preparation was required for either. In addition, businesses generally want to keep a record of what has been submitted so will print a copy of the submitted return.

However, the feedback from interviews with business made it clear that electronic filing is generally popular, and businesses would like it used more widely. Particularly positive praise was given for payroll e-filing. Given that it is not a time-saver, the benefits are thought to be to do with convenience (the return can be filed up to the due date without having to factor in postal time) and personal preference. Some businesses liked the certainty of inputting their own numbers directly rather than relying on HMRC to re-key data. Further details of this feedback are given in Annex C – 4.2.

Table 9.1: EC Sales List

Tax area	Information Obligation		Nano	Micro	Small	Medium	Large
			Unit cost	Unit cost	Unit cost	Unit cost	Unit cost
			£	£	£	£	£
EC Sales List	EC Sales List	non e-gov	-	38.26	57.19	57.10	69.72
		e-gov	-	26.50	46.69	46.69	59.31
		Saving/ (additional cost)	-	11.76	10.50	10.41	10.41
		% saving/ (additional cost)	-	31%	18%	18%	15%

Interpreting the table

- there are a lot of relatively standard data that need to go to HMRC in each submission of the EC Sales List. Businesses have two options in filing the return electronically to HMRC. The first is to key the figures into the required form on screen. The second is to upload the data that are required in the form on a file that the business can produce and the HMRC system can recognise, a ‘comma separated variable’ file.

Whilst the first process may not achieve reductions in the burden to business, the second does reduce burden

- typically, businesses have the required information to complete the EC Sales List in their accounting system so there are not many savings achieved in terms of information retrieval; the processes to extract it are the same. There is little, if any, time saved in transcribing the data onto an online form rather than a paper form. However, once the business is capable of producing the required format of file, the main activities it saves are in the presentation and inputting of the data because the file is simply uploaded. The presentation activity is a significant part of the burden associated with the EC Sales List

Table 9.2: Customs declaration

Tax area	Information Obligation		Nano	Micro	Small	Medium	Large
			Unit cost	Unit cost	Unit cost	Unit cost	Unit cost
			£	£	£	£	£
Customs	The submission of a customs declaration (in house)	non e-gov	-	-	20.96	20.86	21.06
		e-gov	-	-	15.43	15.43	15.43
		Saving/ (additional cost)	-	-	5.53	5.44	5.63
		% saving/ (additional cost)	-	-	26%	26%	27%

Interpreting the table

- the electronic submission of the customs declaration to HMRC, which needs to be in a very specific format, 'EDIFACT', leads to a significant reduction in the administrative burden for business. Although putting in the systems necessary to be able to do this can be expensive, the administrative burden saving is significant. This is because a high number of customs declarations are processed by these businesses each year. This process has been widely adopted by business and only a tiny minority of declarations are now submitted manually

4.8 Administrative burden by activity

Table 10.1 analyses the administrative burden into its component price parts:

- internal costs – the cost of the 16 administrative activities that business carries out to be compliant, as set out in 3.2.2 above (this is then broken down in table 10.2)
- external costs – the costs of working with intermediaries
- acquisition costs – the non-time costs of dealing with a specific tax obligation

Table 10.1: Administrative burden by standard activity type

Price	Form-filing	Share of total burden %	Non form-filing	Share of total burden %	Total	Share of total burden %
Internal costs	755,451	15%	1,343,823	26%	2,099,274	41%
Acquisition costs	247,397	5%	231,721	5%	479,118	9%
External costs	1,541,565	30%	980,137	19%	2,521,702	49%
Total burden	2,544,413	50%	2,555,681	50%	5,100,094	100%

Interpreting the table

- the mix between total internal, external and acquisition costs is interesting. Business relies heavily on external costs – intermediaries – to navigate and support them in a complex system. The level of acquisition costs – primarily tax software – is relatively low
- the split between forms and non form-filing costs is fairly even. The table suggests that business tends to use intermediaries to assist with the completion of forms
- external costs constitute almost half the total administration burden. This highlights the key role of intermediaries (accountants, payroll bureaux, solicitors and other advisers) in helping business with HMRC regulation. Businesses use intermediaries for several reasons. Tax is perceived as a complex aspect of running a business, and there is a fear of making a mistake and being penalised. Businesses may also feel that the intermediary can handle their affairs more efficiently as they will already be familiar with the processes
- a theme that emerged from several interviews is that the use of intermediaries is increasing. This is seen as adding to costs though reasonably effective (see Annex C – 4.4)
- acquisition costs, that is non-time costs incurred by business such as the cost of tax software, storage and postage, make up 9.79% of the total burden
- the software market tends either to be proprietary software licensed to business or heavily bespoke software designed and often built by an individual business. There is a potential link with electronic filing: in the long run this requires links with the proprietary software market. Because tax has a ‘long tail’ and so many IOs are contingent, it may be difficult to develop effective technology solutions to help business in that area

Table 10.2 analyses internal costs between the 16 administrative activities set out in the SCM. Table 10.2 uses the description of administrative activities in the SCM. A practical interpretation of those activities is given in Section 6 – Glossary.

Table 10.2: Administrative burden by standard activity type

Activity	Form-filing related		Non form-filing related		Total	
	£000	Share of HMRC total	£000	Share of HMRC total	£000	Share of HMRC total
Familiarisation with the information obligation	33,870	2%	29,591	1%	63,461	3%
Information retrieval	239,444	11%	379,616	18%	619,060	29%
Assessment	38,062	2%	150,282	7%	188,344	9%
Calculation	44,828	2%	77,700	4%	122,529	6%
Presentation of figures	33,024	2%	83,967	4%	116,991	6%
Checking	92,160	4%	76,405	4%	168,564	8%
Correction	7,061	0%	9,201	0%	16,262	1%
Description	103,400	5%	143,380	7%	246,780	12%
Settlement/payment	45,127	2%	92,276	4%	137,403	7%
Internal meetings	7,155	0%	2,228	0%	9,382	0%
External meetings	15,402	1%	85,522	4%	100,924	5%
Inspection by public authorities	1	0%	7,707	0%	7,707	0%
Correction resulting from inspection by public authorities	-	0%	10	0%	10	0%
Training	89	0%	735	0%	823	0%
Copying, distribution, filing, etc.	60,070	3%	128,222	6%	188,292	9%
Reporting/submitted information	35,760	2%	76,982	4%	112,741	5%
Internal total	755,451	36%	1,343,823	64%	2,099,274	100%

Interpreting the table

- information retrieval has the highest administration burden of the activity types (29%). Assessment, that is looking at the information retrieved and deciding what is required, is a very closely aligned activity (9%). Taking these two together gives a total of almost 38%. The only other activity with a burden over 10% is description, that is the writing of text, either as notes accompanying a return, or writing a letter. It is clear from business interview data that the time spent on analysing and obtaining information is a major part of the administrative burden. Difficulties in finding information – which may be in the accounts but not readily analysed for tax purposes – is a reason given for not taking up claims and a major source of ‘grit in the system’ for business operations. This is supported in both quantitative and qualitative interview data (for example, see Annex C – 2.1 (Capital Allowances). The interaction between tax regulation and the likely ready availability of information in accounting systems may be an area for HMRC to consider going forward
- it is important to bear in mind the distinction between IO types and administrative activities. For example, Table 2 shows that the IO type ‘co-operating with inspections’ constitutes 10% of the total HMRC burden. At first glance, therefore, the percentage attributed to the administrative activity ‘Inspection by public

authorities' activity looks low. This is because the administrative activity simply relates to assisting HMRC when they carry out their inspection at the business. It does not relate to the time spent on information retrieval and assessment that will be required in advance of, or during the inspection. The IO type 'co-operating with inspections' therefore comprises a range of administrative activities, primarily information retrieval, but also meetings and copying amongst others. Assisting HMRC is only one small part of the range of activities undertaken as part of an inspection

- overall, the burden is split almost 50:50 between form-filling and non form-filling. Some of the key obligations are not forms, for example the VAT invoice

4.9 **Administrative burden by Information Obligations to third parties**

The Project measures IOs that HMRC requires business to deliver to third parties. Table 11 splits out the total administrative burden between IOs relating to third parties and all other IOs.

Table 11: Administrative burden of obligations to third parties

Tax Area	Total administrative burden			
	Obligations to third parties	Share of HMRC total	All other obligations	Share of HMRC total
	£m		£m	
Aggregates Levy	-	-	0	0%
Air Passenger Duty	-	-	1	0%
Capital Allowances	0	0%	151	3%
Capital Gains Tax	-	-	7	0%
Climate Change Levy	12	0%	1	0%
Construction Industry Scheme	141	3%	180	4%
Corporation Tax	53	1%	556	11%
Customs	33	1%	760	15%
Double Tax Treaties	-	-	1	0%
EC Sales List	-	-	2	0%
Employer Taxes	35	1%	724	14%
Excise Duties	4	0%	45	1%
Gaming Duties	2	0%	2	0%
Income Tax for Businesses	0	0%	857	17%
Inheritance Tax	0	0%	0	0%
Insurance Premium Tax	10	0%	1	0%
Intrastat	-	-	18	0%
Landfill Tax	1	0%	4	0%
Pensions	57	1%	237	5%
Petroleum Revenue Tax	0	0%	8	0%
Stamp Duty	8	0%	42	1%
Stamp Duty Land Tax	-	-	45	1%
Stamp Duty Reserve Tax	-	-	1	0%
Tax Credits	9	0%	3	0%
Tax Management Provisions	0	0%	66	1%
Tonnage Tax	0	0%	1	0%
Value Added Tax	528	10%	491	10%
Withholding Tax	0	0%	1	0%
HMRC Total	892	17%	4,208	83%

Interpreting the table

- the requirement to provide information to third parties is a fundamental feature of the tax system and constitutes 17% of the overall burden. The IO with the largest overall burden, the VAT invoice, falls into this category. Other obligations to third parties include the exchanges of vouchers under the Construction Industry Scheme, the provision of P11Ds and P60s to employees, statements and certificates to pension policy holders and dividend notices to shareholders
- for certain tax areas such as Insurance Premium Tax third party obligations are almost 100% of the total administration burden. This arises from the issue of a tax invoice where IPT is charged on to a customer

Table 12 analyses the top ten obligations to third parties.

Table 12: Top ten obligations to third parties, by total administrative burden

Obligation	Administrative burden		
	Tax Area	£000	Share of HMRC total
Issuing of VAT invoices	Value Added Tax	473,859	9%
Production of tax certificate to contractor for inspection	Construction Industry Scheme	58,897	1%
Requirement for contractor to provide tax voucher to subcontractor for amounts deducted	Construction Industry Scheme	40,225	1%
Requirement for subcontractor to provide a gross payment voucher to contractor	Construction Industry Scheme	34,183	1%
Provide information to employees about payments and tax deducted during the year (Form P60)	Employer Taxes	26,732	1%
Issuing of retail VAT invoices	Value Added Tax	16,509	0%
Duty of insurers to policy holders to deliver certificates to policy holder	Corporation Tax	16,127	0%
Invoice declaration for goods worked in the Community but not having preferential originating status	Customs	14,919	0%
Long term supplier declaration	Customs	13,538	0%
Company which makes a "qualifying distribution" must provide statement to recipient if requested	Corporation Tax	13,506	0%
Top-10 total		708,495	14%
HMRC total obligations to third parties		892,060	17%
HMRC total		5,100,094	100%

Interpreting the table

- the VAT invoice is the top obligation. Again, the size of the burden is largely due to the number of VAT invoices issued, rather than because there is a particularly high unit cost
- the Construction Industry Scheme has three out of the top four Information Obligations to third parties. Although the numbers of vouchers issued are high, there is also a higher unit cost than the VAT invoice
- issuing VAT retail invoices also features in the top ten list. Retailers may issue a simplified invoice in respect of goods and services provided, where the value of the supplies is less than £250 and the supply is not made to a person in another EU member state. Hence, issuing this type of invoice has been measured separately from the main VAT invoice obligation

Table 13 analyses the impact of e-enabling the VAT invoice, the top obligation to third parties. The e-enabling of VAT invoices was measured as follows:

- the VAT invoice is a legal document required by tax regulation. It is a third party obligation (business to business) but nevertheless clearly included in the model
- specific tax regulation was required to allow business to use electronic filing of VAT invoices between businesses. The model has measured the extent to which this regulation has reduced the burden to business

Table 13: VAT invoice and associated obligations

Tax area	Information Obligation		Nano	Micro	Small	Medium	Large
			Unit cost	Unit cost	Unit cost	Unit cost	Unit cost
			£	£	£	£	£
Value Added Tax	VAT invoice	manual	-	2.35	1.96	1.48	1.29
		automated	-	0.55	0.39	0.39	0.29
		Saving/ (additional cost)	-	1.80	1.57	1.09	0.99
		% saving/ (additional cost)	-	77%	80%	74%	77%
Value Added Tax	Self Billed invoicing - production of an invoice	manual	-	1.96	1.57	1.19	0.99
		automated	-	1.57	1.08	0.89	0.70
		Saving/ (additional cost)	-	0.39	0.49	0.29	0.29
		% saving/ (additional cost)	-	20%	31%	25%	29%
Value Added Tax	Credit notes/debit notes	manual	-	1.37	1.37	1.28	1.09
		automated	-	0.68	0.68	0.68	0.68
		Saving/ (additional cost)	-	0.69	0.69	0.60	0.41
		% saving/ (additional cost)	-	50%	50%	47%	37%

How the table is derived from the model

- table 13 does not show any impact for nano businesses, even though they are able to use electronic filing of VAT invoices. This is the result of the generic process set out in 3.2.3.1 to allocate total populations across size segments. For this segmentation it was decided the population should be skewed towards large business. This is because large businesses are more likely to use electronic filing. As explained in 3.3.3 above, if a skew to large business is required, the percentage allocation by reference to number of employees is used. In this case, as shown in 3.3.3 above, nanos have no employees. Thus no population is allocated to the nano segment for these purposes. This reflects the information available when building the model and is an area to refine further as information becomes available to HMRC

Interpreting the table

- the table shows a considerable saving through e-enabling
- the burden on business of producing hard copy paper invoices depends very much on the process a business undertakes. This can be manually writing or typing the whole invoice out and printing and posting it. Alternatively, a business may have a system to produce invoices electronically, which means no hard copy paper invoice is required. Much depends on which type of electronic invoicing process the business undertakes. The different types of process that businesses may have adopted include ‘electronic data interchange’ (which some businesses have been using for a number of years), ‘advanced electronic signature technology’ (which has not been widely adopted), and other forms including ‘web based invoice presentment’ and invoices delivered via email
- whilst the processes are different, the main areas of administrative activities, and hence burden, that are reduced by using electronic invoicing are the time associated with keying-in (because most of the required data is already fed through from the system); time correcting errors (because there will be automated error checks); printing time and postage costs
- smaller businesses may not be able to use electronic invoicing as efficiently as larger businesses do, as their systems are unlikely to be as sophisticated and often they are less familiar with the technology. However, in proportion to the burden of producing a hard copy invoice, which is higher for small businesses, they do gain a higher saving

5 Summary of business feedback

5.1 Background

Annex C summarises the feedback recorded from businesses interviewed as part of the project work that apply across all tax areas. A brief synopsis is included here. The feedback is those businesses' views rather than the views of HMRC or KPMG.

The observations are grouped under

- interaction between policy choices and complexity: 'why do we have to do it'
- the challenge of deciding whether or not a compliance requirement applies or is worth applying: 'knowing what to do'
- the challenge of dealing with a compliance requirement once it is clear it applies: 'doing it'
- HMRC's customer relationship management

5.2 Interaction between policy choices and complexity: 'why do we have to do it'

Many businesses suggested harmonising aspects of the tax rules. For example, a very strong theme was the alignment of Pay As You Earn ('PAYE') with National Insurance Contributions. Others suggested closer linkage between accounting and tax profits.

Businesses felt very strongly that they were providing the same information more than once to Government, which added to their burden.

Many interviews referred to the possible merits of some form of flat tax system. Some of the suggestions were made of the tax system as a whole. Others suggested it for particular areas of tax. Several interviews touched on the possible merits of a tier system covering different forms, different types of allowances and different levels of disclosure.

5.3 The challenge of deciding whether or not a compliance requirement applies 'knowing what to do'

This challenge is particularly difficult where there is a change, either to the regulation or to the business structure. The impact of regulation change is in deciding whether or not the new change applies, worrying if the wrong decision is made, and implementing the change if needed. As regards changes in business, some businesses reported deliberately avoiding certain business transactions to avoid some aspects of regulation.

Lack of certainty – even fear – is a major theme. If things continually change, or HMRC's interpretation on the ground continually changes, it becomes very difficult and expensive to achieve certainty.

5.4 The challenge of dealing with a compliance requirement once it is clear it applies: ‘doing it’

The overall sense from the interview feedback is that once a business has worked out what it needs to do, and is allowed stability to put in efficient processes with no or little change, the administrative burden is manageable.

Forms were not identified as a particular problem and praise was given for the more simple, well set-out forms. Both payroll and VAT electronic filing are generally popular, although not universally so, and the ability to obtain forms online was popular.

Businesses commented on perceived, or actual, lack of consistency among HMRC staff dealing with the same issue, delays in knowing when a particular item is accepted by HMRC, and a desire for more regular checks or inspections in order that mistakes could be identified earlier.

A further theme that emerged strongly from business was a sense that some of the penalties to which businesses are exposed are not proportionate.

5.5 HMRC’s customer relationship management

Many interviews suggested that the name HMRC creates a ‘fear factor’ and it is generally felt that HMRC are not there to help. Having said this, there were occasional interviews where business clearly felt HMRC staff had been very helpful. There was very positive feedback for HMRC workshops and presentations, and the CD-ROM for employers.

Businesses felt that a personal relationship with their Tax Office was extremely helpful. Although some businesses found the call centre useful, many businesses were extremely critical of the call centre, saying that they were unable to answer many queries and that answers given were inconsistent and sometimes unreliable.

There was also a considerable amount of feedback from businesses that HMRC generally lacks understanding of industry sectors or business processes.

There was a strong theme from interviews that HMRC starts from the premise that business is non-compliant, although most businesses expressed a strong wish to be compliant.

Finally, many of the feedback points from business were asking for simplifications that are, in fact, already in place. This was particularly noticeable in the context of electronic filing.

6 Glossary

Acquisition Costs: Expenditure incurred by a business to comply with an **Information Obligation** ('IO'). The key types of acquisition cost are software, storage, postage, stationery and labelling.

Administrative Activity: An activity that a business carries out in order to comply with the **Information Obligation**. This may be a particular task or process. Several activities may be required to complete a **Data Requirement** ('DR'). The 16 Administrative Activities, as set out in the Standard Cost Model ('SCM'), are as follows:

Administrative Activity in SCM	Administrative Activity – practical translation	Further description and examples
Familiarisation	Understanding the requirements	This activity applies from the point when the business has decided to carry out the IO and is the time taken for staff to familiarise themselves with what they have to do to fulfil the DRs. For example, when a box in a form needs to be completed, the person completing it may need to spend time understanding what should be put in that box.
Information retrieval	Information retrieval	This is obtaining the information required to fulfil the DR. It does not include time to create records, or to store them. For example, before making a capital allowances claim, a business will need to retrieve details of all its fixed asset expenditure in the period.
Assessment	Identifying relevant information	Having retrieved all potentially relevant information, this activity relates to reviewing that information and determining what is required to fulfil the DR. Continuing the previous example, once a business has retrieved all information on its fixed asset expenditure, it then has to consider what information it will provide to HMRC when making the claim.
Calculation	Calculation	Performing the necessary calculations needed to comply with the IO. For example, this would include calculation of 25% writing down allowance when making a capital allowances claim.
Presentation of figures	Self explanatory	Presenting the calculated figures in tables or other formats prescribed by the DR. This covers only the figures required and not the accompanying narrative. An example would be entering the required figures into the Intrastat return. This could include figures in boxes on forms or figures in a table in notification or letter.
Checking	Self explanatory	This covers either a person checking their own work, or review of this work by another individual. This includes checking calculations, reviewing drafting of letters, and checking that forms have been completed correctly.
Correction	Correction	This is the time taken to make any corrections needed if the business's own checks (the activity above) reveal errors in the calculations, or identify other changes required to the DR. This activity does not include time taken to make changes identified by HMRC.
Description	Narrative or further explanation	This relates to any narrative required for the DR. This includes both writing letters, for example, the writing of a Short Life Asset election letter for capital allowance purposes and completing text boxes in forms, for example entering the business name in a VAT registration form.
Settlement/payment	Payment	This covers making payment of the tax, charges or other payments due.
Internal meetings	Internal meetings	Meetings held internally among the various members of the business involved in complying with the IO. For example, this might include a meeting between the tax department and the accounts department to discuss the analysis required for the Corporation Tax return.

Administrative Activity in SCM	Administrative Activity – practical translation	Further description and examples
External meetings	External meetings or presenting in person	This includes meetings with the businesses’ external advisors and the requirement to present something in person, for example presenting a document for stamping at the Stamp Office or presenting a Construction Industry Scheme certificate in person.
Inspection by public authorities	Interaction with HMRC during inspection	Businesses must assist external inspectors when they carry out their inspection at the business. This activity covers the time taken to interact with the HMRC person during the visit or inspection. Time spent on retrieving information required by the HMRC person either before or during the visit is included under information retrieval above.
Correction resulting from inspection by public authorities	Correcting errors identified by HMRC	If, as a result of an enquiry or an inspection, HMRC identifies errors or defects, corrections must be made by the business. This activity covers the time taken to make those corrections.
Training	Specific training	The time measured is any training time needed for the particular DR. It is not the cost of a general annual tax update, which is out of scope.
Copying, distributing and filing	Copying and putting on file	This is the time to make a copy of the return/letter/other document and put this copy on a file. It is not the cost of filing the underlying data or storing the files or documents. For example, before a VAT return is submitted to HMRC, a photocopy of the return will be made and put on file.
Reporting and submitting information	Submitting information	Where compliance with an obligation requires the submission of information to either HMRC or a third party, the time to send the information is captured within this activity. This includes, for example sending the Corporation Tax return to HMRC, or issuing year end P60s to employees.

Administrative Burden: The part of the administrative costs that a business sustains simply because of the requirement from **regulation**.

Advisory Board: A Board comprising members of representative bodies and business representatives who met at the end of Phase 1, Phase 2 and Phase 3 to discuss the progress of the work and provide input on certain specific areas. The membership and terms of reference of the Advisory Board are set out at Appendix 5 to Annex A.

BRE project: A parallel exercise being conducted by the Better Regulation Executive for the rest of the Government

Data Requirement (‘DR’): Particular elements of data that a business needs to provide in order to comply with the Information Obligation.

Expert Assessment: The method of standardising an **Information Obligation** where no interview data are available.

External Costs: The costs charged by the business's advisors for a particular piece of work where assistance was sought with a particular **Information Obligation**.

Forms: The forms issued by HMRC which are required to be submitted by a business when complying with an **Information Obligation**. Forms identified within this model cover both optional and compulsory forms. Forms were not considered to include proforma templates provided in HMRC guidance.

Frequency: How many times in a year the **Information Obligation** has to be complied with where this is a prescribed mandatory periodic occurrence.

Information Obligation ('IO'): A duty to procure or prepare information and make it available to a public authority, as well as a duty to facilitate the collection or preparation of information by others, e.g. by permitting and co-operating with an audit, visit or inspection. Put more simply, an **Information Obligation** is a block of information that a business is required, by law, to submit to HMRC, submit to third parties or keep on record.

Information Obligation type: A list of 13 categories of **Information Obligation** types classified by the nature of the obligation. The **Information Obligation** types are as follows:

IO Type in SCM	IO Type – practical translation	Further description and examples
Framing appeals and complaints	Appeals against assessments and HMRC decisions	This includes for example an Appeal to the General Commissioners.
Providing statutory information to third parties	Providing information to third parties	Third parties include customers, employees and shareholders, but not HMRC. Examples include producing a VAT Invoice and giving an employee a P60 or copy of P11D.
Statutory labelling for third parties	Labelling and marking	This includes tobacco labelling and marking containers.
Co-operating with audits/ inspections	Co-operating with HMRC enquiries visits and inspections	This includes, for example, dealing with a CTSA Enquiry or a PAYE Audit.
Keeping commercial emergency plans and programmes updated	Record retention	This contains all obligations for retention of records, invoices, accounts, business transactions, business registers, data etc. Record creation and retrieval are activities that are captured under other types of obligation. This is because the creation of the record is an integral part of the IO itself. For example, the IO for a CT return (which is in 'Returns & Reports' includes the creation of a record, the CT return. However the essence of the IO is making a return not creating a record. This also includes obligations relating to specific logistical arrangements.
Applications for subsidies, grants, allowances or credits	Claims, elections, and applications for reliefs	This covers any claim with a financial impact, for example a Capital Allowances claim.
Carrying out inspections	Inspections to be carried out by business	This applies where the business is itself required to carry out inspections, enquiries, and investigations. This will typically be inspections of third parties and may include a contractor checking a subcontractor's certificate as part of the requirements of the Construction Industry Scheme.
Entry in a register	Entry in an external (normally HMRC) list or other permanent record	This includes, for example, providing a National Insurance number to HMRC.
Returns and reports	Provision to HMRC of regular returns and payment of tax	This only applies to the regular returns and not to notification regarding one off events. Examples include the VAT Return, the employers' annual return (P35) and the Corporation Tax return.

IO Type in SCM	IO Type – practical translation	Further description and examples
Notification of activities/Registration	Registration, or notifying HMRC of an event or circumstance	This includes notification of taxable status, and disqualification events. An example is the notification for VAT purposes of intention to issue electronic invoices.
Applications for authorisation	Application by the business for a statutory clearance, authorisation, or for a certain status	An example is the application for approval of a Company Share Option Scheme.
Applications for permission or exemption	Applications for permission or exemption	<p>Applications for permission are applications to apply a certain process, for example, establishing Group Payment Arrangements for Corporation Tax or applying for a P11D Dispensation. This can be distinguished from applications for authorisation which are to do with the tax status of the business or its activities.</p> <p>This includes applications for monthly VAT returns, applications for dispensations and applications for group payments arrangements for CT.</p>
Application for Guidance	Application for HMRC guidance, opinion or ruling	This includes, for example, the use of the HMRC Code of Practice 10.

Internal Costs: The cost of carrying out the **Data Requirements** to comply with a particular **Information Obligation**. Broadly, internal cost is derived by multiplying the number of minutes required to carry out each **Data Requirement** within the **Information Obligation** by the hourly wage cost of the employee to the employer.

Marginal Cost: The additional administrative burden caused by the tax system and not the ‘business as usual’ costs. Put simply, this is the cost that would fall away if tax were abolished overnight.

Origin: Describes the source of the regulation which derives the **Information Obligation**, broadly, whether it is as a result of domestic regulation, EU regulation or other international regulation.

Population: The number of businesses affected by an **Information Obligation**, or the number of occurrences of the **Information Obligation**.

Rambøll: Rambøll Management, a Danish based company that has carried out similar SCM projects in Denmark, Sweden and other parts of Europe. Also the company that licensed KPMG to use Ramvab.

Ramvab: A database tool to support the measurement process. Ramvab enables capture of all the data relevant to this type of exercise and enables standardisation of the results and reporting.

Rate: The proportion of businesses complying with the **Information Obligation** that comply with a given **Data Requirement** within that **Information Obligation**.

Regulation: A rule, failure to comply with which would result in conflict with the law or being ineligible for continued funding, grants and other applied for schemes. Put more simply, for the purposes of building the model, a regulation relates to the piece of UK tax legislation which leads to the **Information Obligation**. Regulations included within the model are those enacted and in force at 31 May 2005.

Segments: The population for a given **Information Obligation** was divided into various segments. Segmentation was applied to ensure that the difference in administrative burden was properly captured for different business segments likely to have different processes.

Small Business Service: An agency of the Department of Trade and Industry that supports the interest of small businesses.

Standard Cost Model: The manual and method by which the measurement of administrative burdens on business is described.

Standardisation: The process of making an assessment of the time and resource it takes a **normally efficient business** to comply with the **Information Obligation**. Standardisation was carried out either by using interview data or by **expert assessment**.

Subject Group: A group of **Information Obligations** likely to be dealt with by business or HMRC as related areas of activity or **regulation**. The use of **Subject Groups** was important as a way of navigating the data framework and acted an appropriate group of **Information Obligations** to take to interview.

Tax Areas: A list of 28 Tax Areas agreed with HMRC for the basis of the final report. The Tax Areas were devised for the purpose of navigating around tax regulation.

GOVERNMENT SERVICES

Administrative Burdens – HMRC Measurement Project

Annex A

Detailed Description of
Methodology and
Application in Practice

20 March 2006

Restricted – Commercial