

Delivering a new relationship with business:

HMRC's plans to deliver a better service for business by 2010–11

November 2006

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Executive Summary

- E1. Since its formation in April 2005, HM Revenue and Customs (HMRC) has focused on transforming its relationship with business, consulting widely with the business community about how best to minimise unnecessary burdens imposed by the tax system. In Budget 2006 the Chancellor announced stretching targets to reduce administrative burdens to be delivered by 2010–11.
- E2. This paper sets out what the Department has achieved since 2005, and initial milestones for the introduction of new and improved services that will deliver the targets and an enhanced business customer experience.
- E3. This work is moving HMRC towards delivery of its long-term vision that business will:
- **provide information only once;**
 - spend **less time dealing with inspections;**
 - benefit from a range of **flexible payment options;**
 - enjoy a **single point of contact with HMRC;** and
 - benefit from clear and targeted **support, education and guidance** at the time they need it most.
- E4. There has been considerable progress over the past 18 months, including delivery towards the targets set at Budget 2006 to reduce the administrative burden on business of dealing with forms and returns, and audits and inspections. A detailed list of what has been delivered already is included at Annex A. Highlights include:
- the short self assessment tax return, reducing the pages to be filled in by the smallest businesses from 16 to 4;
 - removing the requirement for 90 per cent of new companies to complete Form 42, which saves companies an estimated £200 per form;
 - introducing a new form P46¹ — giving 1 million more employees the correct initial tax code, reducing substantially the number of queries to employers;
 - the transfer from employers to HMRC of the responsibility for paying tax credits to employees, benefiting some 300,000 employers; and
 - introducing a simpler self assessment statement for 2 million businesses so that they can more easily understand what they owe and have paid.
- E5. However, there is much still to do to deliver this vision by 2010–11. Over the next four years, HMRC will:
- **reduce the burden of forms and returns**, including the introduction of a redesigned VAT registration form from December 2006 to make registration easier and quicker for 225,000 businesses each year, and a new self assessment return in April 2008, halving the number of self-employment pages for 500,000 businesses;
 - **develop a fresh approach to audits and inspections**, so that it is less burdensome for compliant businesses;

¹ The P46 is completed by employers when they take on staff who are unable to produce form P45 containing their latest pay and tax details. The previous version was identified as one of the most burdensome forms that businesses had to complete. The new P46 provides initial tax codes that are more appropriate to the employee's individual circumstances.

- make **significant improvements to the HMRC website**, allowing easy access to the full range of information and guidance a business needs, to be rolled out in 2007–08 and fully delivered in 2008–09;
- develop a **single customer record**, which will underpin single registration for all business taxes and enable the creation of a single business customer account, with consultation starting in 2007–08;
- **enhance services for agents and tax advisers**, so that they can better support their clients and enable HMRC to target its activities more accurately on higher risk areas, with the first pilots starting in December 2006;
- provide a **streamlined online environment** for business to submit forms and returns and make payments, with the first legislation planned for 2007–08 and delivery rolled out in 2008–09; and
- **link the enquiry window² with the submission of the tax return**, so that businesses can have their tax affairs settled sooner, effective from 2008.

E6. HMRC is today publishing the first tranche of draft legislation for consultation as part of their work towards developing a new management act. This will aim to simplify tax law wherever possible so that the burdens on taxpayers are minimised.

² The enquiry window is the 12 month period HMRC has to query a business' self assessment (SA) tax or company tax return. Currently this is linked to the statutory filing date and not the date a business submits its return.

Chapter 1 — Introduction

- 1.1 The creation of HM Revenue and Customs (HMRC) in April 2005 provided an opportunity to modernise the administration of the tax system, with small business potentially gaining the most from dealing with a single department for all their tax affairs. At Budget 2005 a consultation was launched which set out the Department's long-term vision of the service that HMRC aims to provide for its small business customers. It sought the views of business and their representatives on how, consistent with the principles set out in the Hampton Review¹, the new department might best capture the benefits of the merger to reduce the administrative burdens of the tax system.
- 1.2 The outcome of this consultation, published at PBR 2005, demonstrated that business shared the Department's long-term vision of a future where business will:
- **provide information only once;**
 - **spend less time dealing with inspections;**
 - benefit from a range of **flexible payment options;**
 - enjoy a **single point of contact with HMRC;** and
 - benefit from clear and targeted **support, education and guidance** at the time they need it most.
- 1.3 *Progress towards a new relationship: how HMRC is working to make life easier for business*², published alongside Budget 2006, announced stretching targets for reducing the administrative burdens imposed on business by the tax system:
- to reduce by at least 10 per cent the administrative burden on business of dealing with HMRC forms and returns, over a 5 year period; and
 - to reduce the administrative burden on compliant business of dealing with HMRC's audits and inspections by 10 per cent over 3 years, and at least 15 per cent over 5 years.
- In addition, HMRC is working with the Administrative Burdens Advisory Board³ to make improvements in those areas which might be a statistically small part of the total burden, but can still be particularly irritating to business.
- 1.4 This paper sets out what business can expect from HMRC by 2010–2011. It identifies HMRC's initial plans for milestones that will help HMRC achieve that vision and is consistent with the *2006 Review of Links with Large Business*⁴.
- 1.5 Chapter 3 sets out what HMRC will deliver by 2010. Section A provides details of how the Department will make progress towards reducing the burden of forms and returns. Section B covers the Department's plans to reduce the burdens of audits and inspections. Section C reports on how HMRC is improving its services to help business get things right from the start. Section D describes the benefits for business of a single customer record. Section E deals with how the Department will provide a better online environment so that businesses are able to file returns and make payments electronically, and introduce a more customer-focused website that will help business find the

¹ The Hampton Review is available at: <http://www.hm-treasury.gov.uk/hampton>.

² *Progress towards a new relationship: how HMRC is working to make life easier for business* is available at: <http://www.hmrc.gov.uk/budget2006/new-relationship.pdf>.

³ Information on the Administrative Burdens Advisory Board, its members and their work with HMRC can be found at: <http://www.hmrc.gov.uk/better-regulation/admin-burdens.htm>.

⁴ The *2006 Review of Links with Large Business* is available at: <http://www.hmrc.gov.uk/large-business/review-report.pdf>

information it needs when it is needed. Finally, section F focuses on what the Department will do to enhance its relationship with agents and tax advisers so that they will be able to serve their clients better and the Department will be able to focus its activities on higher risk areas.

- 1.6 The table below provides an overview of how each of these sections will contribute to the delivery of the vision set out in paragraph 1.2, with an indication of timescales. Annex B contains further details of the initial milestones.

	Provide information only once Less time dealing with inspections Flexible payment options Single Point of contact Support, education, guidance Delivery					
Modernising forms and returns	✓	✓	✓		✓	Improvements in all years from 2006–10
Fresh approach to audits and inspections		✓		✓	✓	First phase in 2006
Getting it right from the start		✓		✓	✓	New interactive online education pilot in 2008
Single customer record	✓		✓	✓	✓	First phases in 2008–09
HMRC Online	✓	✓	✓	✓	✓	Improvements in all years from 2006–10
Working with agents	✓	✓		✓	✓	Consultation in 2007–08

Chapter 2 — Improvements HMRC has delivered since April 2005

- 2.1 HMRC has made good progress towards the vision set out in Budget 2005. It is also on track to deliver against the targets set at Budget 2006 to reduce the administrative burden on business of dealing with forms and returns, and audits and inspections.
- 2.2 Full details of improvements delivered since April 2005 are included at Annex A. Many of them have been prioritised for early delivery in response to the feedback received from business and their representatives.
- 2.3 Some of the main developments most welcomed by business include:
- reducing the number of pages in the self assessment tax return sent to the smallest self-employed businesses from 16 to 4 pages. This has meant that 500,000 people now spend less time dealing with their business tax affairs;
 - using better risk assessment to remove the need for 90 per cent of new companies to complete Form 42. This change is estimated to save start-up companies £200 per form;
 - introducing a new form P46, completed by employers when taking on new staff who are unable (or unwilling) to produce a P45 containing their latest PAYE details. The previous version had been identified through independent research by KPMG¹ as being one of the most burdensome forms that business had to complete. The new form increased by one million the number of new employees with an initial tax code appropriate to their circumstances, reducing the number of queries employers receive from their employees about their tax affairs;
 - transferring from employers to HMRC the responsibility for paying tax credits to employees, benefiting some 300,000 employers by reducing annual payroll costs that hit the smallest employers hardest;
 - introducing in August 2006 a new style self assessment statement which will provide customers with a clearer picture of their tax liabilities. As a result of this change 2 million businesses will now be able to understand more easily what they owe and have paid; and
 - improving the delivery of the Research and Development tax credit by creating a network of specialist units with greater expertise so that there is improved consistency in dealing with claims, and making it easier for business to claim its entitlements. The new units were launched in November 2006 in seven locations around the UK.

¹ The research conducted by KPMG is available at: <http://www.hmrc.gov.uk/better-regulation/kpmg.htm>.

Chapter 3 — Improvements that HMRC will deliver by 2010

- 3.1 Building on its dialogue with business, HMRC has developed a comprehensive programme of work to transform the business experience of dealing with the Department and to help business fulfil its tax obligations in the most efficient way. This work has been supported and informed by the Administrative Burdens Advisory Board, whose formation was announced at Budget 2006. The externally chaired Board is playing a valuable role in helping HMRC to prioritise work on the burdens that irritate business the most.
- 3.2 HMRC remains committed to ensuring that all changes that will have a significant impact on business are subject to full and proper consultation. In addition to formal consultations, HMRC is keen to ensure that there is an ongoing dialogue with business and its representatives, and will continue to develop routes to bring a business perspective into the heart of tax policy-making and delivery. An important part of that will be ensuring that services are provided in a modern and efficient manner, harnessing new technologies where appropriate, and learning from good practice in the private sector. HMRC will therefore take the forthcoming findings of Sir David Varney's review of service transformation, due to be published soon, fully into account in the ongoing development of its strategy for working with business.

A new management act

- 3.3 HMRC is reviewing its administrative rules, to develop new legislation that will bring together in one place the rules for the main taxes. A new management act will deliver a modern, simpler and more consistent legislative framework for the administration of taxes, which is easier both for taxpayers to understand and comply with and for HMRC to operate. This provides an opportunity to minimise the burdens on taxpayers by:
- improving the transparency and communication of administrative legislation, making it easier to understand;
 - removing obsolete legislation; and
 - aligning and rationalising legislation where it makes sense to do so.
- 3.4 HMRC is today publishing the first tranche of draft legislation for consultation covering the rules for notification and registration, returns, and assessments for income tax self assessment, corporation tax self assessment and VAT. The consultation document is available on the HMRC website¹. The aim is, subject to the outcome of the consultation, to introduce a Bill in the 2007–8 Parliamentary session.

¹ Further information on the new management act including the document for consultation can be found at: <http://www.hmrc.gov.uk/nma/index.htm>

A: Reducing the burden of forms and returns

- 3.5 In April 2006 HMRC published research undertaken by KPMG² which modelled the administrative burden of the tax system on business. The model suggested that completing HMRC forms and returns contributed just over £3.4 billion out of a total burden of around £5 billion. This equates to some 68 per cent of the total administrative burden measured by the exercise. While forms and returns are a necessary part of any effective tax system, HMRC was set a challenging target to reduce that burden by at least 10 per cent by 2010–11.
- 3.6 HMRC has established a programme of work across all business taxes to deliver this target. This is an area where the long lead time required to change both forms and the supporting IT and software, means that early decisions are needed to give business and HMRC the necessary time to prepare for any changes. To ensure both that all areas of HMRC's business are fully engaged with this work programme and also that reducing the administrative burden of the tax system becomes an embedded part of HMRC's culture, all HMRC directors with responsibility for the taxation of business are being called to account for their contribution at Board level.
- 3.7 Consistent with the principles set out in the Hampton Review, HMRC is continuing to look for opportunities to reduce the number of forms businesses fill in, simplify those that necessarily must remain, and to eliminate duplicate or unnecessary information requests. This programme of work has made good progress:
- from April 2008 business will benefit from a greatly **improved main self assessment income tax return** and associated guide, which will make it easier to understand and complete. The number of self employment pages will be halved for those with an annual turnover below £40,000;
 - the review announced in Budget 2006 of the **partnership self assessment return**, completed by 535,000 businesses, has already identified a number of areas where the improvements made to the main self assessment tax return can be applied. These will be rolled out from 2009–10, along with any further conclusions from the ongoing review of the underlying information requirements needed from partnerships;
 - from November 2006, businesses and agents can file **electronic attachments with self assessment returns**, making it easier to provide additional information in support of the declarations on the return. Previously these could only be sent by post, denying the full benefits of online filing to many taxpayers;
 - from April 2007, 200,000 contractors in the construction industry will benefit from the introduction of a new, **streamlined Construction Industry Scheme (CIS)**. Although there will be costs associated with the transition to the new scheme, it has been designed in collaboration with industry and alleviates some of the burdens imposed by the current regime. All key functions will be available online;
 - currently a high proportion of the 225,000 businesses registering for VAT each year find the **VAT registration application form (VAT1)** difficult to fill in correctly, leading to delays while HMRC asks for more information. To address this, a redesigned VAT 1 form, with improved guidance, will be launched in December 2006; and

² The research conducted by KPMG is available at: <http://www.hmrc.gov.uk/better-regulation/kpmg.htm>.

- an **international trade “Single Window”**³ will reduce burdens for those businesses involved in cross-border trading. This will allow all import and export data that has to be reported to Government to be submitted via a single electronic message rather than the many notifications that are required today. This will help reduce the time it takes businesses to comply with international trade obligations. It will be achieved in stages: initial information and guidance service from November 2006; electronic classification service to help business identify product classes and commodity codes, planned for 2007; and a single electronic message facility in 2009–10.

B: A fresh approach to audits and inspections

- 3.8 The KPMG research identified audits and inspections, or the fear of them, as a major concern to business, even though they are a relatively small contributor to the total administrative burden. HMRC’s target is to reduce administrative burdens on compliant businesses in dealing with audits and inspections by 10 per cent in 3 years and by at least 15 per cent over 5 years.
- 3.9 Given the importance of perceptions in this area, real success against the target cannot be measured solely by the reduction in the comparatively small administrative burden. The Administrative Burdens Advisory Board has been overseeing HMRC’s development of a more comprehensive range of measures to assess whether there has been a real improvement from the business perspective. At their suggestion, HMRC is now developing a questionnaire to capture the experiences and concerns of those businesses subject to HMRC audits and inspections, with a view to using that information to identify priority areas for improvement.
- 3.10 Over the next three years HMRC’s audit and inspection regime will be better targeted towards those businesses which present a high risk of non-compliance. As part of this HMRC has identified the need to:
- develop a range of **‘lighter touch’ interventions**. The trial of new interventions that started in July 2006 has now ended and will be evaluated, taking into account feedback from agents. HMRC is seeking to work in close partnership with business and agents to develop a broader range of interventions that better match resource to risk; and
 - work more collaboratively with business and agents to identify how risks can be reduced through **pre-return assurance**, the sharing of some risk assessments and how to make post-return work more effective and efficient. Further information about working with agents can be found at Section F.

Secure Electronic Workrooms

- 3.11 Audits and inspections can be completed more quickly with greater use of modern technology, for example secure electronic workrooms which allow HMRC and businesses (and agents) to work collaboratively by sharing and exchanging information electronically, in real time. This reduces administrative costs for both parties by providing the means for a quick and open dialogue, even when dealing with complex or non-routine matters, while ensuring

³ The “Single Window” will be accessed via the Business Link website:
<http://www.businesslink.gov.uk>

taxpayer confidentiality. When used in relation to audits and inspections, current figures show that this approach can deliver savings of at least 20 per cent in the time that it takes to settle an enquiry.

- 3.12 During 2007, secure electronic workrooms will for the first time be available online from the HMRC website. This will be a major step in the wider deployment of this innovative service, and is the first stage in delivering enhancements that respond to business feedback from the early pilots of the service.

Modernising frontiers

- 3.13 HMRC is actively engaged in improving operations at the frontiers. Business will notice greater collaboration between UK government agencies at the border dealing with freight, and between the UK and other European Union (EU) Member States. This new approach to frontier interventions, together with better scanning technology, will speed the flow of goods through ports and airports while improving security against threats to our economy.

C: Getting it right from the start

- 3.14 HMRC is committed to making it as easy as possible for business to understand and comply with its obligations.
- 3.15 HMRC proactively targets education at new businesses to help them get their tax obligations right first time, using a variety of methods, including seminars, workshops and presentations. To reach those who are unable to attend these during office hours, HMRC hopes to be able to provide, by 2011, a fully **interactive online education service** that can be tailored to specific needs. The aim is to make it possible for business to:
- have access to **online presentations** on various topics at any time;
 - participate in **virtual “classrooms”**, which will tackle more complex subjects. These “classrooms” may be teacher-led and will offer the customer the opportunity to work through subjects online with real-time comment and input from the teacher; and
 - submit in-depth questions to education teams, to which they will receive replies online in real time or posted to a mailbox, which they can access at their convenience.

HMRC plans to pilot a service in 2008, with anticipated roll-out of a full service by 2011.

Research and Development tax credits

- 3.16 Responding to feedback from business about the difficulties experienced in claiming Research and Development (R&D) tax credits, HMRC opened (on 1 November 2006) a network of seven new specialist units around the UK. These will help companies claim entitlements more quickly and easily. These specialist units will also conduct more outreach work — visiting companies to help them identify areas of the business that could benefit from R&D tax credits and working with businesses to help them get their applications right first time.

Improved enquiry service for statutory payments

- 3.17 The new email facility introduced on HMRC’s website in October 2006, to deal with enquiries relating to Statutory Sick Pay, will be extended to include Statutory Maternity Pay, Statutory Adoption Pay and Statutory Paternity Pay by

mid December 2006. This new service allows employers to send enquiries directly to the Employer Helpline and provides an alternative to making enquiries by telephone. HMRC can normally reply to an online query within 24 hours. This service should enable employers and their agents to conduct their business with HMRC in a more cost-efficient and convenient manner.

New tool to determine employment status

- 3.18 Establishing a worker's employment status is important because different amounts of tax and different classes of National Insurance Contributions are payable dependent on whether that worker is employed or self-employed. But this is not always straightforward because employment status, which is defined through case law rather than statute, depends on individual circumstances. To help employers and contractors, who have told HMRC about their difficulties in establishing employment status, HMRC launched an online Employment Status Indicator⁴ in December 2005. This is an interactive web-based tool that helps to determine whether a worker is employed or self-employed. Although it is intended to be used by those who engage workers, it can also be used by individuals who wish to establish their own employment status. HMRC anticipates that it will be particularly helpful for workers in the construction industry and will facilitate the implementation of the Construction Industry Scheme in April 2007. HMRC is working with the Administrative Burdens Advisory Board to make this service more user-friendly and promote it more effectively.

Registering as self-employed

- 3.19 Earlier this year HMRC ran an advertising campaign aimed at the newly self-employed. The campaign, which ran in newspapers and radio, highlighted the legal requirement for the newly self-employed, to notify HMRC within 3 months of setting up in business. Businesses need to do this so that they can pay their income tax and national insurance contributions on time. It explained that this registration process is simple and that HMRC is here to help, even if people are outside the time period. The campaign resulted in 8,000 additional registrations and is being re-run in November 2006.
- 3.20 At the same time HMRC also launched an expanded hotline to give people the opportunity to report those they suspect of not registering for tax or not declaring all of their income. This made extensive use of press and radio advertising, and a TV advertisement was run throughout March 2006. To date over 75,000 calls have been made to HMRC, many from businesses that see competitors gaining an unfair advantage by not paying their fair share. HMRC provides assistance to those businesses who contact the helpline voluntarily and is following up names reported by third parties with a risk-assessed assurance programme. This underlines HMRC's commitment to provide a level playing field for business.

⁴ The Employment Status Indicator can be found at: <http://www.hmrc.gov.uk/calcs/esi.htm>.

D: Delivering a single customer record

- 3.21 One of the most significant changes to the service that HMRC offers business over the next five years will centre on the development of a **single customer record**. This will draw together the information HMRC has on individual businesses across each tax regime, and allow businesses and HMRC to deal with their affairs in an integrated way. These changes will enable HMRC to develop a whole series of significant improvements.
- 3.22 It means that **by 2009** business should be able to benefit from the introduction of a **customer management system**. HMRC will begin to log and corporately 'remember' details of all interactions with customers, and draw together the information it holds. This means HMRC will be able to handle queries more effectively and efficiently, for example saving telephone customers the time of repeating information. It would also mean that business, agents and call centre operators can have the same information on-screen, allowing for a shorter and more informed discussion to resolve queries. As one query might cover a number of taxes, a business would no longer have to deal with each tax regime separately. These factors combined should enable more customer queries to be resolved completely and successfully at first point of contact.
- 3.23 Joining up between the taxes will mean that information can be shared between the different parts of HMRC, **to allow forms to be pre-populated with basic information, registrations to be simplified and details to be updated only once**. This will also enable HMRC to carry out more sophisticated risk analysis across the taxes and help target compliance activities on those businesses that do not comply.
- 3.24 Providing an integrated service to business customers across all taxes is a key goal for HMRC. **From 2009–10**, HMRC plans that, for the first time, businesses will need only provide their basic details once for registration, and the details will follow the business as it grows and develops. **Changes in circumstances**, such as address and contact details, will also need to be notified only once and all relevant systems will be automatically updated, reducing errors such as misdirected mail. Electronic delivery of information will be the norm, tailored to business preferences.
- 3.25 Subject to consultation and the development of the necessary infrastructure, a single customer record will be rolled out by **December 2008**, allowing for a full customer management system to be implemented by **April 2009**. Initial planning milestones are set out in Annex B, and HMRC plans to report firmer details at Budget 2007.

Flexible payment options

- 3.26 By **2010-11** HMRC plans to develop an holistic view of the liabilities and payments of each business across the main taxes, rather than managing these separately within specific tax regimes. That picture will be made available to individual businesses and will help them to understand their up-to-date tax position and manage their financial affairs more efficiently. The single view will also enable HMRC to identify quickly those businesses experiencing financial problems and help them at an early stage. In addition, HMRC will be consulting on measures, including a **range of flexible payment methods**, designed to make it easier for customers to pay, and to pay on time. The option to pay by direct debit will become more widely available in 2007 (see paragraph 3.31).

While HMRC is committed to helping businesses in genuine difficulty, earlier and more effective action will also be taken against those who do not pay, so that they do not gain an unfair advantage. Further details will be published in a consultation document around Budget 2007.

- 3.27 Subject to consultation and consequent legislative changes, HMRC will also consider developing a single **unified financial account**. This could simplify significantly financial transactions between business and HMRC, by allowing set-off between taxes.

E: HMRC online

- 3.28 Lord Carter's proposals,⁵ in his 2006 *Review of HMRC Online Services*, will move business towards increased online filing. HMRC is developing the infrastructure to support a **fully online environment for business**. Filing returns and making payments electronically will be quicker, easier and cheaper for business and HMRC. HMRC will help business to prepare for these new obligations and is currently in discussion with relevant stakeholders about the implementation of these proposals. The support will include road shows, telephone support and regular updates on HMRC's website. Online services will help improve accuracy of return completion, as well as providing customers and their agents with certainty that their transactions have been received and accepted. The implementation of Lord Carter's recommendations will be subject to HMRC having put in place high capacity IT services that have been rigorously tested.

In 2006

- 3.29 HMRC's development of online services will be delivered in stages. For example, a third of the 700 businesses registering for the new **spirits duty stamps scheme** have chosen the **online registration service**, and excise warehouse keepers can now use the internet to submit **monthly excise warehouse stock returns**. This **online facility** is simpler and quicker than paper, has inbuilt checks to help warehouse keepers complete returns correctly, and will instantly acknowledge receipt of a return on-screen. Warehouse keepers can also use the online service to view returns that have been previously submitted and information from returns will be used to pre-populate future returns.
- 3.30 The outcome of the consultation on **aligning filing dates between Companies House and HMRC** will be published at the 2006 Pre-Budget Report. In response to the views of business, companies will be able to choose to file their company tax return and their accounts for the public record in a single online transmission. This facility will be in place in time for the beginning of mandatory online filing for companies in 2010. HMRC will work with software developers to implement a system using the XBRL data tagging technology, recommended by Lord Carter, as soon as possible and will update business on progress regularly.

⁵ Information on Lord Carter's Review can be found at:
<http://www.hmrc.gov.uk/budget2006/carter-review.htm>.

By 2007

- 3.31 By 2007 the pace of change to an online environment will increase:
- Direct Debit is a cheap and reliable form of electronic payment for both the customer and HMRC. A **national direct debit facility** is planned for phased introduction from late 2007. This will focus initially on self assessment and time to pay cases (particularly tax credit overpayment cases);
 - due to business demand, HMRC is currently considering extension of its **debit card facility**; and
 - HMRC is working with Registers of Scotland to deliver from early 2007 a **'one stop shop' for the registration of the majority of land transactions in Scotland and payment of Stamp Duty Land Tax**. This means that details of land transactions would need to be provided only once, and both HMRC and Registers of Scotland systems would be automatically updated.

By 2008

- 3.32 By 2008 an increasing number of businesses will be required to file online:
- the 2007 Finance Bill will **link from 2008 the period that HMRC has to query income tax self assessment and company tax returns to the date when the return is filed**. This will give businesses which file early certainty more quickly compared with the current system that links the enquiry window to the statutory filing deadline, and will encourage early filing;
 - **medium-sized and large employers** (those with 50 or more employees) will file PAYE annual returns and in-year forms online;
 - **large businesses with a turnover above £5.6 million** will file their VAT returns online and pay electronically for accounting periods starting after 31 March 2008;
 - **businesses newly registering for VAT** will file electronically for accounting periods starting after 31 March 2008; and
 - income tax self assessment returns **online filers will have an extra 3 months to file** over those filing on paper.

By 2010

- 3.33 By 2010 the majority of businesses will be filing online for all their tax affairs:
- **medium-sized VAT-registered businesses with a turnover greater than £100,000** will file online and pay electronically;
 - all companies will file company tax **returns, computations and accounts** online using XBRL, and pay electronically;
 - companies will be able to choose to file their **company tax return with HMRC and the statutory accounts with Companies House** in a single online transmission;
 - following on from online filing by medium and large employers all remaining employers will file **PAYE annual returns and in year forms** online;
 - businesses involved with the **Stamp Duty Land Tax** regime will move to an online environment which will significantly reduce the time needed to complete paperwork; and
 - the **Excise Movement and Control System (EMCS)** will link more than 100,000 businesses across the EU and will replace the existing paper-based regime that tracks the movement of Excise goods (such as alcohol and tobacco) within the EU. EMCS will provide fast, electronic confirmation that goods in transit have reached their warehouse destination, eradicating the delays business experience with the current paper-based system.

A website that meets customer needs

- 3.34 As more businesses file returns and make payments online, a high quality interactive website is essential. Currently some business customers find it difficult to find what they are looking for on HMRC's website which, while comprehensive, can be difficult to navigate in places and needs a better search function. HMRC will transform the quality of the website content, introducing clear signposting to basic information and providing links to more detailed information for those that need it. The website will have a new look and feel, based on extensive customer research, to ensure that it meets customer needs. HMRC's programme of content improvement is ongoing, and the new look website is planned for the end of 2007–08, with a further range of improvements planned for the following year.

F: Agents: working in partnership

- 3.35 Agents have recently expressed to HMRC their concern about the implications of a court judgment⁶ which ruled on HMRC's scope for putting in place Extra-Statutory Concessions. The judgement has called into question the validity of some of these concessions and all will need to be reviewed to ascertain the impact of this ruling, however it is already clear that many concessions will be able to remain in place.
- 3.36 Many businesses choose to deal with HMRC through an agent or tax adviser. Agents are therefore key to the smooth and effective operation of the tax system, with an important role in helping their clients get their tax affairs right. HMRC needs to build and maintain a positive relationship with the agent community, based on professionalism, trust and the delivery of services that are designed for ease of use by agents as well as business. Getting things right with and for agents will reduce the impact of administrative burdens on business. And, of course, agents and tax advisers are businesses in their own right.

Building a future partnership

- 3.37 Working Together is a longstanding partnership of agents and HMRC, which focuses mainly on operational issues affecting the smooth running of the tax system. HMRC has now established an **Agent and Adviser Steering Group** to ensure the Department's direction exemplifies its ambition for partnership working. HMRC is developing, with input from the steering group, a shared vision of how working together will deliver real benefits for both agents and their customers. The key elements are:
- trust, professionalism and integrity;
 - openness and transparency; and
 - significantly improved services.

⁶ The House of Lords ruling in the Wilkinson case of 2005 clarified the scope of HMRC's discretion to make Extra-Statutory Concessions. The Courts were clear that HMRC can make concessions where they are in the interests of good management so it is not the case that HMRC will withdraw all such arrangements.

- 3.38 Over the coming weeks HMRC will be working with the professional bodies to give more substance to these elements and identify the practical issues. This will enable HMRC to test some new ways of working with agents, and to bring forward more substantive proposals on what a shared vision might look like at Budget 2007.

Improving the agent experience

- 3.39 Many of the elements necessary to make a positive difference to the agent / HMRC relationship can only be delivered over time, and after full engagement with the agent community. However there are more immediate priorities for action, which fall into the following themes:
- agent identification and authorisation;
 - pre-return processes and assurance; and
 - improved service delivery.

Agent identification and authorisation

- 3.40 HMRC is unable to draw together a complete list of all agents and their respective clients across all taxes, and so cannot easily identify all of the tax regimes for which the agent is authorised to act. This is inconvenient for agents and HMRC. It can lead to problems and delays in dealings with agents, in particular where HMRC has strict rules about the information that can be shared with anybody other than the customer. HMRC plans to build a database in 2009–10 that brings together all of its information about agents working in the different parts of the tax system, including a list of clients for whom they are authorised to act. This will enable HMRC to tailor its services, and resources, to meet agent needs based on a better understanding of the size, range and complexity of the agent's business. Agent access to this database will allow them to manage effectively their authorisations and keep their clients' details up to date.

Pre-return processes and assurance

- 3.41 At present, the processes agents carry out before submitting returns to assure completeness and accuracy are not visible to HMRC. These processes can be critical to HMRC's assessment of the risk a particular return presents. HMRC needs to develop a better understanding of agents' pre-return processes and how these might be used to provide assurance about the return. It may be possible to build such assurance into HMRC's risk model, to help identify more accurately the higher risk returns and thereby reduce the likelihood of an audit or inspection for compliant businesses, while directing HMRC resource to those businesses where tax is more at risk. HMRC is working with the professional bodies to identify firms who are prepared to work with them in piloting these ideas. HMRC plans to have the pilots developed by the end of this year and up and running early in 2007.

Improved service delivery

- 3.42 HMRC is determined to improve substantially its services to agents. Some services are already working well, but others need changes (whether radical or minor) and there may be areas where new services are needed. HMRC is consulting with agents to identify their priorities for change.
- 3.43 A particular area of agent concern has been HMRC's telephone services. At present, all agent calls are routed through advisers who pass the more complex calls on to specialists. Responding to agent feedback, HMRC will pilot two alternative approaches to the current contact arrangements. The pilots will run

in one of HMRC's contact centres, from December 2006 to February 2007. The two alternatives will be:

- direct access to a technically trained operator for all agent calls, irrespective of complexity; and
- direct access to a technically trained operator for those agent calls which are more complex.

The outcomes of the pilot will be evaluated against a control group of agents which will receive HMRC's current telephone services. The information from these approaches will be used to help design, with agents, new and improved services for them.

- 3.44 HMRC is also working with agents to design a Customer Relationship Management (CRM) pilot. This will explore the advantages of streamlined contact arrangements with HMRC. It would run alongside the telephone services pilots to help assess which best meets agents' needs, and the relative costs and benefits for agents, their clients, and HMRC.

Improvements delivered since April 2005

Annex A

IMPROVEMENT	DESCRIPTION	BUSINESS POPULATION	BENEFITS
April 2005–September 2005			
Secure electronic workrooms — pilot.	Secure web based facility allows HMRC and business (or agents) to work collaboratively by sharing and exchanging information about audits and inspections.	15,000 enquiries	Innovative facility — reduces administrative costs for both parties by enabling quick and open dialogue even when dealing with complex matters. Can deliver savings of up to 20 per cent in the time taken to settle cases. Not yet available universally but expanded in 2006.
Online filing without paper authorisation.	Removes the need for authorisation for agents who merely wish to file PAYE returns on behalf of their clients.	Agents who file returns on behalf of employers	Enables PAYE annual returns and in-year forms to be filed without going through the formal 64-8 authorisation process.
New employer starter pack.	Contains extensive guidance dedicated to new employers — including a brand new 'Start Here' booklet.	300,000	Helps new employers identify tasks requiring urgent attention. Contains important information such as reference numbers and help line contact details.
New Employer Helpline — upgraded service.	To help employers register for PAYE and NICS.	258,000	Accelerated service means that new PAYE schemes can be opened and documentation and reference numbers issued within days rather than weeks (when done by post). Speeds the resolution of employee queries for employers.
Short self assessment tax return.	Introduction of a short tax return for the smallest businesses with simple tax affairs.	500,000	Number of pages substantially reduced (from 16 pages to 4) — makes completing the form easier, quicker and less onerous. Estimated compliance cost savings of £5 million per annum to business.*
New computerised transit system.	European-wide electronic messaging system designed to provide better management and control of imports and exports.	130,000	Goods are cleared through ports more rapidly — reduces transportation costs for businesses involved in international trade.

*estimated initial overall compliance cost figures from Impact Assessments published on the HMRC website

IMPROVEMENT	DESCRIPTION	BUSINESS POPULATION	BENEFITS
October 2005–March 2006			
Employment Status Indicator (ESI).	Interactive web-based tool — helps employers and other HMRC customers in deciding the employment status of workers (employed or self-employed).	1.75 million (all employers — 200,000 in Construction Industry alone).	Helpful tool for the implementation of the new Construction Industry Scheme which goes live in April 2007.
Form 42.	Removal of the requirement for 90 per cent of new companies to report the majority of the first share issues.	270,000	90 per cent of new companies need not submit this form — saving them an average of £200* per form. New interactive guidance for those who still need to file was provided with the May 2006 version of the Employer Pack and this tool will be launched online in April 2007.
Online agent authorisation for PAYE, CT and SA.	Agents can be authorised to act on behalf of their customers using HMRC's online service.	Currently 60,000 more agents have signed up.	Much quicker than paper — includes additional benefits such as the facility to clean up client lists to make sure that they are completely up to date.
VAT CD Rom — <i>Getting Started in VAT</i> .	Provides basic, easily accessible information for businesses new to VAT.	250,000	Business saves time dealing with queries, finding contact numbers and obtaining and completing forms. The CD Rom saves business an estimated £17 million per annum.*
Payment of tax credits.	HMRC has taken over responsibility for paying tax credits to employees from employers.	300,000	Responding to requests from business to reduce payroll costs. This initiative saves employers £113 million per annum.*
Electronic Registration Service for New Employers.	Structured email enables new employers and their agents to give registration details to HMRC.	300,000	Offers an extra channel to register; accessible 24/7; immediate acknowledgement and the registration can be processed within a day of receipt.
April 2006–September 2006			
Pension Schemes Online.	The pension schemes online service is for registered pension scheme administrators and practitioners to view and send information and reports to HMRC over the internet.	Pension Scheme administrators and practitioners.	Further expansion of HMRC's online facilities — will save time and money for business.

*estimated initial overall compliance cost figures from Impact Assessments published on the HMRC website

IMPROVEMENT	DESCRIPTION	BUSINESS POPULATION	BENEFITS
Pilot — shorter main self assessment tax return.	Shorter and more streamlined self assessment return being piloted by over 7000 customers.	500 000 businesses	If the pilot is successful, this form will be rolled out to all qualifying businesses in April 08 — halving the number of self-employment pages for businesses with a turnover up to £40 000.
Employer Form — P46.	Needed when an employee does not give a P45 to give to their new employer. P46 now provides initial tax codes that are more appropriate to the employee's individual circumstances.	1.75 million employers	As a result of this form over a million fewer employees now start on the wrong initial tax code. This reduces tax enquiries by employees to their employers. HMRC has received very positive feedback from employers about this and estimates that employers will realise £10 million savings in compliance costs per annum*.
Online Filing without paper authorisation.	Removes the need for authorisation for agents who merely wish to file IT and CT returns on behalf of their clients.	All agents who file returns on behalf of business clients	Enables annual returns and in-year forms to be filed without going through the formal 64-8 authorisation process. Completes the suite of services for CT and IT (PAYE service enabled April 2005). Service not yet available for VAT agents.
Increase in the VAT annual accounting threshold.	Annual accounting means that qualifying businesses need only submit 1 return a year but pay their VAT in monthly instalments.	1.1 million eligible businesses	Greatly helps manage cash flow and reduces time spent filling out forms. Recent publicity has increased take-up of the scheme but take up could be higher. Once adopted, annual accounting can save the business £110 per year.*
Reform of pension tax regimes.	Modernisation and simplification of tax rules for pensions increasing individual choice and flexibility and cutting costs for business and employers.	Employers who operate pension schemes Independent Financial Advisers	Radical overhaul of pensions — replacement of eight complex regimes with a single universal regime. Could increase administrative burdens for a small minority, as a number of voluntary arrangements have been replaced with mandatory arrangements. After initial set-up costs business will save an estimated £80 million per annum.*

*estimated initial overall compliance cost figures from Impact Assessments published on the HMRC website

IMPROVEMENT	DESCRIPTION	BUSINESS POPULATION	BENEFITS
Employers Pack (including New Employer Starter Pack) — upgrade	Contains a new combined tax and National Insurance calculator (the P11 Calculator) linked to a database and a fully re-vamped section for new and less experienced employers. The 'Start Here' improvements include an 'at-a-glance' table of employer's main responsibilities and important dates.	1.75 million	Pack upgraded in response to feedback from business and is now considerably reduced in size. The CD-ROM enables HMRC to provide more guidance than ever before and employers can work out deductions more efficiently and more accurately by using the calculators. The P11 calculator alone is estimated to save business up to £34 million* per year.
Pilots of new audits and inspections	HMRC has piloted a number of innovative interventions with business in order to reduce the amount of time needed to resolve queries.	140,000	This means that business will spend less time dealing with HMRC inspections. Pilots are now being evaluated.
Self assessment statement of account	Self assessment statement of account has been simplified, to help people understand what they owe and have paid.	2.1 million	Provides a clear picture of the customer's self assessment affairs — includes balances brought forward and whether a payment or repayment is due. Online facility provides more detail about how particular figures have been calculated and how payments have been allocated.
Agent authorisation — restructured process and re-designed form (64-8)	Agents can now be authorised to deal with the major business taxes on one form.	Over 1.2 million forms are received annually — can now be used by up to 1.8 million VAT customers too	Streamlined form and reinvigorated process means that agents and their clients spend less time filling out forms. Authorisations are now processed within a few days so agents are authorised to work on their clients' behalf sooner.

*estimated initial overall compliance cost figures from Impact Assessments published on the HMRC website

IMPROVEMENT	DESCRIPTION	BUSINESS POPULATION	BENEFITS
October 2006 to date			
Structured email facility for Statutory Sick Pay queries.	Enables employers to send enquiries directly to the employer helpline and provides an alternative to making enquiries by telephone.	1.75 million employers	Will enable employers and their agents to resolve queries more rapidly — saving time and money. Currently only applies to Statutory Sick Pay but will be extended in December to Statutory Maternity Pay, Statutory Paternity Pay and Statutory Adoption Pay.
Online attachments can be submitted with online self assessment returns.	Attachments can now be filed with online self assessment returns to support online declarations.	1 million customers and agents	Online filers can now provide additional information in support of the declarations on the return. This removes a significant barrier to online filing for agents.
Electronic certificates for SDLT.	Electronic certificates now automatically issued for returns filed online.	Every firm of conveyancing practitioners in the UK can benefit from the electronic certificates by filing SDLT returns online.	Will radically improve turnaround times for issue of certificates.
Research and Development tax credits — specialist units.	Network of specialist units created to help small and medium businesses claim their entitlements.	All eligible small and medium sized companies	The enhanced expertise offered by these units will help companies claim their entitlements more easily and quickly. They will also conduct more outreach work helping companies identify areas of the business that could benefit from R&D Tax credits.
International Trade Single Window (ITSW).	First stage ITSW project goes live — provision of basic web based guidance for businesses new to international trade.	Ultimately 130,000 businesses	Eventually ITSW will enable one-off submission of import and export data to government — will minimise delays and reduce business costs — but this may take more than 5 years to implement.

*estimated initial overall compliance cost figures from Impact Assessments published on the HMRC website

Milestones — Initial Planning

Annex B

S = SCOPING; C = CONSULTATION; P = PILOT; FB = FINANCE BILL; D = DELIVERED

Reducing the burden of forms and returns	Delivers for Business	06/07	07/08	08/09	09/10	10/11
Tackling the administrative burden of forms and returns.	10 per cent reduction in burden by 2010–11.					D
Improved main tax return for self assessment including fewer self-employment pages for businesses with a turnover < £40,000.	Greatly improved return and associated guidance.	P		D		
Review of partnership self assessment return.	Applying improvements arising from the main tax return pilot and the ongoing review of underlying information requirements for partnerships.		S		D	
Implementation of new Construction Industry Scheme.	Streamlined scheme will alleviate some of the burdens imposed by the current regime.		D			
New VAT registration application form.	Makes obtaining VAT registration simpler and quicker.	D				
Single window for international trade.	Electronic filing of information once only for all frontiers related regulatory obligations.	D guidance	D tariff		D full delivery	
A fresh approach to audits and inspections	Delivers for Business	06/07	07/08	08/09	09/10	10/11
Tackling the burden of audits and inspections.	10 per cent reduction within 3 years and 15 per cent reduction within 5 years.			D — 10 per cent target		D — 15 per cent target
Improved risk profiling means inspections better targeted at non-compliant businesses.	Compliant businesses have fewer and shorter inspections.			D		
More flexible interventions — improved ways to conduct inspections and audits.	A more flexible range of interventions which better match the risk a business presents.	P	C	FB		

A fresh approach to audits and inspections	Delivers for Business	06/07	07/08	08/09	09/10	10/11
Secure electronic workrooms.	Extension of service that enables HMRC and business to exchange information electronically in real time — will become accessible via the HMRC website.		D			
Greater collaboration between government border agencies and the UK and other EU Member States.	Will speed the flow of goods through ports and airports and improve border security.					D
Getting it right from the start	Delivers for Business	06/07	07/08	08/09	09/10	10/11
Targeted online interactive education.	Actively delivers education to new businesses.			P		D
Structured email facility for Statutory Maternity Pay, Statutory Adoption Pay and Statutory Paternity Pay.	An extension of the service for those employers who prefer not to use the telephone.	D				
Employer Pack including Employer CD Rom.	Provides updated guidance for existing and new employers.	D	D	D	D	D
Delivering a single customer record	Delivers for Business	06/07	07/08	08/09	09/10	10/11
Customer management system — record and track all contact with business — provides a unified view across tax regimes.	More effective query handling — time is saved as information need be given only once.		C	C FB	D	
Integrated service — information about the customer amalgamated across taxes. Includes changes in circumstances.	Pre-population of forms, streamlined registration, reducing errors, duplications and misdirected correspondence.		C	C FB	D	
Holistic view of the payments and liabilities of each business across taxes, including unified financial account.	Will help businesses to manage their financial affairs more efficiently.		C	C	FB	D

HMRC Online	Delivers for Business	06/07	07/08	08/09	09/10	10/11
Electronic channels for alcohol and tobacco traders.	Online filing excise warehouse monthly stock returns and online registration for the spirits duty stamps scheme.	D				
Aligning filing dates between Companies House and HMRC.	Company tax return and accounts for public record can be filed in a single online transmission.	C			D	
SA and CT enquiry window linked to date returns filed.	Offers greater certainty to business who choose to file early.		FB	D		
National direct debit facility.	Cheap and reliable method of payment		D			
Extension of debit card facility.	Debit card payment option in response to business demand.	S				
Automated registration of title to land for Scottish land transactions.	'One stop shop' for the registration of specified types of land transactions in Scotland.	D				
Online filing — PAYE.	Medium/large employers file PAYE annual returns and in-year forms online.		FB	D		
Online filing — VAT.	Businesses with a turnover > £5.6 million and all new VAT registrations file VAT returns online/ pay electronically.		FB	D		
Online filing — SA.	Most agents submit self assessment returns online — online filers have an extra 3 months to file over paper filers.		FB	D		
Online filing — VAT.	Businesses with a turnover > £100,000 file VAT returns online/ pay electronically.		FB			D
Online filing — CT.	All companies file company tax returns online/ pay electronically.		FB			D
Online filing — PAYE.	All employers file PAYE returns online.		FB			D
Stamp Duty Land Tax — Online filing service improvements.	Makes form completion simpler and cheaper.					D

HMRC Online	Delivers for Business	06/07	07/08	08/09	09/10	10/11
Excise Movement and Control System.	Online tracking of excise goods across the EU.				D	
New look website offering improved navigation, better content and interactive guidance.	Single sign on for all HMRC online services by summer 07. More substantial improvements will be delivered by 2008-09.		D	D		
Agents — working in partnership	Delivers for Business	06/07	07/08	08/09	09/10	10/11
Shared vision of how agents and HMRC will work together.	To deliver real benefits for both HMRC and agents.	S/C				
Identification and authorisation.	Creation of a database that brings together all information HMRC holds about agents, including client lists.	S	C		D	
Pre-return processes and assurance.	Using agents' pre-return processes to provide assurance to HMRC — resulting in a reduced likelihood of an audit or inspection for compliant businesses.	P				
Improved service delivery to agents.	Radical improvement in the services HMRC offers to agents.	C				
Improved services to agents — telephone contact pilot.	Quicker access to technical advice.	P				
Customer relationship management pilot.	To explore the costs and benefits of streamlined contact arrangements with HMRC.	P				

