



GOVERNMENT SERVICES

Administrative
Burdens – HMRC
Measurement
Project

Report by Tax Area
Part 1: Aggregates Levy

20 March 2006
Restricted – Commercial

TAX



HMRC

**Administrative Burdens -
HMRC Measurement Project
Report by Tax Area
Part 1: Aggregates Levy**

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KPMG LLP
20 March 2006

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1 **How to use this report**

This report should be read in conjunction with the main report on the Administrative Burdens - HMRC Measurement project. Both reports seek to give an overview of the model that has been built to measure the tax administrative burden for UK business. The reports give examples of some early analysis of areas of high burden, outline 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 reports 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.

For ease of reference, the main report is hereafter referred to as Volume 1 and this report, by tax area, is hereafter referred to as Volume 2.

1.1 **Volume 1**

Volume 1 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 Volume 1 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 to Volume 1 seeks to give a practical explanation of each term.

There are a series of Annexes to Volume 1:

- **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 **Volume 2**

Volume 2 should be read in conjunction with Volume 1 for details of key terms used in the model and early analysis.

Volume 2 is in 28 Parts, one for each of the tax areas, described in further detail below. Volume 2 gives an overview of the administrative burden, early analysis and business feedback for each tax area. Volume 2 can only give a flavour of the model's potential. It

is already clear that the early analysis may prompt further questions. The further detailed analysis looking at specific pieces of tax regulation will be done by HMRC as it takes the model forward, using the data framework.

The tax areas are:

Part 1	Aggregates Levy	Part 15	Inheritance Tax
Part 2	Air Passenger Duty	Part 16	Insurance Premium Tax
Part 3	Capital Allowances	Part 17	Intrastat
Part 4	Capital Gains Tax	Part 18	Landfill Tax
Part 5	Climate Change Levy	Part 19	Pensions
Part 6	Construction Industry Scheme	Part 20	Petroleum Revenue Tax
Part 7	Corporation Tax	Part 21	Stamp Duty
Part 8	Customs	Part 22	Stamp Duty Land Tax
Part 9	Double Tax Treaties	Part 23	Stamp Duty Reserve Tax
Part 10	EC Sales List	Part 24	Tax Credits
Part 11	Employer Taxes	Part 25	Tax Management Provisions
Part 12	Excise Duties	Part 26	Tonnage Tax
Part 13	Gaming Duties	Part 27	Value Added Tax
Part 14	Income Tax for Businesses	Part 28	Withholding Tax

1.3 Table conventions

The early analysis in the reports 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 and for different areas of tax (some large, some small), 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 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

The administrative burden of Aggregates Levy is £0.4m, 0.01% of the total burden placed on business.

The burden is made up as follows:

	£000	%
Internal costs	369	91.70%
Acquisition costs	33	8.15%
External costs	1	0.15%
Total burden	403	100.00%

Due to the specialist nature of this tax area and the fact that charging the levy is closely tied to core business processes, most of the work is carried out in house with little significant assistance from external advisors.

Aggregates Levy is collected on the commercial exploitation of rock, sand and gravel ('aggregate') in the UK.

Businesses that are responsible for exploiting aggregate for commercial reasons are required to register for the levy and submit Aggregates Levy returns to account for the levy due to HMRC.

Returns and reports account for 92% of the total Aggregates Levy burden. Submission of the Aggregates Levy return was found to be the most burdensome IO (£0.3m) as every business registered with HMRC for Aggregates Levy is required to submit a return, usually four times per year.

None of the businesses interviewed mentioned that the Aggregates Levy return is an irritant. Although it is the key burden, the return does not appear to present businesses with any major concerns. Some businesses mentioned that the threshold value at which businesses had to notify HMRC of errors in its returns was very small (£2,000). This can be a tiny percentage of the total Aggregates Levy liability to be reported on a return to HMRC for a large business.

This is a highly specialised and narrow area of tax and applies only to a small sector of businesses.

3 Introduction

3.1 Background

See Volume 1 Section 3.1.

3.2 Overview of regulation affecting the private sector

3.2.1 Description of the scope and objectives of tax area

Aggregates Levy was introduced by the Finance Act 2001 and came into effect on 1 April 2002. Aggregates Levy is a very specialist and narrow area of tax. The overview therefore focuses on the business processes and not the technical aspects of the tax.

It is collected on the commercial exploitation of rock, sand and gravel in the UK. 'Aggregate' on which the levy is collected, is defined by HMRC as rock, sand or gravel and whatever occurs or is mixed with it as well as, in certain circumstances, spoil, off cuts and by-products.

The levy is relevant to quarry operators and other extractors of rock, sand and gravel, including operators of dredgers, importers or aggregate mobile crusher operators and others who commercially exploit aggregate. There is extensive legislation and HMRC guidance sourcing those materials which are subject to the Levy and those which are exempt.

The levy itself is determined by the weight of aggregate and is charged at a prescribed rate per tonne. The standard method of determining the weight of aggregate is by use of a weighbridge. An operator of a site that has a weighbridge should use it to determine the weight of the aggregate. If the site does not have a weighbridge (or if it has broken down) or if it is not practical to use it, an alternative method of determining weight should be agreed with HMRC. HMRC do not prescribe an alternative method in their guidance as these are agreed on a specific case by case basis.

Any business responsible for exploiting aggregate for commercial reasons must register for Aggregates Levy with HMRC. To register, a business generally needs to complete the Form AL1 - Application for Registration and the Form AL1A - Aggregates Levy site details. Businesses also have the option to register by telephone or online. Once registered, HMRC issue a registration certificate to inform the business of their registration number and notify when the Aggregates Levy returns are due.

Once registered, HMRC will require returns to be completed and submitted with payment of any levy due. A return (AL100) will normally cover a three month period although if HMRC feel that there is a risk, they may request that monthly returns and monthly payments are made. On the other hand, for small businesses, an annual return may be permitted. The return contains boxes requiring the following details to be input:

- Box 1 – amount of Aggregates Levy due for the period

- Box 2 – total tonnage of taxable aggregate commercially exploited in the period including aggregate which is, or may become, eligible for relief
- Box 3 - total tonnage of aggregate commercially exploited that is relieved from the levy in this period
- Box 4 – total tonnage of aggregate commercially exploited that is exempt from the levy in the period

If the business subsequently discovers that an error has been made in a submitted return and the levy declared was within £2,000 of the correct amount, the error can be corrected in the business' subsequent return. If the error is in excess of £2,000, the error must be reported to HMRC immediately, setting out the amount of the error, the accounting period to which the error relates and how the error occurred.

Aggregate may be relieved from the levy under certain circumstances, for example, if the aggregate is exported from the UK. In order to claim the relief businesses are required to keep documentary evidence to show that the aggregate has left the UK. Businesses are also required to retain the following records:

- Aggregates Levy account – a summary of total Aggregates Levy due
- Aggregates Levy tax credits account – documentation to support claims for credits and other reliefs
- Aggregates Levy bad debt account – required if bad debt relief is claimed
- record of exempt aggregate
- invoices
- mixes (special schemes) – for when an alternative method calculating the levy has been agreed with HMRC when taxable aggregate is mixed with non-taxable material
- sites not using weighbridges - for when a special method of determining the tonnage of aggregate has been agreed with HMRC

The above records must be retained for six years. If storage of the above records causes the business undue expense, HMRC may agree, in certain circumstances that the records can be retained for a shorter period.

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

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

Tax Area	Number of sources of regulations	Number of forms	Number of Information Obligations	Number of Data Requirements
Aggregates Levy	3	5	28	78
HMRC Total		279	2,692	6,614

3.3 **Approach and methodology**

3.3.1 **Overall methodology**

See Volume 1 Section 3.2 and Annex A.

3.3.2 **Major methodological issues**

Small businesses can, under certain circumstances, submit their Aggregates Levy returns annually, instead of quarterly. However, the Aggregates Levy return has been modelled on the basis that quarterly returns are submitted.

4 Administrative burden on business

4.1 Overview

4.1.1 Summary of the administrative burden results

Table 2: Administrative burden – overview

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Aggregates Levy	0.4	0%
HMRC Total	5,100	100%

The administrative burden of Aggregates Levy is 0.01% of the total burden placed upon business. This is mainly because the population used in this model for the number of businesses that operate the Levy is quite small, being 717. The majority of the burden is on the filing of the Aggregates Levy return to HMRC.

4.2 Administrative burden by type of Information Obligation

Table 3 shows the number of IOs analysed by type of IO and the administrative burden for each type of IO. As set out in Volume 1 Section 3.2.2, the model uses 13 IO types, each of which represent a particular process. They are thus very helpful in seeing the overall dynamics in the tax system.

Table 3 uses the terminology in the SCM; please refer to Volume 1 – Glossary for a practical explanation of each term.

Table 3: Burden by Information Obligation type

Information Obligation type	Admin burden £000	Share of total admin burden for tax area	Number of IOs	Share of total IOs for tax area
Returns and reports	369	91.68%	3	10.71%
Applications for authorisation	13	3.28%	3	10.71%
Notification of activities/registration	9	2.28%	13	46.43%
Keeping commercial emergency plans and programmes updated, etc ...	4	1.00%	1	3.57%
Applications for subsidies, grants, allowances or credits for ...	4	0.93%	3	10.71%
Framing complaints and appeals	3	0.69%	2	7.14%
Entry in a register	0	0.11%	2	7.14%
Cooperating with audits/inspections of ...	0	0.03%	1	3.57%
Providing statutory information for third parties	-	-	-	-
Statutory labelling for third parties	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Applications for permission for or exemption from	-	-	-	-
Application for Guidance	-	-	-	-
Total	403	100.00%	28	100.00%

HMRC total	5,100,094		2,692	
Share of HMRC total	0.01%		1.04%	

The key burdens arising in Aggregates Levy, as noted above, are making returns and reports to HMRC.

These account for 92% of the total Aggregate Levy burden, although only 11% of the number of IOs. This is mainly due to the fact that every business registered with HMRC for Aggregates Levy must file a return, normally four times per year. As outlined in Section 3.2.1 the return not only requires the measurement and disclosure of taxable aggregate in the period, but also requires the measurement and disclosure of exempt aggregate.

The most significant IO type is the notification of activities/registrations. Although this contains almost half of the IOs, it only accounts for 2% of the total Aggregates Levy burden. This is mainly due to the small number of businesses recorded in this model because notifications are infrequently required. The highest number of businesses recorded against any one of this type of IO is 108.

4.3 Administrative burden by origin of Information Obligation

All the legislation affecting Aggregates Levy is domestic in origin.

4.4 Administrative burden by business size

Table 4: Burden by business size

Table 4 is designed to show the administrative burden broken down by business size. It has been omitted here because it is not helpful bearing in mind the size of the burden in this tax area.

However, we have established that the burden arising from the top two IOs rises as the size of the business increases due to the fact that larger businesses will often operate multiple sites and are more likely to have special methods agreed with HMRC requiring more complex aggregate measurement processes and calculations.

However, the weighting of the burden is towards the micro business as there are more micro and small business than there are medium and large.

Although the burden arising from the third most burdensome IO, payment of the Levy to HMRC, is the same for all sizes of business, again the total burden is weighted towards the micro business due to the number of businesses in this size segment.

4.5 Administrative burden by most burdensome Information Obligations

Table 5: Top 5 obligations by total administrative burden

Information Obligation	Total administrative burden	Internal cost	External cost	Acquisition cost
	£000			
Submission of Aggregates Levy returns	322	290	1	32
Correction of errors to Aggregates Levy returns	26	25	-	0
Processing payments of Aggregates Levy	22	22	-	0
Application for a special method to agree weights relating to aggregates	13	13	-	0
Retaining records relating to Aggregates Levy accounting	4	4	-	0
Total	386	353	1	32
Share of total for tax area	95.80%	95.54%	100.00%	98.72%

Total for tax area	403	369	1	33
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As discussed the main burden on business is the submission of the Aggregates Levy return to HMRC, which represents 80% of the total burden for this tax area.

The second most burdensome IO relates to the requirement to correct an error discovered on a previously submitted return in the period in which the error was discovered. This method is used where the under - or over-calculation of Levy due was less than £2,000 where an error has been made.

The fourth IO in the table relates to circumstances where the use of a weighbridge to determine the weight of aggregate is not practical. In this situation, the weight of any quantity of aggregate can be determined by a different method for the individual business or site. As noted, there is no prescribed alternative method for determining the weight and each is assessed on a case by case basis. This method must be agreed in writing with HMRC.

In respect of acquisition costs, the majority will be the ongoing costs of adapting accounting systems, where used, to calculate and record the levy due in each Aggregates Levy return.

4.6 Administrative burden by administrative activity and forms

Table 6 analyses the administrative burden into the three component price parts (internal costs, external costs and acquisition costs). It also analyses internal costs across the 16 administrative activities set out in the SCM. Table 6 uses the description of administrative activities in the SCM. A practical interpretation of those activities is given in Volume 1 – Glossary.

The first part of the table analyses internal costs. The second part of the table analyses the total burden into the three component parts of price.

Table 6: Summary of burden by standard activity type

Activity	Form-filling related		Non-form-filling related		Total	
	£000	%	£000	%	£000	%
Familiarisation with the Information Obligation	10	2.60%	2	0.41%	11	3.01%
Information retrieval	50	13.51%	16	4.40%	66	17.91%
Assessment	7	1.82%	8	2.28%	15	4.10%
Calculation	66	17.84%	-	-	66	17.84%
Presentation of figures	15	3.96%	6	1.72%	21	5.68%
Checking	59	15.88%	8	2.27%	67	18.15%
Correction	17	4.67%	-	0.00%	17	4.67%
Description	1	0.29%	13	3.43%	14	3.72%
Settlement/payment	-	0.00%	14	3.91%	14	3.91%
Internal meetings	62	16.75%	1	0.27%	63	17.02%
External meetings	0	0.02%	2	0.62%	2	0.64%
Inspection by public authorities	-	-	-	-	-	-
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	3	0.85%	5	1.32%	8	2.17%
Reporting/submitting information	3	0.84%	1	0.31%	4	1.15%
Internal total	292	79.04%	77	20.96%	369	100.00%

		Share of total burden %		Share of total burden %		Share of total burden %
Internal total	292	72.48%	77	19.22%	369	91.70%
Acquisition costs	32	7.89%	1	0.26%	33	8.15%
External costs	1	0.15%	-	0.00%	1	0.15%
Total burden	324	80.52%	78	19.48%	403	100.00%

As noted, the key burden in Aggregates Levy relates to returning information to HMRC on the Aggregates Levy return; this is done via a form, hence the high proportion of form-filling related burden (80%).

The main activities associated with completing the returns are retrieval, calculation and checking.

Due to the specialist nature of this Tax Area, most of the work is carried out in house with little significant assistance from external advisors.

The main acquisition costs relate to the adaptation of software for calculating and recording the Levy due and also include storage costs. Businesses are required to retain a significant amount of information with regard to this Tax Area.



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

Aggregates Levy has no obligations to third parties.

5 Other findings

This section summarises the feedback recorded from businesses interviewed as part of the project work. It therefore represents those businesses' views rather than the views of HMRC or KPMG.

5.1 Irritations

A large business said it found Aggregates Levy complicated, in particular the different liability rates attributed to the aggregates depending upon their use by the final customer (e.g. sand for horse bedding or for horse running tracks). One business was concerned that as the onus is on the customer to say what the aggregates will be used for, this opened up an area for potential abuse.

One of the businesses interviewed informed us that not all its sites operate an "automated weight measurement process". For those sites, an agreement with HMRC must be made on the method of determining the weight of aggregates that are liable to the levy. This is a major exercise, which has to be repeated annually.

Some businesses mentioned that the threshold value at which businesses had to notify HMRC of errors in its returns was very small (£2,000). This can be a tiny percentage of the total Aggregates Levy liability to be reported on a return to HMRC for a large business.

A large business said it can operate in excess of 100 sites and is required to submit plans and drawings of each site to HMRC to be compliant when registering for Aggregates Levy. The business considered this to be a time consuming exercise.

One business asked why Aggregates Levy was introduced. Another questioned why there was no levy in Eire. One inference from this second comment may be that there is a potential lack of commercial equity for businesses which operate in both Northern Ireland and Eire.

One business interviewed said that it had to employ a full time member of staff simply to chase levies due from customers, which it saw as a major administrative burden.

5.2 Simplifications

One business interviewed referred to the complexity of measuring the 'inherent moisture of the aggregate'. The moisture content of an aggregate is not subject to the levy unless it is 'inherent' in the aggregate normally. They suggested that HMRC introduce standard moisture contents for different products to ease this burden.

One large business said that increasing the threshold for reporting errors in Aggregates Levy returns, or relating the threshold to the size of the business would reduce the burden of having to notify HMRC each time a small error relative to their total liability to Aggregates Levy is made.



5.3 Examples of best practice

One business gave particularly positive praise to the local office for assisting them in setting up systems and for the good ongoing relationship they have.

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Designed and produced by KPMG LLP (UK)'s Design Services

Publication name: HMRC Administrative Burdens Report

Publication number: 302-934

Publication date: July 2006

Printed on recycled material.