



GOVERNMENT SERVICES

Administrative  
Burdens – HMRC  
Measurement  
Project

Report by Tax Area  
Part 10: EC Sales List

20 March 2006  
Restricted – Commercial

TAX



**HMRC**

**Administrative Burdens -  
HMRC Measurement Project  
Report by Tax Area  
Part 10: EC Sales List**

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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 EC Sales Lists ('ESL') is £2.48m, 0.05% of the total burden placed on business.

The burden is made up as follows:

	£000	%
Internal costs	2,451	99.00%
Acquisition costs	25	1.00%
External costs	-	0.00%
<b>Total burden</b>	<b>2,476</b>	<b>100.00%</b>

The burden in this area relates mainly to the extraction of information on sales from the accounting system to put in the return. As this goes to the heart of the business' core processes, it is not outsourced to intermediaries. The knowledge required to capture this return is knowledge about the company and its customers rather than technical knowledge.

ESLs are returns listing information that a business is required to provide to HMRC. The information on the return relates to the value of goods supplied to VAT registered businesses in other EU Member States and the VAT registration details of the recipients. The vast majority of this burden relates to the completion and submission of the ESL.

The ESL return can be submitted to HMRC via an 'e-government gateway' or on paper. Businesses have indicated that using the e-government gateway reduces their burden.

This area is relevant to the majority of VAT registered businesses that sell or move goods to VAT registered businesses in other EU Member States.

Returns and reports account for just over 97% of the total ESL burden placed on business. The ESL return was found to be the single most burdensome obligation (£2.41m).

The return requires information on the VAT registration numbers for businesses in other EU Member States – this information should already be held by the business, as it is required in order to apply a zero rate of VAT to supplies to other EU Member States.

One of the issues faced by businesses in relation to ESL is the relationship between the VAT return, the ESL and the Intrastat return. The VAT return requires businesses to show the value of the supply to or acquisition of goods from other EU Member States. Then, depending on the level of trade with other EU Member States, the more detailed Intrastat supplementary declarations may also be required. Businesses feel very strongly that having to provide up to three different sets of overlapping information is unnecessarily onerous, and they are not always clear why it is required.

## 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

All UK VAT registered businesses who supply goods to traders registered for VAT in other EU Member States or who transfer their own goods to another EU Member State, or are the intermediary in ‘triangular transactions’ between traders registered for VAT in other EU Member States, are required to provide lists of their EU supplies. These supplies are declared on ESL returns.

The ESL return (also referred to as the VAT 101 form) requires a list of each customer in another EU Member State, the customer’s VAT registration details, and the total value of supplies to that customer. The ‘country code’ for each customer must also be given – these codes are provided on the notes to the return. The return must also note any supplies where the business is acting as an intermediary for businesses registered for VAT in other EU Member States.

It is used by other EU Member States to ensure that VAT has been correctly accounted for in their EU Member State.

Supplies between businesses registered for VAT in EU Member States can be zero-rated. The customer then accounts for the VAT as acquisition VAT in its own VAT return. In order to zero rate the supply, the VAT invoice must state the VAT registration number of the customer. Therefore, the customer’s VAT number should already be known to the business, although at times it may still be required to retrieve this for the purposes of the ESL.

Instead of completing a paper form, the ESL can be filed via an ‘e-government gateway’. There are two options open to businesses in this respect:

- online form
- uploading the information in a file

It is also possible for a business to submit a plain paper return, rather than having to fill out the form, as long as the information provided is in the same format as the return.

Businesses required to submit ESLs, but who have a low level of EC Sales, may apply to submit ESLs containing a lower level of information.

### 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
EC Sales List	2	2	8	12
<b>HMRC Total</b>		<b>279</b>	<b>2,692</b>	<b>6,614</b>

Other international trade related areas are dealt with in this volume, namely:

- Intrastat (see Part 17 of Volume 2)
- VAT (see Part 27 of Volume 2)
- Customs (see Part 8 of Volume 2)
- Excise (see Part 12 of Volume 2)

## 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 specific to tax area

The ESL return is submitted to HMRC on a quarterly basis. However, it can be submitted on a different period basis if agreed with HMRC. The ESL return has been modelled as submitted on a quarterly basis to reflect the majority of businesses.

There are a number of overlaps between IOs in the processes undertaken by businesses relating to the ESL, for example, some businesses stated that they complete the ESL from the same report they run from their accounting system to meet their Intrastat reporting requirements. We have been careful not to duplicate costs in these instances and have apportioned the costs between IOs based on interview information.

## 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
EC Sales List	2	0%
<b>HMRC Total</b>	<b>5,100</b>	<b>100%</b>

The administrative burden of ESL is 0.05% of the total burden placed on business. The majority of the burden is on the main filing obligation: the ESL return.

### 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	2,414	97.47%	2	25.00%
Keeping commercial emergency plans and programmes updated, etc ...	54	2.18%	1	12.50%
Applications for permission for or exemption from	7	0.27%	4	50.00%
Notification of activities/registration	2	0.09%	1	12.50%
Framing complaints and appeals	-	-	-	-
Providing statutory information for third parties	-	-	-	-
Statutory labelling for third parties	-	-	-	-
Cooperating with audits/inspections of ...	-	-	-	-
Applications for subsidies, grants, allowances or credits for ...	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
Applications for authorisation	-	-	-	-
Application for Guidance	-	-	-	-
<b>Total</b>	<b>2,476</b>	<b>100.00%</b>	<b>8</b>	<b>100.00%</b>

<b>HMRC total</b>	<b>5,100,094</b>		<b>2,692</b>	
<b>Share of HMRC total</b>	<b>0.05%</b>		<b>0.30%</b>	

The key burden arising in ESL, as noted above, is making returns and reports to HMRC, which account for 97% of the ESL burden. This is mainly the requirement for the business to compile the ESL, as described in 3.2.1 above, and submit it to HMRC.

For smaller businesses, this is likely to involve a fairly manual process, pulling out all the transactions that need to be reported. Other businesses may have some processes set up to help produce the return.

### 4.3 Administrative burden by origin of Information Obligation

The ESL obligations for businesses are all of EU 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 it is unlikely that a significant enough proportion of nano businesses, for modelling purposes, will be VAT registered and involved in the movement of goods to other EU Member States. Nano businesses have thus been excluded from the administrative burden analysis for ESLs.

Smaller businesses account for the highest total administration burden for ESL IOs. This is mainly because the number of smaller size of businesses is high compared with the number of larger size businesses. The ESL for a large business will be more complicated and onerous than for a smaller business. However, interview feedback has confirmed our view that larger businesses are more likely to have a system that produces at least some of the information for the ESL automatically. Therefore, the unit cost recorded for a large business is higher than for smaller businesses to reflect the increased complexity, but the measurement also takes account of the higher level of automation in the larger businesses.

## 4.5 Administrative burden by most burdensome Information Obligations

**Table 5: Top 4 obligations by total administrative burden**

Information Obligation	Total administrative cost	Internal cost	External cost	Acquisition cost
	£000			£000
Submission of ESL returns	2,409	2,388	-	21
Retention of records related to ESL	54	51	-	3
Applications to submit ESL on plain paper instead of using the form	4	4	-	0
Submission of corrections to previously submitted ESL	4	4	-	0
<b>Total</b>	<b>2,472</b>	<b>2,448</b>	<b>-</b>	<b>24</b>
<b>Share of total for tax area</b>	<b>99.84%</b>	<b>99.86%</b>	<b>-</b>	<b>97.10%</b>
<b>Total for tax area</b>	<b>2,476</b>	<b>2,451</b>	<b>-</b>	<b>25</b>

The key burden on business, as noted above, is the submission of the ESL return to HMRC. This is done on a quarterly basis by most businesses although other periods can be agreed.

As noted in 3.2.1 above, the ESL can be filed via an 'e-government gateway' or on paper. Businesses interviewed fed back that using the e-government gateway to file ESL returns reduced the administrative burden on business by between 15% and 31%.

## 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 between 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	
	£	%	£	%	£	%
Familiarisation with the Information Obligation	149,509	6.10%	-	-	<b>149,509</b>	6.10%
Information retrieval	500,032	20.40%	2,482	0.10%	<b>502,514</b>	20.50%
Assessment	168,676	6.88%	-	-	<b>168,676</b>	6.88%
Calculation	574,726	23.44%	-	-	<b>574,726</b>	23.44%
Presentation of figures	780,860	31.85%	1,735	0.07%	<b>782,595</b>	31.92%
Checking	94,493	3.85%	-	-	<b>94,493</b>	3.85%
Correction	-	-	-	-	-	-
Description	2,984	0.12%	3,102	0.13%	<b>6,087</b>	0.25%
Settlement/payment	-	-	-	-	-	-
Internal meetings	-	-	-	-	-	-
External meetings	-	-	-	-	-	-
Inspection by public authorities	-	-	-	-	-	-
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	1,106	0.05%	51,419	2.10%	<b>52,525</b>	2.14%
Reporting/submitting information	119,723	4.88%	620	0.03%	<b>120,344</b>	4.91%
<b>Internal total</b>	<b>2,392,109</b>	<b>97.58%</b>	<b>59,358</b>	<b>2.42%</b>	<b>2,451,468</b>	<b>100.00%</b>

		Share of total burden %		Share of total burden %		Share of total burden %
<b>Internal total</b>	<b>2,392,109</b>	<b>96.60%</b>	<b>59,358</b>	<b>2.40%</b>	<b>2,451,468</b>	<b>99.00%</b>
<b>Acquisition costs</b>	<b>21,470</b>	<b>0.87%</b>	<b>3,360</b>	<b>0.14%</b>	<b>24,829</b>	<b>1.00%</b>
<b>External costs</b>	<b>-</b>	<b>0.00%</b>	<b>-</b>	<b>0.00%</b>	<b>-</b>	<b>0.00%</b>
<b>Total burden</b>	<b>2,413,579</b>	<b>97.47%</b>	<b>62,718</b>	<b>2.53%</b>	<b>2,476,297</b>	<b>100.00%</b>



As noted above, the key burden in ESL is the ESL return. This is mainly submitted using the VAT 101 form, hence the high proportion of form-filling related activities (98%).

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

There are no ESL 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

Most businesses interviewed said they found the process of completing the ESL return burdensome.

Several businesses stated that they found it difficult to match up the values on the ESL with Intrastat as "one return is based on physical goods moved and the other on invoices raised" - they noted that where a company's despatch of goods is at different times to invoices then the Intrastat will not reconcile to the ESL. Some businesses also questioned whether it is necessary to have ESL, stating that there is a duplication of this information in the VAT return and Intrastat declarations. One business referred to EC Sales Lists as "just a data exercise and superfluous".

One business said it was irritating that they only received one sheet in the post on which to fill in their ESL return. This sheet only has a limited number of lines on it and they always required more lines to complete the return due to the large number of EU customers they have. The business felt that it would be easier if HMRC sent them further 'continuation sheets' rather than them always having to obtain these themselves.

One business referred to a "constant bombardment of literature from the taxation authorities" and said that it was "difficult to keep up with the changes".

### 5.2 Simplifications

Some businesses interviewed said that it would be easier to complete the ESL online.

### 5.3 Examples of best practice

Of the businesses interviewed, the ones that found the rules least burdensome are those that have software in place specifically configured to produce the required data and format the required returns automatically.

