



GOVERNMENT SERVICES

Administrative Burdens – HMRC Measurement Project

Report by Tax Area

Part 2: Air Passenger Duty

20 March 2006
Restricted – Commercial

TAX



HMRC

**Administrative Burdens -
HMRC Measurement Project
Report by Tax Area
Part 2: Air Passenger Duty**

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KPMG LLP
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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. It 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 Air Passenger Duty ('APD') is £1m, 0.03% of the total burden placed on business.

The burden is made up as follows:

	£000	%
Internal costs	843	58.38%
Acquisition costs	83	5.77%
External costs	517	35.85%
Total burden	1,443	100.00%

The majority of the external costs relate to smaller businesses who often outsource the preparation of their APD returns to the major commercial airlines. The major airlines produce their APD returns in house. This is a very specialised market; there are only a few major airlines, each with its own passenger booking system and thus no market for other intermediaries.

APD is a duty charged on the carriage of passengers from UK airports on most types of aircraft. This area is potentially relevant to all aircraft operators. Aircraft operators or their representatives must register with HMRC for APD.

Returns and reports account for 96% of the total APD burden. This relates solely to the obligation to submit APD returns to HMRC. These returns require detailed information on passengers, including their class of travel, whether they are on a connecting flight and whether they satisfy any of a number of other exemptions.

Now that the regime is established, the only key burden is the return. However, businesses interviewed reported that agreeing the method of accounting for APD had been a very onerous process.

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

APD is charged on the carriage of ‘chargeable passengers’ from the UK on ‘chargeable aircraft’. Chargeable passengers are broadly those passengers, carried for reward, that do not meet any of the exclusion criteria set out by the legislation. Chargeable aircraft are those that are designed or adapted to carry more than 20 passengers and weigh more than ten tonnes.

APD was introduced by the Finance Act 1994 and came into effect on 1 November 1994.

There are different rates of duty, depending on the destination of the flight and the class of passenger travel. Passengers who travel on the lowest class available on an aircraft pay reduced rates. Where there is only one class of travel on a flight, all passengers pay the reduced rate.

No duty is payable for infants unless a seat is booked for them. In addition, no further duty is payable for passengers who are on a second or subsequent flight of their journey if that flight and the previous flight are connected. Different criteria govern whether the second or subsequent flight on a journey may be treated as connected, depending on whether that flight is to a domestic or international destination. There are various other exemptions, for example short pleasure flights, deportees and military flights.

Aircraft operators or their representatives are required to register with HMRC, using form APD 1. They are then required to complete APD returns (form APD2). In most cases, businesses will submit APD returns and pay the APD due to HMRC on a monthly basis. The return must show:

- total number of passengers carried at reduced European rate
- total number of passengers carried at standard European rate
- total number of passengers carried at reduced non-European rate
- total number of passengers carried at standard non-European rate
- number of passengers not chargeable because covered by the exemptions
- total number of passengers carried in the period including those who are exempt
- total amount of duty due at each rate
- total amount of duty due
- amount, date and payment method of any duty paid

Given the numbers of passengers carried, particularly by the larger airlines, and the complex rules regarding exemption or reduced rates of duty, gathering all this information from passenger tickets can be quite an onerous task. Accordingly, it is possible to apply for a 'special accounting scheme'.

Broadly, there are two types of special accounting scheme. The first is systems-based so that, rather than using the passenger tickets as the only source of information for the duty due, the business can use data from its systems relating to the transactions. The second type is to use some form of ticket sampling, possibly in conjunction with a transaction-based approach. The sample is then used to estimate the APD due on all of the rest of the transactions and flights. A special accounting scheme must be agreed with HMRC.

If errors of less than £2,000 are discovered in a prior period return, they can be corrected in the next return. Errors in excess of that amount have to be notified separately in a letter to the relevant HMRC office setting out the details of any errors, both under- and over-declarations, and explaining how the errors occurred.

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
Air Passenger Duty	4	2	13	34
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 specific to tax area**

None.

4 Administrative burden on business

4.1 Overview

4.1.1 Summary of the administrative cost results

Table 2: Administrative burden – overview

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Air Passenger Duty	1	0%
HMRC Total	5,100	100%

The administrative burden of APD is 0.03% of the total burden placed on business. The majority of the burden is the obligation to file APD returns.

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 £	Share of total admin burden for tax area	Number of IOs	Share of total IOs for tax area
Returns and reports	1,386,243	96.04%	1	7.69%
Applications for authorisation	48,728	3.38%	3	23.08%
Notification of activities/registration	5,522	0.38%	6	46.15%
Keeping commercial emergency plans and programmes updated, etc ...	2,826	0.20%	1	7.69%
Cooperating with audits/inspections of ...	8	0.00%	1	7.69%
Applications for permission for or exemption from	4	0.00%	1	7.69%
Framing complaints and appeals	-	-	-	-
Providing statutory information for third parties	-	-	-	-
Statutory labelling for third parties	-	-	-	-
Applications for subsidies, grants, allowances or credits for ...	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
Application for Guidance	-	-	-	-
Total	1,443,330	100.00%	13	100.00%

HMRC total	5,100,094,092		2,692	
Share of HMRC total	0.03%		0.48%	

The key burden arising in APD, as noted above, is the making of returns and reports to HMRC, which accounts for 96% of the total APD burden, although only one IO. As described in 3.2.1 above, the return can be quite a time-consuming activity and airline operators complete it on a monthly basis. The remainder of the IOs in this tax area will only arise occasionally, particularly now that the regime is reasonably established. When it was introduced, and special accounting schemes had to be devised and agreed for the

first time, then the IOs relating to registration and agreeing schemes would have had a much higher burden than they do on an ongoing basis.

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

The APD obligations are all of domestic 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 there are a few very large airline operators and then a number of very much smaller operators. The large operators have a much greater volume of information to process and a greater degree of complexity to cope with when meeting their obligations. This is why the highest burden in this area falls on the large businesses.

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

Table 5: Top 4 obligations by total administrative burden

Information Obligation	Total administrative burden	Internal cost	External cost	Acquisition cost
	£			£
Submission of air passenger duty returns	1,386,243	791,875	512,753	81,615
Obtaining agreement for a special method of accounting for APD	48,276	46,040	2,231	5
APD registration	3,685	1,163	2,514	9
Retaining records in relation to APD	2,826	1,255	-	1,571
Total	1,441,030	840,334	517,497	83,199
Share of total for tax area	99.84%	99.74%	100.00%	99.90%
Total for tax area	1,443,330	842,552	517,497	83,281

The key burden placed on business is the IO to submit APD returns and this accounts for 96% of the total APD burden.

The majority of the external costs relate to micro, small and medium businesses that often outsource the preparation of their APD returns to the major commercial airlines. The major airlines produce their APD returns in house.

The acquisition cost relates to the investment that larger airlines have to make to their existing systems for booking and tracking passengers to ensure that they can produce the information required for the APD return. There are no proprietary software products for APD; systems and reports used tend to be developed in house by the major airlines.

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-filing related		Non form-filing related		Total	
	£	%	£	%	£	%
Familiarisation with the Information Obligation	14,923	1.77%	31	0.00%	14,955	1.77%
Information retrieval	172,115	20.43%	7,101	0.84%	179,216	21.27%
Assessment	171,084	20.31%	6,543	0.78%	177,627	21.08%
Calculation	170,882	20.28%	6,543	0.78%	177,425	21.06%
Presentation of figures	34	0.00%	12,176	1.45%	12,210	1.45%
Checking	155,632	18.47%	5,097	0.60%	160,729	19.08%
Correction	12,633	1.50%	73	0.01%	12,706	1.51%
Description	28	0.00%	1,570	0.19%	1,599	0.19%
Settlement/payment	22,705	2.69%	2,240	0.27%	24,945	2.96%
Internal meetings	57,699	6.85%	5,103	0.61%	62,802	7.45%
External meetings	-	-	2,037	0.24%	2,037	0.24%
Inspection by public authorities	-	-	127	0.02%	127	0.02%
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	9,183	1.09%	476	0.06%	9,659	1.15%
Reporting/submitting information	6,119	0.73%	396	0.05%	6,515	0.77%
Internal total	793,038	94.12%	49,514	5.88%	842,552	100.00%

		Share of total burden %		Share of total burden %		Share of total burden %
Internal total	793,038	54.95%	49,514	3.43%	842,552	58.38%
Acquisition costs	81,623	5.66%	1,657	0.11%	83,281	5.77%
External costs	515,267	35.70%	2,231	0.15%	517,497	35.85%
Total burden	1,389,928	96.30%	53,402	3.70%	1,443,330	100.00%

As noted above, the key burden in APD relates to the obligation to submit an APD return. (the APD2 form). The administrative activities with the highest burden are therefore those related to completing the form, namely information retrieval, assessment of the information they are required to submit to HMRC, and calculation of the APD due.

When large airline operators prepare APD returns for smaller businesses, the smaller business may check the return prior to submission. Therefore, this is also one of the main



activities undertaken. These outsourcing arrangements are the reason for the external costs for this return.

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

There are 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

Capturing data for the purpose of calculating APD is considered as burdensome by businesses as it requires a number of specific reports relating to certain passenger details to be generated from the airlines' systems. Although the large airlines use an automated process to extract data, calculating the APD once the data has been extracted is regarded by one business as very labour intensive because of the number of manual adjustments that need to be made.

One large airline considered that APD is designed with major airlines in mind. It is therefore likely to be more difficult for "non-UK businesses or those businesses with company aircraft" to comply because they do not have the required systems or processes set up to provide the required data on passengers which is needed to calculate the amount of duty due. Consequently, it is expected that a number of the larger airlines act as an agent for the some of these types of operation.

One business mentioned that it took three months of activity to secure HMRC's agreement in writing to a bespoke method of calculating its APD due.

5.2 Simplifications

No simplifications were proposed.

5.3 Examples of best practice

One business identified that HMRC is working together with it to ensure that any agreement they reach regarding how the company calculates its APD liability is compatible with the reporting capabilities of its current IT system. The business said it was pleased with this approach.

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