



GOVERNMENT SERVICES

Administrative
Burdens – HMRC
Measurement
Project

Report by Tax Area
Part 22: Stamp Duty Land Tax

20 March 2006
Restricted – Commercial

TAX



HMRC

**Administrative Burdens -
HMRC Measurement Project
Report by Tax Area
Part 22: Stamp Duty Land Tax**

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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. 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

2.1 Overview

The administrative burden of Stamp Duty Land Tax ('SDLT') is £45m, 0.88% of the burden.

The burden is made up as follows:

	£000	%
Internal costs	7,224	16.13%
Acquisition costs	251	0.56%
External costs	37,311	83.31%
Total burden	44,787	100.00%

In this tax area, 83% of the total burden relates to external costs. This is because the completion of the SDLT returns is often outsourced to the solicitor who is dealing with the transaction in question. The work is outsourced because the requirements of the return can be quite complex and are not part of the business' core processes. Acquisition costs are low because specialist software is not normally acquired.

SDLT is a tax on transactions involving UK land. Unlike Stamp Duty, it does not require a transfer document.

The highest administrative burden is the completion of the land transaction return, which accounts for 60% of the total SDLT burden. The level of burden is largely dependent upon the complexity of the land transaction and the number of forms required to be submitted. There can be between one and four forms, as set out at 3.2.1. The model uses a population of 175,000 land transactions each year.

2.2 Observations from business feedback

This is a tax area where there was strong business feedback. The overall theme was that SDLT was extremely complex (with little agreement that such a complex system was needed) and that the interaction between HMRC and business was poor ('grit in the system').

This may be an example of an area where the administrative burden is not high. However if business is affected by SDLT – even on a one-off basis – it may create a sense of complexity and difficulty in dealing with HMRC that is out of proportion to the administrative burden created.

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

Stamp Duty Land Tax ('SDLT') was introduced on 1 December 2003 to replace Stamp Duty on transactions involving UK land. Unlike Stamp Duty (see Part 21 of Volume 2), the fact that a land transaction has occurred is enough to trigger the charge; there is no requirement for a document. This therefore covers land transactions done by e-conveyancing as well as land transactions where there is no completion and therefore no stampable document.

There are a series of returns that may have to be completed, depending on the nature of the transaction. The forms are processed and stored electronically by HMRC.

3.2.1.1 *SDLT1 – Land transaction return*

This form should be completed for every land transaction. The remainder of the forms are, effectively, supplementary pages to this main return.

3.2.1.2 *SDLT2*

This is used when there are additional vendors and/or purchasers.

3.2.1.3 *SDLT3*

This is used when there is more than one property involved in the transaction.

3.2.1.4 *SDLT4*

This is used when the purchaser is either a company or else a variety of other situations, most commonly being a property transaction included in the sale of a business, the grant of a lease other than on a single residence and any case where the consideration is uncertain or contingent.

SDLT is payable at 1% - 4% the value of land transactions, subject to certain exemptions.

Although SDLT returns can be filed online, this is still relatively new and the proportion of business transactions filed online is less than 3%.

The SDLT return is commonly outsourced to the solicitor who is handling the land transaction in question. Only property businesses are likely to prepare SDLT returns in house.

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
Stamp Duty Land Tax	3	2	71	114
HMRC Total		279	2,692	6,614

3.3 **Approach and methodology**

3.3.1 **Overall methodology**

See Volume 1 Part 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 burden results

Table 2: Administrative burden – overview

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Stamp Duty Land Tax	45	1%
HMRC Total	5,100	100%

The administrative burden of Stamp Duty Land Tax is 0.88% of the total burden placed on business. The majority of this burden is the land transaction return, as shown in Table 5.

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	38,579	86.14%	12	16.90%
Applications for subsidies, grants, allowances or credits for ...	2,631	5.87%	29	40.85%
Keeping commercial emergency plans and programmes updated, etc ...	2,306	5.15%	3	4.23%
Framing complaints and appeals	700	1.56%	16	22.54%
Cooperating with audits/inspections of ...	551	1.23%	6	8.45%
Applications for permission for or exemption from	16	0.04%	2	2.82%
Applications for authorisation	2	0.01%	1	1.41%
Notification of activities/registration	1	0.00%	2	2.82%
Providing statutory information for third parties	-	-	-	-
Statutory labelling for third parties	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
Application for Guidance	-	-	-	-
Total	44,787	100.00%	71	100.00%

HMRC total	5,100,094		2,692	
Share of HMRC total	0.88%		2.64%	

This table shows that 86% of the burden relates to only 17% of the IOs (returns and reports) in this tax area. By contrast, 41% of the number of IOs represents only 6% of the burden. This is because the first IO type (returns and reports) will apply to most, if not all, businesses affected by SDLT. The next type, applications for subsidies, grants, allowances and so on, are contingent and may apply less often or to fewer businesses.

4.3 Administrative burden by origin of Information Obligation

The SDLT obligations are all of domestic origin.

4.4 Administrative burden by business size

Table 4 shows the administrative burden broken down by business size.

Table 4: Burden by business size

Tax Area	Total administrative burden					
	Nano	Micro	Small	Medium	Large	Total
	£m	£m	£m	£m	£m	£m
Stamp Duty Land Tax	30	12	2	1	0	45
HMRC total	1,216	1,952	925	364	642	5,100

How the table is derived from the model

As outlined in Volume 1 Section 3.2.3.2, the administrative burden is a function of price and quantity. Thus the burden shown in a particular size segment is driven by the number of business affected by the IOs in that size segment as much as by the price for that size segment.

As outlined in Volume 1 Section 3.2.3.1, considerable efforts have been made to ensure the population numbers are not unreasonable at a total level. As outlined in Volume 1 Section 3.2.3.1 and Section 3.3, the allocation of total population to segment populations has been done using a generic model. This means that the segment population in the model may be out of line with the segment population in practice. This means that Table 4, the analysis of the burden by size segment, needs to be interpreted with care.

Interpreting the table

This table shows that 93% of the burden relates to nano and micro businesses. The number of land transactions in the year and the complexity of each transaction are the factors affecting the administrative burden faced by businesses when complying with their SDLT obligations. The decrease in administrative burden as business size increases is primarily a function of the decreasing numbers of businesses in each size segment. This is the case even though burden per transaction is higher in the medium and large segments - these businesses are likely to undertake more complex transactions, and therefore may be required to complete SDLT2-4 more often.

4.5 Administrative burden by most burdensome Information Obligations

Table 5: Top 6 obligations by total administrative burden

Information Obligation	Total administrative burden	Internal cost	External cost	Acquisition cost
	£000	£000	£000	£000
Duty to deliver a land transaction return with self assessment of stamp duty land tax payable	26,864	1,273	25,524	68
Certification that no land transaction return is required in respect of a transaction	4,615	1,026	3,568	21
Duty to keep and preserve records	1,725	1,718	-	7
Making a further return where relief for stamp duty land tax is withdrawn	1,189	102	1,082	4
Making a further return where a contingency occurs or ceases	1,170	84	1,082	4
Making a further return where a later transaction leads to further tax due on the original transaction	1,146	59	1,082	4
Total	36,709	4,261	32,340	108
Share of total for tax area	81.96%	58.98%	86.68%	42.91%
Total for tax area	44,787	7,224	37,311	251

The key IO is the preparation and submission of the land transaction return, which is £27m or 60% of the total SDLT burden. As noted above, the primary return is the SDLT 1 which must be submitted for all relevant land transactions. Returns SDLT 2, SDLT 3 and SDLT 4 are required to be submitted, alongside SDLT 1, in certain circumstances, depending upon the nature of the transaction as set out in 3.2.1 above. Although the returns can be prepared by businesses with sufficient expertise, many of the returns will be outsourced to the businesses' lawyers or accountants. A high proportion of the administrative burden therefore relates to external costs.

The second highest burden, at £5m, is the SDLT 60: a self certification that no land transaction return is required for a particular land transaction.

The model uses a population of 175,000 land transactions each year. This is, of course, only the number of business transactions, as domestic property transactions are out of scope.

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	187	2.59%	12	0.16%	199	2.76%
Information retrieval	1,798	24.89%	1,033	14.29%	2,830	39.18%
Assessment	150	2.07%	115	1.59%	265	3.66%
Calculation	100	1.38%	34	0.47%	134	1.85%
Presentation of figures	248	3.43%	47	0.65%	294	4.07%
Checking	539	7.46%	125	1.73%	665	9.20%
Correction	-	-	1	0.01%	1	0.01%
Description	173	2.40%	98	1.35%	271	3.75%
Settlement/payment	493	6.82%	25	0.35%	518	7.17%
Internal meetings	-	-	0	0.00%	0	0.00%
External meetings	-	-	3	0.04%	3	0.04%
Inspection by public authorities	-	-	91	1.26%	91	1.26%
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	187	2.59%	1,669	23.10%	1,856	25.69%
Reporting/submitting information	70	0.97%	28	0.39%	98	1.36%
Internal total	3,945	54.60%	3,280	45.40%	7,224	100.00%

		Share of total burden %		Share of total burden %		Share of total burden %
Internal total	3,945	8.81%	3,280	7.32%	7,224	16.13%
Acquisition costs	209	0.47%	43	0.10%	251	0.56%
External costs	33,797	75.46%	3,514	7.85%	37,311	83.31%
Total burden	37,950	84.74%	6,836	15.26%	44,787	100.00%

As the main IO in this area is the land transaction return, 85% of the SDLT burden relates to form-filling. The return requires quite a lot of information to be provided and so information retrieval is a key activity (39%). The high burden relating to copying, distribution, and filing (26%) is due to the obligation to keep and preserve records.

In this tax area, 83% of the total burden is on external costs. This is because, as noted earlier, the completion of the SDLT returns is often outsourced to the solicitor who is dealing with the transaction in question. Acquisition costs are low because specialist software is not normally acquired.

4.7 Administrative burden by Information Obligations to third parties

There are no obligations to third parties.

5 Other findings

5.1 Irritations

One business interviewed described the regime as “cumbersome and time-consuming”. They had tried to do the return in house but had got it wrong twice so now pass it to their accountant “for fear of making mistakes”. Another business described the new return as “ridiculously complicated”.

Many businesses commented that they felt that HMRC were asking for information that was not necessary or they were not clear why it was required and what would happen to it. Some thought that HMRC may intend to collate such information, but it was believed more likely the information “disappears into a black hole”. Information highlighted as unnecessary included details of the seller specifically their email address, VAT numbers, and extensive information on leases to which the property is subject. In addition it was commented that some of the “irrelevant” information is not readily available within the 30 day time limit for filing the return.

One company estimated that their administrative burden has doubled under the SDLT regime, as compared to the old Stamp Duty regime.

One business commented on the need to complete the SDLT return even where duty is not payable - they did not understand why this was necessary. Completion of a return for a property even where that property is not being purchased for example where there is an “easement right” over a property, was seen as an unnecessary burden.

One business commented that although they thought charging stamp duty by reference to the transaction rather than to documentation was preferable, the mechanics of SDLT were inferior to the Stamp Duty procedure.

Processing inefficiencies were the cause of much annoyance for business. Returns are often lost and penalty notices are often issued in error which takes businesses additional time to resolve. The HMRC computer system often rejects correctly completed forms, or “mislays” forms, then issues penalty fines for late submission which then have to be contested with HMRC. Certificates are not being provided by HMRC within their stated aim of five days. One business reported a standard waiting time of three to five weeks.

Where an SDLT1 return is sent with another required form such as an SDLT2 or SDLT4, businesses believe forms are split up and scanned in separately by HMRC. This process results in forms being lost and requests for missing forms.

Businesses commented that the space to answer question 30 on the SDLT return did not contain sufficient space to detail more than one title number when it is often the case that there is more than one title number for a particular transaction.

One business sensed that HMRC does not have the resource or expertise to enquire into returns, evidenced by the lack of enquiries.

5.1.1 Online filing of SDLT returns

The system of online filing of SDLT returns was viewed by businesses as deficient in several aspects. Downtime and freezing of the system resulting in lost work was reported.

Several of the concerns highlighted by business concerned the simplistic nature of the system and inability to apply to complex transactions. Failure of the system to recognise Limited Liability Partnerships ('LLPs') was cited as an example of the lack of thought in the design of the online system. The online lease calculator was said to be only applicable to straightforward cases.

The complexity of online access authorisation codes and additional information required online where businesses are not registered with the Stamp Office was a further source of irritation. One business referred to "having to jump through hoops" to use the online service. The system not following through and prompting users for additional forms once the first has been completed was highlighted as a further irritant.

5.1.2 Helpline and HMRC guidance

One business described the helpline as "worse than useless". They find it impossible to get connected in the call queue and if successful reported a long wait to speak with someone. Staff on the helpline were then unable to answer any technical questions and were of no assistance in chasing up submitted forms.

Guidance issued by HMRC was not believed to be of a sufficient standard and does not use property terminology, making it hard to interpret. One business cited the phrase "transactions involving leases" as an example of unclear language.

5.2 Simplifications

A reduction in the occasions requiring completion of an SDLT return was suggested by many businesses. Suggestions included an annual return rather than a return per transaction (proposed by many businesses), introduction of a *de-minimis* rule by which a business only needs to complete the return if the property value is over a certain amount or if the value of total land transactions in a year are over a certain amount, and the use of returns only where there is an actual purchase.

As most transactions involve companies it was suggested that the details on the supplementary form SDLT4 should be incorporated into the main SDLT1 form. Availability of a different form for Housing Associations and Charities that are exempt from stamp duty was also suggested as a simplification. Removal of the requirement to complete "unnecessary" information such as the seller's details was suggested.

It was also suggested that many of the problems associated with filing SDLT forms online could be solved by HMRC improving their system, especially for uploading forms.

Businesses would like better guidance on completing the returns.

It was also suggested that the helpline could be split between processing enquiries and technical questions. It was suggested that dedicated teams should be established to handle specific transactions; this would enable businesses to know who they were dealing with. It was highlighted that the Land Registry adopts this approach, which works effectively.

5.3 Examples of best practice

None noted.

