



GOVERNMENT SERVICES

Administrative Burdens – HMRC Measurement Project

Report by Tax Area
Part 28: Withholding Tax

20 March 2006
Restricted – Commercial

TAX



HMRC

**Administrative Burdens -
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Part 28: Withholding 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. 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 withholding tax is £2m, 0.03% of the total burden placed on business.

The burden is made up as follows:

	£000	%
Internal costs	505	32.09%
Acquisition costs	5	0.33%
External costs	1,064	67.58%
Total burden	1,575	100.00%

The quarterly return for the Non-Resident Landlords Scheme is the most burdensome obligation in this tax area. This return is often outsourced because the return can be time-consuming and present technical issues, for example which expenses are deductible, hence the relatively high proportion of external cost.

The key IOs relate to the Non-Resident Landlords Scheme requirement to deduct tax from rent paid, which represents more than 89% of the total burden in this area. Other (unrelated) IOs relate to payments to entertainers and deduction of tax from interest and royalties.

The purpose of the withholding tax provisions is to collect tax at source in circumstances where it might otherwise be difficult to collect, because the recipients of the income are overseas.

Businesses interviewed generally found the Non-Resident Landlords Scheme straightforward to operate, although some would like to be able to file returns online.

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

3.2.1.1 *Bank interest*

UK banks and building societies paying ‘annual’ interest (very broadly, recurring interest) to self-employed individuals must deduct lower rate income tax at source unless the recipient of the interest has certified that he is a non-taxpayer (for example, not ordinarily resident in the UK or below the tax threshold), or the deposit is exempt (broadly, over £50,000). The tax deducted is available as a credit against the taxpayer’s eventual total liability for the year and any excess is repaid. If the recipient is entitled to the benefit of one of the UK’s Double Tax Treaties, the rate of withholding may be reduced (see Part 9 of Volume 2).

3.2.1.2 *Royalties and other interest*

Royalties (in respect of patents, and copyright and design) and interest paid to non-residents are paid after deducting income tax at the basic rate. The rate of withholding tax may be reduced if it is paid in a country where one of the UK’s Double Tax Treaties applies.

Interest and royalty payments between associated companies or permanent establishments within different EU member states are not subject to withholding tax, provided the payments are received by their beneficial owner in the other EU state.

In some cases the terms of a relevant Double Tax Treaty may reduce or extinguish the liability to deduct tax, in which case a repayment claim may be made or, with prior HMRC clearance, relief may be given at source.

For royalty payments (but not interest payments) made on or after 1 October 2002, where the UK company paying royalties to an overseas recipient has a ‘reasonable belief’ that the beneficial owner of the royalties is entitled to a reduced or nil deduction of tax (for example under a relevant Double Tax Treaty), it can apply the lower tax treaty rate without advance clearance from HMRC. UK companies must include details of all such payments on their tax returns.

3.2.1.3 *Non-Resident Landlords Scheme*

The purpose of the scheme is to collect tax at source where it may be difficult to collect tax through the annual Income Tax return. A tenant or letting agent paying rent to a non-

resident landlord is required to deduct income tax at the basic rate from the rental payment and to pay that tax directly to HMRC. A non-resident landlord is a landlord with UK rent whose usual place of residence is outside the UK. This tax withheld is reported in various returns that are submitted to HMRC. A landlord may apply to HMRC for approval to receive rental income with no tax deducted. This does not mean that the rental income is exempt from tax, and an Income Tax Return will still need to be completed and Income Tax paid.

Tax deducted from the rental income is then set off against the landlord's Income Tax bill.

Application to receive rental income gross of tax is made using the following forms:

- NRL1 for individuals
- NRL2 for companies
- NRL3 for trustees

These forms are completed by the non-resident landlord and are therefore out of scope. The returns to be made by tenants or letting agents are as follows:

Payslip Form NRLQ must be completed each quarter by either the tenant or letting agent. Tax for the quarter is calculated and paid to HMRC on rent received during the quarter less deductible expenses. Deductible expenses include utility bills and repair costs.

By 5 July each year, a return of information must be made to HMRC on form NRLY for the year to 31 March. Separate details have to be shown on this form for each non-resident landlord.

By 5 July each year, the landlord must be given a certificate by the tenant or letting agent stating how much tax has been deducted in the year to 31 March.

3.2.1.4 *Non-resident entertainers and sportsmen*

A special withholding tax ('WHT') applies to payments to non-resident entertainers and sportsmen in respect of performances in the UK. The special rules do not apply where the payment is made after deduction of tax under the Pay As You Earn ('PAYE') scheme (see Part 11 of Volume 2).

The purpose of the special rules is to counter the non-payment of UK tax. In addition, they enable HMRC to receive payment of tax earlier in respect of those non-resident entertainers and sportsmen who are liable to UK tax on their earnings.

In the absence of the special rules, no tax would be paid to HMRC at the time the payments were made to the entertainer or sportsman; it would only be paid after the end of the tax year under self-assessment. Under the special rules, the person paying the entertainer/sportsman is required, broadly, to deduct tax at the basic rate, which is then treated as a payment on account of the liability eventually calculated and assessed.

There is a facility for an alternative calculation of the amount of tax to be deducted by the payer, taking into account allowable expenses incurred, but this requires the agreement in writing of the payer, the entertainer or sportsman and HMRC.

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
Withholding Tax	4	5	25	32
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

Summary of the administrative burden results

Table 2: Administrative burden – overview

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Withholding Tax	2	0%
HMRC Total	5,100	100%

The administrative burden of withholding tax is 0.03% of the total burden placed on business.

The most significant element of this tax area is the Non-Resident Landlords Scheme, as discussed in further detail later in the report.

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	1,105	70.19%	6	24.00%
Providing statutory information for third parties	230	14.61%	3	12.00%
Cooperating with audits/inspections of ...	137	8.70%	5	20.00%
Notification of activities/registration	58	3.68%	1	4.00%
Framing complaints and appeals	31	1.97%	1	4.00%
Applications for permission for or exemption from	10	0.63%	7	28.00%
Keeping commercial emergency plans and programmes updated, etc ...	4	0.22%	2	8.00%
Statutory labelling for third parties	-	-	-	-
Applications for subsidies, grants, allowances or credits for ...	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
Applications for authorisation	-	-	-	-
Application for Guidance	-	-	-	-
Total	1,575	100.00%	25	100.00%

HMRC total	5,100,094		2,692	
Share of HMRC total	0.03%		0.93%	

The largest burden in this area arises from returns and reports which comprise 70% of the total burden, although only 24% of the number of IOs. This arises mainly from completion of the Non-Resident Landlords Scheme return and the payment of related tax,

but also includes the returns by banks and building societies with details of interest debited or credited.

The other significant type of IO included within this tax area is providing statutory information for third parties. The majority of this burden relates to provision of the annual certificate of tax withheld under the Non-Resident Landlords Scheme.

It is also worth noting that the IO type with the largest number of IOs (applications for permission for or exemption from), being 28% of the total, represents only 0.63% of the total burden. This is mainly because these are relatively rare IOs.

4.3 Administrative burden by origin of Information Obligation

The withholding tax 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.

As this tax area covers a range of unrelated IOs, it is difficult to draw any particular conclusions on the burden by business size. Given the nature of the IOs here, some will apply only to certain size segments, for example bank and building society IOs will only be measured for larger size segments. Most of the IOs have the same unit cost regardless of size, other than the Non-Resident Landlords Scheme which has a higher unit burden as the business size increases, on the basis that operating the system and making the returns becomes more complex.

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	£000	£000	£000
Quarterly Returns for Agents of Non-Resident Landlords	429	93	335	-
Annual Returns for Agents of Non-Resident Landlords	397	60	338	-
Payment of tax to HMRC deducted under non-resident landlords scheme	235	235	-	-
Annual certificate of tax withheld by agent to non-resident landlord	215	10	201	4
Provision of inspection of records by HMRC	133	69	64	-
Total	1,409	467	938	4
Share of total for tax area	89.45%	92.37%	88.14%	72.79%
Total for tax area	1,575	505	1,064	5

The top five IOs in this tax area all relate to the Non-Resident Landlords Scheme. The population for this scheme is considerably higher than for the other elements included within this tax area (the model is based on over 15,000 schemes in operation) and almost half of the withholding tax IOs relate to this scheme.

The quarterly return for the Non-Resident Landlords Scheme is the most burdensome IO in this tax area. This is because of a combination of the cost of preparing the return, and the number of quarterly returns prepared. This return is often outsourced, hence the relatively high external cost.

The annual return for the Non-Resident Landlords Scheme is the next IO, which is also often outsourced.

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	
	£000	%	£000	%	£000	%
Familiarisation with the Information Obligation	6	1.14%	8	1.56%	14	2.70%
Information retrieval	65	12.95%	126	24.85%	191	37.80%
Assessment	-	-	-	-	-	-
Calculation	-	-	79	15.71%	79	15.71%
Presentation of figures	3	0.68%	4	0.81%	7	1.48%
Checking	13	2.53%	7	1.43%	20	3.96%
Correction	-	-	-	-	-	-
Description	45	8.98%	16	3.18%	61	12.16%
Settlement/payment	-	-	79	15.71%	79	15.71%
Internal meetings	-	-	5	1.01%	5	1.01%
External meetings	10	2.08%	1	0.28%	12	2.36%
Inspection by public authorities	-	-	-	-	-	-
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	13	2.64%	8	1.52%	21	4.17%
Reporting/submitting information	14	2.76%	1	0.18%	15	2.93%
Internal total	171	33.75%	335	66.25%	505	100.00%

		Share of total burden %		Share of total burden %		Share of total burden %
Internal total	171	10.83%	335	21.26%	505	32.09%
Acquisition costs	5	0.30%	0	0.03%	5	0.33%
External costs	929	58.97%	136	8.61%	1,064	67.58%
Total burden	1,104	70.10%	471	29.90%	1,575	100.00%

As described earlier, the key IOs in this tax area are the various returns that need to be completed under the Non-Resident Landlords Scheme. It is therefore not surprising that a significant proportion (70%) of the burden relates to form-filling.

Information retrieval is a significant activity. Some of this will relate to the information retrieval required for the Non-Resident Landlords Scheme returns, that is the rental income and deductible expenses. However, the various other unrelated IOs in this tax area also have an impact on the activity distribution. As they are unrelated IOs, it is difficult to make further comment on this table.

The calculation activity associated with this tax area is also relatively high because the nature of the tax area being to withhold tax, will involve calculating the amount of tax to be withheld.

Payments under the Non-Resident Landlords Scheme have to be made quarterly. Due to their frequency, making payments has a relatively high cost.

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

Table 7: Breakdown of administrative burden of obligations to third parties

Tax Area	Total administrative burden			
	Obligations to third parties	Share of HMRC total	All other obligations	Share of HMRC total
	£m		£m	
Withholding Tax	0	0%	1	0%
HMRC Total	892	17%	4,208	83%

The key obligation to third parties is the provision of the annual certificate to the non-resident landlord of tax withheld under the Non-Resident Landlords Scheme.

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

None.

5.2 Simplifications

Businesses considered that it would be helpful if the whole process for the Non-Resident Landlords Scheme, including the payment, could be done online.

5.3 Examples of best practice

Businesses found the Non-Resident Landlords Scheme to be straightforward and easy to implement, and gave positive feedback. The Non-Resident Landlords Scheme Binder and the Helpline provided by HMRC are both considered to be very useful.

