



GOVERNMENT SERVICES

Administrative
Burdens – HMRC
Measurement
Project

Report by Tax Area
Part 5: Climate Change Levy

20 March 2006
Restricted – Commercial

TAX



HMRC

**Administrative Burdens -
HMRC Measurement Project
Report by Tax Area
Part 5: Climate Change Levy**

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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 Climate Change Levy ('CCL') is £13m, 0.26% of the total burden placed on business.

The burden is made up as follows:

| | £000 | % |
|---------------------|---------------|----------------|
| Internal costs | 8,888 | 68.25% |
| Acquisition costs | 4,135 | 31.75% |
| External costs | - | - |
| Total burden | 13,023 | 100.00% |

The core processes for these IOs are normally kept in house by the businesses affected. This levy is only paid by a small number of businesses and the charging of CCL is part of the core business processes. There is therefore no market for intermediaries, so no external costs are recorded.

CCL is part of a range of measures designed to help the UK meet its commitment to reduce greenhouse emissions. It is charged on the supply of energy sources such as natural gas and electricity. It affects just over 200 businesses in the UK.

Businesses making taxable energy supplies must register with HMRC.

The obligation of providing statutory information to third parties accounts for 90% of the total CCL burden. The issuing of Climate Change Levy Accounting Documents, which are issued to customers in relation to supplies of gas and electricity, was found to be the single most burdensome obligation (£12m). Making quarterly CCL returns accounts for 10% of the total burden.

Businesses interviewed made several comments on aspects of the operation of the regime. Although not specifically mentioned in this context, the £2,000 error limit, which also applies to other environmental taxes, is generally perceived as disproportionately low, particularly bearing in mind the typical size of business accounting for this sort of levy. A percentage of the levy due was suggested as a more appropriate measure to use.

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

CCL was introduced by Finance Act 2000 and came into effect on 1 April 2001. The levy is part of a range of measures designed to help the UK meet its commitment to reduce greenhouse emissions. It is charged on the supply of energy generated by certain types of gas, electricity, coal, petroleum and coke when used for lighting, heating and power by the following types of business as the final consumer:

- industry
- commerce
- agriculture
- public administration; and
- other services

Businesses making, or intending to make, supplies subject to CCL must register with HMRC. There is no registration threshold.

CCL that relates to gas and electricity supplies is billed to customers using a 'Climate Change Levy Accounting Document' ('CCLAD'). The CCLAD sets out, amongst other things, the quantity of energy supplied and the period over which the supply took place.

CCL is applied at a specific rate per nominal unit of energy. There is a separate rate for each category of commodity, for example, the rate on electricity is £0.0043 per kilowatt hour. A reduced rate of 50% is charged to horticultural producers and 20% for certain energy intensive users that have entered into a negotiated energy efficient agreement.

CCL registered businesses predominantly make a quarterly return to HMRC to account for, and pay, any CCL due. This return is made on Form CCL 100. The return must be signed by an authorised nominated person. The return is fairly short, requiring separate details of levy due on electricity, gas, liquefied petroleum gas and solid and other fuels, and then details of units and value of supplies of liquefied petroleum gas and solid and other fuels for the period.

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 must be notified separately in a letter

to their 'controlling 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 |
|---------------------|---|------------------------|--|------------------------------------|
| Climate Change Levy | 4 | 5 | 48 | 191 |
| 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**

The CCL return is submitted to HMRC on a quarterly basis. However, under certain circumstances, it can be submitted on a different period basis. The CCL return has been modelled as submitted on a quarterly basis to reflect the majority of businesses.

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 |
| Climate Change Levy | 13 | 0% |
| HMRC Total | 5,100 | 100% |

The administrative burden of CCL is 0.26% of the total burden placed on business.

The majority of the burden is the obligation for a business to issue Climate Change Levy Accounting Documents ('CCLADs'). Another major burden on business is the submission of the CCL return to HMRC, which is usually completed on a quarterly basis.

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 |
|--|----------------------|---|------------------|---------------------------------------|
| Providing statutory information for third parties | 11,750 | 90.23% | 7 | 14.58% |
| Returns and reports | 1,250 | 9.60% | 3 | 6.25% |
| Keeping commercial emergency plans and programmes updated, etc ... | 17 | 0.13% | 6 | 12.50% |
| Applications for subsidies, grants, allowances or credits for ... | 2 | 0.02% | 6 | 12.50% |
| Notification of activities/registration | 1 | 0.01% | 14 | 29.17% |
| Framing complaints and appeals | 1 | 0.01% | 3 | 6.25% |
| Applications for authorisation | 1 | 0.00% | 5 | 10.42% |
| Cooperating with audits/inspections of... | 0 | 0.00% | 1 | 2.08% |
| Applications for permission for or exemption from | 0 | 0.00% | 3 | 6.25% |
| Statutory labelling for third parties | - | - | - | - |
| Carrying out inspections of ... | - | - | - | - |
| Entry in a register | - | - | - | - |
| Application for Guidance | - | - | - | - |
| Total | 13,023 | 100.00% | 48 | 100.00% |

| | | | | |
|----------------------------|------------------|--|--------------|--|
| HMRC total | 5,100,094 | | 2,692 | |
| Share of HMRC total | 0.26% | | 1.78% | |

As noted, the key burden arising in CCL is the obligation to provide information to third parties, in this case providing CCLADs to customers, which accounts for 90% of the total CCL burden.

The table also shows that 99.8% of the burden comes from only 10 IOs, or 21% of the total number of IOs in this tax area. The IO type with the highest number of IOs (14 which is 29% of the total) is notification of activities/registration, and yet accounts for

only 0.01% of the burden. This is because these obligations are only encountered infrequently.

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

The CCL IOs 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 £m | Micro £m | Small £m | Medium £m | Large £m | Total £m |
| Climate Change Levy | - | - | 3 | 2 | 8 | 13 |
| 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 noted 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

Small businesses apparently have a higher burden than medium businesses simply because there are more small businesses than medium and large businesses. However, as business size increases, the number of customers and therefore CCLADs issued will increase. As the CCLAD is by far the largest burden in this tax area, the burden is highest on large businesses, being 64% of the total burden.

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 |
| Issue of CCL accounting documents | 11,734 | 8,775 | - | 2,959 |
| Submission of CCL returns | 1,246 | 79 | - | 1,167 |
| Production of supporting documentation to be sent with certificate claiming reduced rate supply | 5 | 5 | - | - |
| Obligation to keep and maintain a CCL account | 5 | 3 | - | 2 |
| Processing payments of CCL returns | 4 | 4 | - | 0 |
| Retaining records relating to CCL accounting | 4 | 3 | - | 2 |
| Total | 12,998 | 8,869 | - | 4,129 |
| Share of total for tax area | 99.81% | 99.79% | 0.00% | 99.85% |
| Total for tax area | 13,023 | 8,888 | - | 4,135 |

There are two key burdens on business, as described above. The first is the obligation to issue CCLADs. The other is the submission of the CCL return.

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

The core processes for these IOs are normally kept in house by the businesses affected.

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 | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Information retrieval | 2 | 0.02% | 3,083 | 34.69% | 3,085 | 34.71% |
| Assessment | 2 | 0.02% | 2,642 | 29.73% | 2,644 | 29.75% |
| Calculation | 5 | 0.05% | 911 | 10.25% | 916 | 10.31% |
| Presentation of figures | 0 | 0.00% | 709 | 7.98% | 709 | 7.98% |
| Checking | 3 | 0.03% | 452 | 5.09% | 455 | 5.12% |
| Correction | - | - | 175 | 1.97% | 175 | 1.97% |
| Description | 7 | 0.08% | 445 | 5.01% | 452 | 5.09% |
| Settlement/payment | 1 | 0.02% | - | - | 1 | 0.02% |
| Internal meetings | - | - | 4 | 0.05% | 4 | 0.05% |
| External meetings | - | - | - | - | - | - |
| Inspection by public authorities | - | - | - | - | - | - |
| Correction resulting from inspection by public authorities | - | - | - | - | - | - |
| Training | - | - | - | - | - | - |
| Copying, distribution, filing, etc. | 1 | 0.01% | 442 | 4.97% | 442 | 4.98% |
| Reporting/submitting information | 0 | 0.00% | 3 | 0.03% | 3 | 0.03% |
| Internal total | 21 | 0.24% | 8,866 | 99.76% | 8,888 | 100.00% |

| | | Share of total burden % | | Share of total burden % | | Share of total burden % |
|--------------------------|-----------|-------------------------|---------------|-------------------------|---------------|-------------------------|
| Internal total | 21 | 0.16% | 8,866 | 68.08% | 8,888 | 68.25% |
| Acquisition costs | 0 | 0.00% | 4,135 | 31.75% | 4,135 | 31.75% |
| External costs | - | - | - | - | - | - |
| Total burden | 22 | 0.17% | 13,001 | 99.83% | 13,023 | 100.00% |

The non form-filling related burden is largely made up of the obligation to issue CCLADs.

Information retrieval makes up almost 35% of the total internal time related burden for CCL. This is mainly due to the effort involved in retrieving certain specific data to compile the CCLAD, for example, the quantity of energy supplied and details of the period over which the supply was made.

The core processes for these IOs are normally kept in house by the business affected.

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 | |
| CCL | 12 | 0% | 1 | 0% |
| HMRC Total | 892 | 17% | 4,208 | 83% |

As noted, the key burden in CCL is an obligation to provide information to third parties by issuing CCLADs.

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

One large business said that checking certificates which customers need to produce to claim different exemptions from CCL and then applying the correct exemption is a time consuming exercise. It creates significant costs, particularly because the exemption cannot be backdated where the customer has provided the business with its exemption certificate after CCL has already been charged.

Each CCL invoice issued must be endorsed with the wording that it is a 'CCL Accounting Document'. One business found this a particular irritant and said that "it is not part of what is considered good customer service".

It was questioned whether HMRC fully appreciate the time required to obtain a director's signature on forms relating to 'CCL group registration'. This can be particularly difficult in a large PLC.

A business said that it is irritating for customers wishing to claim exemption or relief from CCL to complete all the exemption certificates and supporting analysis documents required to claim exemptions or reliefs it is entitled to.

One business considered that guidance on 'directed utility status' is poor and it also complicates matters when registering for CCL.

Another business commented that Combined Heat and Power ('CHP') schemes should attract exemption from CCL, but where CHP energy needs to be imported to fulfil the customer's needs, CCL is chargeable. This adds further complexity.

In preparing the CCL return, a large business said that a key burden is that the 'tax point' for CCL is different to the 'tax point' for VAT purposes. This requires a number of reports to be produced and then data compiled by spreadsheets in order to track the time and reporting differences between the two. In addition to this time cost, it significantly increased the cost of obtaining software that can cope with the CCL reporting requirements.

Where a business produces energy in part for its own use, the requirement to calculate and identify these 'self supplies' creates significant costs. The business suggested that treating self supplies no differently to normal supplies might be one way of dealing with the requirement.

One business said that it is required to notify HMRC by letter where it supplies exempt renewable energy, but it felt that this letter serves no purpose.

5.2 Simplifications

One business has asked HMRC to remove the requirement to notify HMRC by letter that it is supplying exempt renewable energy to a customer.

A large business said that significant costs for businesses could be reduced if HMRC permitted the backdating of CCL exemptions and reliefs to customers. The business suggested that CCL should be linked to VAT (which allows retrospective adjustments to the liability of supplies made to customers).

5.3 Examples of best practice

None.

