



GOVERNMENT SERVICES

Administrative
Burdens – HMRC
Measurement
Project

Report by Tax Area
Part 7: Corporation Tax

20 March 2006
Restricted – Commercial

TAX



HMRC

**Administrative Burdens -
HMRC Measurement Project
Report by Tax Area
Part 7: Corporation Tax**

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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, outlines 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 Corporation Tax is £608m, 12% of the total burden placed on business. This is a significant area of tax affecting all companies in the UK.

The burden is made up as follows:

	£000	%
Internal costs	133,619	21.96%
Acquisition costs	31,489	5.18%
External costs	443,366	72.87%
Total burden	608,473	100.00%

Corporation Tax is a tax payable by all companies that are UK resident for tax purposes. It is an area where there is continual change and considerable complexity. It is also a well established area of tax with a strong market for intermediaries. This is shown by the high proportion of the burden that relates to fees paid to intermediaries.

There is a higher level of use of intermediaries in Corporation Tax than in some other areas. Due to the heavy use of intermediaries, it is difficult to interpret the acquisition cost figures. The level of acquisition cost seems low. However, this may be because most returns that are complex enough to make the use of specialist software appropriate are in fact done by intermediaries. The cost of any software is then, of course, absorbed in the total fees paid to the intermediary.

From 1 July 1999, the Corporation Tax Self Assessment regime was introduced requiring companies to self assess their own Corporation Tax liability. This regime firmly placed the onus of complying with UK tax legislation with the company.

Corporation Tax covers a wide range of tax requirements. Certain aspects that, in practice, fall within the scope of Corporation Tax have been reported within their own tax area due to their significance and because they also apply to Income Tax, for example, Capital Allowances and Capital Gains Tax.

The Corporation Tax administrative burden is driven by the requirement to complete and submit to HMRC the annual Corporation Tax return form (Form CT600). To complete this form, business also needs to prepare detailed supporting calculations, usually referred to as the Corporation Tax computation. However, the format and content of the computation are not prescribed by HMRC. This gives rise to uncertainty. Business is often not clear about the level of detail needed in supporting calculations so that HMRC accept the return and the chances of an enquiry are mitigated. This creates uncertainty and may mean that some businesses do unnecessary work believing that it is required.



The internal time spent dealing with Corporation Tax, whether businesses handle it all themselves or work with intermediaries, is predominantly information retrieval. This reflects the large amount of information typically required, which is often not easily available from a business' accounting system.

The indicative findings in this report focus on the high burden IOs within Corporation Tax. However, an area that it may be helpful to consider, as the model is taken forward, are the low burden IOs. Are these as expected? Do they indicate that, in fact, areas of relief are proving unduly burdensome and therefore have very low take up rates? For example, although claims for research and development can be complex they do not feature within the list of most burdensome IOs. The reason identified in interviews with business is that the claim is often seen as complex and the information hard to obtain from the accounting system. This means that the costs, often involving intermediaries, can outweigh the benefit of making the claim.

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

Corporation Tax is a tax payable by all companies that are UK resident for tax purposes and is payable on all profits, wherever they arise. The starting point for profits for Corporation Tax is the profits from the company's statutory accounts. A series of adjustments are then required for tax purposes.

From 1 July 1999, the Corporation Tax Self Assessment ('CTSA') regime was introduced which requires companies to self assess their own Corporation Tax liability. From this date, the onus to comply with the UK tax legislation was firmly placed with the company.

Each UK company has to make an annual return of its taxable profits on the Corporation Tax return form (Form CT600), as well as completing any relevant supplementary pages of the return form. This form is only part of the Corporation Tax 'return', which includes not only Form CT600, but also the statutory accounts and supporting calculations, usually referred to as the Corporation Tax computation. However, the format and content of the computation are not prescribed by HMRC.

There are many different company tax requirements that a company must comply with in order to self assess their Corporation Tax liability. All come under the heading of Corporation Tax. Many of these requirements are addressed within this Part. However, certain key areas are addressed in other Parts of Volume 2.

The main aspects of Corporation Tax included in this Part are:

- Double Tax Relief (relief where overseas income has already been subject to tax in another country)
- Research and Development Tax Relief (relief for expenditure on research and development)
- Quarterly Instalment Payments (the requirement for companies over a certain size to pay their Corporation Tax by quarterly instalment)
- Controlled Foreign Companies (where a company has a subsidiary in a low tax country there may be a requirement to pay additional UK tax)

- Transfer Pricing (the requirement for a company to self-assess its profits on the basis that all its transactions with connected parties are at arm's length)

Other topics measured within this tax area but which do not form a significant part of the burden are listed below. These are more specialist areas and in most cases, only apply to a small number or specific industry sector of UK businesses. For those businesses affected, the burdens may be considerable. However, as these do not have a significant impact on the overall Corporation Tax burden, no further analysis of these areas is included within this report. Detailed information on these tax areas can, of course, be obtained from the data framework.

- Intangible Assets Regime
- Community Development Finance Institutions
- Non-Trade Loan Relationships, Corporate Debt and Derivative Contracts
- Agriculture and Farming
- Land Remediation
- Company Distributions – Demergers and Purchase of Own Shares
- Life Insurers
- Lloyds Insurers and Syndicates
- Vaccines Relief
- Corporation Tax Appeals
- Corporate Venturing Scheme
- Friendly Societies
- Form CT61
- Employee Share Ownership Trusts
- Estates in Administration
- Furnished Holiday Lettings
- General Anti-Avoidance
- Film Relief

- Discontinuance of Trade
- Offshore Funds
- Patents
- Residence
- Treasury Consent
- Venture Trust Companies
- ISAs and PEPs
- Miscellaneous Claims for Oil and Gas companies
- Banks and Building Societies
- Venture Capital Trusts
- Close Companies
- Corporation Tax Loss Relief and Group Relief
- HMRC Enquiries and Appeals

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
Corporation Tax	43	11	326	714
HMRC Total		279	2,692	6,614

Other tax areas relevant to Corporation Tax reported within other Parts of Volume 2 are:

- Capital Allowances (see Part 3 of Volume 2)
- Capital Gains Tax (see Part 4 of Volume 2)
- Withholding Tax (see Part 28 of Volume 2)

- Double Tax Treaties (see Part 9 of Volume 2)
- Tax Management Provisions (see Part 25 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 significant methodological issue particular to Corporation Tax relates to IO analysis.

3.3.2.1 Information Obligation (IO) analysis

As outlined in Volume 1, Section 3.2.2, the analysis of regulation into IOs was done in a way that made it most practical to collect price and quantity data. Corporation Tax presented particular challenges in this area. The insights of the Advisory Board were sought and the approach adopted is set out below.

The challenge was how to handle the Corporation Tax return form (Form CT600). There are a great many different aspects of tax regulation that may be relevant in completing a form CT600. These depend on the particular business; which regulations are relevant to its business model, as well as which claims or elections it wishes to make and so on.

The approach adopted was as follows:

- The Form CT600 was analysed into a number of separate IOs. These included, for example, the computation of trading profits, profits from property and so on. There are other regulations that typically interact closely with the Corporation Tax return such as capital allowances, capital gains, controlled foreign companies and so on. These were all analysed into separate IOs. This means that all the key components can be readily looked at separately, as well as together, as they come together through the Form CT600. Due to their significance, several of the key components of the Form CT600 are reported within their own tax area. For example, capital allowances and capital gains are not covered within this report
- The IO for the Corporation Tax return itself is for the filling in of the Form CT600 only. This covers the burden of pulling together the different IOs, as a matter of administration, through the Form CT600. It also covers the burden of activities undertaken to allow the Form CT600 to be signed as 'correct and complete'. This is particularly relevant for transfer pricing.
- Before submitting the Form CT600 to HMRC, it must be signed by an authorised official of the company. By signing the return, the individual is confirming that the return is, to the best of their knowledge and belief, correct and complete. By implication, the individual is also declaring that he is satisfied that all transactions with connected parties have been carried out on an arm's length basis. The company must also ensure that it has sufficient documentation in place to support this. There is

detailed HMRC guidance on the form this documentation should take. The requirement for companies to prepare and retain transfer pricing documentation is not a separate IO but is simply part of the general requirement to keep records to support the Corporation Tax return. In order to capture the burden of this requirement, the costs have been captured within the cost of the return itself as an inherent part of the cost of signing the return.

3.3.2.2 *Demarcation*

The preparation of statutory accounts is outside the scope of this project. The burden measured here is only the cost of complying with the tax obligations – statutory accounts are a Companies Act requirement.

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
Corporation Tax	608	12%
HMRC Total	5,100	100%

The administrative burden of Corporation Tax is 12% of the total burden placed on business. The two key IOs are the self assessment of trading profits and the completion of Corporation Tax form CT600.

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 £m	Share of total admin burden for tax area	Number of IOs	Share of total IOs for tax area
Returns and reports	463.08	76.11%	40	12.27%
Providing statutory information for third parties	52.64	8.65%	17	5.21%
Applications for subsidies, grants, allowances or credits for ...	37.34	6.14%	108	33.13%
Cooperating with audits/inspections of ...	15.33	2.52%	47	14.42%
Notification of activities/registration	13.93	2.29%	30	9.20%
Applications for authorisation	10.66	1.75%	32	9.82%
Applications for permission for or exemption from	8.58	1.41%	12	3.68%
Keeping commercial emergency plans and programmes updated, etc ...	5.78	0.95%	9	2.76%
Framing complaints and appeals	1.12	0.18%	30	9.20%
Application for Guidance	0.00	0.00%	1	0.31%
Statutory labelling for third parties	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
Total	608.47	100.00%	326	100.00%

HMRC total	5,100.09		2,692	
Share of HMRC total	11.93%		12.11%	

Interpreting the table

- The two top IOs by administrative burden are ‘returns and reports’ and ‘providing statutory information for third parties’. This is in line with the numbers for UK tax regulation as a whole (see Table 4, Volume 1, Section 4.2). The IO type ‘returns and reports’ includes the Form CT600, all the related IO’s within Corporation Tax (see 3.3.2.1 above), the calculation of quarterly instalments and the payment of any corporate tax liability. Thus it is not surprising that this is the top IO type by burden for Corporation Tax. The IO type ‘providing statutory information for third parties’ covers the requirements on certain businesses to issue certificates or statements to customers or stakeholders. Examples include insurance companies issuing statements to policy holders and companies issuing dividend vouchers to shareholders. Although the burden of issuing any one of these documents is relatively low and not a complex process, the number of policy holders and shareholders is significant.
- As with most tax areas, there is a striking difference between the number of IOs by type and the administrative burden by type. As noted above, the burden is created by IO types ‘returns and reports’ and ‘providing statutory information for third parties’

(85%). However together these are a very much smaller proportion of total number of Corporate Tax IOs by type (17%).

- By contrast, the greatest number of Corporation Tax IOs relates to ‘applications for subsidies, grants, allowances or credits’ and ‘cooperating with audits/inspections’. Yet these only create a small part of the total Corporation Tax burden (9%).
- One interpretation is that this profile of IO types, by number, adds to the perception of complexity, the anxiety of wondering whether or not something should be done. For example, ‘applications for subsidies, grants, allowances and credits’ includes claims for research and development tax relief, group relief and other loss relief provisions. Many of these are seen as complex by business. In particular, feedback from business interviews suggests that the rules for R&D relief claims are unnecessarily complex and difficult to understand.

4.3 Administrative burden by origin of Information Obligation

The tables that follow split down the administrative burden by the origin classifications in the SCM.

Table 4.1: Administrative burden by origin of Information Obligation

Tax Area	International, no domestic discretion (A)				Share of HMRC Total
	1: EU Regulation	2: EU Directive	3: Other Int'l	Total	
	£m	£m	£m	£m	
Corporation Tax	0	-	-	0	0%
HMRC Total	766	842	-	1,608	32%

Table 4.2: Administrative burden by origin of Information Obligation (cont'd)

Tax Area	International, domestic discretion (B)				Share of HMRC Total
	1: EU Regulation	2: EU Directive	3: Other Int'l	Total	
	£m	£m	£m	£m	
Corporation Tax	-	0	-	0	0%
HMRC Total	-	97	1	98	2%

Table 4.3: Administrative burden by origin of Information Obligation (cont'd)

Tax Area	Domestic (C)	
	Total	Share of HMRC Total
	£m	
Corporation Tax	608	12%
HMRC Total	3,394	67%

The IOs relating to Corporation Tax are domestic in origin with the exception of a small number of minor IOs that relate to applications for clearance and claims for certain reliefs where trade and assets are transferred between EU Member States.

As the above table shows, the EU obligations do not represent a large burden on UK businesses.

4.4 Administrative burden by business size

Table 5 shows the administrative burden broken down by business size

Table 5: Burden by business size

Tax Area	Total administrative burden					
	Nano £m	Micro £m	Small £m	Medium £m	Large £m	Total £m
Corporation Tax	2	267	89	76	174	608
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 5, the analysis of the burden by size segment, needs to be interpreted with care.

Interpreting the table

- At first sight, it appears surprising that there is a cost within the nano segment for Corporation Tax, as companies cannot, by definition, have zero employees. The explanation for this is that a small number of IOs that have been categorised in the Corporation Tax area are applicable to sole traders as well as companies, for example IOs relating to film relief.
- Table 5 shows that 44% of the total burden is on micro companies, and that this percentage decreases through the small and medium segments. Large companies have 29% of the burden. This is a very high proportion bearing in mind how relatively few large companies there are. It is not easy to interpret these numbers. This is an area where detailed analysis using the underlying data framework may be helpful, as HMRC take the model forward. From the initial analysis a number of possible explanations emerge.
 - Some IOs within Corporation Tax apply to specific business size segments. For example, the claim for small companies relief on the rate of Corporation Tax paid is only made by companies with a turnover of between £10,000 and £50,000 and therefore is likely only to apply to the smaller size segments.
 - As businesses become larger, more regulation applies to them. For example, the requirement to certify, for transfer pricing purposes, that all transactions

with related companies are at an arms-length price is highly complex and is only likely to apply to large companies.

- As businesses become larger, they have a greater volume of transactions handled by staff with greater separation of duties. Thus the staff responsible for recording transactions, maintaining the accounting records and tax administration may all be different people working in different offices or, even, in different countries. This means the unit cost of each IO is likely to be higher as business becomes larger.

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

Table 6 below shows the top seven IOs by total burden together with an analysis of price between its three components: internal cost, external cost and acquisition cost. For a full explanation of these items please see Volume 1 Section 3.2 and Annex A.

Table 6: Top 7 obligations by total administrative burden

Information Obligation	Total administrative burden	Internal cost	External cost	Acquisition cost
	£m	£m	£m	£m
Make a self-assessment of profits attributable to Schedule DI (trade)	209.68	24.75	166.34	18.59
Deliver a correct and complete company tax return, including a self-assessment of the amount of tax payable for the period	115.47	26.13	82.89	6.44
Charge to UK tax of a Controlled Foreign Company's profits	48.57	7.58	40.99	0.00
Make a self-assessment of profits attributable to Schedule A (property)	26.35	3.27	20.76	2.32
Payment of tax by quarterly instalments	20.34	17.03	3.28	0.02
Duty of life insurers to policy holders to deliver certificate to policy holder	16.13	1.35	14.75	0.03
Make a self-assessment of profits attributable to Schedule DIII (loan relationships)	16.12	3.11	12.04	0.97
Total	452.65	83.22	341.04	28.39
Share of total for tax area	74.39%	62.28%	76.92%	90.15%
Total for tax area	608.47	133.62	443.37	31.49

Interpreting the table:

- The split between internal, external and acquisition costs is interesting. This is discussed in more detail in Section 4.6 below.
- This table highlights a key theme of the findings: the ‘long tail’ of the tax administrative burden. This is very clear at a total level, for the whole of the UK tax system. It is also very pronounced for Corporation Tax.
- Only 7 IOs represent 74% of the total Corporation Tax burden. This means that the other 322 IOs represent 26% of the burden. This further supports the analysis above, that there is a considerable body of regulation that is used very infrequently or which only applies to a small number of businesses but which adds to the perception of complexity.
- Of the top 7 IOs, 6 are closely linked to the completion of the Corporation Tax return (the form CT600). As explained in 3.3.2.1 above, the cost of the Corporation Tax return itself includes the cost of dealing with the administration of the return. The costs of dealing with the related IOs are measured separately. An alternative analysis would be to group the key IOs – and this could be done in many ways depending on how HMRC wish to use the data framework going forward – that build up the corporation tax return. The comments below briefly consider the characteristics of the key IOs within the Corporation Tax area that link to the corporation tax return:
 - The IO with the highest burden is the calculation of taxable trading profits. A company is required to review its income and expenditure for the year and its balance sheet movements and make certain adjustments, which result in computation of the taxable profits or losses. The legislation does not specify the form in which the computation should be, but simply outlines the rules under which taxable trading profits must be calculated. The resulting calculation, as a practical matter, is then reported as part of the corporation tax return.
 - The IO with the second highest burden is the form CT600, with a burden of £115m. This IO covers simply completing the form, using numbers already calculated, signing the declaration by the company that the return is correct and complete and sending the full return to HMRC. In respect of large companies, this IO also includes the requirement to keep documentation to support their transfer pricing position. By signing the declaration, a company is confirming that all transactions with connected parties have taken place at arm’s length. This can be a burdensome exercise for large companies, as it involves identifying and considering all transactions with connected parties and ensuring that the prices are arms-length and that this is properly documented. It will often also include payments to external specialists for advice in relation to the documentation required.
 - The IO with the third highest burden is that relating to the potential charge to tax of CFC profits. The cost of assessing whether any of the various exemptions available apply is high. The legislation is complex and the information required to complete such an assessment can often involve

information being requested from the overseas subsidiary itself. The cost measured in this exercise is the cost of assessing each of the exemptions available prior to any apportionment.

- The IO with the fourth highest burden relates to the self-assessment of income from property. Profits from UK land or property are treated, for tax purposes, as arising from a business. Broadly, rental business profits or losses are computed using the same principles as for trading profits or losses. Any profits or losses arising from a land or property business must therefore be stripped out from trading profits or losses and taxed separately. The disclosure and the calculations are included alongside the company's trading profits or losses within the corporation tax return.
- It is possible for companies to file their return online. However, the interviews with businesses revealed that very few companies actually know that this option is available to them.
- The legislation requires insurance companies to provide certificates to policy holders when a chargeable event occurs in relation to the policy. This appears high in the burden list due to the high number of policy holders; the unit cost is relatively small.
- The comments above have focussed on the high burden IOs. An area that it may be helpful to consider, as the model is taken forward, is the low burden IOs. Are these as expected? Do they indicate that, in fact, areas of relief are proving unduly burdensome and therefore have very low take-up rates? For example, claims for research and development tax reliefs can be quite complex for 'small and medium-sized enterprises' and large companies. These claims do not feature on the list of top IOs. The main reason for this appears to be the relatively small number of companies who make the claims. Feedback from businesses interviewed revealed that many businesses, particularly smaller ones, consider that the time, effort and costs of making the claim actually outweigh the monetary benefits of a successful claim.

4.6 **Administrative burden by administrative activity and forms**

Table 7 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 7 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 7: Summary of burden by standard activity type

Activity	Form-filling related		Non form-filling related		Total	
	£000	%	£000	%	£000	%
Familiarisation with the Information Obligation	1,574	1.18%	2,770	2.07%	4,344	3.25%
Information retrieval	15,143	11.33%	36,948	27.65%	52,091	38.98%
Assessment	703	0.53%	8,296	6.21%	9,000	6.74%
Calculation	562	0.42%	4,018	3.01%	4,580	3.43%
Presentation of figures	2,421	1.81%	10,605	7.94%	13,026	9.75%
Checking	9,894	7.40%	11,160	8.35%	21,054	15.76%
Correction	-	-	14	0.01%	14	0.01%
Description	2,574	1.93%	6,235	4.67%	8,809	6.59%
Settlement/payment	-	-	2,437	1.82%	2,437	1.82%
Internal meetings	715	0.54%	1,035	0.77%	1,750	1.31%
External meetings	1,264	0.95%	314	0.24%	1,579	1.18%
Inspection by public authorities	-	-	169	0.13%	169	0.13%
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	332	0.25%	332	0.25%
Copying, distribution, filing, etc.	2,342	1.75%	8,535	6.39%	10,877	8.14%
Reporting/submitting information	1,173	0.88%	2,383	1.78%	3,556	2.66%
Internal total	38,366	28.71%	95,253	71.29%	133,619	100.00%

		Share of total burden %		Share of total burden %		Share of total burden %
Internal total	38,366	6.31%	95,253	15.65%	133,619	21.96%
Acquisition costs	6,508	1.07%	24,981	4.11%	31,489	5.18%
External costs	133,529	21.94%	309,837	50.92%	443,366	72.87%
Total burden	178,403	29.32%	430,070	70.68%	608,473	100.00%

Interpreting the table

- It may be helpful to look first at the table that analyses the total burden across the three components of price. This shows that internal costs are 22% of the burden, external costs 73% of the burden and acquisition costs 5% of the burden.
- This is different to the trend for tax as a whole. Volume 1 Table 10.1 shows that for tax as a whole the position is internal costs are 41%, external costs are 49% and

acquisition costs 9%. In Corporation Tax there is clearly a higher level of use of intermediaries than in some other areas. We found that a relatively high proportion of companies outsource the preparation of Corporation Tax returns, across all segments. Referring back to Table 6 above, it is striking that the highest level of use of intermediaries is in dealing with the IO relating to CFCs. This reflects the complexity of CFC legislation.

- Due to the heavy use of intermediaries, it is difficult to interpret the acquisition costs figures. The level of acquisition cost seems low. However, this may be because most returns that are complex enough to make the use of specialist software appropriate are in fact done by intermediaries. The cost of any software is then, of course, absorbed in the total cost of using the intermediary. Larger companies which do complete their returns in house would normally purchase specialist tax software in order to do so. It tends to be these costs that are reflected in the acquisition cost shown in Table 6. Smaller businesses that complete their return in house are more likely to use standard spreadsheet software to prepare their computation, and would then input manually to the form CT600. In these cases, no acquisition cost is recorded.
- The split of internal costs across the 16 administrative activities set out in the SCM is in line with much of tax. The main activity is information retrieval. This reflects the amount of information typically required for a Corporation Tax return. This information has to be extracted from the accounting records in quite a lot of detail and then analysed for inclusion in the computation. Some of the information may not even be stored in the accounting system; it is often necessary to go back to source documents to get sufficient detail in order to determine the tax treatment. For example, for tax purposes, like for like repairs can be treated as deductible but repairs that are in fact an improvement must be treated as capital. This distinction may be difficult to ascertain from the accounting records. In cases where tax follows the accounting treatment, clearly the burden of information retrieval is much reduced.
- The costs for calculation, description and presentation of figures for form-filing seem low when compared with non form-filing. Form-filing related activities relate predominantly to completion of the Corporation Tax return and the supplementary pages. The return IO involves incorporating figures and information already prepared as part of other IOs, for example the computation of taxable profits. Although the computation of taxable profits ultimately forms part of the return, it is not itself a form-filing activity and the activities have therefore been recorded within the non form-filing category. The familiarisation time in respect of form-filing activities relates primarily to the supplementary pages for CFCs. As discussed elsewhere, the rules for CFCs and the different exemptions available are quite complex. Therefore, where a company is completing the work in house, they will need to spend time familiarising themselves with the various exemptions.

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

Table 8 splits out the administrative burden between IOs relating to third parties and all other IOs.

Table 8: 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	
Corporation Tax	53	1%	556	11%
HMRC Total	892	17%	4,208	83%

Obligations to third parties in Corporation Tax relate mainly to statements to policy holders and dividend vouchers to shareholders, for example having made a distribution, a company must provide a statement of the dividend to the shareholder. Also included is the requirement for a company which has surrendered losses to another group company to provide a ‘consent to surrender’, which is effectively an authorisation from the company to surrender its losses for utilisation against another company’s profits.

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

5.1.1 The Corporation Tax return

Several small businesses considered that the rules for the Corporation Tax return were too complicated. Several smaller businesses mentioned the idea of tailoring the return to smaller companies and were happier since the introduction of the shortened form in 2005 (for accounting periods ending on or after 1 April 2004).

Some said that they used an accountant because it would take too much time to understand everything.

Some companies mentioned the lack of certainty surrounding what is required from them in terms of supporting calculations. They were of the opinion that it may be helpful to provide a proforma tax computation for businesses or detailed guidance on what is required.

Another frustration mentioned was having to provide detail in computations, or in response to enquiry letters, on small amounts in the computation described as "too much attention to detail on insignificant amounts of money compared to the size of the business".

Many businesses interviewed were happy with the process and did not have any particular concerns. One described it as "just a big job".

5.1.2 Quarterly Instalment Payments Regime ('QUIPs')

In most cases companies considered that the QUIPs regime caused little irritation.

Seasonal/property companies may be unaware of sales happening at the end of a period and therefore may be penalised by interest if profits are higher than expected. Several companies were of the view that this was unfair and that HMRC should be more lenient on interest as the payments were made on estimates.

Some also thought it wrong that interest on overpaid or underpaid tax was charged at different rates. It was considered that this encouraged people to overpay tax to avoid interest penalties.

One company however described the regime as "pointless and creates an additional workload", and another said that "HMRC expects companies to have a crystal ball".

5.1.3 **HMRC enquiries into Corporation Tax returns**

During enquiries into company returns, several companies found that, on occasions, information asked for is often already available in accounts or within the self-assessment computation, and therefore Inspectors should be able to find the information themselves but were instead putting the burden back on businesses.

Businesses reported that inspectors often request information that is outside of their powers or unreasonable, for example “link papers” from advisors. It was felt that this was a result of “a combination of naivety and incompetence on the part of the Inspectors”.

Inspectors also apparently asked for information that would be of little value to them but which placed an unnecessary burden on the company. Examples given were appointment books from a hair salon or till receipts from a chain of pubs. The cost to companies of providing documents and information of this type can be high while their usefulness is questionable.

Generally, there was felt to be little consistency between how different Inspectors approach enquiries.

5.1.4 **R&D tax relief and R&D tax credits**

Several companies interviewed believed that the rules for R&D relief claims are unnecessarily complex and difficult to understand. They find that “proving qualifying expenditure is difficult”.

Some companies said that they considered that the burden and complexity of making a claim was such that the costs often outweighed the benefit of making a claim. Often SME (small and medium enterprise) companies found that the rules were so difficult that they requested the help of external advisors, the cost of which removed some of the benefit of the claim in the first place.

Some companies have found that HMRC scrutinises claims too vigorously and are quick to open enquiries into R&D claims. It was said that this was “not embracing the spirit or intent” of the R&D relief scheme. One company said that they now applied for grants rather than R&D relief “due to the anticipated hassle that will be caused with the R&D tax credit”.

5.1.5 **Transfer pricing requirements**

Companies spend a lot of time ensuring they have transfer pricing documentation in place and are concerned at the lack of guidance from HMRC as to what is required of them.

There is particular concern about UK-UK transfer pricing and whether the extra work involved for businesses is necessary. More often than not there is no difference to a UK group’s tax position. One business said that the process for UK-UK adjustments was “cumbersome and could be short-circuited”.

5.1.6 **Double tax relief**

Although it was considered that many of the requirements of claims for double tax relief were straightforward, the claim to offset Eligible Unrelieved Foreign Tax (EUFT) was considered to be unnecessarily complex. Some companies are choosing not to make a claim on the basis that the cost and work involved may outweigh the benefit of the claim.

5.1.7 **Life insurers**

Two particular points were raised by life insurers. The first was the effort required to identify chargeable event gains that need to be notified to HMRC. The other was the administrative burden relating to tax relief on premiums for pre-1984 life policies. The tax at stake is usually very small but requires a huge amount of effort as the pre-1984 policies are now the exception rather than the rule. Keeping staff and procedures manuals up to date for the two systems is a burden out of all proportion to the amounts of tax at stake.

5.1.8 **General irritations**

Other irritants mentioned in interviews included the following:

- “Call Centres are causing delays and can be very unhelpful”
- businesses found it difficult to keep up with changes in legislation and company responsibilities. It is felt that there are “too many changes in legislation for little advancement”
- small, owner-managed, incorporated businesses said that they found associated company rules very complicated and that “a UK parent company ends up paying more tax in an effort to be entrepreneurial abroad”.

5.2 **Simplifications**

Companies would like better communication with HMRC in terms of what is required of them in order to avoid falling foul of penalties because of a lack of awareness of their responsibilities.

Several companies commented on the lack of clarity in what is required in corporation tax self-assessment. One recommendation included the provision of a proforma tax computation or further guidance as to what information is needed. They would expect this to help reduce the likelihood of requests for further information through the enquiry process.

Several companies felt strongly about the simplification of the claim for R&D relief as several businesses were not claiming on the basis it was too complicated. Suggestions included allowing the deduction on a certain percentage of costs where it was not possible to determine which related to R&D.

Some companies also requested further clarification of the R&D relief claim as it was still not clear what is required of businesses. They would also like earlier agreement of claims by HMRC to avoid failed claims for later years.

A few businesses suggested that Corporation Tax returns should be based on the accounting profits, “if the rules around statutory depreciation and capital allowances were simplified then life would be easier”.

One business suggested that if UK-UK transfer pricing adjustments were not going to affect a group’s overall tax position, rather than put all the adjustments through, the business could simply make a declaration to that effect.

Another business wanted HMRC to provide a software package to help with the tax calculation. They also commented that they believe that filing online “saves HMRC time but does not save the company time”.

5.3 Examples of best practice

5.3.1 R&D

Some companies interviewed stated that the requirements of the R&D claim have led to them keeping timesheets and project records relating specifically to R&D. This has made the process of making the claim much less burdensome as the information required is easily retrievable.

5.3.2 Corporation Tax return

As previously mentioned, companies have welcomed the introduction of the short tax return. One business commented particularly that their local Inspector is “very helpful and constructive”.

5.3.3 HMRC enquiries into Corporation Tax returns

“HMRC are not so silly with the information required these days”.

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