

COMPLIANCE COST REVIEW

REFORM OF BINGO DUTY

1. Introduction

1.1 Background

In line with Government commitments to reduce the compliance burdens that are placed on businesses, HM Revenue & Customs (HMRC) assesses the likely change in compliance costs whenever a policy is introduced or changed. The results of that analysis are published in a final Regulatory Impact Assessment (RIA) when the associated legislation is laid before Parliament. Where a consultation document is published during the analysis period, it is accompanied by a partial RIA.

This document summarises the outcome of a post-implementation review of the final RIA that was published in April 2003 for the above-mentioned measure by HM Customs & Excise (prior to creation of the new department, HMRC). The measure was implemented with effect from 27 October 2003. A copy of the published final RIA is attached at Annex A.

This review re-assesses the compliance cost analysis published in the original RIA and addresses two main questions:

- whether the estimates of compliance costs used in the RIA were correct, with hindsight; and
- whether the processes used to estimate compliance costs were appropriate and reasonable, given the circumstances at the time.

HMRC intend to use this review to improve the RIA process, and also to assist in future policy development and evaluation work in general. As such, the emphasis is on identifying learning points for future assessment of compliance costs. The review does not revisit the original policy decision.

2. The published RIA

2.1 Description of the policy change

The principal reasons for reform were to modernise the tax system for bingo, provide a suitable platform for the bingo industry to maximise its growth potential and to give bingo players a better deal.

Budget 2003 announced the Government's decision to abolish the duties on bingo players' stakes, participation fees and added prize money and replace them with a 15% tax on bingo operators' gross profits.

This change was planned for implementation on 4 August 2003, but to give bingo operators sufficient time to amend their systems, the industry asked for a delay. In response to this request, the Government changed the original start date from 4 August to 27 October 2003, which also incorporated the industry's additional request for changes to the accounting periods.

The reforms remain in force today.

2.2 Anticipated compliance costs or savings

As the new tax system no longer required calculation of duty on added-prize money, the RIA assumed that this simplification would reduce tax calculations and simplify business record keeping. The Government estimated an average saving of approximately:

- £120,000 per year to change the duty system;
- £350,000 per year to move to monthly accounting; and
- £850,000 in maximum transitional costs to the industry.

These estimates were presented and explained in the April 2002 RIA and did not generate any significant feedback from industry at the time.

3. Conduct of the review

Each compliance cost review is conducted individually, and the review process is adapted to suit the particular circumstances applying in each case. The emphasis is on making sure that the review itself - and any burden of consultation - are sufficient to meet the objectives of the review, but proportionate to the likely benefits.

In this case, the HMRC Gambling Team led the review, with assistance from consulted stakeholders such as HM Treasury, and HMRC analysts.

An essential element of the review was consultation with those actually affected, and accordingly the Government published a document called 'Consultation on the Compliance Costs to Operators of the Reformed Bingo Duty' in December 2005. This document asked bingo operators in particular and all other interested parties to provide comment on how the compliance costs/benefits and savings, plus any transitional costs had affected their business.

The external research was complemented by an internal review of HMRC paperwork and electronic files.

4. Were the original estimates of compliance costs accurate?

This section addresses two main aspects – the nature of the change in compliance costs (that is, what did people have to do differently) and the monetary impact of that change (what did it cost or save them).

Question	Comments
<p>Were the specific types of cost and benefit identified in the RIA (for example, reading legislation, filling in forms, updating IT systems, saving time etc.) incurred?</p>	<p>Within the RIA section covering ‘Compliance cost benefits’, all costs were identified, covering:</p> <ul style="list-style-type: none"> • completion of duty returns monthly rather than weekly; • reduction of tax calculations; plus • transitional costs for revised accounting, staff training and IT changes. <p>Feedback from the industry is limited but suggests that the RIA provided an accurate assessment of the types of cost incurred.</p> <p>In terms of benefits, the response to the consultation indicates that compliance cost savings in relation to the restructuring of the tax-system were not achieved.</p>
<p>Were costs/savings incurred at the expected time?</p>	<p>There is no evidence to the contrary on either costs or savings.</p>
<p>Were costs/savings incurred by the expected people?</p>	<p>Yes. Those operators who responded to the consultation confirmed they had incurred the costs expected. Very little information was provided regarding benefits, but no evidence was given to the contrary.</p>
<p>Were any other costs/savings, not identified in the RIA, incurred?</p>	<p>There is no evidence to support this from the responses received.</p>
<p>If the type of costs/savings varied from the original estimates, why was that?</p>	<p>The main concern was that some of the benefits (in terms of reduced compliance costs) were not achieved. The main reason was that the new system introduced some unforeseen complexities around accounting for VAT – this reduced the potential time savings;</p>
<p>Could such variances have been foreseen at the time?</p>	<p>No. HMRC did consult industry at the time and some of the cost and savings estimates were based on discussion with industry professionals. There was a lack of data available on how long</p>

	<p>it took to deal with the various requirements and hence predicting savings accurately was difficult. The figures presented in the RIA were the best available at the time.</p>
<p>What is the assessment now of the total value of costs and savings?</p>	<p>On the results received, there seems little evidence that all the predicted benefits were achieved. However, although the change in compliance costs was not as beneficial as the RIA predicted, the policy change has reduced the overall level of taxation.</p>
<p>If different from the original RIA, what has caused the discrepancies?</p>	<p>See previous answers. In addition, some firms had automated systems, which limited the scope for further efficiencies and reductions in paperwork.</p>
<p>With hindsight, were the compliance cost estimates accurate?</p>	<p>The RIA was based on information received from businesses together with HMRC's knowledge of accounting practices. There remains a very limited amount of data available, but based on recent consultation responses it looks like the RIA was optimistic in predicting benefits, particularly in relation to the savings from monthly accounting and from changes in the duty structure. The main reasons for this were that:</p> <ul style="list-style-type: none"> • the new system introduced some unforeseen complexities around accounting for GPT; and • the time allocated to filling in duty returns and accounting for duty seems to have caused an overestimation of both the benefits of simplifying the duty structure and of introducing monthly accounting. This suggests that some clubs had more automated systems than expected. <p>Information on costs is very scarce. There is some evidence that transitional costs were higher than predicted, but it is not conclusive (very small sample). The fact that businesses asked for extra time to adapt their systems does imply that the change was more complex than first thought.</p> <p>Feedback from the trade was that the overall policy change was welcomed, and that implementation was carried out smoothly.</p>

5. Was the process used to estimate compliance costs reasonable?

Irrespective of whether the analysis turned out to be correct, the review has considered whether the original analysis was completed in a reasonable way.

Question	Comments
Who worked on the original RIA?	HMCE policy advisors drafted the original RIA and were supported by their analysts and other stakeholders.
Was an adequate audit trail maintained?	Yes. The audit trail was adequate and well maintained at the time of the change.
Was the Cabinet Office and/or internal HMRC guidance on RIAs followed correctly?	The original Cabinet Office guidance was used in completing the RIA without any problems.
How much effort was devoted to compliance cost estimation, and was that effort proportionate in the context of the policy measure?	The HMCE Analysis team was consulted to produce the compliance cost estimations. This team have since been consulted and they confirm that estimates were taken from trade bodies' information that was publicly produced at the time.
Were the right people (both internal and external) consulted, and were their views reflected appropriately?	Yes. Internal HMCE staff and external trade bodies were consulted prior to the tax change in 2003. All responses were taken into consideration in drawing up the final policy, and indeed the delay in implementation was a direct response to concerns raised by businesses.
Did those who were consulted when the RIA was written express views on the reasonableness of the process?	The review team is not aware of any comments made at the time. The focus of discussion was on implementation dates rather than compliance costs and savings specifically.
Have those who have been consulted now as part of this compliance cost review expressed views on the reasonableness of the process?	No. But the review team has derived a number of learning points from the general feedback provided.
Were compliance costs estimated for all options mentioned in the RIA?	Yes. All options for cost/savings mentioned in the RIA carried financial costings in the same document.

<p>Were compliance costs estimated separately for key groups (such as small businesses, large businesses, self-employed)?</p>	<p>Yes, large and small businesses were separated when considering compliance costs. Recent feedback suggests that the distinction between those with automated and manual systems could have featured more strongly in any analysis.</p>
<p>Was an appropriate analytical approach used, with economists or other analysts consulted appropriately?</p>	<p>Yes. The Analysis team was consulted and economists provided details of costs/savings. The policy team did have problems validating some of the analysis with business because of poor information being available at the time.</p>
<p>Was there sufficient time to produce a robust assessment of compliance costs?</p>	<p>There do not appear to have been any problems.</p>
<p>Were any assumptions reasonable, given the circumstances at the time?</p>	<p>The review team have judged that the assumptions made were reasonable and the best available at the time. Businesses were consulted and did not propose alternative cost figures. The fact that the predictions turned out differently have helped highlight a number of learning points, but the main conclusion remains that the original analysis was reasonable given the circumstances at the time.</p>
<p>Were any estimates of compliance costs caveated appropriately?</p>	<p>Although the costs were based on assumptions, no caveats were mentioned and extra detail could have been provided accordingly.</p>
<p>Were any risks correctly identified, addressed and explained?</p>	<p>There were no risks identified in the policy change, since a programme of education seminars were scheduled. These provided advice to bingo operators and trade bodies of the requirements of the new system and to answer any concerns.</p>
<p>Were any disagreements identified and reflected appropriately (for example, if the figures were disputed by businesses, or if more than one set of figures were available)?</p>	<p>There is no evidence of any disagreements at the time over the compliance cost estimates. More recent feedback is reflected in other answers above.</p>
<p>Would HMRC do anything differently if the exercise was repeated, and hence could the RIA</p>	<p>Several learning points are listed in section 6 below. All relevant evidence should be preserved or transferred to the team responsible</p>

process have been improved?	for the post-implementation review (PIR) process for later use. Some PIRs can be (rightly) delayed until suitable monitoring data becomes available. Central guidance to remind authors on how to preserve evidence of procedures and findings, particularly from specialists and consultants, would be most useful. This process should be automatically scheduled into the formal RIA process.
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6. Learning points arising from the review

6.1 Learning points for future work in this policy area

- The review has highlighted the difficulty that both HMRC and the industry have had in quantifying the current level of compliance costs in the bingo industry. Discussion with trade bodies on how this might best be done in future could be beneficial.
- Future research and analysis of bingo operator compliance costs should distinguish between operators with computerised and manual accounting systems where possible.
- An opportunity may have been missed to draw inferences from businesses' request to delay implementation, because they needed time to change their systems.

6.2 Learning points for the RIA and compliance cost process in general

- Policy staff should make adequate provisions for continuity in preserving analysis, data and/or responses to consultation. Associated guidance could be improved to ensure that RIAs are accompanied by sound documentation, particularly where reorganisation is likely within HMRC.
- The response to the recent consultation document was muted. HMRC can usefully review the best way of engaging with business for similar post-implementation reviews. Similarly, the educational seminars organised as part of the original policy implementation would have offered a potential opportunity to seek feedback on how businesses might react to the change. These seminars were very well received at the time.
- All RIA analysis should include caveats where appropriate to make clear any deficiencies or gaps in the underlying data.

7. The way forward

Comments are invited on any aspect of this report or the wider compliance cost review programme.

The learning points are being fed into the policy development process directly, if particular to one RIA or policy area. More generic recommendations are being collated across the review programme overall, and will be used to create an action plan for HMRC to take forward to improve the RIA process and development.

8. Contact points for further information

For issues relating to the taxation of bingo specifically:

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For issues relating to the compliance cost review programme generally:

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Regulatory Impact Assessment (RIA) – Bingo Duty

This is a Regulatory Impact Assessment (RIA) for the proposed modernisation of the taxation on the playing of bingo.

Purpose and intended effects of the measure

Background

In Budget 2002, the Chancellor of the Exchequer announced that following the successful reform of betting duty he would review the scope for moving bingo taxation to a gross profits system. This change will affect 688 licensed bingo clubs.

The current bingo duty system was introduced in 1969. In recent years there has been increasing evidence that the tax on players' stakes could be restricting bingo companies' ability to compete and grow their businesses.

In its white paper 'A Safe Bet for Success', the Government outlined plans to deregulate gambling and increase competition within the sector. Since the taxation of bingo was structurally different to the taxation of betting, the football pools, and casinos there was a case to examine whether the taxation of bingo could be aligned to minimise tax and competition distortions.

The work carried out by the Nottingham Trent University and Nottingham University business schools for the reform of betting taxation demonstrated that abolishing taxes on turnover and replacing them with taxes on gross profits would be beneficial because they are *'more allocatively efficient than a revenue equivalent turnover tax, the price faced by consumers will be lower, betting turnover higher and the overall tax burden as a proportion of gross profits faced by firms will also be lower'*¹.

Objectives

In deciding the final shape of a replacement gross profits tax regime for bingo the Government had to balance its four objectives for reform, which were to:

- simplify the structure of bingo taxation, and reduce compliance costs for bingo companies;
- reduce or eliminate the burden of tax currently falling on bingo players, and ensure that they get a better deal out of playing bingo;
- provide the right environment for the bingo industry to maintain its role in local communities, and to reach its maximum growth potential; and
- ensure that any reforms are affordable, and that the bingo industry continues to make a fair contribution to general tax revenues.

¹ *An economic analysis of the options for taxing betting (2000)*, a study conducted by Nottingham and Nottingham Trent Universities.

Consultation

Following Budget 2002, the Government held regular meetings with the bingo industry and in August 2002 published a consultation document entitled *The Modernisation of Gambling Taxes: Consultation on the Abolition of Bingo Duty*. This sought the industry's views about gross profits tax rate, the VAT treatment of participation fees, the definition of gross profits, and the timing of reform.

The consultation revealed broad industry support for the Chancellor's plans. The prevailing view from those who replied was that the Government should introduce a 15 per cent gross profits tax and abolish VAT on par fees. The industry also believed that a bingo company's gross profits should be the difference between what players pay to play bingo minus the value of winnings paid out.

Outcome

Budget 2003 announced the Government's decision to abolish the duty on bingo players' stakes and money added to the prize fund by bingo operators and replace it with a 15 per cent tax on bingo companies' gross profits.

This change will be introduced on 4 August 2003.

Compliance cost benefits

The new tax system is simpler than the current system because bingo companies will no longer have to calculate the duty on added-prize money. This will reduce the time necessary to calculate the tax due and simplify business record keeping. The Government estimates this will save each bingo company, on average, half an hour per month for each club it operates.

As there are 688 licensed bingo clubs (owned by 150 bingo companies), this will save 4,128 hours per year. For those clubs owned by the smaller bingo companies, the manager is likely to complete the duty returns, while the larger companies are more likely to use accountants. It is estimated that around 130 companies will fall into the former category, while the remaining 20 will use accountants. The Office of National Statistics (ONS) estimates that the value of a middle manager's time is £38.37 per hour, while an accountant will earn on average around £19.34 per hour^[2]. Using these figures the Government calculates that this simplified tax calculation will save around £120,000 per year.

Bingo companies will benefit further because they will only have to calculate their tax monthly rather than weekly as at present. This will save a further 1.5 hours per month per club – 12,384 hours in total, a cost saving of around £350,000 per year using the above time value figures.

Therefore the Government believes the annual compliance savings from the abolition of bingo duty will be around £470,000.

² Source: ONS figures adapted from the 2002 New Earnings Survey, and calculations from the 2002 New Earnings Survey.

Of course, there will be a one-off transitional cost of revising accounting systems and training staff. The cost of these changes to individual bingo companies will depend upon the size of the bingo company, the complexity of accounting systems, and whether these changes will require other changes, for example reprogramming bingo equipment.

Based on information from the two major companies, the Government estimates that the cost to them in total will not exceed £500,000. Based upon a survey of several of the remaining 148 bingo companies, the Government estimates that amending their accounting systems and training the appropriate staff will not, on average, cost each bingo company more than £500. In addition the Government estimates it will take 30 hours to reprogram each controller unit that runs the industry's bingo equipment. There are 500 of these and ONS estimates that a computer programmer's average hourly wage is £16.40. Therefore the Government estimates the cost for these 148 companies will be around £320,000.

Consequently the Government believes the total transitional costs will not exceed £850,000.

Fiscal benefits

In addition to the compliance savings, the industry will also benefit because the Government has decided to reduce the level of bingo taxation. The savings will be £25 million in the first full year of the new tax.

Competition assessment

The Government does not believe this reform will have a significant impact upon competition within the licensed bingo industry.

The Government sees no reason why this proposal should have a disproportionate effect on small businesses. However Customs will be consulting with the Small Business Service prior to implementation.

Securing compliance

To help bingo companies to comply, Customs and Excise will hold seminars to explain the new tax and publish new guidance to accompany its introduction. If bingo companies have any specific queries about the new tax they will be able to contact Customs' National Advice Service.

There are no specific anti-avoidance provisions in this legislation.

Monitoring and evaluation

The Government reviews its taxes annually and will consider any comments it receives from businesses about how the tax is working.

Summary

This reform continues the Government's policy of modernising gambling taxes. In the first full year it will reduce the tax cost on the bingo industry and players by £25 million. In future years this change will reduce compliance costs by around £470,000 per year because it will simplify the tax structure and reduce the frequency with which bingo companies must calculate their tax liability. These benefits significantly outweigh the one-off transitional cost of adjusting to the new system.

Contact point

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Declaration

Regulatory Impact Assessment (RIA)
Statement of Ministerial Approval

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

John Healey

Economic Secretary to the Treasury

[1] *An economic analysis of the options for taxing betting (2000)*, a study conducted by Nottingham and Nottingham Trent Universities.

[2] Source: ONS figures adapted from the 2002 New Earnings Survey, and calculations from the 2002 New Earnings Survey.