

## ***COMPLIANCE COST REVIEW***

### **AUTHORISED MILEAGE RATES**

#### **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 2001 for the above-mentioned measure by the Inland Revenue (prior to creation of the new department, HMRC). The measure was implemented with effect from April 2002. A copy of the published final RIA is attached.

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 RIA considered the amount an employer can pay an employee in travelling expenses, without generating an income tax or National Insurance liability, when the employee uses their own vehicle for business travel.

Prior to April 2002, there was a system of Authorised Mileage Rates (AMRs) based on engine size and distance travelled. The RIA proposed a new system of Approved Mileage Allowance Payments (AMAPs), using a fixed rate regardless of engine size.

As shown in the table, the effect was to increase the rates for small cars, but decrease them for large vehicles, thereby creating an incentive to downsize. The change was neutral in terms of tax revenue, but expected to reduce CO<sub>2</sub> emissions by 2,000 tonnes per year.

Engine size	Pre-April 2002	Post-April 2002
Up to 1,000cc	28p for first 4,000 miles then 17p.	} 40p for first 10,000 miles } then 25p.
1,001 – 1,500cc	35p for first 4,000 miles then 20p.	
1,501 – 2,000cc	45p for first 4,000 miles then 25p.	
Over 2,000cc	63p for first 4,000 miles then 36p.	

## 2.2 Anticipated compliance costs or savings

The RIA did not estimate the number of businesses affected, but it did indicate the types of cost or saving that might be incurred. Specifically:

- one-off familiarisation with the new rules, training and software costs – predicted to be “small”;
- one-off system changes for firms that would review their policy on expenses as a result of the change – estimated to be low on the basis that many firms would conduct annual reviews anyway, and so the marginal cost of the change would be reduced;
- there might be a very minor saving because firms no longer needed to record engine size in the new AMAP structure; and
- the total of all these effects was a net £5m cost to business in 2002/03, with negligible change in other years.

## 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 review was led by an HMRC project team supported by consultants. The staff in the review team were completely independent of those involved with the original policy change.

An essential element of the review was consultation with those actually affected, and consultants were commissioned to carry out a small number of targeted in-depth interviews with some of those affected and their trade bodies. The research was not intended to deliver any degree of statistical robustness (to do so would have been costly

and impractical) but instead to provide indicative findings. Coupled with the consultants' own knowledge and expertise, this has allowed the research to identify the major issues and any associated learning points.

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 (i.e. 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 (e.g. reading legislation, filling in forms, updating IT systems, saving time etc.) incurred?</p>	<p>The RIA itemised the various types of cost but tended to use qualitative rather than quantitative estimates. The external research has confirmed that the RIA commentary was accurate in those terms. Some respondents have now provided quantitative estimates of costs and savings: typically a one-off cost of around 20 hours with recurring reductions of up to 67% in time taken to process expenses forms. Respondents have agreed that these impacts are in line with the qualitative comments made in the RIA. The one exception was the RIA suggestion that there might be a small saving with firms no longer needing to record engine size data. In practice most of those consulted said they still recorded that information for other purposes.</p>
<p>Were costs/savings incurred at the expected time?</p>	<p>The RIA stated that there would be one-off costs in 2002-03 (i.e. the first year of implementation) but no significant costs or savings in any other year. The external research has confirmed this.</p>
<p>Were costs/savings incurred by the expected people?</p>	<p>Yes. The RIA did not quantify the effect on individual businesses, nor identify any likely variation between them. Feedback from the organisations and trade bodies consulted indicates that the impacts for them personally were in line with RIA predictions.</p>
<p>Were any other costs/savings, not identified in the RIA, incurred ?</p>	<p>No. Those consulted report that implementation costs were low (for example the change did not require much staff re-training to operate). The RIA did suggest that some organisations might</p>

	review their own mileage rate policy in the light of the change. The external research implies that a small minority have indeed done so while most had not, although this finding is tentative.
If the type of costs/savings varied from the original estimates, why was that?	Feedback now is that the RIA commentary was accurate in what it said but that the absence of quantitative estimates at the time means that a comparison of actual and predicted analysis does become somewhat subjective.
Could such variances have been foreseen at the time?	Not applicable. Possible risks that might have increased costs (such as businesses not being able to react quickly to the change) were not realised.
What is the assessment now of the total value of costs and savings?	The original estimate was “up to £5 million” in costs and an unquantified level of savings. The number of businesses affected (and hence cost per business) was not specified. The original assessment remains unchanged.
If different from the original RIA, what has caused the discrepancies?	Not applicable.
With hindsight, were the compliance cost estimates accurate?	Yes. The research interviews endorsed the claim in the RIA that compliance costs would be low and outweighed by the time savings resulting from reduced processing time for P11D forms, and a reduced need for staff training.

## 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?	All the appropriate staff were involved: policy experts, Better Regulation advisors, analysts, lawyers and so on. Internal communications and management were good, helped by the fact that there was quite a long lead time while the policy area was analysed and developed.

<p>Was an adequate audit trail maintained?</p>	<p>The audit trail was reasonable. There was no real consideration at the time that the RIA might be reviewed after implementation. This affected both the documentation and the RIA itself, which is very vague on how the policy change might be monitored. However, systems have improved since this RIA was done and the learning points have been addressed to a large extent.</p>
<p>Was Cabinet Office and/or internal HMRC guidance on RIAs followed correctly?</p>	<p>Yes. At the time, the RIA was styled as an “Environmental and Regulatory Impact Assessment” and appears to combine what would now be two separate documents – an RIA and an Environmental Appraisal. This blurred the focus of the paper to some extent, but improvements to guidance since mean that this type of problem is unlikely to recur.</p>
<p>How much effort was devoted to compliance cost estimation, and was that effort proportionate in the context of the policy measure?</p>	<p>Three factors were considered at the time: the amount of HMRC resource available, the likely impact that the change was likely to have, and the amount of data already available on the subject. In this case, although the impact on business was very small, there was little data about how businesses managed company or private car allowances and the rates that were paid. There were also potential wider impacts (e.g. on car manufacturers). As a result, special research was commissioned to fill the gaps in the data. The extra time was worthwhile and proportionate.</p>
<p>Were the right people (both internal and external) consulted, and were their views reflected appropriately?</p>	<p>The external research identified some dissatisfaction with the transparency of the consultation done at the time. The RIA stated that HMRC had “consulted widely” – which was true – but the absence of detail on who or how many people were consulted meant that the required reassurance was not as strong as it might have been.</p>
<p>Did those who were consulted when the RIA was written express views on the reasonableness of the process?</p>	<p>There are no negative indications. The RIA was received fairly quietly.</p>

<p>Have those who have been consulted now as part of this compliance cost review expressed views on the reasonableness of the process?</p>	<p>See comments above. Various learning points about the presentation of quantitative and qualitative analysis, and on the consultation process, are identified in the next section.</p>
<p>Were compliance costs estimated for all options mentioned in the RIA?</p>	<p>The RIA doesn't explicitly consider any other options, though it is fairly obvious that the status quo option would not have cost or saved anything. The compliance costs were insensitive to the actual mileage rates decided upon.</p>
<p>Were compliance costs estimated separately for key groups (such as small businesses, large businesses, self-employed)?</p>	<p>Not in great detail, though the impact on small business did receive a separate section in the RIA. The use of an industry-wide cost figure rather than "per business" estimates was unhelpful and to some extent meaningless from a business perspective, although clearly the number is useful for overall cost-benefit analysis of the policy change.</p>
<p>Was an appropriate analytical approach used, with economists or other analysts consulted appropriately?</p>	<p>Yes. The RIA did make a genuine attempt to identify all possible costs and savings, even if they could not be quantified precisely.</p>
<p>Was there sufficient time to produce a robust assessment of compliance costs?</p>	<p>There is no evidence of problems here.</p>
<p>Were any assumptions reasonable, given the circumstances at the time?</p>	<p>Yes. There are some issues with the way in which the analysis was presented, but the assumptions themselves were reasonable and are largely endorsed by the more recent research.</p>
<p>Were any estimates of compliance costs caveated appropriately?</p>	<p>The RIA made the point that costs were likely to be negligible and therefore that there was little need to go into exhaustive detail. As such caveats were not included, but it is unlikely that the omission made any material difference.</p>
<p>Were any risks correctly identified, addressed and explained?</p>	<p>The RIA states that there were no significant risks and there is no evidence to disagree with that statement.</p>

Were any disagreements identified and reflected appropriately (e.g. if the figures were disputed by businesses, or if more than one set of figures was available)?	Not applicable.
Would HMRC do anything differently if the exercise were repeated, and hence could the RIA process have been improved?	Overall this was an accurate and well-executed RIA. There are a few learning points as outlined below.

## 6. Learning points arising from the review

### 6.1 Learning points for future work in this policy area

- The external research identified differences in the way mileage payments were handled in the public and private sectors. Future RIAs in this area should make clear any potential difference in impact on those two groups.
- The remaining learning points are not specific to mileage rates and follow below.

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

- Wherever possible, RIAs should quote estimates of cost or saving per business, as well as at industry level. Aggregated figures by themselves are of little value to individual organisations and the absence of explanation can diminish the value of the RIA overall.
- Any potential variation in costs per business should be identified and explained (in this case the number of employees would have been relevant for instance). If such variations cannot be assessed accurately at the time of writing, then that fact too should be stated.
- RIAs should identify any risk that costs or savings might not be achieved because of requirements imposed by other regulators or because of the exercise of choice on the part of the business or organisation affected. However, it would be reasonable to attribute any residual compliance costs accordingly, rather than to HMRC, in such circumstances.
- Where the RIA makes use of consultation, the nature and extent of that consultation should be detailed. It is accepted that pre-implementation consultation may of necessity be limited and that there may be gaps in any analysis. But a clear description of who and where that analysis has come from will ease interpretation.
- The original RIA did not distinguish clearly between what we would now call an RIA and what we would now call an Environmental Appraisal. Updated guidance has since addressed this issue.
- At the time this RIA was compiled there was no real consideration of what internal HMRC records would need to be kept. Systems have greatly improved since, although there is still scope for improvement on the analytical side.

## **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 approved mileage allowance payments policy specifically:

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For issues relating to the compliance cost review programme generally:

Geoff Wootton  
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For issues relating to your own corporate tax affairs, contact our Employer helpline:

Telephone: 0845-714-3143 (Mon-Fri 8am-8pm, Sat-Sun 8am-5pm).

**ANNEX : THE PUBLISHED REGULATORY IMPACT ASSESSMENT**