HM Revenue & Customs

COMPLIANCE COST REVIEW

<u>NEW STATEMENT OF ACCOUNT</u>

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 notable operational change is introduced. The results of that analysis are published in a final Impact Assessment when the operational change comes into effect. Where a consultation document is published during the analysis period, it should be accompanied by a consultation stage Impact Assessment.

This document summarises the outcome of a post-implementation review of the final Impact Assessment that was published in March 2006 for the above-mentioned measure by HMRC. The measure was implemented with effect from August 2006. A copy of the published final Impact Assessment is attached.

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

- whether the estimates of compliance costs used in the Impact Assessment 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 Impact Assessment process and also to assist in future operational 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 operational decision.

2. The published Impact Assessment

2.1 Description of the operational change

This measure sought to introduce a shorter and simpler Statement of Account for income tax self-assessment taxpayers. The new statement sets out key summary figures and reports new events since the last statement, without repeating the history of outstanding items covered in past statements.

The new statement applies to 95% of the income tax self assessment population. Those who wish to opt out of the shorter statement and continue receiving the old statement may do so.

2.2 Anticipated compliance costs or savings

The Impact Assessment noted that around 26 million statements are issued annually, with many customers receiving more than one statement per year. The Impact Assessment explained that the statement is issued to around 9 million self assessment customers, including around 4 million self-employed sole traders, partners in partnerships and other individuals (not self-employed) in self assessment.

The Impact Assessment anticipated that some customers may need a small amount of time to get used to the new format, but that the use of explanatory flyers will ease the transition and minimise the number of queries arising.

The Impact Assessment considered that there should not be any increased costs to any customer as those who want more detail may revert to the old statement if they wish. They may also stick with the new statement and use HMRC's contact centres or online services if that would be preferable to receiving the old statement.

The Impact Assessment explained that the benefits were qualitative and subjective, with the new statement being easier to read and more comprehensible. Strong positive feedback was received via the informal consultation exercise. The Impact Assessment explained that the new statement may reduce telephone calls to contact centres, and that there should be fewer complaints about the complexity of the statement.

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 independent of those involved with the original operational change.

Evidence relating to the accuracy of the compliance analysis in the Impact Assessment, to its appropriateness and reasonableness in the circumstances, and to how improvements might be made in the future, were obtained from a small group of interviewees, selected to ensure a diverse range of opinion.

This evidence was complemented by an independent internal examination and review of HMRC's paperwork and electronic files, and a detailed interview of those responsible for this operational reform and for producing the original Impact Assessment. This considered, amongst other issues, HMRC's decision-making processes and analysis of compliance costs.

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
Were the specific types of cost and benefit identified in the Impact Assessment actually incurred? (e.g. reading legislation, filling in forms, updating IT systems, saving time etc.)	*Yes, the Impact Assessment accurately identified the type and nature of costs and benefits and provided sound and clear qualitative descriptions where meaningful figures could not be provided. On the whole the changes were beneficial in practice, as anticipated by the Impact Assessment.*
Were costs/savings incurred at the expected time?	*Yes, familiarisation costs were incurred when expected. The Impact Assessment suggested that the use of explanatory flyers may ease transitional costs and this was borne out in practice.*
Were costs/savings incurred by the expected people?	*Yes. The Impact Assessment explained clearly who might be affected.*
Were any other costs/savings, not identified in the Impact Assessment, incurred?	*Not really. The Impact Assessment highlighted the case of those who might prefer to return to the old statement, which can be done, or who might prefer augmenting the new statement with calls to contact centres or by using HMRC's online services. In practice it would appear that the new statement can take more time to consider than the old statement for those whose tax affairs are not up to date. The number of taxpayers in this category is significantly outnumbered by other recipients of the new statement.*
If the type of costs/savings varied from the original estimates, why was that?	*There was no particular variance, perhaps only one clarification relating to which types of taxpayer might prefer returning to the old*

	statement.
Could such variances have been foreseen at the time?	*Not applicable.*
What is the assessment now of the total value of costs and savings?	*The assessment now remains as in the Impact Assessment. The measure provides qualitative benefits. The small reduction in time taken to understand the new statement is not material. The total quantitative costs and savings are nil or negligible.*
If different from the original Impact Assessment, what has caused the discrepancies?	*There were no material discrepancies.*
With hindsight, were the compliance cost estimates accurate?	*Yes, and it was appropriate for the Impact Assessment not to attempt to quantify the benefits or costs as they were largely qualitative and negligible.*

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 Impact Assessment?	*Members of the HMRC operational team, associated HMRC analysis team and HMRC Better Regulation Unit.*
Was an adequate audit trail maintained?	*Yes.*
Was Cabinet Office and/or internal HMRC guidance on Impact Assessments followed correctly?	*Work on the Impact Assessment started late in the decision making process, in part because the guidance on operational Impact Assessments was embryonic at the stage decisions were taken. Perhaps for the same reason there was no formal open public consultation, although extensive informal consultation took place.*
How much effort was devoted to compliance cost estimation, and was that effort proportionate in the context of the policy measure?	*The amount of effort devoted appears to be proportionate to the scale and nature of compliance costs and savings involved.*
Were the right people (both internal and external) consulted, and were their views reflected appropriately?	*Yes. There was no formal open public consultation but the right people seem to have been consulted informally and their views were reflected appropriately. This exercise covered industry representatives, trade bodies and voluntary organisations. Detailed and extensive discussions took place when developing the new statement to ensure that it met taxpayers' needs.*
Did those who were consulted when the Impact Assessment was written express views on the reasonableness of the process?	*Those consulted informally at the time appreciated the extensive discussions and testing which took place.*
Have those who have been consulted now as part of this compliance cost review expressed views on the reasonableness of the process?	*Those consulted now as part of this exercise have reiterated that the extensive discussions and testing which took place when developing the new statement was critical to getting it right and also to producing an*

	accurate Impact Assessment.
Were compliance costs estimated for all options mentioned in the Impact Assessment?	*No options were presented.*
Were compliance costs estimated separately for key groups (such as small businesses, large businesses, self-employed)?	*The changes impacted one group only, self assessment taxpayers, and respondents considered that it was not necessary to consider different groups separately. Nevertheless the Impact Assessment mentioned the different main groups of taxpayer involved and also highlighted the case of those who might prefer the old statement.*
Was an appropriate analytical approach used, with economists or other analysts consulted appropriately?	*Yes, Departmental analysts and economists were involved appropriately.*
Was there sufficient time to produce a robust assessment of compliance costs?	*Yes, although work on the Impact Assessment itself started after the analysis of compliance costs took place.*
Were any assumptions reasonable, given the circumstances at the time?	*All assumptions appear to have been reasonable, and would have been tested via the extensive discussions which took place.*
Were any estimates of compliance costs caveated appropriately?	*Yes, appropriate caveats were applied to the compliance costs and savings, which were also described in qualitative terms not quantitative terms.*
Were any risks correctly identified, addressed and explained?	*No risks were identified explicitly in the Impact Assessment, and respondents thought this was correct. The Impact Assessment highlighted the case of those who might wish to return to the old statement, i.e. that for some taxpayers there was a risk that the old statement might be preferable. The Impact Assessment explained clearly the options facing those taxpayers.*
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)?	*No particular disagreements arose.*
Would HMRC do anything differently if the exercise was repeated, and hence	*Although this Impact Assessment was both accurate and reasonable on virtually all*

could the Impact Assessment process have been improved?	*counts, in future HMRC would start populating the Impact Assessment template at the start of the decision making process.*

6. Learning points arising from the review

6.1 Learning points for future work in this operational area

- Enabling self assessment taxpayers to augment the new statement by using HMRC online services or by calling a contact centre seems to be an option worth retaining.

6.2 Learning points for the Impact Assessment and compliance cost process in general

- Where extensive consultation and customer testing takes place the measure in question is likely to be more successful, and the accompanying Impact Assessment is more likely to be accurate and reasonable.

- Tangible qualitative descriptions should be used in place of attempted quantification in cases where the figures are negligible or fairly meaningless and may detract from the credibility of the Impact Assessment.

- Attempts should be made to describe exactly what activities are likely to be affected by a measure and how, and also to identify outlying customers who might be affected by the measure in different ways.

- Where the risks of a compliance saving or cost not materialising are identified, the Impact Assessment should also seek to identify the consequences in compliance terms for those customers affected. The Impact Assessment should also seek to give a feel for the relative number of customers affected.

- Work on the Impact Assessment should start early in the operational decision making process, not towards the end in light of how the measure appears to be shaping up.

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 Impact Assessment 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 Impact Assessment process and development.

8. Contact points for further information

For issues relating to the Self Assessment Statement specifically:

Margaret McColgan
HMRC
100 Parliament Street
London
SW1A 2BQ
Telephone: 020-7147-3675
E-mail: Margaret.mccolgan@hmrc.gsi.gov.uk

For issues relating to the compliance cost review programme generally:

Richard Bowyer
3E/14, 100 Parliament Street
LONDON
SW1A 2BQ
Telephone: 020 7147 0062
E-mail: richard.bowyer@hmrc.gsi.gov.uk

If you have a query about your own affairs in this tax area, please contact the HMRC helpline number on 08457 143 143.

ANNEX: THE PUBLISHED IMPACT ASSESSMENT

http://www.hmrc.gov.uk/oia/oia-new-statement.pdf