

COMPLIANCE COST REVIEW

STAMP DUTY LAND TAX: NEW FORM SDLT4

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 November 2004 for the above-mentioned measure by the Inland Revenue. The measure was implemented with effect from April 2005. 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 new form SDLT4 is supplementary to the main Stamp Duty Land Tax return SDLT1. It replaces an older version of SDLT4. Its purpose is to (i) provide a consistent format for the return of additional information regarding some land transactions; (ii) enable linked lease transactions to be notified on a single return; (iii) maximise the automatic processing of information, thereby enabling certificates to be issued promptly; (iv) collect the information needed for the Valuation Office Agency (VOA), Land Registries and HMRC in an IT friendly format, thereby promoting joined-up working.

The old version of SDLT4 caused problems when two or more land transactions were linked, and at least one of these involved a lease. Previously, separate forms were required for each transaction.

2.2 Anticipated compliance costs or savings

This legislation was expected to impact most heavily on practitioners of law, not in their own right but as reimbursed agents acting for clients in property transactions. It was anticipated that small businesses would also be impacted by the compliance costs, although not disproportionately so.

HMRC was of the view that the inclusion of the required details in the new form would avoid the need for many businesses to complete additional lengthy Valuation Office Agency forms and hence reduce administrative costs. Also, the introduction of the new form might maximise automatic processing of information, ensuring certificates are issued to customers more quickly.

It was considered that the form would not take any longer, nor cost any more, to complete compared to the old requirements, although it was noted that there could be an initial cost to practitioners in terms of education and training. It was expected that these costs would be absorbed into the usual programme of ongoing training.

It was felt that the “comprehensive guidance, online help and enquiry line advice” would together minimise the impact of the changes on practitioners and purchasers. It was further considered that any increase in compliance costs would not be passed on by practitioners to their clients.

In terms of software costs, the RIA considered that these would be negligible, as the software providers would incorporate the changes introduced by the legislation into their usual electronic updates.

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.

Evidence relating to the accuracy of the compliance analysis in the RIA, to its appropriateness and reasonableness in the circumstances, and to how improvements might be made in the future, was obtained from a small group of interviewees, selected to ensure a diverse and representative range of opinion amongst those affected by the measures in question.

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 policy area and for producing the original RIA. 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 RIA actually incurred? (e.g. reading legislation, filling in forms, updating IT systems, saving time etc.)	<i>On balance this appears not to be the case. The new SDLT4 form meant that the completion of multiple SDLT1 forms could be avoided in some cases, as identified by the RIA. The RIA's assessment of one-off implementation costs appears to have been accurate. These costs relate largely to training and IT software. The RIA's assessment of ongoing costs appears not to have been so accurate. The new SDLT4 form appears to be more time consuming and</i>

	<p><i>complicated to complete than the old form, contrary to the RIA. In particular, business believes that additional time is spent answering a wider number of questions on a single form, as opposed to multiple but similar questions on several forms. Business has suggested that more time appears to be required to obtain relevant documents, and has queried the reduction in error rates cited in the RIA. Business felt that SDLT5 certificates are not being issued more quickly than before, contrary to the RIA, and that the cost savings in the RIA have not emerged. Business considered that HMRC's helpline and guidance was not user-friendly at first, but subsequently improved.</i></p>
<p>Were costs/savings incurred at the expected time?</p>	<p><i>Yes, the RIA was accurate here.</i></p>
<p>Were costs/savings incurred by the expected people?</p>	<p><i>Yes, the RIA was accurate here.</i></p>
<p>Were any other costs/savings, not identified in the RIA, incurred ?</p>	<p><i>To some extent. In particular, some uncertainty and confusion applied initially until the relevant guidance was improved. This is probably best regarded as an increase in one-off compliance costs. The RIA could have been more explicit about the tradeoff between placing burdens on practitioners (i.e. lawyers) versus placing burdens on taxpayers themselves.</i></p>
<p>If the type of costs/savings varied from the original estimates, why was that?</p>	<p><i>The main variance relates to business views that the time-saving benefits outlined in the RIA did not materialise. To the contrary, the new SDLT4 form was more administratively burdensome to complete than the RIA had suggested, with SDLT5 certificates being issued little quicker than before. Business agreed that the overall effect of the new form was correctly identified by the RIA as being minimal in comparison to that of the other</i></p>

	<i>wholesale changes being made to the stamp duty regime.</i>
Could such variances have been foreseen at the time?	<i>Business believes that a more effective consultation process would probably have led to a more accurate RIA. Specifically, more time could have been spent on the consultation procedure, and the consultation might have been targeted more at those with a good feel for how the changes would be implemented in practice at ground level.</i>
What is the assessment now of the total value of costs and savings?	<i>One-off costs seem to have been broadly as identified by the RIA. On recurring costs, whilst fewer forms might be needed in some circumstances, consequent time-reduction savings appear not to have materialised. Instead, ongoing administrative burdens appear to have risen, with business suggesting this rise is significant. Benefits relating to processing and the quicker issuance of SDLT5 certificates appear not to have emerged.</i>
If different from the original RIA, what has caused the discrepancies?	<i>Discrepancies appear in the areas outlined above. To some extent these discrepancies could have been reduced if the consultation process had been held differently. On the other hand, this reform should be viewed in the context of wider stamp duty land tax reforms which introduced a significant culture change in the way this tax was administered. In these circumstances it may be more challenging to form an accurate assessment of compliance cost changes until the nature of the new regime has bedded down.</i>
With hindsight, were the compliance cost estimates accurate?	<i>On balance, the estimate of compliance costs was not accurate. Whilst one-off costs were assessed accurately, the ongoing compliance costs and benefits of the new SDLT4 form seem to be quite different from those envisaged in the RIA.</i>

	<i>The costs appear to be greater, and many of the benefits did not emerge.</i>
--	---

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?	<i>Members of the policy team, HMRC Better Regulation Unit and HMRC analysis team.</i>
Was an adequate audit trail maintained?	<i>Yes.</i>
Was Cabinet Office and/or internal HMRC guidance on RIAs followed correctly?	<i>Yes.</i>
How much effort was devoted to compliance cost estimation, and was that effort proportionate in the context of the policy measure?	<i>The impact of the new SDLT4 form on compliance costs was considered carefully, and the level of effort expended seems to be proportionate to the measure in question.</i>
Were the right people (both internal and external) consulted, and were their views reflected appropriately?	<i>Business felt that more time should have been spent on consultation, and that HMRC did not consult effectively enough with the practitioners responsible for administering the new SDLT4 form.</i>
Did those who were consulted when the RIA was written express views on the reasonableness of the process?	<i>Those consulted when the RIA was written do not appear to have expressed views at the time about the reasonableness of the impact assessment process.</i>
Have those who have been consulted now as part of this compliance cost review expressed views on the reasonableness of the process?	<i>As above, those consulted as part of this exercise believed that the original consultation process with business should have focused more on practitioners, and should have been longer.</i>

Were compliance costs estimated for all options mentioned in the RIA?	<i>No, only for the lead option which emerged from the consultation process.</i>
Were compliance costs estimated separately for key groups (such as small businesses, large businesses, self-employed)?	<i>No breakdown was provided amongst different sizes or types of business, and no per business costs were published.</i>
Was an appropriate analytical approach used, with economists or other analysts consulted appropriately?	<i>Yes, analysts and economists were involved.</i>
Was there sufficient time to produce a robust assessment of compliance costs?	<i>Yes.</i>
Were any assumptions reasonable, given the circumstances at the time?	<i>A number of assumptions made by the RIA were inaccurate, for example that the new SDLT4 form would lead to a time saving and SDLT5 certificates would be issued sooner. These assumptions were not necessarily unreasonable, given the information and feedback obtained via the consultation process.</i>
Were any estimates of compliance costs caveated appropriately?	<i>To some extent. Presentationally the RIA appears to provide appropriate caveats in many places. It is arguable that stronger caveats should have been applied to assumptions and estimations which, with hindsight, turned out to be inaccurate.</i>
Were any risks correctly identified, addressed and explained?	<i>The RIA did not identify key risks or explore possible risks in much detail .</i>
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)?	<i>No disagreements were identified in relation to the compliance cost analysis.</i>
Would HMRC do anything differently if the exercise were repeated, and hence could the RIA process have been improved?	<i>In future HMRC should endeavour to consult more effectively, in terms of identifying the right people to consult with, and allocating sufficient time to the consultation procedure. HMRC should</i>

	<i>also explore in more depth the risks attached to the main drivers behind estimated costs and benefits.</i>
--	---

6. Learning points arising from the review

6.1 Learning points for future work in this policy area

- The extent to which trade bodies and professional organisations represent the views of practitioners on the ground should be considered carefully.
- Compliance cost estimates associated with major regime change should be treated with a degree of uncertainty until the new measures have bedded down and the operation of the new regime has stabilised.
- Views expressed by agents should be considered in the context of their own position vis-a-vis their customers

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

- Sufficient effort should be made to identify which stakeholders should be consulted, and to ensure that their considered views are obtained. This might involve devoting more resource to consultation exercises, and proactively seeking views from particular persons.
- Sufficient time should be allocated to consultation procedures
- The risks attaching to key drivers behind costs and benefits should be identified explicitly, and a sensitivity analysis should be undertaken in relation to them. This is particularly pertinent where a large number of factors are in play, and when changes are significant.

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 stamp duty and tax specifically:

Crispin Taylor HMRC 100 Parliament Street London SW1A 2BQ

Telephone: 020-7147-2793

E-mail: crispin.taylor@hmrc.gsi.gov.uk

For issues relating to the compliance cost review programme generally:

Richard Bowyer HMRC 100 Parliament Street London SW1A 2BQ

Telephone: 020-7147-0062

Email: 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.

THE PUBLISHED REGULATORY IMPACT ASSESSMENT

[Stamp Duty Land Tax: New Form SDLT4 \(PDF 50K\)](#)