



## **Simplified Import VAT Accounting and Tax Law Rewrite: Income Tax, Earnings & Pensions**

These are 2 shortened reviews produced in summary format and include the main compliance cost learning points. They were both authorised and carried forward from 2005/6 CCR Programme. They are ready for publication alongside the 2007 HMRC Spring Report.

### **Simplified Import VAT Accounting**

On 1 December 2003, HM Customs & Excise introduced a relaxation of the requirement to provide security for the full amount of import VAT payable each calendar month under the imports Duty Deferment Scheme. The new scheme is known as Simplified Import VAT Accounting (SIVA).

SIVA allows compliant traders who import goods from third countries to operate with 0% security for deferment import VAT purposes. Traders are required to meet certain compliance criteria and conditions prior to authorisation in order to operate the scheme. The relevant RIA was published in October 2003. The impacts on compliance costs assessed in the RIA were:

- The measure would reduce compliance costs by removing the requirement to obtain security for import VAT paid through the Duty Deferment Scheme. SIVA approved traders could also expect to make compliance costs savings within the areas of financial guarantee charges and cash deposits. Such savings would facilitate increased cash flow to each business.

## Compliance cost reviews of Regulatory Impact Assessments

- Overall, the RIA forecast a total compliance cost reduction of up to £80 million per year across all businesses. The figure was caveated, noting that charges made by banks/guarantors for the provision of a guarantee facility can vary enormously dependant on the trader's relationship with his bank/guarantor.
- Around 20,000-30,000 businesses were expected to take advantage of the scheme.
- Obtaining authorisation to use the scheme, and familiarisation with SIVA generally, were expected to generate some one-off costs, although these were expected to be marginal in the RIA. The only administrative outlay was in amending bank forms and completing a deferment schedule form.

A full post-implementation review of SIVA was completed in November 2005 and publicised in a Joint Customs Consultative Committee paper (05/62). The main findings were:

- Trade survey responses indicate a generally high level of satisfaction with the development and operation of the scheme.
- By 31 December 2004 (13 months after SIVA's introduction) approximately 12,000 traders had applied for SIVA, 11,000 had received approval, and 4,800 were actively operating the scheme. The total unsecured import VAT for SIVA-approved traders amounted to £1.7bn per month.
- Based on cost figures provided by the top 5 guarantors, reduced compliance cost savings were estimated to be between £17.3m and £69.4m. With hindsight, the RIA assessment of "up to £80m" appears to have over-estimated the total level of savings.
- The shortfall is mainly caused by fewer traders than anticipated joining the scheme. For those that have joined, the estimated savings remain in line with the RIA assessment.
- Other factors leading to lower than expected savings include:
  - some traders being unable to negotiate financial benefits with their guarantors because of minimum fees or fixed charges;

## Compliance cost reviews of Regulatory Impact Assessments

- others applying to use SIVA but not yet approaching their guarantors. HMRC is reminding them that they need to do this to secure compliance costs savings;
- some applicants not meeting the approval criteria.
- In summary, the RIA approach to estimating savings was reasonable at the time and has proved to be broadly accurate. However the approach to estimating take-up was optimistic and did not identify any risk of a potential shortfall.

The learning points arising from this review are:

- The original RIA analysis was completed to a very tight timescale, and more time should be allowed for similar work in future.
- There is nothing wrong with quoting a range of likely costs or savings and to do so may be desirable if estimates are uncertain.
- When quoting open-ended estimates of compliance costs (such as “up to £80 million”) the RIA should state explicitly the factors affecting that estimate, and explain any assumptions used. Any potential risks to achievement of that projection should also be identified.
- Where a business needs to take action in order to achieve any compliance cost savings, this should be explicitly identified in the RIA.
- The original RIA did not provide any separate figures for key groups (such as particular types of business or stakeholder). An average guarantee cost was used for everyone. Given time constraints this was a reasonable thing to do at the time, but the consequences of not taking account of minimum guarantee fees should have been stated.
- HMRC should improve internal processes with respect to documentation and audit trails.

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## **Tax Law Rewrite: Income Tax - (Earnings and Pensions) Bill**

The Tax Law Rewrite project aims to redraft all of the UK's primary direct tax legislation to make it clearer and easier to use, without changing its general effect or effectiveness. The Income Tax (Earnings and Pensions) Act 2003 forms one part of this programme.

The relevant RIA was published on 18<sup>th</sup> November 2002 and is available on the HMRC website. The impacts on compliance costs, as assessed in the RIA, were:

- The redrafted legislation would be shorter, simpler, better signposted and easier to use.
- Compliance costs were expected to fall. It would be quicker and easier for people to refer to the legislation, reducing time costs and professional fees. Private taxpayers would save time completing their tax forms. New recruits to (e.g.) the accountancy profession would find it easier to get up to speed with the legislation. There would be fewer disputes on matters of interpretation and possibly improved compliance. All these savings would be permanent.
- There would be some one-off costs associated with professional re-training, familiarisation, updating of software or published materials and with participation within the RIA consultation process itself.
- The RIA was not able to quantify any of these costs or savings at the time.
- Potentially 25 million taxpayers and 1.5 million PAYE schemes would benefit either directly or indirectly from the change. However only a small minority of those would actually refer to the legislation on a regular basis.

HMRC reviewed the impact of the new legislation in late 2005, commissioning MORI to conduct a series of targeted interviews with tax professionals, tax trainers, Parliamentary Counsel and HMRC staff. The full MORI findings have

## Compliance cost reviews of Regulatory Impact Assessments

been published in the Tax Law Rewrite section of the HMRC website. The main findings with respect to compliance costs were:

- The re-write has been very positively received.
- Many of the benefits identified in the RIA have either been or are expected to be achieved. For example, the ease of familiarisation for new staff and the ease of navigation are cited as definite benefits.
- Although there is fairly universal acceptance that the change will save time eventually, most respondents report that they are still in a transitional phase, so have yet to achieve any substantial savings.
- During the transition, some extra time has been required to overcome lack of familiarity with the new legislation. However this effect will be temporary.
- When asked whether the change had reduced compliance costs the typical response was either neutral or “tend to disagree”. But respondents qualified this by saying it is the timing of savings, rather than their attainment, that is in doubt.
- It remains difficult to quantify the impacts precisely.

The learning points for improving the RIA process (based on a mix of MORI's research and work within HMRC) are:

- Apart from the issue of timing, both external and internal feedback suggest that this RIA correctly predicted the costs and savings that were most likely to occur. The review has not identified any major deficiencies in the RIA or its assessment of compliance costs and savings.
- Estimates of costs and savings should include an estimate of when they are likely to occur, together with any risks or issues which might cause a change in that timing.
- In cases where “bedding in” might take a period, the RIA should identify this explicitly.

## Compliance cost reviews of Regulatory Impact Assessments

- Where compliance costs are not quantified in the original RIA, but are nevertheless expected to be significant (or are a driver behind the policy change) then the RIA should include a specific commitment to review both costs and savings after implementation. This includes both one-off and recurring effects.
- Where a benefit is expected to translate into reduced professional fees, the RIA should recognise that HMRC has no control over commercial pricing decisions, and also that such a change might be very difficult to quantify, even retrospectively.