

THE BATH REPORT

GOVERNMENT RESPONSE TO THE BATH REPORT RECOMMENDATIONS ON TAX COMPLIANCE COSTS FOR EMPLOYERS OF PAYE AND NICS IN 1995/96

This note provides a formal response to the recommendations to Government contained in the Report on The Tax Compliance Costs for Employers of PAYE and National Insurance in 1995/6 from a team led by Prof David Collard at Bath University.

The report on the tax compliance costs of PAYE and NICs (including Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP) and expenses and benefits) was commissioned jointly by Inland Revenue and DSS in 1995 from a team led by Prof David Collard of the Centre for Fiscal Studies at Bath University. The final report was published in November 1998.

The Government is keen to keep compliance costs of employers to the minimum necessary. From 1 April 1999, responsibility for NICs policy and operations transferred from the Contributions Agency to the Inland Revenue. This meets one of the most frequent concerns of business that the bringing together into a single agency will promote greater alignment of tax and NICs which is one of the Government's long term aims; and reduce the burden on business by allowing people to sort out tax and NICs in one agency. In the recent Budget, several measures will help to ease the burden of PAYE/NICs compliance costs:

- the Small Business Service will offer a new payroll service to new employers, making it easier for them to comply with PAYE and NICs;
- Inland Revenue and Customs and Excise will provide better targeted support and assistance to small business with:
 - a new business guide, business starter pack and guidance for new employers focused on helping them with their first pay day;
 - a new Helpline service for new employers offering fast track support;

- publication of a clear national standard for payroll systems software to help in tax returns;
 - initiatives to make it easier for business to communicate with Government by developing, jointly with other Government Departments and local authorities, an Internet-based self-service facility offering businesses a single point of contact to obtain cross-Government information;
- the limit below which quarterly payments of PAYE and NICs are permitted was raised from £600 per month to £1000 per month. This provides an opportunity for an additional 130,000 small employers to benefit from cash flow savings of up to £100 per year and reduces compliance costs by moving from monthly to quarterly payments.

When the Report was published, the Government promised to consider the recommendations carefully. Around two thirds have been accepted and an alternative implemented/proposed for 20 per cent. Only some 10 per cent have been rejected. A summary of the full position is:

Accepted in full or in part or already in hand	20
Alternative implemented/proposed	6
Consider for possible future study	2
Reject	<u>3</u>
Total	31

Detailed responses are given below. Although the CA has from 1 April 1999 become part of the Revenue, for convenience we have followed the old style adopted in the Report.

Recommendations

1. *The existing programme of rewriting and simplifying the PAYE, NI, SSP and SMP literature is to be welcomed, especially for smaller employers, and should be continued. The team notes that a joint guide was issued by the CA and IR in 1997.*

Accepted- already in hand (IR)

A joint tax and NICs starter pack for new business has been developed as well as a joint annual pack - which is also available in CD-ROM and Internet formats. All employer literature is currently being reviewed to see if it can be made easier to use and more appropriate to particular types of employer. With the transfer of CA to IR a rolling programme has started to bring together tax and NICs literature.

Read-across to Tax Law Rewrite (Simplification project) - Accepted - already in hand

The aim of the Tax Law Rewrite project is to rewrite legislation, not further explanatory material - such as leaflets - issued by the Revenue to help employers understand their legal obligations. Nevertheless if legislation is easier to understand, more employers and their advisers might make direct use of it. And leaflets and other secondary material based on clearer legislation should themselves be easier to produce and keep up to date.

- 2. The team stresses the importance of sending out tax literature and forms to employers at the right time and in the right quantities. It notes and welcomes the recent improvements in the despatch of literature and forms and recommends that the new system be monitored.*

Accepted - already in hand (IR)

The enlarged IR is committed to building on the improvements already made. The report also acknowledged that since the study the system has improved greatly. The last IR employer satisfaction survey revealed a satisfaction rating of about 90%.

- 3. There should not be unreasonable delays in responding to calls and helplines should be open during the hours in which employers have to contact them. The team notes that an Employers' Helpline has been set up since the study period and that it is now open to 5 pm.*

Accepted - already in hand (IR)

The report noted that the Employers' Helpline has been set up since the period of the report and is open until 5pm. The helpline currently receives at peak 107,000 calls a month.

- 4. Helpline staff should be trained to pass specialised enquiries to competent experts speedily and to ring back if necessary.*

accepted - already in hand (IR)

This was recommended best practice across the CA. As a result of the CA transfer we are looking to improve the breadth of information held by helpline staff and their knowledge of appropriate expert contact points. In addition the Budget day package announced a new Helpline service for new employers offering fast track support.

5. *“Named” contact staff assigned to particular payrolls should be trained up to the appropriate level of expertise.*

Alternative proposed (effectively part of increased support for small businesses) (IR)

The new Small Business Service (SBS) will offer a payroll service to new employers, making it easier for them to comply with PAYE and NICs; and will give business independent advice and help compliance with regulations. In addition the SBS will be supported by a new network of Revenue Business Support Teams. These teams of people, located throughout the country, will be dedicated solely to the job of assisting business.

6. *The team therefore recommends that resources be devoted to preparing a “stripped down” (i.e., shorter and simpler) Employers’ Guide for a manual PAYE, NICs and SSP/SMP system which should be piloted with small employers.*

Alternative proposed (effectively part of increased support for small businesses) (IR)

The Small Business Service will be supported by a three point plan from IR and Customs & Excise who are to provide better and more targeted support to small business with a new business guide, business tax starter pack and guidance for new employers focused on helping them with their first day’s pay.

7. *The team recommends that new employers be given a named IR/CA contact at the outset and offered an “educational” visit so as to get them “up and running”. A CA/IR pilot experiment on this in Leicester is currently being evaluated and an extension to nationwide coverage was announced in the March 1998 Budget.*

Accepted -already in hand (IR)

The new Small Business Service (SBS) will offer a new payroll service to new employers, making it easier for them to comply with PAYE and NICs; and will give business independent advice and help compliance with regulations. Alongside this, the New Revenue Business Support Teams will offer increased levels of help and assistance to business. This will include seminars and workshops and offers to discuss problems with any business seeking help within 48 hours of initial contact. They will guarantee to offer a range of options, including a half day visit. We believe that this meets the key needs of this recommendation.

8. *The team recommends that more informal one-to-one visits, having a preparatory or educational function, should be offered to employers. In view of their expense these would have to be carefully geared to needs.*

Accepted - already in hand (IR)

We are looking at how best to support employers in future. The new network of Revenue Business Support Teams will run seminars and workshops. CA already offered workshops/presentations on a range of NIC issues and the New Business Support Teams will build on that experience extending the service to tax, and work closely with IR staff to try to cover related issues. We are considering how best this

might be developed as part of the merger. If necessary, one to one visits might be available but, as the recommendation recognises, it would have to be carefully geared to needs in view of the expense.

9. The availability of dispensations should be more widely publicised.

Accepted - already In hand (IR)

The availability of dispensations was further promoted in the last annual employers' pack which was sent out in January 1999. We take every opportunity to advertise this facility.

10. The coverage of particular dispensations (e.g., locations covered by car dispensations) should be interpreted more liberally.

Alternative proposed (IR)

The Schedule E Manual already urges staff to encourage employers to apply for dispensations whenever appropriate whatever the size of the firm/number of employees. We will consider whether the operation of dispensations can be made more flexible (eg the addition of new outlets of a business to a travel dispensation without the formal need to re-apply).

11. Consideration should be given to widening the benefits covered by dispensations.

Rejected (IR)

Accepting this recommendation would lead to a breach of the general principle that the Revenue has to be satisfied that an employer's payments to staff for benefits or expenses are fully matched by an employee's claim for a tax deduction. Breaching that principle would lead to an unacceptable increase in the scope for avoidance of tax. .

12. IR dispensations should be accepted by the CA.

Accepted - already implemented (IR)

13. The treatment of benefits-in-kind should be common across PAYE and NI class 1A contributions.

Accepted - first steps already taken (IR)

The Budget proposed the extension from April 2000 of class 1A NICs to all those benefits in kind which have an income tax charge.

14. The valuation of company cars for tax purposes should be reviewed.

Accepted - already in hand (IR)

A reform of the taxation of company cars was proposed on behalf the Chancellor in the IR Budget Day Press Release No. 4. This was the outcome of the review of how the

company car taxation regime might be altered to send better environmental signals. While the use of list price remains, the value of benefit will no longer depend on business miles travelled, permitting a saving in record-keeping.

15. Requests for duplicate information should be reduced to an absolute minimum and when made should include pre-paid reply envelopes. In making this recommendation it is recognised that it will increase the IR's administrative costs but it should help to reduce a particularly annoying aspect of compliance costs.

- i) Requests for duplicates - accepted - already in hand (IR)*
- ii) Pre-paid envelopes - consider for possible future study*

(i) We acknowledge that there have been problems with requests for duplicates. However, we are in the process of taking action which should reduce the problem. The move to whole case working should reduce the problem and the introduction of new IT support for the storage of information, the CSP project, will also help substantially.

(ii) When the effects of this action are clearer, we will then look at the issue of pre-paid envelopes. We are about to review the provision of postal services in the New Revenue, which will include the feasibility and costs of pre-paid envelopes in respect of requests for duplicate information.

16. A well-written booklet explaining the system for employees on their first employment should be available for distribution by employers (and educational institutions), with a view to improving employee education on tax and related matters.

Accepted - already implemented (IR)

IR do already provide, for schools and colleges, a pack to educate people about their first job and the impact of tax and NICs although it does not specifically dwell on SSP/SMP. It includes lots of course material that can be copied.

17. Attractive, simple leaflets should be produced about specific aspects of the system and offered to employers for distribution to employees. Although this in itself would be a burden, it might save time in dealing with subsequent enquiries.

Accepted - already in hand (IR)

The IR produce an extensive range of leaflets and booklets, and are always looking to see, where it would be helpful, if they can produce material about specific aspects of the system. IR have recently produced such a guide to the taxation of employee travel. To enable employers to handle queries from staff, we also provide employers with a shortened version of the guide.

18. The IR/CA should evaluate and "kitemark" commercially produced software.

Alternative proposed (IR)

The Budget day announcement of discussions on a clear national software standard should go some way towards achieving the objective which lies behind this recommendation. Since 1984 IR have provided a specification of PAYE as support to the computer payroll industry. It is currently sent to about 66,000 software houses and employers who design their own payroll systems. CA had recently published their first specification of the Computer Routines for NI.

19. *More “hands-on” guidance should be given in choosing and running software. Possibly this could be done by organising local software “fairs” with demonstrations by the leading suppliers.*

Accepted - in part & already in hand (IR)

Although the organisation of software “fairs” is probably something best left in the hands of commercial enterprises, the Budget day announcement of consultations between Government, software producers, tax specialists and business organisations over promoting the use of IT should go some way towards meeting the objective which lies behind this recommendation.

20. *Information for employers should be made available electronically so as to reduce the amount of paperwork (a CD-ROM is now available).*

Accepted - already done (IR)

The IR and CA had already started offering to all employers, for the first time in 1998, the opportunity to receive the Annual Pack information on CD ROM; and provide information and forms via their Internet sites.

- 21 *It should be made as easy as possible for employers to submit electronically if they wish to do so. The team notes the current IR initiative on electronic submission.*

Accepted - already in hand (IR)

The SBS, IR and C&E plan to promote the use of IT and encourage electronic tax returns by introducing legislation so that businesses will be able to file their PAYE and VAT returns via the Internet, and by offering a discount on returns filed by the Internet. The IR and CA had already taken steps to encourage electronic data interchange with employers.

22. *The system of qualifying days, linking periods and so on for SSP, which is widely regarded as arcane, should be revised ,simplified and made more comprehensible.*

Alternative implemented (DSS)

Since April 1997 it has no longer been a requirement for employers to operate the SSP rules or to keep SSP records where they pay contractual remuneration as good as or better than SSP. The easement is voluntary and employers are still able to recover costs under the Percentage Threshold Scheme, where eligible.

The legislation relating to *qualifying days* is intended to give employers and employees complete flexibility in determining the most appropriate days for SSP. In most cases qualifying days are agreed by employers and employees. Regulations specify the qualifying days only where no agreement can be reached. The rules reflect the fact that some employees have unusual working patterns and therefore need full flexibility so that appropriate sick pay can be paid.

Linking rules reflect those rules which apply in other benefits for incapacity e.g. Incapacity Benefit and Severe Disablement Allowance. They protect employers where employees are frequently sick. Without a linking rule an employer would have a potential 28 week liability for SSP each time an employee went sick.

23. *The treatment of waiting days etc. for part-time employees should be reconsidered as employers (and even CA offices) seem to find this difficult.*

Alternative implemented (DSS)

Since the research was carried out, employers who provide sick pay which is as good as or better than SSP may choose not to operate the rules of SSP scheme.

The system of waiting days avoids the need to pay SSP for very short absences, thus reducing administration and costs. How waiting days affect part-time employees' entitlement depends largely on the pattern of work done and the agreement they may have made with the employer about which days count as qualifying days. There is great flexibility to employers and employees to agree equitable SSP payment weeks depending on individual circumstances.

24. *The Percentage Threshold Scheme should be reconsidered and possibly revert to a pre-PTS type of scheme for small employers only.*

Reject (DSS)

The Percentage Threshold Scheme was introduced following a proposal from an employer's organisation that employers who face particularly large SSP bills should have some form of compensation. It was introduced following extensive consultation and was generally welcomed by both sides of industry who did not like the somewhat arbitrary nature of the previous scheme when regulations prescribed what constituted a small employer. The scheme is not restricted to small employers, although they retain the lion's share of reimbursement.

25. *The periods for maternity pay and maternity leave should be the same (the team notes that the White Paper "Fairness at Work", May 1998 has proposed that 14 weeks maternity leave should be increased to 18 weeks to match the period over which SMP can be paid).*

Accepted - already in hand (DSS)

The Employment Rights Bill 1999 proposes extending maternity leave from 14 to 18 weeks and reducing the qualifying period for extended maternity leave from 2 years employment to one year.

26. *The relation between SMP and employment law should be clarified to employers (employers are, perhaps, not generally aware of the booklet "Maternity Rights", DTI, 1994).*

Accepted (DSS)

All Government guides in this area will be revised when parental leave is introduced from December 1999. The opportunity to publicise available guides will be taken then.

The survey acknowledges that DTI/DSS have produced a comprehensive guide for employers and employees ("Maternity Rights"). This booklet covers a woman's statutory rights while she is pregnant and after giving birth. It covers both employment rights and SMP and Maternity Allowance. It is available from Employment Service Jobcentres. The Contributions Agency Manual on SMP for employers has been well received by employers and has been consistently praised by Maternity Alliance for its clarity. This guide refers to the "Maternity Rights" guide and gives details of how to obtain a copy.

27. *The DSS should explore ways of allowing employers more flexibility within the SMP scheme to deal with issues such as premature or still births and predicting confinement dates.*

Reject (DSS)

The SMP scheme is flexible enough to take account of premature births. SMP starts at the latest with the week following birth. If a baby is born prematurely before maternity pay and leave have begun, the birth will trigger the start of pay and leave. SMP is available if a baby is still born after the 24th week of pregnancy when medical advice indicates that it is not until a woman reaches this point in her pregnancy that her baby, if born then will have a chance of life.

Employers are entirely free to make their own special arrangements over and above the statutory requirements.

28. *Given that PAYE and NI are not to be amalgamated into a single system, the IR/CA should go as far as it possibly can in achieving consistency and uniformity across PAYE and NIC operations, so as to minimise compliance costs to employers.*

Accepted - already in hand (IR)

The Chancellor unveiled on Budget day a new plan to help improve efficiency and cut red tape as part of increased support for small businesses. This involves the creation of the SBS which will give business independent advice and help compliance with regulations, as well as offering a new payroll service to employers to comply with PAYE and NICs.

Bringing the CA and the IR together in a single organisation will promote greater alignment of tax and NICs, which is one of the Government's long term aims. This will minimise compliance costs to employers by:

- ensuring that, where the same rules apply for tax and NICs, they are applied uniformly and consistently for both; and
- making it easier, over time, to achieve a gradual introduction of more common rules for tax and NICs in areas where they currently differ.

29. In view of the high compliance costs associated with establishing the right tax-codes, serious consideration should be given to the costs, benefits and feasibility of a tax allowances "smart card". If such a card is thought to be viable it should, of course, be piloted.

Consider for possible future study (IR)

At some point in the future, as costs fall, this might be a proposal that would warrant consideration. At present, however, it appears to offer poor value for money. Not only are smart cards likely to be a high cost solution for some time to come, but, with current technology, any additional accuracy from the card would not necessarily ensure information is passed accurately from employees to the Revenue.

30. The Government should, in the longer term, consider the costs and benefits of alternatives to collecting employees' tax and national insurance contributions from "small" employers. Any such alternative will, of course, have its own disadvantages.

Consider for possible future study (IR)

At some point in the future it might be worth considering whether we could attempt to develop a viable alternative to the present system. At the moment, and for the foreseeable future, however, it is clear that it is generally fair and efficient to collect income tax and NICs via employers, and unlikely to be practical or sensible to shift the burden to individuals.

*31. i) In all these cases, the relevant policies should be effected with the minimum possible compliance costs for all parties, especially for small employers.
ii) Using the present estimates of compliance costs as a benchmark, a further study should be carried out as soon as the new changes have bedded down.*

i) - Accept (IR)

ii) Consider for possible future study.

i) The Government has made it clear that it aims to keep compliance costs to a minimum. The recommendation recognises that compliance costs of individuals as well as employers are involved, and the administrative costs of the Revenue also need to be considered. This agrees with the new framework for regulatory impact assessments,

including compliance costs, in the Better Regulation Guide issued by the Cabinet Office in September 1998.

ii) The Government is committed to monitoring the effects of changes in burdens where regulatory impact assessments have been issued. As part of that process it will consider whether and when it would be right to carry out a further study using the present compliance cost estimates as a benchmark.

Recommendations to employers

The Government welcomes and endorses the report's highlighting of good practice for employers to consider. Employers need to consider their business in the round, and have to weigh up a number of issues, some not directly related to the payroll function itself, when deciding how they wish to meet their payroll obligations.

- 1. All employers should consider whether they are using the appropriate technology for their payroll operations.*
- 2. Similarly, for reasons of speed, accuracy and cost employers should consider using approved substitute documents or electronic submission.*
- 3. Employers should review the extent to which routine payroll work is done by their accountants.*
- 4. Employers and payroll bureaux should explore the possibility of setting up systems for small employers.*
- 5. Since the compliance costs of weekly-paid employees are significantly higher than those of monthly-paid employees, employers should consider whether the trend toward monthly payment should be accelerated.*
- 6. Many medium-sized and large employers complained of the costs associated with remuneration in the form of benefits-in-kind. As benefits come to be taxed as cash equivalents, employers must increasingly consider whether such costs are worth incurring.*
- 7. Employers should give serious consideration to amalgamating payroll operations when there is no cost advantage in keeping them separate. If they wish to continue with separate payrolls for reasons of confidentiality they should consider whether this justifies any extra cost involved.*