

Reform of excise duty deferment guarantees - Operational Impact Assessment

1. Title of proposal

Reform of the excise duty deferment guarantees system.

2. Purpose and intended effect

Objective

To introduce a system of excise duty deferment guarantees that:

- manages revenue risk effectively and efficiently
- is clear and simple for businesses and HM Revenue and Customs (HMRC)
- reduces costs for compliant, low risk businesses
- is consistent across the excise product duty categories (ie oil, alcohol, tobacco).

3. Consultation

Within government

There has been no consultation specifically with other government departments, as this measure is not thought to have any impact on them.

Public consultation

A consultation document was published called "Reform of the excise duty deferment guarantee system: December 2005". This document was published on the HMRC Internet site and copies were sent to 17 trader bodies or groups whose members were most likely to have an interest in the proposals.

Written comments on the consultation were received from 42 respondents including trade associations and individual businesses. Not all respondents provided answers to all of the questions asked in the consultation document, with only 17 respondents providing specific costs; of those only 8 provided detail on how these had been calculated. The majority of respondents welcomed the proposed reform of the current system, as they viewed the current requirements as both financially and administratively burdensome, and also felt they were applied inconsistently across the excise regimes. Additionally a meeting was held with representatives from the alcohol, oils and tobacco trade associations and their members where overall comments matched those covered in the consultation responses.

A meeting was also held with representatives from the insurance sector, who expressed a preference for retaining the current system, as the removal of guarantees would reduce their business.

4. Options

- (a) Do nothing.
- (b) Extension and/or modification of current partial security arrangements.
- (c) Extension of arrangements along the lines of the Simplified Import VAT Accounting system (SIVA) to excise duties.

(a) Do nothing

Under this option the current system would continue to apply and guarantees would continue to be required in some regimes, but not others, regardless of risk.

(b) Extension and/or modification of current partial security arrangements

Where a business's monthly deferrable excise duty liability on warehoused or UK-produced goods is more than £5 million, HMRC may allow partial security. For monthly duty liabilities above £5 million, the percentage security required for duty liabilities above £5 million is 10 per cent. The maximum monthly duty liability taken into account when calculating the guarantee is capped at £50 million. This makes the maximum possible guarantee £9.5 million per month (£5m +10% of £45m). HMRC does not require additional security above £50 million.

There are a number of ways in which the facility for partial security could (i) be extended to more businesses and (ii) be modified to reduce the amount guaranteed. These include:

- reducing the monthly duty liability threshold from £5m to, eg £2.5m or £1m
- reducing the percentage security required for duty liabilities above that threshold to, eg 5% or 2.5%, and/or

- reducing the maximum monthly duty liability taken into account from £50m to, eg £25m or £10m.

(c) Extension of arrangements along the lines of the Simplified Import VAT Accounting system (SIVA) to excise duties

Under SIVA, approved businesses are able to benefit from a reduction in the level of financial guarantee required to operate a duty deferment account by not having to provide security for any deferred Import VAT charges.

Under these arrangements, SMEs who are currently unwilling to fund an excise duty deferment guarantee could have access to duty deferment facilities, provided they met the approval criteria.

The approval criteria for SIVA are designed to minimise revenue risk by ensuring that the option not to provide a guarantee is only granted to businesses with sound finances and a good record of compliance and prompt payment. If it were to extend the SIVA-type arrangements to excise duties, the Government would wish to apply similar approval criteria including, additionally, relevant information about businesses' excise compliance and payment history.

Under both options (b) and (c), the excise duty deferment guarantee provisions would apply to oils, tobacco and alcohol (including beer, wine, made-wine, cider and perry removed from production premises).

Option (c) is the preferred option.

The Government considers that the new arrangements will reduce costs for compliant businesses.

On 1 February 2007, HMRC will introduce a new risk-based system where businesses will have the opportunity to operate excise deferment arrangements without the need to provide a guarantee. They will be tested against current Simplified Import VAT Accounting (SIVA) eligibility and approval criteria and excise debt history to determine whether they qualify. The criteria will be relaxed for small businesses below the VAT registration threshold.

From 1 October 2006 to 31 January 2007, different arrangements will apply to businesses in the beer, wine, made-wine, cider and perry regimes where guarantees are not currently required. The eligibility and approval checks in SIVA (including the 3 year VAT registration rule) will be replaced with checks only on excise return, payment and debt history over a 12-month period. These arrangements allay the concerns expressed by businesses in those sectors that, because of the switch to a more uniform system, they would be required to provide a guarantee where this had not previously been the case.

5. Costs and benefits

Affected sectors

Reform of this system potentially affects all businesses that are approved to defer payments of excise duty. It could also affect businesses considering entering the oils, alcohol and tobacco sectors, who might wish to apply for approval to defer duty payments.

Benefits

Option (a)

There would be no benefits to this option.

Option (b)

It has not been possible to quantify the benefits to business of this option. However our estimation is that these would be substantially less than the preferred option.

Option (c)

The benefits will accrue to the vast majority of businesses that are currently required to provide a financial guarantee for deferred excise duty. The Government estimates that this option will result in savings in the range of £6.5 - £14 million per annum.

HMRC intends to carry out more work on quantifying the benefits and in due course will also undertake a review of the figures in standard cost methodology terms.

The new scheme will be fairer and more consistently applied across businesses.

Costs

Option (a)

There would be no additional costs to business of this change.

Option (b)

There are approximately 500 businesses operating in sectors (beer, wine, made wine, cider and perry production) where guarantees are not currently required. These would in future incur the additional cost of providing a guarantee. It has not been possible to identify total costs across this sector, but the Government estimates that a duty deferment guarantee costs 2% for excise duty up to £2,000,000 and 0.5% beyond this amount. For guarantees above £2,000,000 the costs are in a range of 0.15% to 0.7%. Below the £2,000,000 level the costs are in a range of 0.5% to 3.5%.

Option (c)

It is possible, that some businesses operating in sectors (beer, wine, made wine, cider and perry production) where guarantees are not currently required, will in future be required to provide a guarantee where they do not meet the approval criteria. It is not possible to quantify how many businesses will be affected but it is estimated that most businesses will not be required to provide a guarantee.

HMRC will incur set-up costs of approximately £100,000. Thereafter there will be ongoing costs of approximately £60,000 per annum. HMRC plans to deliver the changes within existing resources.

6. Small firms impact test

The costs of obtaining and maintaining an excise duty deferment guarantee under the existing scheme places an unwelcome financial burden on small traders in particular. The new scheme will remove that burden for compliant businesses, and at the same time will not impose additional burdens on compliant businesses in the beer, wine, cider and perry sectors where small businesses are prevalent.

The Government has made specific provision for small businesses to ensure that they have every opportunity to benefit from the new system. In lieu of the requirement to be VAT registered for 3 years, a small business below the VAT registration threshold will be eligible if it has been registered or approved in an excise payment regime for a minimum of 3 years. In addition, the VAT-based SIVA checks on eligible applicants will be replaced with excise return, payment and debt history checks over the previous 12 months.

7. Competition assessment

The new scheme has been subject to the Competition filter test, and will have little or no effect on competition.

The new scheme will introduce consistency, and remove some anomalies that currently affect some competing products. As now, start up businesses will need to provide guarantees until they are eligible to apply for approval once they have met the 3-year qualification period. This is necessary because of the lack of information available to HMRC to conduct a meaningful risk assessment.

It has not been possible to quantify the likely cost for new businesses, as this is contingent on the level of guarantee required (See Section 5).

8. Enforcement, sanctions and monitoring

The new scheme will be enforced by HMRC. It does not introduce any additional sanctions or penalties.

The development of a more risk-based system of excise duty deferment guarantees could increase the risk of duty payment defaults (ie late or non-payment) where the duty is not secured. That risk already exists in some areas, eg in regimes where guarantees are not currently required, or where partial security arrangements exist for larger payers. However safeguards exist to protect the revenue, by restricting access to simplified arrangements to compliant and/or low risk businesses.

9. Implementation and delivery plan

The new scheme will come into effect on 1 February 2007. Between 1 October 2006 and 31 January 2007, different arrangements will be in place for existing businesses in the beer, wine, made-wine, cider and perry regimes.

HMRC will publish information on the new scheme in advance of its introduction.

10. Post-implementation review

HMRC intend to review the effectiveness of the scheme with relevant Trade Associations and other interested parties between 12 months and two years of its introduction.

11. Summary and recommendation

The new scheme will reduce potential financial burdens upon compliant businesses, whilst the approval process will ensure that those who are perceived to present a risk of default against payment will not be allowed to benefit from the relaxed rules. The industry has been supportive of the introduction of this measure during the consultation process.

12. Declaration and publication

I have read the operational impact assessment and I am satisfied that the benefits justify the costs.

John Healey MP
Financial Secretary to the Treasury

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Contact: Chris Mountford
HM Revenue & Customs
Holding and Movements
3W Ralli Quays
3 Stanley Street
Salford
M60 9LA

Tel: 0161 827 0362
Email: chris.mountford@hmrc.gsi.gov.uk