

## **OPERATIONAL IMPACT ASSESSMENT**

### **Introduction of the short tax return for people with simple tax affairs.**

#### **Purpose and intended effect of the measure**

##### Objectives

1. To introduce a short tax return (STR) along with simpler guidance for those taxpayers within self assessment who have straightforward affairs, making the task of completing the return easier, quicker and less onerous. The short tax return should reach an audience of between 1.5m to 2 m taxpayers, including an estimated 0.55m – 0.7m small businesses (self-employed individuals with a turnover of less than £15,000). The short tax return will be processed automatically using Automated Data Capture, reducing the error rate of capture and the need for taxpayer contact.

##### Background and introduction

2. The main tax return consists of a core 10 page return covering over 100 questions, sent to all people in self assessment. In addition, there are supplementary pages, sent only to those who need them. Taxpayers who are not represented by an agent receive guidance and a tax calculation guide. At a minimum a self-employed taxpayer would receive the 10 page core, 4 self employment supplementary pages, along with around 50 pages of guidance and a 16 page calculation guide. Many taxpayers have very simple tax affairs and complete only a small number of boxes on the tax return. The STR was designed to cover the widest possible audience whilst keeping the return to 4 pages. The guidance is much shorter (20 pages) and written in plain English and there is no requirement to calculate the tax due. Inland Revenue will carry out the calculation, but customers are encouraged to file the return by 30 September to ensure they are notified of any tax to pay well before the January payment date.

##### Issues being addressed

3. Taxpayers' difficulty in understanding and completing the main tax return, and their frustration at receiving a large form on which they have very little information to provide. By producing a short tax return that is easier to understand and complete, we will make the task that much easier. It will also enable some people, who currently rely on professional or other assistance, to complete the form themselves.

#### **Business sectors affected**

4. Self-employed sole traders with a turnover of less than £15,000 (who account for around 50% of all SA self-employed cases) with otherwise simple tax affairs. This will comprise over 0.5m individuals.

## Issues of equity and fairness

5. Within the self employed population only those with simple tax affairs and a turnover of less than £15,000 will benefit. But this group is already treated differently on the main tax return where they have to complete fewer boxes. Self-employed people with more complex affairs will still be required to complete the main return even if they have a low turnover.

## Benefits

6. The task of completing the tax return is likely to be much easier and quicker for the taxpayer. The easier guidance should make the whole process less onerous. Overall this will be perceived as creating some non-tangible benefits in addition to the formal time saving or financial gain from switching to self-completion. Some taxpayers are likely to decide they no longer need to be represented and this is evaluated in terms of the savings in fees no longer paid.. Overall there will be a clear reduction in compliance costs for customers.
7. As the shorter form is capable of automated data capture, it will cut out a significant amount of manual processing, producing efficiency savings for the Department.
8. The paper form could slow down the rate of increase in e-filing – but there is no firm evidence of the extent to which people might prefer the short tax return to the online version. Longer term, we would hope to provide an electronic version of the short return, but in the meantime the short return will not be sent to e-filers.

## Costs

9. Compliance cost savings

The calculation of savings is assessed by comparing the completion time for the STR relative to the taxpayers own time taken plus any use of agents for completing a main return. The savings from using the STR arise in terms of less time taken and from switching away from paying for an agent in some cases.

The main driver is the number of returns issued – 1.5 million to 2 million. This range is produced by the interaction of a number of factors, and so is subject to a wide tolerance of which 0.55 million to 0.7 million are self employed.

The compliance cost savings arise from two main sources:

- i) the reduction in time taken to complete the STR as measured against the control group. The BMRB<sup>1</sup> survey provides timings for otherwise

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<sup>1</sup> BMRB were commissioned to carry out a comparative analysis of taxpayers' perceptions and behaviours in relation to the short tax return and guide. They compared the views of

- identical people using the STR and the main return – the latter is the control group, and so differences in times taken are due to the STR and nothing else.. This saving is turned into cash equivalent by valuing the time savings according to the specific customer group (see below for values of time);
- ii) the saving in cash from switching from paying for an agent to complete the main return to self-completion (with some adjustment for extra time). The switching percentage was after an allowance for normal switching to self completion, the net figure for percentage of switchers is 3% to 5%;
  - iii) Other factors, e.g. some people may have gone in the opposite direction to ii) but this was counter-intuitive and so is assessed as zero.

A final step is to fix the volume of people completing the STR and in particular the self employed segment. The volume of take up is expressed as a take up rate of the new return - 86%. The latter figure is subject to considerable uncertainty as many factors could change from one year to the next to affect eligibility, and so people sent the STR could have changed circumstance requiring the main return or could request a main return.

Estimated compliance cost saving:

- All taxpayers - £13.6m to £22.6m (average £18.1m) , rounded up to £20m
- Small businesses (sole traders) - £3.5m to £6.3m (average £4.9m), rounded to £5m (subset of above)

Underlying assumptions

Timings: All times are taken directly from the BMRB tables for the STR versus the main return in respect of time savings in the findings on the STR/refinement pilot work.

Hourly pay and agents fees: These have been calculated from a variety of sources of internal Revenue data as well as from external data sources such as the Labour force survey and from ONS published data.

They have been updated to consistent 2004/05 prices.

The figures used in these two costing were as follows;

- Employees - £22 per hour , if they use an agent, then agent fee £135 (for those mainly higher rate with simple tax affairs)
- Self employed - £7 per hour (constrained by the £15k turnover limit for a 40 hour job) , if they use an agent, then fee £275
- Others (including pensioners) - £8 per hour, if they use an agent, then fee of £250. (weighted to cover others and pensioners)

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those using the short tax return with those of a control group comprising taxpayers whose affairs were similar in nature but who received the main tax return.

## Small business

Based on the above the compliance costs savings for small businesses are £3.5m to £6.3m (average £4.9m), rounded to £5m.

### **Distributional impacts**

10. The introduction of the short tax return should be broadly neutral in terms of Exchequer yield. New risk rules are being devised to ensure enquiries can be targeted on appropriate short tax return cases. Some people may use the form even though they are not truly eligible, but the compliance risk is estimated to be negligible. The cost of introducing the short tax return is £5.2m, but annual savings of £3m are projected from the automated capture process.

### **Consultation**

11. An informal consultative group, including FSB, Tax Aid and Consumer Association representatives, were closely involved in the design and development of the short tax return. They, and the wider representative bodies, have strongly welcomed the development of the short return and the guide, supporting the goal of keeping the material short and simple.

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