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## OPERATIONAL IMPACT ASSESSMENT FOR THE DEVELOPMENT OF A NEW CD-ROM FOR VAT

### THE DEVELOPMENT OF A NEW CD-ROM FOR NEW VAT REGISTERED BUSINESSES ENTITLED 'GETTING STARTED IN VAT – GUIDANCE FOR SMALL BUSINESSES.'

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#### Purpose and Intended Effect of Measure

##### *The Policy Objectives*

**3.1** The CD-Rom is intended to provide basic, easily accessible information for businesses thinking of registering for Value Added Tax (VAT) and those that are newly registered. It also contains introductory information on Excise and International Trade with signposts to other sources of business support and advice.

##### **Background**

**3.2** In the region of 250,000 businesses register for VAT with Her Majesty's Revenue and Customs (HMRC) each year. Prior to the introduction of the CD-Rom each of these would receive a 'VAT Pack' of introductory public notices and leaflets describing the basic principles of VAT and its regulatory obligations. This could include up to twelve separate notices, leaflets and forms.

**3.3** Since 2001 Her Majesty's Customs and Excise (HMCE), and latterly HMRC, has offered a variety of educational options to newly registered VAT businesses. These have included seminars, one to one interviews and a set of 2 videos. The videos were first developed in 2001 and later reviewed in 2003. The videos were aimed at those new to the tax and explained what VAT is, how it works and a basic guide to keeping VAT records.

##### **Rationale for Government Intervention**

**3.4** In July 2003 HMCE reviewed the way information was delivered to newly and pre-, registered businesses and was looking for opportunities to improve e-service delivery. The Business Needs Survey 2001 highlighted that Departmental guidance could be difficult to use, especially for small businesses new to VAT. At the same time HMCE also conducted a 'fit for purpose' review of the educational products available to newly registered businesses. Analysis of feedback in this review indicated that businesses were finding the videos dated and increasingly less useful. There were also suggestions for updating the medium from video to DVD or CD-Rom.

**3.5** In response to this feedback from businesses HMCE decided to develop a CD-Rom to replace both the VAT Pack and the videos. The CD-Rom is able to direct businesses towards the Departmental website. By offering information in this format, HMRC aims to provide more choice to customers, and exemplify Government e-business policies.

## Consultation

### *Within Government*

**3.6** Extensive consultation was undertaken with a wide range of colleagues within the then HMCE, including business education and support staff; print & publishing teams; e-business; Large Business Service; National Advice Service; National Registration Service; Marketing & Communications; International Trade; Excise; Procurement and the Departmental Audio Visual Unit. These consultations did not result in the necessity to make changes to the original policy or recommendations. As a consequence, wider consultation with other Government Departments was not deemed necessary.

### *Public Consultation*

**3.7** In the region of 50 copies of an early prototype of the CD-Rom were distributed to contacts in the Business Link and British Chambers of Commerce networks in mid-2004 for user testing and comment. Users represented a mix of businesses and support advisors. Copies were also circulated among advisors and agents from the National Policy Forum for Start-Ups. Refinements to content and some technical glitches were ironed out as a result of feedback received.

**3.8** This stage was followed by a controlled 'launch' of the CD-Rom (version 1) to businesses registering for VAT. In the region of 50,000 copies of version 1 were distributed between May and September 2005. This limited or 'soft' launch was again used to test user reactions and to identify content problems and technical glitches. Feedback was sought using a pre-paid postcard that was distributed with the CD-Roms.

**3.9** The feedback from version 1 has been used to inform the development of version 2 which was formally launched in the Chancellor's speech to the CBI Conference in November 2005. HMRC estimate that there are in the region of 70,000 copies of the CD Rom in circulation at the present time.

**3.10** HMRC will continue to encourage feedback through the pre-paid cards on version 2. It has also bid for funding for further customer research to be undertaken during 2006/7 via telephone survey. This will test further customer satisfaction with the product and market recognition and penetration.

## Options

**3.11** During the development phase the following options were considered:

1. Do nothing;
2. Withdraw 'VAT Packs' and do not replace;
3. Withdraw videos and do not replace;
4. Develop new videos;
5. Develop a new DVD; or
6. Develop a new CD-Rom to replace both videos and 'VAT Packs.'

**3.12** Following consultation Option 6 was adopted as the preferred option.

## Cost and Benefits

### *Sectors and Groups Affected*

**3.13** The introduction of the new 'Getting Started in VAT' CD-Rom potentially will affect around 250,000 businesses registering for VAT each year, the majority of which will be classified as being 'small'. All businesses registering for VAT, regardless of turnover, number of employees or sector, will receive the CD-Rom (or a suitably abridged paper version on request). For businesses with a taxable turnover in excess of £60k per year, registration is mandatory. Businesses with a taxable turnover below £60K may register voluntarily.

**3.14** The benefits should arise from increased customer satisfaction and reductions in the compliance burden. In particular it is anticipated that businesses will save time in dealing with the following:

- identifying and requesting information;
- reading leaflets/printouts;
- familiarity with and negotiating the website;
- numbers of contacts to National Advice Service;
- time spent on follow up questions and clarification;
- time spent obtaining and completing forms; and
- correcting errors and making adjustments both on forms and tax returns.

## Costs

### *Compliance Cost to Business*

**3.15** For each of the six options specified above, the change in compliance costs for business were estimated to be as follows:

#### **Do nothing**

**3.16** As no changes were to be made to the existing procedures and products it was deemed there would be no change to the amount of compliance costs.

#### **Withdraw 'VAT Packs' and do not replace**

**3.17** No specific levels of compliance costs are available for this option. However it was not a preferred option as it was likely to result in a lack of guidance being available for inexperienced businesses. It was felt that this was likely to engender poor customer satisfaction as well as leading to a reduction in VAT compliance through the increased incidence of error.

#### **Withdraw videos and do not replace**

**3.18** Again there are no specific levels of compliance costs available for this option. As with the previous option simply withdrawing the videos and not replacing them was likely to result in a lack of guidance being available for inexperienced businesses, with similar levels of reduction in customer satisfaction and reduced levels of VAT compliance.

**Develop a new video**

**3.19** The development of a new video would have had negligible impact on the compliance costs for business. However the creation of a new video was seen to be an inefficient use of resources as businesses had made it clear that they no longer saw this as an acceptable format.

**Develop a new DVD**

**3.20** The development of a new DVD was also likely to have a negligible impact on the compliance costs for business. However it was felt that this product would not be interactive enough for the needs of business and would probably need to be replaced with a newer medium very quickly.

**Develop a new CD-Rom to replace both videos and VAT Packs**

**3.21** The preferred option was the development of a new CD-Rom for newly registered businesses with an element of interactivity to suit the needs of business. The compliance cost saving for business is thought to be in the region of £40 million initially (that is, in the early weeks of registration) and £17 million in ongoing compliance savings.

**Government**

**3.22** For each of the six options specified in section 4 of this OIA the costs of implementing them by HMRC are estimated to be as follows:

**Do nothing**

**3.23** As no changes were being made there would be no additional cost to HMRC. The obvious benefits of this option were that there would be a minimum amount of disruption to the existing procedures. The costs to HMRC of producing the VAT Packs is not available however the printing and postage costs are estimated to be in the region of £500,000.

**Withdraw VAT Packs and do not replace**

**3.24** The costs to HMRC of withdrawing the VAT Packs are not readily available. However, there were likely to be substantial savings in terms of printing, postage (estimated to be in the region of £500,000), and a potential for staff savings in the VAT Registration Units.

**Withdraw videos and do not replace**

**3.25** The costs to HMRC of withdrawing the videos are not readily available. However there would be an expected saving in terms of reproduction and postage costs as well as a potential for staff savings in the relevant distribution centre.

**Develop new videos**

**3.26** The cost to HMRC of developing a new video was negligible.

**Develop a new DVD**

**3.27** The cost to HMRC of developing a new DVD was negligible.

**Develop a new CD-Rom to replace both videos and VAT Packs**

**3.28** It was estimated that there would be an annual saving of just under £500,000 to HMRC for the preferred option of developing a new CD-Rom. Much of this saving to be derived from lower production costs (around 10p per CD-Rom), postage and the greater use of electronic media by businesses.

## Small Firms Impact Test

**3.29** The majority of businesses registering for VAT are small and medium enterprises. During the public consultation period no disproportionate impact was identified on small businesses. In fact the expectation is that lower compliance costs to newly VAT- registered, small, businesses will have a positive impact and potentially make it easier for small businesses to comply with the tax.

## Competition Assessment

**3.30** The introduction of the new CD-Rom is not expected to lead to any competition effects. This assessment has been informed through the use of the Cabinet Office filter test.

## Enforcement, Sanctions and Monitoring

**3.31** As this is a purely educational and business support product enforcement arrangements are not appropriate. HMRC have however been mindful of the needs of those businesses who may not have, or wish to, access the Internet and to meet this need have produced a hard copy version of the CD-Rom which will be available on request via the National Advice Service.

**3.32** Monitoring of customer satisfaction with the CD will be ongoing with a content review every twelve months, ideally timed just after the Budget to ensure any necessary amendments are included.

## Implementation and Delivery Plan

**3.33** Implementation of the CD-Rom has been through a gradual roll out as described in section 3 above. This has enabled HMRC to take into account the views and needs of businesses, and produce a product better targeted to their needs. A full production run of the CD-Rom will enable HMRC to roll out the product to all new potential customers with distribution through existing departmental channels. Work done to date has confirmed that there are no expected difficulties in roll out of this product.

## Post-implementation Review

**3.34** A post-implementation review will be conducted within 18-24 months of full roll out of the product.

## Summary and Recommendation

**3.35** The recommended option was for full roll out of the CD Rom as this produces the best combination of benefits to both business and government.

## Contact Point

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## OPERATIONAL IMPACT ASSESSMENT

### **The Development of a New CD-ROM for New VAT Registered Businesses Entitled: 'Getting Started in VAT – Guidance for Small Businesses**

#### **Statement of Ministerial Approval**

I have read the Operational Impact Assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible Minister:

Dawn Primarolo  
Paymaster General

Dated: 14 March 2006