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OPERATIONAL IMPACT ASSESSMENT FOR NEW STATEMENT OF ACCOUNT

INTRODUCTION OF A SIMPLIFIED SELF ASSESSMENT STATEMENT OF ACCOUNT

Introduction

4.1 To introduce a shorter, simpler Statement of Account for taxpayers within income tax self assessment by:

- having a total brought forward figure only, rather than repeating all the relevant details of any outstanding items, and reporting new events since the last Statement;
- having one figure for interest arising in the period covered by the Statement rather than allocating it to each charge;
- having a box (on page 1) with the amount to pay and by when; and
- using plain English in the guidance.

Purpose and Intended Effect

The Policy Objective

4.2 The policy objective is to produce a simplified Statement which is easier for HM Revenue and Customs self-assessment customers to understand and provide them with a clear record of what they have to pay (or be repaid) and by when. It is an administrative simplification.

4.3 The simplified Statement is being introduced from August 2006. A flyer explaining the changes and how further information can be obtained, if needed will accompany the simplified Statement. Flyers, giving early notice of the changes, will also be included with current Statements issued in April and June 2006 informing around 5 million customers of the impending changes.

4.4 The simplified Statement covers the whole of the UK and around 95 per cent of the self assessment population will receive the simplified Statement. At any one time around 5 per cent of customers, due to their circumstances, will receive the current style Statement. Customers, who want to, can opt to continue to receive the old style Statement.

Background

4.5 All taxpayers within self-assessment receive at least one Statement of Account during the tax year; many receive more than one. The existing Statement of Account sets out full details of all a taxpayer's transactions during the Statement period, plus a history of any outstanding items. Broadly speaking, it is issued when an event results in tax and/or a penalty, interest or surcharge becoming due, or repaid, (for example a tax return being received and processed), but it is only issued on nine or ten set dates during the course of the year.

4.6 The current Statement of Account shows the liabilities that are currently due or shortly becoming due, and the date by which each liability is required. It also shows any payments received in the Statement period and the liabilities against which each payment is set. Where a liability has not been paid in full the Statement of Account also shows how much remains to be paid, the amount of any interest that has arisen so far for each liability, and any surcharge due. This is repeated in block on each Statement until the liability is cleared. Other information is also shown, such as adjustments to liabilities, where a Return is amended.

Rationale for Government Intervention

4.7 Since self-assessment was introduced taxpayers and tax agents¹ have reported difficulty in understanding the current Statement of Account, due to its complexity. It has been subject to criticism in Public Accounts Committee and Treasury Committee reports.² Despite a number of improvements that have been undertaken over the years and the introduction of HMRC's Online service to view payments and liabilities, the Statement still receives criticism and scores badly in HMRC's annual Customer Service Survey. It is a Key Indicator linked to HMRC's Public Service Agreement targets.

Consultation

Within Government

4.8 All the relevant HMRC business units were consulted by a variety of meetings and workshops. The Paymaster General approved the work.

Public Consultation

4.9 An informal consultative group, including the Federation of Small Business, Tax Aid, Consumer Association and the accountancy bodies representatives, was closely involved in the development and design of the simplified Statement. These, and other representative bodies, have welcomed the development of the simplified Statement.

Options

4.10 Simplification and redesign of the Statement of Account and guidance (on reverse of Statement).

4.11 Do nothing. This option would mean HMRC had not addressed one area that consistently scores poorly in HMRC's annual customer survey, and that is known to give some customers difficulties, especially those new to self assessment.

Costs and Benefits

Sectors and Groups Affected

4.12 Around 26 million Statements are issued each year to around 9 million self assessment customers. Around 4 million self-employed sole traders (small businesses), as well as individual partners in partnerships (but not the partnership itself) and

¹HMRC Working Together Register of Issues - www.hmrc.gov.uk

²Committee of Public Accounts 33rd Report: Income Tax Self Assessment 9 May 2002; Treasury Committee 6th Report: Inland Revenue 27 May 1999

individuals (non self-employed) in self assessment will benefit from the simplified Statement.

Benefits

To the self-assessment customer

4.13 The task of understanding the simplified Statement is likely to be easier for most customers and they will be able to see at a glance what they owe, and when they have to pay it. The briefer format using carried forward totals and summarised interest details should make the Statement more comprehensible. The strong positive feedback provided by those consulted confirms that the change will be beneficial.

4.14 It is not possible to quantify the benefits precisely because many of them are either subjective or qualitative, such as improving the ease of understanding. In addition, not everyone will benefit to the same degree, because those with simple affairs already receive fairly straightforward Statements. Once the new Statements have bedded in, some customers are likely to see:

- a clearer and more direct Statement of their liability resulting in fewer errors in paying the right amount at the right time (and hence a potential reduction in interest/surcharges);
- a reduced need to query unclear Statements; and
- a reduction in the time taken to understand and deal with each Statement.

4.15 The best way of measuring the overall impact of the change is through the annual customer feedback survey.

4.16 Customers who want the underlying detail will be directed to HMRC's Online services where they will be able to obtain more detail about their payments and liabilities in real time (close of play previous day). Non e-enabled customers will be able to obtain that information from contact centres. Customers, who want to receive more detail on a regular basis, can opt to continue to receive the old style Statement.

To HMRC

4.17 After the introductory period, as the simplified Statement is more straightforward, it may reduce telephone calls to contact centres to query entries. There should be fewer complaints about the complexity of the Statement and a positive effect on the relevant HMRC Customer Service Survey marking.

4.18 A consequence of wanting more information might lead some customers to use HMRC's Online services, HMRC's favoured channel strategy.

Costs

To the self-assessment customer

4.19 The proposed change will be beneficial. In the short term, HMRC recognise that some customers may need a small amount of time to get used to the new format, but the use of explanatory flyers will ease the transition and minimise the number of queries arising.

4.20 HMRC expect the simplified Statement to be received by 95 per cent of its customers. Some customers may require, and hence take more time to find, the finer detail via Online services or contact centres. But if these customers consistently want greater detail, and do not wish to use the Online service, they can opt to continue to receive the existing Statement format. So overall HMRC do not think there will be increased costs to any customer.

To Government

4.21 The introduction of the simplified Statement is designed to make the self assessment system easier to understand. It does not affect the amount of tax revenue collected, although it should make it easier for customers to identify the amount of tax due and pay correctly on time.

To HMRC

4.22 The cost of introducing the simplified Statement is estimated to be £2 million. This is made up of £1.8 million IT costs, and £0.2 million staff and other operating costs. There may be increased calls to the contact centres, during the introductory period, but HMRC believe these will level out.

Small Firms Impact Test

4.23 Early informal consultation with the Federation of Small Businesses and Tax Aid (who assist the small self-employed who need help but cannot afford a tax advisor) suggested no negative impact on small businesses, any impact being positive. Informal testing with small self-employed again suggested any impact to be positive. There is no need to arrange a stage 2 Impact Test because the impact on small businesses will be positive.

Competition Assessment

4.24 The changes to the Statement of Account are not expected to lead to any competition effects. This assessment has been informed through the use of the Cabinet Office Competition filter test.

Enforcement, Sanctions and Monitoring

4.25 As the simplified Statement is clearer and easier to understand it should help customers with paying the right amount of tax at the correct time. However, it is not expected to make a significant change in this respect and overall compliance issues are considered to be neutral.

4.26 HMRC's annual Customer Service Survey monitors ease of understanding of the Statement of Account and will indicate whether the simplified Statement has made things easier for customers.

4.27 HMRC expect the new Statements to have fully bedded in by March 2007 and hence the full impact of the change will be evidenced by the October/November 2007 annual survey. Publication of that survey is expected in summer 2008. HMRC will also monitor the level of complaints both to gauge the impact of the change, and to address any emerging concerns with the new system.

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OPERATIONAL IMPACT ASSESSMENT

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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: 8 March 2006