

Summary: Intervention & Options

Department /Agency: HMRC	Title: Impact Assessment of Business Records Checks	
Stage: Consultation	Version: Final	Date: 14 December 2010
Related Publications: Business Records Checks: Consultation document		

Available to view or download at:

<http://www.hmrc.gov.uk/better-regulation/ia.htm>

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What is the problem under consideration? Why is government intervention necessary?

The ability of those in business to make a complete and correct return of their taxable business profits depends directly on them keeping full and accurate records of all their business receipts and expenditures. However, there is evidence that poor business records, generally leading to a loss of tax, is a problem in around 40% of small and medium sized businesses.

Intervention is necessary to reduce the amount of tax lost as a result of poor business records.

What are the policy objectives and the intended effects?

The policy objective is to check business records in-year and to impose penalties for 'significant' record keeping failures, to bring about an improvement in record keeping across the population of circa 40% of businesses whose records currently fall below standard, and so reduce the tax lost to the exchequer as a result of poor business records.

What policy options have been considered? Please justify any preferred option.

HMRC already considers the standard of business records in the context of other types of compliance checks such as full enquiries into returns. Whilst full enquiries and other types of checks will continue to be used in appropriate cases, they are resource intensive and can run for a year or more. By comparison, a Business Records Check (BRC) will typically be completed in less than a day and is the preferred option for addressing the problem of poor business records in the majority of cases, being more cost effective for both HMRC and the business population.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? This policy will be reviewed 2 years after implementation.

Ministerial Sign-off For SELECT STAGE Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date: 16th December 2010

Summary: Analysis & Evidence

Policy Option:	3	Description: Impact Assessment of Business Records Checks
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Up to 50k Business Record Checks will be undertaken a year which will on average take ½ day to complete. There will be no extra costs to HMRC as this will be absorbed by on going resource costs.
	One-off (Transition)	Yrs	
	£ Negligible		
	Average Annual Cost (excluding one-off)		
	£ 2.7m	4	Total Cost (PV) £ 10.2m
Other key non-monetised costs by 'main affected groups' None			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ Not quantifiable		Total Benefit (PV) £ Not quantifiable
Other key non-monetised benefits by 'main affected groups' Improved records will reduce the chance of follow-up enquiries plus it will reduce the losses to HMRC through businesses keeping poor records.			

Key Assumptions/Sensitivities/Risks It is estimated that £600m of extra revenue will be collected over 4 years assuming 50,000 BRCs annually. A risk is that BRCs might focus on cases with adequate records; but through the application of 'risk assessment' we expect the initial incidence of poor record keeping in the BRC population to be around 60%, increasing as BRCs progress.

Price Base Year 2011	Time Period Years 4	Net Benefit Range (NPV) £ Not quantifiable	NET BENEFIT (NPV Best estimate) £ Not quantifiable
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What is the geographic coverage of the policy/option?			UK		
On what date will the policy be implemented?			September 2011		
Which organisation(s) will enforce the policy?			HMRC		
What is the total annual cost of enforcement for these organisations?			£ Absorbed		
Does enforcement comply with Hampton principles?			N/A		
Will implementation go beyond minimum EU requirements?			N/A		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ Nil		
Will the proposal have a significant impact on competition?			Yes		
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		No	No	No	Yes

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)		
Increase of	£ 2.3m	Decrease of	£ 0	Net Impact	£ 2.3m

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

Policy Considerations

Description of the policy

The policy is to use the powers of Schedule 36 Finance Act 2008 to check the business records of small and medium size enterprises (pre-return) to ensure that their records are adequate and fulfil existing statutory requirements; and to impose a penalty for significant record keeping failures.

Policy rationale

There is no 'third party' with whom HMRC can verify the returns of profits made by those in business. The keeping of adequate and accurate business records is the foundation for making a correct and complete tax return.

International (OECD) research indicates that inadequate business records generally leads to a loss of tax through an understatement of profits, even where there is an audit-type check of a return that is based on such records.

HMRC's random enquiry programme has shown that inadequate business records is a problem in around 40% of cases in the small and medium enterprise (SME) sector of around 5 million businesses. But enquiries into returns are time consuming for both HMRC and businesses, often taking a year or more to conclude. Business Records Checks will typically be pre-return and will be completed in less than a day.

Business Records Checks, to be conducted under legislation introduced by Finance Act 2008 (which itself was subject to full public consultation), offer the most cost-effective way for HMRC to check that businesses are maintaining the records required by law; records which enable a correct and complete return to be made of business profits.

Options considered

We considered taking no additional action to counter the high incidence of poor record keeping, but in the current economic climate, the loss of tax resulting from poor records ruled out this option.

We considered dealing with the problem of poor business records through full enquiries into tax returns, but as the incidence of poor record keeping is so high, the resource cost of this option would be prohibitive for HMRC and burdensome for businesses.

Using the powers enacted by Parliament in Finance Act 2008 to carry out checks of business records pre-return offers the most cost effective way for HMRC to check that businesses are complying with their record keeping requirements.

Small Firms Impact Test

The proposed programme of Business Records Checks (BRCs) will impact on small and medium enterprises (SMEs) precisely because it is amongst that population that the problem of inadequate business records, leading to tax loss, is prevalent. HMRC's random enquiry programme has shown that this is a problem in around 40% of SME cases.

Currently, the chief way in which HMRC might tackle poor record keeping on a case-by-case basis is in the course of a full enquiry into a tax return. Whilst full enquiries will continue to be undertaken in appropriate cases, they can be time-consuming for both HMRC and businesses. By comparison, it is expected that a BRC will take less than a day to complete offering a major saving in time for both HMRC and businesses.

Whilst there will be up to 50,000 BRC's annually, the focus will be on those businesses which 'risk assessment' suggests are likely to have inadequate business records so that the impact on compliant businesses will be minimised.

Competition Assessment

Those businesses (a very significant minority) who fail to keep adequate business records, and as a result pay less than the right amount of tax, not only deprive the country of vital tax revenues, they are unfair competition for the majority of businesses that play by the rules. BRCs will have no detrimental effect on competition between legitimate businesses who fulfil their tax obligations. On the contrary, BRCs will help to level the playing field for those businesses who find themselves facing unfair competition from businesses who, because they pay less than their fair share of tax, can undercut them.

Legal Aid

There are no criminal sanctions associated with BRCs.

Sustainable Development

There are no environmental consequences to BRCs. However, by reducing the tax lost as a result of poor business records BRCs will help ensure a level playing field between those businesses who gain an unfair advantage over businesses who play by the rules. The reduction in tax losses will help ensure a just society and assist in achieving a sustainable economy.

Carbon Assessment; Other Environment; Health Impact Assessment; Race Equality; Disability Equality; Gender Equality; Human Rights; Rural Proofing

These proposals will have no significant impact in these areas.

Costs and Benefits

The cost and benefits calculated cover the current spending review period 2011/12 to 2014/15

Cost to businesses

One-off – As businesses already have a requirement to maintain proper books and records there should be no further costs to them.

Annual – There will be an extra cost to businesses as they will be required to show that they have kept proper books and records. For each BRC it is envisaged to take up to 4 hours, thus the annual cost has been calculated on undertaking up to 50,000 checks p.a. at an hourly rate for accounts and wages clerks, book-keepers, other financial clerks, sole traders (11.70) uplifted to 2011/12.

Costs to HMRC

One-off – there may be a small cost to HMRC as it will be required to provide new guidance for this new initiative.

Annual – this should be absorbed by HMRC as there is an on going requirement for compliance staff to spend some proportion of their time undertaking training through out the year therefore the new training required will simply replace the old.

Benefits to Business

This is not quantifiable but it is envisaged that those business who keep proper records should have less burden on them in the future.

Benefits to HMRC

It is estimated that £600m extra revenue will be collected over 4 years. This assumes 50,000 BRCs annually and that those found to be non-compliant will change their behaviour in future

periods due to the consequence of them not keeping proper records: i.e. potential future intervention or being issued with poor record keeping penalties.

Revenue impact

The table below shows the revenue profile over the Spending Review period.

2011/12	2012/13	2013/14	2014/15
£0	£69m	£203m	£328m

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No