

Summary: Intervention & Options

Department /Agency: HMRC	Title: Update to Impact Assessment of HMRC Online Services - Increasing Use of Online Filing and Electronic Payment.	
Stage: Implementation	Version: 1.0	Date: 27 March 2009
Related Publications: Regulatory Impact Assessment -HMRC Online Services - Increasing Use of Online Filing and Electronic Payment http://www.hmrc.gov.uk/ria/5-online-services-carter .		

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?

In March 2006, Lord Carter of Coles published his Review of HMRC Online Services. He concluded that well-designed online services can bring benefits to taxpayers and the Government. The report set an aspirational goal for HMRC: to aim for universal electronic delivery of tax returns from businesses and IT literate individuals by 2012. The Government accepted the recommendations.

HMRC is implementing these recommendations, including compulsory requirements for businesses and employers to file their tax returns and forms online.

What are the policy objectives and the intended effects?

The policy objectives are to maximise customer take-up of the online services offered by HM Revenue and Customs in order to:

- provide a better and more cost effective service for customers
- encourage wider use of new technology that can provide further benefits for customers; and
- efficiently capture clean, easily processed data to help drive down costs for HMRC and its customers.

This is an update to the Impact Assessment published in Budget 2007.

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

The Government accepted Lord Carter's recommendations. The alternative was to do nothing and hope that, through continuing investment, service enhancement and promotion, levels of voluntary use of online filing would continue to increase. Lord Carter's report identifies a relative reluctance by some businesses to engage with government online. Based upon this information, and other research, the Government decided that reliance on organic growth wasn't a sustainable approach. It therefore accepted the need for the more proactive approach recommended by Lord Carter in his report.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The compliance costs and savings analysis will be subject to HMRC's post implementation procedures. Each area of tax will be considered separately.

Ministerial Sign-off For Final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a reasonable view of the likely costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:



Date: 9th April 2009

Summary: Analysis & Evidence

Policy Option: 2	Description: Implement all Options to Increase Use of Online Filing and Electronic Payment
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' One-off costs of registering with the HMRC website (for all affected businesses and individuals) total £39m. The one-off cost for HMRC of supporting customers for the transition is estimated at £164m. Ongoing cost of new registrations for the website is £5m p.a. Ongoing cost to HMRC of support is £3m p.a.
	One-off (Transition)	Yrs	
	£ 203m		
	Average Annual Cost (excluding one-off)		
	£ 8m	7	Total Cost (PV) £ 240m
Other key non-monetised costs by 'main affected groups' Unquantified costs to taxpayers include obtaining internet access if not available and the change in working patterns and agents fees to fit the new deadlines for those who continue paper filing.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Reduced cost of completing the various business related forms gives savings of £19m to £24m p.a. Automatic processing of P6 and P9 yields an annual benefit of £5m to £12m p.a. The ongoing benefit from increased filing of the SA 100 online (including substitute paper returns) totals £35m-£60m p.a. HMRC savings are £64m p.a.
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 124m to 161m	7	Total Benefit (PV) £ 560m to 730m
Other key non-monetised benefits by 'main affected groups' There are various unquantified benefits, including: reduced chance of error; faster transmission; immediate acknowledgement; ease of use, increase in reliability and security for electronic payments; cash flow benefits; greater use of XBRL; access to other services and support; and joint filing with Companies House.			

Key Assumptions/Sensitivities/Risks Main assumptions relate to the number of businesses and individuals switching online as a direct result of HMRC's reforms. All figures are quoted in 2008 prices except for the admin burden figure at the bottom of the page. Estimates of total benefits and cost, and of net benefits, are for the period 2007-8 to 2013-14.

Price Base Year 2008	Time Period Years 7	Net Benefit Range (NPV) £ 320m to 490m	NET BENEFIT (NPV Best estimate) £ 410m plus non-monetised.
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What is the geographic coverage of the policy/option?	UK
On what date will the policy be implemented?	Various
Which organisation(s) will enforce the policy?	HMRC
What is the total annual cost of enforcement for these organisations?	£ Not Quantified
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	N/A
What is the value of the proposed offsetting measure per year?	£ Not Applicable
What is the value of changes in greenhouse gas emissions?	£ Not Applicable
Will the proposal have a significant impact on competition?	No
Annual cost (£-£) per organisation (excluding one-off)	Micro Small Medium Large
Are any of these organisations exempt?	No No No No

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £ 4m	Decrease of £ 16m – 20m	Net Impact £ -12m to -16m

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

This Impact Assessment updates the document published in March 2007.

Policy Objectives.

To maximise customer take-up of the online services offered by HM Revenue and Customs in order to:

- provide a better and more cost effective service for customers;
- encourage wider use of new technology that can provide further benefits for customers; and
- efficiently capture clean, easily processed data to help drive down costs for HMRC and its customers.

The aim is to encourage all customers, and in particular business customers, to file Income Tax Self Assessment (SA) returns, Company Tax returns, Value Added Tax returns (VAT) and Pay As You Earn (PAYE) end of year and in-year forms online. Businesses will also be required to pay VAT and Corporation Tax (CT) electronically. We are implementing the changes described below in phases from 2007-08 to 2011-12.

HMRC is aiming for universal online filing of the main business tax returns by 2012. It is also aiming to maximise online filing by IT literate individuals.

Background

The Government had invested over £500 million in HMRC online services by 2006. The return on this investment takes the form of improved services for its customers, lower operating costs and greater service delivery flexibility. To maximise the benefits the services have been designed to be robust and customer orientated.

HMRC is planning to spend around £170 million on systems designed to deliver Lord Carter's proposals by 2012. This spending has been focussed on improving the existing services so that they are resilient and tailored to users' needs.

The number of SA returns now received online has grown year on year since the service was introduced in 2000-01. Over 5.75m 2007/08 SA returns were filed online by midnight on Saturday 31 January 2009. That equates to 67% of returns (a 50% increase on the previous year). However, take up of the online services for the main business tax returns (CT & VAT) has been slower to date.

A CT online filing service was introduced in 2003, and HMRC received over 165,000 company tax returns through this service in 2007/08. This is around 10% of the total CT returns received.

An electronic VAT return was first introduced in 2001 and 14% of VAT businesses have signed up to make returns online since an improved online VAT service was launched in 2004.

This shows that slow but steady progress in increasing levels of take-up of online services can be achieved through voluntary adoption. However, the Government has concluded that more pro-active measures will be needed if the benefits are to be fully realised within a reasonable timescale.

Following Patrick Carter's Review of Payroll Services in 2001, the Government announced a three-stage move to universal online filing of employers' end of year returns. The first stage, for large employers, was implemented in Spring 2005. This has led to a dramatic increase in the use of the PAYE online service. These measures included financial incentives for smaller employers to move to online filing ahead of the planned requirement for them to do so - 65% of small employers took advantage of this in 2006-07.

Rationale for Government Intervention

In July 2005, the Government asked Lord Carter to undertake a Review of HMRC Online Services. The purpose of the review was to look at ways of increasing take up of online services for SA, VAT, CT and PAYE and maximising benefits for customers whilst ensuring that the department continues to deliver sustainable and efficient services that support compliance.

Lord Carter found that online services have the potential to offer benefits to businesses, taxpayers and the Government. He concluded that they can help customers to fulfil their tax obligations accurately, more quickly and provide them with greater certainty. For Government, customer use of online services will provide opportunities to free up resources from low value tasks, such as processing and error correction, to focus on more complex activities such as compliance and customer support. Lord Carter's recommendations are set out in Annex A.

Failure to increase the speed of customer adoption of online channels would mean that

- take-up of online services would be likely to plateau;
- customers, and businesses in particular, would not gain from the benefits that adoption of online services can provide including reductions in their compliance costs; and
- HMRC would not realise the significant savings that can be achieved with greater take-up.

OPTIONS

Do nothing

Option 1 is to do nothing extra and hope that, through continuing investment, service enhancement and promotion, levels of voluntary use of online filing will continue to increase. However, though progress has been made in this way, it has been relatively slow. HMRC's projections indicate that voluntary adoption will plateau and that widespread adoption will not be achieved without further action. If we adopt take this option, the full benefits to both customers and HMRC of widespread online filing and electronic payment would not be delivered for many years, if at all.

Lord Carter's report identifies a relative reluctance from some businesses to engage with government online. This occurs even among the majority of businesses and taxpayers already using IT for other tasks. Other research also indicates that UK businesses are much less likely to use public sector websites than their European counterparts. In this context, the Government does not believe that reliance on organic growth will be a sustainable approach and so it has rejected option 1 in favour of the more pro-active approach recommended by Lord Carter.

Implement Lord Carter's Recommendations

Option 2 is the package of measures recommended by Lord Carter. These are set out in Annex A. The detail of HMRC's progress to date and future plans for SA, CT, VAT and PAYE online are set out below.

Income Tax Self Assessment

Income Tax Self Assessment applies to individuals, partnerships and trusts. Included within these groups are the self-employed, employees with additional sources of income and pensioners. Within this population there is a very wide range of behaviours and abilities. There is no neat correlation between their taxable activities and their IT literacy.

The approach to increasing online filing by this group therefore stops short of setting a requirement to file online. Instead, Lord Carter proposed measures to encourage those who are e-literate, or who use intermediaries such as tax agents, to file their Self Assessment returns online. The option to submit a return on paper remains but taxpayers who choose that route will need to file earlier, helping HMRC to spread the processing load.

Prior to 2007/08 around 30% of paper Self Assessment tax returns were submitted as 'substitutes' (paper outputs, approved for use in advance by HMRC, from computers using tax

software products). These were submitted by post, despite the fact that the vast majority of the software products can be used to file online. More than 90% of these substitute returns were produced by tax agents. Printing and re-keying these returns is a wasteful process that can introduce error into the clean data produced by software. Even where optical data capture processes were available, manual intervention was frequently necessary. Lord Carter recommended that HMRC should stop accepting computer generated SA 'substitute' returns on paper from April 2008 for 2007-8 and subsequent years.

The filing period for SA returns was previously 10 months, which is far longer than the OECD average for personal tax returns of four months. For Income Tax Self Assessment returns Lord Carter recommended that:

- the deadline for filing 2007-08, and subsequent, paper returns should be 31 October, following the end of the tax year in April;
- the deadline for filing 2007-08, and subsequent, online returns should remain 31 January, following the end of the tax year in April;
- from 6 April 2008 paper substitute returns would not be accepted for 2007-08 and subsequent years; and
- for 2007-08 and subsequent years' returns the enquiry window would be linked to the date the return is filed (to encourage early filing and give taxpayers certainty sooner).

These changes have now been implemented.

The SA payment dates (31 January and 31 July) have not changed. The new filing dates will mean that all taxpayers that file on time will know how much they need to pay by 31 January as they will either receive a tax calculation from HMRC before that date¹ or, if they file online, the software will produce an automatic calculation. These proposals take account of both the needs of tax professionals and the operational requirements of HMRC.

Corporation Tax and VAT

CT and VAT are taxes operated by business. Most businesses affected already have access to information technology. Many small businesses will be employers and will have received financial incentives to help them make the transition to online filing for PAYE.

The proposals for CT and VAT are aligned as far as possible, but mandatory online filing of company tax returns (for Corporation Tax purposes) will not start until 2011 to allow for service improvements and the bedding down of XBRL² (eXtensible Business Reporting Language).

The proposals for CT are that:

- online filing of company tax returns, and use of XBRL-enabled software for accounts and tax computations, are required for all companies for accounting periods ending after 31/03/10 where the return is submitted after 31/03/11. Paper submissions will not be accepted. Companies will also be required to pay their CT and related payments electronically after 31 March 2011.
- work with software developers and others to implement a joint filing facility for companies with HMRC and Companies House. This will allow companies who wish to do so to make a single electronic transmission over the internet to file their company tax return and their

¹ Currently taxpayers that file after 30 September are required to include a "self assessment" of the tax due with their return. As part of the Carter legislation that has been changed to 31 October.

² XBRL is an internationally approved open standard which uses XML-based data tags to describe financial information. This can then be understood by a software system and – because it is the data itself that is tagged – it can be read, analysed, stored, compared or published as required.

accounts for the public record. This facility will be in place in plenty of time for the beginning of mandatory online filing of the company tax return in 2011; and

- the enquiry window, for most companies, will be linked to the date the return is filed for accounting periods ending after 31/3/08.

The proposals for VAT are as follows:

- online filing of VAT returns, and electronic VAT payments, required for accounting periods starting on or after 01/04/10 for businesses with an annual turnover of £100,000 or over;
- online filing of VAT returns, and electronic payment of VAT, required for businesses with an effective date of registration on or after 01/04/10 (regardless of whether this registration is the result of the transfer of a going concern); and
- businesses with an annual turnover below £100,000 will be encouraged, but not required, to file online. The continuing need for this exemption will be reviewed in the run up to 2012, in line with Lord Carter's recommendation that HMRC should aim for universal electronic delivery of the main business tax returns by 2012.

Electronic Payment for CT & VAT

To encourage businesses to comply with the requirements to pay using HMRC's accepted electronic methods such as Direct Debit, BACS or CHAPS changes will be made to the way HMRC handles payments made by cheque.

This approach is also consistent with other areas where electronic payment of taxes is required e.g. Large VAT businesses on the Payments on Account Scheme.

In line with Lord Carter's recommendation, HMRC proposes to continue to allow most VAT businesses³ extra time for filing VAT returns online and making electronic payments.

PAYE

The three-phase move to compulsory online filing of employers' end of year returns is already under way. The final phase is planned for completion in May 2011. Employers using payroll software will see year-on-year benefits as the software generates clean data from the point that staff records are created, and helps to avoid problems at the end of the year. The announcement of compulsory online filing saw a huge demand-driven increase in the number of payroll products that could be used for online filing.

Lord Carter's Review of Payroll Services in 2001 also recommended that employers should, in time, be required to send in-year forms electronically. His Review of HMRC Online Services proposed a timetable for these changes. Employers will be required to file starter and leaver forms (P45 and P46) online:

- from April 2009 for large and medium sized employers; and
- from April 2011 for all other employers.

Employers who fail to do this may incur penalties. It will also be compulsory for employers to provide information concerning gender and date of birth. This will allow better data matching and result in fewer enquiries.

Online filing of these forms will generate electronic coding notices (the notices issued by HMRC to employers that tell them what code to operate to calculate an employee's tax). Electronic coding notices are generated and issued far more quickly than paper notices, meaning that employees' tax positions can be updated faster. Electronic coding notices can be automatically uploaded by payroll software and reduce the work employers have to do to update employee records.

³ The incentive does not apply to large VAT businesses on the Payments on Account scheme or to businesses that use the Annual Accounting scheme.

From October 2008 employers who submit in-year forms online using HMRC's "Online Return and Forms - PAYE" product will have the option to print the P45 parts 1a – 3 on plain A4-sized paper instead of using pre-printed stationery. The new paper P45 will be the same as the online version.

References to PAYE within this document include any information relating to National Insurance Contributions (NICs) required within the specified forms and returns.

Infrastructure

The ongoing investment in HMRC's online infrastructure is being made to enable us to be confident that our systems will be ready to meet the high level of demand projected under the Carter recommendations.

HMRC's SA service successfully processed almost 3.8 million 2006-07 returns by the 31 January 2008 deadline. In the run up to 31 January 2008 the online service received over 500 tax returns a minute during peak periods and 204,000 returns on 31 January itself.

No IT (or paper) service can be guaranteed to be 100% reliable. However, what we do guarantee is that if our online service fails, we will ensure that our customers are not disadvantaged as a result. There was a partial failure of the SA system on 31 January 2008. The difficulty was caused by the HMRC portal being unavailable to some users. This meant that some customers using the HMRC Self Assessment online application could not log on. However, customers using commercial software were unaffected because they do not need to use the HMRC portal to file their returns. We acted immediately and on the same day made public that we would not charge a late filing penalty where a return was received by midnight on 1 February for either paper or online filers.

Throughout January, right up to the afternoon of the 30th, the SA Online service performed well and coped with high usage. Overall feedback about the peak period has been very positive this year.

In April and October 2008 we delivered two of the largest online service releases on record. These brought substantial changes to the SA Online service, the PAYE Online service and the underpinning infrastructure. Many of the building blocks such as the new HMRC portal and the strategic validation engine (ChRIS) were put in place in 2007. ChRIS checks that the data input to the return is in an acceptable format, carries out basic numerical checks and checks that the return is complete.

We have significantly increased the capacity of the HMRC portal and validation engine hardware, upon which our improved services have been built, to cope with the projected volumes of usage over the January 2009 SA peak filing period.

We have also split HMRC's online capability across two data centres to provide a disaster-tolerant infrastructure. This means that our services would remain available to customers in the event of a disaster scenario. Although manual intervention is still required at this stage to ensure continuous service, the change is the first step towards HMRC's ability to provide a fully automated system in the future.

Improvements for Customers and Software Developers

We introduced a redesigned paper Main Tax Return (SA100) for the tax year 2007-08, and made significant improvements to the online Return. HMRC's version of the online Return now offers:

- improved 'tailoring', enabling customers to tailor the return to reflect individual circumstances and go directly to relevant screens. This saves them time and effort in reading and discarding information irrelevant to them.
- pre-population of certain information that can be difficult to locate, including figures for PAYE under- or over-payments (there is the facility to correct these if the customer disagrees with the pre-populated figure);

- a more intuitive flow of screens which significantly improves online completion of the return ;
- the provision of Capital Gains and Foreign Income Pages; and
- ability to file amended returns online.

From April 2009 the ability to file earlier years returns (for 2007/08 returns onwards) will be introduced.

The PAYE online service has also been enhanced to include the two additional fields on the P45/P46 (date of birth and gender). This allows better matching of data within HMRC, resulting in our needing to raise fewer queries with employers. The new service has been re-built onto the new HMRC portal to allow both PAYE in year and end of year forms to benefit from the improved validation and also the disaster-tolerant infrastructure.

In line with Lord Carter’s recommendation, each release has been preceded by the release of Third Party Validation Service (TPVS) for both SA and PAYE, including Electronic Data Interchange (EDI). This supports the commitment we made to provide software developers with test service at least six months before any major changes to the online service.

SECTORS AND GROUPS AFFECTED

Most businesses, whether they are large or small, incorporated or unincorporated, will, by 2011-12, be subject to the new online filing requirements. However, in practice, many businesses will already be filing online by the time the requirements apply. Such businesses will not have to do anything beyond what they have already done or were planning to do.

This IA assesses the impact of the new Carter proposals on just those businesses and taxpayers that will actually need to modify their behaviour as a result of the proposed changes. In other words, the baseline against which costs and benefits are measured is Option 1 (the status quo). This avoids any risk of double-counting businesses which have already gone online voluntarily.

Table 1: Estimated proportions of taxpayers filing online by 2011-12

Area of Tax	Option 1 (natural growth)	Option 2 (Carter proposals)	Difference
Corporation Tax	22%	100%	+ 78%
VAT	19%	100%	+ 81%
PAYE in-year	47%	100%	+ 53%
Self Assessment	50%	77% ⁴	+ 27%

⁴ By midnight on Saturday 31 January 2009 67% of 2007/08 returns received had been filed online. The increase above the natural growth rate is a result of the Carter proposals relating to SA which were implemented during the year.

Table 2: Estimated number of businesses and taxpayers who will switch from paper to online filing.

Area of Tax (Businesses affected by more than one regime are included in every row that applies.)	Number of businesses / taxpayers
Corporation Tax – all company tax returns must be filed online from 01/04/11.	1.50 million
VAT – all returns must be filed online from: 01/04/10 – for new registrations regardless of size.. 01/04/10 – for existing registrations not already filing online with turnover of £100k and over. 01/04/12 – The Government will consider existing registrations below £100k in 2011/12. No decision on mandating the 0.85 million businesses in this group has been made.	0.25 million p.a. 0.7 million -
PAYE in-year forms (P45 / P46) – online filing from 6 April 2009 for employers with 50 or more employees.	0.05 million
PAYE end of year forms (P35/P14) – online filing for all employers from 6 April 2009. PAYE in-year forms (P45 / P46) – online filing from 6 April 2011 for all employers.	1.25 million
Self Assessment tax returns – paper substitute returns no longer accepted from 06/04/2008.	1.40 million
Self Assessment tax returns – increase in online filing resulting from differential filing dates introduced for the 2007-08 and subsequent tax years.	1.00 million

Overall the proposals will affect all taxpayer groups that file CT, VAT, PAYE or SA returns and who are not yet filing online. In addition, the benefit of linking the enquiry window to the filing date for Corporation Tax and Self-Assessment will affect all taxpayers in those regimes, including those already filing online.

The impact will be greatest for businesses that pay CT or VAT. With the exception of the smallest businesses already registered for VAT (who will be considered in the run up to 2012), all CT and VAT registered businesses will ultimately be required to file returns online and make payment electronically. The proposals may impact sooner on new, small businesses registering for VAT after 31 March 2010. In contrast to existing small businesses, newly registered small businesses will need to file their VAT returns online, and pay electronically, from the outset. We recognise that this will create differences in the treatment of smaller businesses for the transitional period until the time is considered right for full mandation. However, our research

shows that new businesses are more likely to be users of IT⁵. The requirement to file online from the outset will also mean that they avoid later transition costs.

The impact on SA taxpayers (partnerships, individuals and trusts) is less as these groups will still have the option of sending SA paper returns, though they will need to do so by 31 October following the end of the tax year. There is a small percentage of people who will continue to be unable to use online filing. HMRC will continue to explore service enhancements to enable these groups to file online and in the meantime no taxpayer in these groups will be penalised for sending a paper return after 31 October

An Equality Impact Assessment (EQIA) (see Annex C) has indicated that the main diversity issues surrounding this package of measures have been addressed by not making online filing of SA returns mandatory for any individuals. The earlier deadline for those unable to file online should not be a significant disadvantage. A small number of very small employers may choose to use an agent to file where they have not before. Special rules will be in place for businesses run entirely by individuals that have a religious conscience objection to using IT. The regulations will also be drafted to include a direction-making power which will enable us to exempt specific customer groups. This will be used should we find that there are some customers who, despite the measures we are taking to support those filing online, are still unable to use the service or face significant difficulties in doing so.

HMRC's web services will be as accessible as practicably possible to a wide range of users, so as to be more compatible with equipment for those with visual impairment or other disabilities affecting their use of internet technology. All online services covered by this Impact Assessment will be designed to be W3C Double AA compliant. In addition, HMRC's literacy programme will address the needs of those who have difficulties with written English.

Self employed SA taxpayers, or their agents, need to prepare accounts information in order to complete their returns and this work cannot be started until all information has been received from third parties. Many SA taxpayers have all the information they need to complete their returns by the end of July. Those that do not may include provisional figures in their returns, if necessary, and update these later. A further recommendation is that HMRC should do more work to better understand the barriers, such as the late receipt of information from third parties, which stand in the way of introducing earlier filing dates at some time in the future.

The most popular SA software products already include online filing functionality. HMRC therefore does not anticipate that the withdrawal of substitutes should cause agents to incur significant additional hardware or software costs.

The change to the SA filing dates potentially impacts all SA taxpayers and their agents. Although the costs of completing a tax return should not change, it was recognised as essential that the new deadlines are well communicated to all SA taxpayers. HMRC has taken a number of steps to ensure that this is the case, including:

- clear announcement of the revised filing dates on the front of all paper returns issued *and* on the plastic wrapper used to post them;
- a targeted media campaign beginning in summer 2008, initially raising awareness of the change to the dates and then, in the run up to 31st October, emphasising the importance of the new filing date for those SA taxpayers who still wished to file paper returns. The campaign continued until 31 January 2009, reinforcing the online filing date and the need to file on time;

⁵ The 2004 HMCE business needs survey found that 84% of newly registering VAT businesses had Internet access compared with 79% of all VAT businesses.

- communications direct to agents via a series of agent roadshows; coupled with communications in the accountancy press and through the accountants' professional bodies; and
- letters issued from November 2008 to all non-represented SA customers who, by 31 October 2008, had neither filed a paper return or registered to go online, reminding them of the need to register and file online by 31 January.

For unrepresented SA customers who were keen to try filing online, but lacked confidence about their ability to do so, HMRC developed a range of support products, including:

- a guide to online registration – sent out with the November 2008 letters;
- a step by step guide to online filing (available on paper or online); and
- an SA online demo, taking customers through all the main screens used in completing the SA return.

In addition, HMRC also extended the opening hours of its telephone helplines in January 2009, and offered special transitional help to qualifying SA customers from a number of Enquiry Centres during December 2008 and January 2009.

Consultation

The Carter teams are building partnership arrangements across the tax professional and software developer communities. We are engaging at a variety of different levels from national representative bodies (through Working Together) to local practitioners. We seek input into service design and development, assistance in prioritising improvements during implementation and clarification of any customer issues arising from proposed changes. All of our consultation activities are aimed at achieving the Carter vision of 'a smooth customer transition to online'. The ongoing groups and activities are outlined here. Further details of our customer research are contained in Annex B.

SA agent roadshows were developed in partnership with Working Together and over 225 events have been held, attended by over 11,700 agents. Initially we had little information to identify our target audience but better data feeds from the Government Gateway have enabled later events to be focused on a target audience of agents who are not registered for online services or registered but filing online for only a small percentage of their clients. These events are an invaluable source of agent feedback, which we collate regularly and share within the programme and to other areas of HMRC.

The Carter Tripartite Steering Group is a working forum involving Working Together e-sub group members and other tax agent representatives, software vendor representative bodies [BASDA & BCS] and other software vendors/developers and HMRC. The group is led by the Carter Programme and other key HMRC stakeholders such as SDSt (Software Developers Support Team) are invited to attend dependent on the agenda. The group is looking at issues that impact both agents and software developers such as the development of XBRL.

The ultimate aim for the Tripartite Steering Group is to be seen independently, as well as by participants, as an exemplar of the public sector and key customer groups working together to improve services. There will be an ongoing programme of pro-active contact with key stakeholders and rep bodies to ensure communication needs are met and feedback is fully captured and fed into product design/CMCT planning. For example:

- Agent specific 'Roadshows'
- Events & exhibitions
- Software Developer Fora

Meetings of this group have so far considered:

- the implementation of HMRC's ban on paper substitute SA Returns (generated on a computer then printed), including the use of 'identical' returns for the small group of taxpayers who cannot file online and
- the implementation of XBRL (a computer readable format for financial data) for online CT filing. This work is ongoing, via an XBRL Technical Subgroup, to develop solutions that will enable company returns to be filed online, with accounts & computations in XBRL format, before the April 2011 mandation date.

The Individuals Working Group is made up of representatives of voluntary groups such as the Low Income Taxes Reform Group (LITRG), TOP (Tax help for Older People) and TaxAid who provide help and support to unrepresented SA customers. Their input to regular meetings has helped to shape SA policies and practices as well as influenced the design of the support products produced to help unrepresented customers to meet their obligations.

Costs And Benefits

Overview

Online filing offers a range of benefits to businesses, taxpayers and to Government. There is a transitional one-off cost associated with online registration, familiarisation and (for those firms without it) internet access itself. But thereafter, the time and cost of completing the returns should be lower than the paper equivalent, particularly when combined with electronic payment and other online services.

The costs and benefits of electronic payment have not been estimated in this assessment. However, charges for BACS payments are typically lower than those for cheques.

Benefits

Online filing offers a significant number of benefits. Complex SA returns may be completed more quickly as the software presents only those sections of the form that apply to the particular taxpayer. This reduces the time needed to work through the form and relevant guidance. Even for simpler returns and forms, the integral calculation and checking functionality will reduce the need for manual calculation and reduce the chance of error. There will be additional savings on printing or photocopying and postage. Accountants and other intermediaries can expect to see similar savings, which could be passed on to their customers.

To assess the total value of these benefits, the IA discusses each of the main impacts in turn. Not all benefits are quantifiable, but figures are included wherever possible.

First, HMRC has considered the main business-related tax returns and forms affected by the Carter proposals (namely the CT600, VAT100, P35, P45, P46, SA800, SA103, SA104 and SA105). For the majority of these, the cost of completing the form is compared between those that file online and those that do not. This comparison is based on research using the Standard Cost Model. This looked at the main administrative burdens associated with completing and submitting tax returns⁶. The exception to this is the VAT 100 form, where an alternative approach of analysing the compliance cost of completing certain boxes on the paper form, which have been automated on the online version, is used. The justification for using this approach for VAT is down to the availability of better source data in this area, which has made it possible to produce a more reliable estimate. Such information was not available for the other regimes so the more basic approach was retained.

The results vary considerably between different returns, different types of business and whether or not a business employs an agent. Typically, the saving is between 1% and 2% of the equivalent paper-based burden. The expected saving to business as a whole is between £16m and £20m per year (2005 prices – equivalent to 19m to 24m in 2008 prices), although this does not include consequential benefits, such as a reduced risk of error (discussed later).

In addition to filing the P45 and P46 forms themselves, online filing allows the resultant coding notices (P6 and P9) to be processed automatically by the employer's payroll system, instead of being keyed in manually. Many firms are already filing online and receiving this benefit, but for those affected by the new proposals, the saving should be between 2 and 5 minutes per form. We estimate the total benefit across all businesses to be between £5 million and £12 million.

In a survey of payroll bureaux and employers carried out by the Institute of Payroll Professionals in 2008, the benefits of plain paper P45s were identified as follows:

⁶ Following Budget 2005, HMRC commissioned KPMG to use the "Dutch" Standard Cost Model (essentially activity-based costing) to assess the burden of all information disclosure obligations on business for which HMRC is responsible. KPMG's findings were published at Budget 06 and provide detailed analysis of the tax obligations that businesses face, and the associated administrative burdens in monetary terms. The full KPMG report, and an explanation of the associated methodology, are available on HMRC's website at <http://www.hmrc.gov.uk/better-regulation/kpmg.htm>

- Streamlining the process
- Reduction in clerical time and effort in maintaining stationery supplies and loading printers
- Reduced need for storage space

Although the majority of respondents felt that the benefits outweighed the costs they found both difficult to quantify.

A further benefit relates to the core SA100 individual tax return. Around 2.4 million returns are expected to switch to online filing as a result of the Carter proposals, and the impact is again expected to be a reduction in compliance costs. Quantifying the benefit is difficult because there is huge variation in the population affected, but it is likely to be highest for those who have online access, but who currently submit substitute paper returns. Software vendors estimate the total saving of online filing for that group to be between £18 and £25 per return, and we expect 1.4m such returns to be affected, giving a total benefit of around £30m. Around 55% of these returns (and hence the benefits) are expected to come from businesses, and 45% from private individuals.

For those not using substitute returns, but switching online to take advantage of the extended SA filing deadline, the benefits are likely to be similar to those seen with other forms. The full SA return (including supplementary pages) typically takes 2-3 hours to complete, although this varies considerably with individual circumstances and is considerably less for those issued with the Short Tax Return.

A survey of 2,000 online-filing taxpayers in 2005 found strong support for the online approach. 48% said the time taken was a lot less than paper, 27% a little less, 15% no change and 9% a bit more. The actual amount of time saved will vary according to individual circumstances. As a minimum, a taxpayer with simple tax affairs might save around 10-15 minutes. However, for the half who said they saved a lot of time, the savings could be a lot higher and may well exceed an hour in many cases. Our research shows that the time taken to use the online system decreases with familiarity, so the savings may be slightly less initially, but fully realised thereafter. Our estimate of the total benefit in financial terms is £5m-£30m. This range reflects the potential for significant savings but also the likely variation amongst those affected. The enquiry window will be linked to the filing date rather than the filing deadline for many businesses, which in practice will shorten the period of uncertainty and be beneficial to business.

Online filing may provide a foundation for more significant e-reforms in future, including the wider use of XBRL and improvements in the way HMRC relates to customers. As stated in the options section, use of XBRL will be mandatory for all Corporation Tax businesses for accounting periods ending after 31/03/10. Quantification of the benefits (and costs) relating to this is difficult and any estimates produced would be highly uncertain. Table 3c in the summary section, however, does attempt to identify the principal costs and benefits associated with XBRL use for CT.

HMRC's consultation has indicated that businesses and their agents will appreciate the certainty they gain by using the online services' automatic error-checking and handling routines. They also value the immediate delivery of a filing receipt and acceptance notice.

The use of software will also promote clean data and reduce the amount of time taxpayers have to spend on follow up queries after the form or return has been submitted.

The introduction of the joint filing service with Companies House will bring a reduction in the compliance costs associated with providing overlapping information to two government departments. The saving to a company will depend upon their current practice and the extent to

which professional agents' fees are currently charged for the separate operations of filing with HMRC and with Companies House.

Coupled with online filing, using electronic methods of payment will give companies better control over their cash-flow. HMRC project that encouraging electronic payment, and removing the extra time incentive of using cheques, will encourage much greater use of methods such as BACS and Direct Debit to settle accounts.

There are no major environmental or social benefits, although the proposals will contribute to a reduction in paper usage, and also to the widening of Internet usage and skills amongst business generally.

The Government should benefit from savings in terms of processing and administration costs. These savings are estimated to climb to £64m per year by 2012-13. Part of these savings will be used to fund improvements to the service offered by HMRC to taxpayers.

Costs

The most significant cost relates to the one-off costs of registering with the HMRC website. Assuming internet access is already available, this process is free and should take no more than 30 minutes. Businesses do not need to register for each regime separately, so there are considerable economies of scale for businesses affected by more than one tax area. The time taken would also be less where the person registering (or their agent) has previous experience of HMRC's online service.

The 30 minutes taken to register and activate would typically cost around £10 in salary costs. From Table 2, the total number of existing taxpayers switching to online filing is 5.9 million (of whom around 4.85 million are businesses), but we estimate the actual number of business registrations would be around 60% of the 4.85 million, because many businesses would handle more than one regime and only need to register once. The total one-off cost would therefore be around £29m for businesses and just over £10m for private individuals. Both numbers reflect the large number of taxpayers affected – the cost per taxpayer is small.

This figure applies to existing taxpayers not already filing online. In future, new businesses would need to register online too, again at £10 each (although this might be cheaper than the status quo where online registration replaces paper-based alternatives). The number of new business registrations is typically around 10%-15% of the prevailing population per year, giving an indicative cost of around £4m per year. The cost for individuals would be around £1 million.

Those who do not currently have internet access will be required to obtain it, but there are various ways of doing that and HMRC will be working with taxpayers and businesses to ensure that a range of options are available. The costs involved would vary, depending largely on levels of IT literacy, and whether a business chose to buy or borrow the necessary equipment. Our best assessment is that up to 250,000 taxpayers will need to obtain access to the internet as a result of these proposals (unless they were planning to go online anyway). HMRC will be offering help and support to ensure that the costs are kept to a minimum and the benefits of online filing achieved.

For Self-Assessment, if a taxpayer chooses not to file online, then they will need to adapt to the change to filing deadlines. There may be some transitional costs, particularly for agents' changing their working practices to adapt to the earlier filing date for paper returns, although these costs are expected to be modest and a one-off.

The Government will incur costs associated with the transition in providing support services and advice throughout the process. These costs include publicity and other communications relating to the new SA filing deadlines. These costs are estimated to be £36m for initial set-up plus £3m per year from implementation.

There are unlikely to be any significant social or environmental costs. The risk of online fraud is judged to be minimal but HMRC recognises that security is a concern for many people. HMRC will continue to ensure that its services use industry standard encryption and that clear information is provided to customers about the security measures built into the services and what they should do to protect themselves.

Summary

Table 3a: Summary of Quantified Costs and Benefits

This table summarises the main costs and benefits of increasing the use of online filing. It shows that costs for businesses and HMRC will be reduced by over £100 million per year in the medium term. However, the true benefit to taxpayers is genuinely expected to be higher, because a number of additional costs and benefits cannot be quantified accurately. These are summarised in Table 3b.

(£m per year)	One-off costs	Recurring costs (per year)	Recurring benefits (per year)
Businesses	29	4	42-54
Private individuals	10	1	18-43
HMRC	164	3	64
Total	203	8	124-161

Table 3b: Summary of Unquantified Costs and Benefits

The following costs and benefits are difficult to quantify at a global level. Overall, though, we expect the benefits to significantly outweigh the costs and provide a net benefit to both business and taxpayers. This is in addition to the quantified figures above. The impact on HMRC beyond the quantified figures is likely to be negligible.

Additional Costs	Additional Benefits
<ul style="list-style-type: none"> acquiring (one-off cost) and maintaining internet access if not held already; agent fees if choosing not to file online in person; one-off costs associated with the change in filing date for SA taxpayers who choose to file on paper. 	<ul style="list-style-type: none"> reduced chance of error and consequent queries / correction; immediate acknowledgement; faster transmission (24/7); shorter enquiry windows for most businesses; enables easy electronic payment (which is also more secure and reliable than postal methods); additional cash flow benefits (more time to pay); future-proofing / enabling access to other electronic services and support; enabling greater use of XBRL data transfer and associated benefits;

	<ul style="list-style-type: none"> • greater synergies between accounting and tax-related software and data; • instant updates to guidance (e.g. to reflect budget announcements after paper forms have been printed); and • synergies with joint filing with Companies House.
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n.b. All these costs and benefits are recurring unless stated otherwise.

Table 3c: Summary of Unquantified Costs and Benefits associated with XBRL implementation for CT

This table identifies the principal costs and benefits we expect to accrue to 4 key groups from the use of XBRL within Corporation Tax.

	Principal Costs	Principal Benefits
Companies	<ul style="list-style-type: none"> • Familiarisation with XBRL and requirement. • Dealing with 1st year taxonomy mapping exceptions. • Acquisition of XBRL-enabled software. 	<ul style="list-style-type: none"> • Reduced administrative burden complying with CT obligations. • Reduced administrative and emotional burdens co-operating with CT enquiries/interventions • Improved communication and data transfer between different departments and offices. • Opportunity to re-work and re-present data at negligible marginal cost.
Agents	<ul style="list-style-type: none"> • Familiarisation with XBRL requirement. • Dealing with 1st year taxonomy mapping exceptions. • Acquisition of XBRL-enabled software. 	<ul style="list-style-type: none"> • Reduced accounts processing time. • Increased fee recovery. • Eliminate errors in 2nd and subsequent years, avoiding unchargeable re-work. • Improved communication and data transfer between different accounting, tax, and practice management software. • Better utilisation of quiet periods and improved workflow. • Release resource to focus on higher-value work with increased return per employee. • Easier mergers and acquisitions – important consideration for succession planning.
Software Developers	<ul style="list-style-type: none"> • XBRL software development. • Taxonomy mapping exercise. 	

Table 3c continued:

HMRC	<ul style="list-style-type: none"> • Infrastructure. • Product development (Adobe Forms). 	<ul style="list-style-type: none"> • Processing efficiencies facilitating headcount reduction in line with the 'Gershon Agenda'. • Improved selection of higher risk cases with greater yield for enquiry / intervention. • More efficient case management during the process of the enquiry with fewer requests for data and reduced contact with companies and their agents. • Improved data quality leading to less re-work, greater consistency and improved evidence-based policy making.
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Administrative Burden

HMRC is committed to reducing one aspect of compliance costs in particular: the administrative burden on business of disclosing information to HMRC or third parties. This benefit is included within the figures above, but is itemised separately in this section for tracking purposes.

This "admin burden" is assessed through the Standard Cost Model⁷. It considers the recurring cost of such activity. One-off impacts, and non-business taxpayers (including the SA100 form itself) are excluded.

In this case, HMRC estimates that by 2012, the administrative burden of completing forms and returns will be reduced by £12 to 16 million per year as a result of the Carter proposals⁸.

SPECIFIC IMPACT TESTS

The detail of these Impact tests is at Annex C. None impact directly on the cost/benefit analysis.

ENFORCEMENT, SANCTIONS AND MONITORING

There are already provisions in place to secure compliance with the filing and payment requirements. There are

- financial penalties for failure to file returns by the filing date; and
- financial sanctions for failure to make payment on the due dates.

Under these new proposals there is no intention to make changes to those existing compliance provisions other than to link the existing sanctions to the new SA filing deadlines.

In the long term, HMRC envisages that paper returns and forms will not be accepted. However, while the requirements to file VAT returns and PAYE forms are being phased in, the rejection of paper would be resource intensive creating extra work for businesses and HMRC. It could also be detrimental to employees because it could lead to delays in updating their tax codes, and pensions and benefits entitlements.

HMRC has worked with a number of consultative bodies and is planning a package of measures to support the transition and enforce the requirements to file online. HMRC will identify businesses that should be filing online that have submitted paper and send them letters explaining their obligations and offering guidance and support. Ultimately, if businesses

⁷ See footnote 4 earlier in this document for further information on the SCM methodology.

⁸ This is a net figure based on the £17-21 million recurring benefit identified less the £4 million recurring cost. As explained in the main text, the SCM measures a subset only of the total costs and benefits to taxpayers.

continue to fail to file online, without good reason, a penalty will be charged. In response to consultation feedback received, we plan to have a transitional period of nine months for VAT. During this time we will focus on alerting businesses to the requirement to file online where they fail to and so no penalties will be charged before January 2011.

Companies will be required to file company tax returns online (and pay corporation tax electronically) from 1 April 2011. As this change will apply to all companies from that date, and not be phased in, we propose to reject any paper submissions rather than applying a penalty for failure to file online. We will be providing clear messages to companies and their agents about their new obligations and encouraging them to file online and pay electronically *before mandation* wherever possible.

IMPLEMENTATION AND DELIVERY PLAN

The progress made to date on implantation has been outlined above. HMRC have an ongoing programme of meetings and discussions with representatives of all the groups affected by the changes including: businesses both large and small; individuals; trusts; agents and payroll providers; and IT and software providers. The collaborative work is enabling HMRC to prioritise and design enhancements to the services around the needs of users.

The main proposals are being introduced, subject to the right “building blocks” being in place, between now and April 2011. During that period the success of the proposals will be constantly monitored and evaluated so that any necessary improvements can be made to communications, processes and support.

POST-IMPLEMENTATION REVIEW

The compliance costs and savings analysis will be subject to HMRC’s post implementation procedures. Each area of tax will be considered separately.

The review will focus on take-up rates, compliance costs and benefits - confirming in each case whether the predicted effects were realised (both for taxpayers and for the Government). Any indirect effects (such as a reduction in errors on tax returns) will also be reviewed where practicable. HMRC will consider in due course how best to consult businesses and other taxpayers to inform this review.

The review will inform HMRC’s decision on whether to expand the Carter package of measures to help meet the Government’s aspiration of universal online filing by business and IT-literate individuals.

SUMMARY AND RECOMMENDATION

Technologically, the United Kingdom is now one of the most wired-up countries in the world and UK businesses are ranked amongst the most sophisticated users of information technology. Culturally, citizens and businesses have come to expect easy-to-use, high quality websites that provide quick access to information and services. In line with Lord Carter’s recommendations HMRC will be working towards universal electronic delivery of business tax returns by 2012. HMRC will continue to look at further measures to encourage IT literate individuals to file online.

HMRC will continue to invest in the right infrastructure. That also means building in more rigorous testing to confirm it has capacity to cope with anticipated demand at peak times.

To maximise the benefits that the recommendations seek to achieve, the services must be designed collaboratively and around the needs of customers.

To realise the benefits to both the customer and HMRC of online filing, legislation will be introduced to implement the following changes, together with a package of measures to ensure they are adopted:

- SA – for 2007-08 and subsequent returns, the filing date for paper returns will move to 31 October while the date for filing online will remain at 31 January. The enquiry window will be linked to the date the return is filed.
- PAYE – from 2009 all employers must do end of year business on line. Employers with more than 50 employees must also do in-year business online from 2009 with smaller employers following in 2011.
- VAT - in phases until 2012. Only in the run-up to this year will the Government consider universal mandation for the smallest businesses.
- CT - from 2011 returns from all companies will only be accepted online and in XBRL format, with the enquiry window linked to the filing date for all except large grouped companies.
- Cheque payments for CT and VAT will be discouraged and any cheque payments will be treated as made only when the funds have cleared into HMRC's accounts.

Specific Impact Tests: Checklist

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

Annex A – Lord Carter’s Final Recommendations

1. Government should set an aspirational goal for HMRC that it should aim for universal electronic delivery of Business tax returns by 2012. It should also aim for universal electronic delivery of individuals’ tax returns from IT literate groups by the same date.
2. HMRC should benchmark customer satisfaction with its online services against commercial online services and seek to learn from best practice.
3. HMRC should work with other public and voluntary organisations to ensure that access to the internet, and appropriate assistance with using IT, are available locally, for example at libraries and UK Online centres, for taxpayers who wish to file their returns online but do not own a computer.
4. HMRC should introduce mandatory online filing and payment for most businesses as follows:

VAT

- All businesses with an annual turnover in excess of £100,000 should be required to file their VAT returns online, and make payments electronically, for accounting periods starting after 31 March 2010.
- Paper filing will remain an option for businesses with turnover below £100,000 but the Government should review the need for this exception in the run-up to 2012.

CT

- All companies should be required to file their company tax returns online, using XBRL, and make payments electronically, for returns due after 31 March 2011.

PAYE

- All employers should be required to file end of year forms (P35 and P14) online from 6 April 2009.
- Large and medium-sized employers (those with 50 or more employees) should be required to file in-year forms (P45 and P46) online from 6 April 2009.
- Small employers (those with fewer than 50 employees) should be required to file in-year forms (P45 and P46) online from 6 April 2011.

5. HMRC should establish a Taxpayer Data Standards Forum, with membership drawn from a cross-section of Employers and chaired by an independent external person. The forum should be tasked, over a 1-2 year period, with identifying and disseminating best practice for cleaning data and maintaining quality.
6. Consideration should be given to reducing the filing periods for income tax self assessment (SA) and company tax returns, to bring them closer to the international norms, and that HMRC should offer extra time for online filing of SA returns.
7. From 2007-08, the filing period for SA taxpayers for paper returns should end at 31 October; anyone filing between 1 November and 31 January must do so electronically.

NB: This is the revised recommendation Carter agreed, following extensive feedback from agents.

8. HMRC already offers VAT businesses an extra 7 calendar days to submit their VAT Returns online. This incentive for online filing should be continued, at least until April 2010.
9. Period in which HMRC can query SA tax returns and most company tax returns (the 'enquiry window') should be linked to the date that the return is submitted. This will promote earlier filing and give taxpayers certainty sooner.
10. HMRC should stop accepting computer generated SA 'substitute' Returns on paper, from April 2008 for 2007-08 and subsequent returns.
11. HMRC should review the payment rules for the different methods of payment and different types of taxes and consider what changes should be made to harmonise the rules.
12. HMRC should provide an electronic payment facility on its website which would allow taxpayers to set up a future electronic payment. This would enable taxpayers to complete the filing and payment tasks in a single session.
13. HMRC should offer agents workshops on online services, possibly in partnership with software developers, in the run up to the implementation of recommendations
14. HMRC should offer an agent registration scheme. This could enable potential clients to identify agents that are registered for and using HMRC online services. Agents that apply for the scheme could be required to abide by a Code of Practice.
15. HMRC should consider offering agents a regular email newsletter, which could update them on developments relating to online services and respond to common queries.
16. HMRC should provide a list of consultation fora on their website, details of the matters which are considered by each group and how to contact members of those groups.
17. Test services for software developers should be provided for all services at least 6 months before major changes to tax returns or the online services.
18. HMRC should share more of the risk rules used to select cases for enquiry with software developers.
19. HMRC should explore the idea of an online forum for software developer bodies to see if it could offer an opportunity for enhanced collaboration between HMRC and developers.
20. HMRC should look closely at how it both produces standard letters and provides online forms to see if it can do so at lower cost using new technology, while still giving customers a good experience.
21. HMRC work with DWP to speed up the issue of work-related NINOs for adults both through links with other departments and through exploring the idea of a 'work-related NINO'.
22. HMRC should continue to work with Companies House to provide a joint filing facility by 2011.
23. HMRC should build in more rigorous testing. Each of the services should be capacity tested at least a year before our recommendations are implemented, and if any tests are not successful the measures relating to that service should be deferred.
24. HMRC should streamline the processes by which taxpayers authorise HMRC to disclose confidential information to their agents.

25. Agents should be able to file returns for clients who have not yet given HMRC authorisation to disclose.

26. HMRC should streamline and align the requirements for client approval of a return so that it may be done electronically in all cases.

27. HMRC, working with the Government Gateway, should improve the facilities for managing the secure credentials required to access and use online services.

28. HMRC should continue to support digital certificates, but not compel customers to use one.

29. HMRC and the Government Gateway should, working with agents, consider how the processes for delegating authority to file and access client data within large agent organisations could be improved, for example, by enabling bulk uploading and downloading of data.

Additional Suggestions/Proposals (Embedded In the Text)

30. HMRC should consider letting the software industry provide all necessary software, and focus instead on providing the infrastructure for exchanging electronic data with customers, agents and other intermediaries.

31. HMRC to explore opportunities for intermediaries to develop and offer innovative methods to enable their customers to meet their tax obligations, conveniently for customers and effectively for everyone.

32. HMRC to work in partnership with agents, software developers and other potential intermediaries, to consider how best to reduce the strain on existing service provision.

33. Website improvements to include the dating of pages and highlighting changes to guidance.

ANNEX B - Consultation Summary

Consultation with the public

A wide range of consultation began shortly after Lord Carter's report was published and has involved representatives from small, medium and large businesses, agents, software developers, trade associations and other groups. This has included:

- Meetings arranged specifically to canvass comments on the recommendations and how they should be implemented. These focused on groups highlighted by Lord Carter, such as agents and software vendors, as well as organisations such as UK Online who help customers who will find it less easy to access and use online services.
- Putting Carter implementation on the agenda for existing regular business meetings, for instance, internally, the PAYE Employers and the IMS Software Developers Support Team forums and, externally, the 100 Group Fiscal Committee. These meetings have been used both to publicise the planned changes and to raise and respond to issues.
- Attending 55 external events and exhibitions held by software developers, such as "Softworld" at the NEC, in order to publicise Carter changes, respond to questions and feed back issues raised by both vendors and their customers.
- Engaging, through HMRC's regionally based Business Development Consultants, with around 12,000 agents since April 2006 to raise awareness of Carter messages and to promote use of current online services as well as feeding back comments and issues raised.
- Individual meetings with (to date) seventy nine larger accountancy firms to discuss their state of readiness (including a brief summary of their office organisation and software systems) and to pick up on any practical implementation issues.
- Reviewing new and existing research and feedback from sources including internal and external surveys; customer research; and ongoing user feedback on the current online services. Research by IPSOS Mori⁹ looked at how customers felt about using the internet for transactions generally and, specifically, for online filing. They looked at the extent to which these attitudes were likely to persist as customers became more familiar with using the internet, identified customer priorities in terms of good transactional services and what support or other solutions would help to overcome customer concerns. Separately, focus groups were held with SA customers of differing IT confidence/capability, to obtain their views on possible support options and communications approaches. The outputs have already been used to inform the design of SA support products and will be taken into account in supporting PAYE, CT and VAT customers.
- Benchmarking of the customer experience of online services. Baselines for SA, CT, VAT and PAYE online services have been established using customer surveys. Benchmarking will be a regular exercise and feedback will be used to inform design and enhancement decisions.

Who was involved

Where HMRC have hosted meetings, usually professional and representative bodies and trade associations have been invited, who in turn choose a representative or cross section of their membership to attend – for instance, for one meeting ICAS (Institute of Chartered Accountants of Scotland) invited a range of their members which included a sole practitioner and

⁹ See <http://www.hmrc.gov.uk/research/index.htm> – IPSOS Mori report is document 61.

representatives from small, medium and very large practices. Many groups engaged are already actively talking with HMRC.

Other initiatives

HMRC are continuing to expand the consultation approach going forward, including:

- Usability testing – this is focusing on small businesses and builds on work already done in HMRC Online Services. It is a process where volunteers are recorded using our services (in a test environment) and details such as particular pages on the website where they encounter difficulty can be noted. The outputs are due in March. Volunteers for this are being recruited from the locality of the testing as well as from businesses represented at other meetings who expressed an interest in taking part.
- Marketing plans to inform people of the changes to their obligations as these are implemented and to make them aware of the benefits of transacting with HMRC online.
- Work to increase our customer insight, including research, training in the issues faced by customers (delivered by external representative bodies to HMRC staff), and a ‘case study’ approach to understand the issues faced by very large companies and larger and more complex accountancy firms in bringing their business with HMRC online, which will support improved guidance and processes for the future.
- Customer research enabled us to segment the SA customer base, identify those most likely to need help and support and target communications and marketing strategies accordingly. We have commissioned a segmentation exercise for existing VAT and employer customers to enable us to target communications to business customers in the same way.

Main Issues raised

Most of those consulted broadly accept the proposed changes and the issues raised have been predominantly technical, for example what specifically will or won't be available to be done online. Problems with the current online services and concerns about previous bad experience with HMRC and other government Departments were also raised.

The most frequently raised concern was that requirements to file online would be introduced before HMRC were able to provide a robust and resilient online service, resulting in reduced customer confidence and satisfaction.

Issues included

- Whether HMRC could provide robust systems in the time available, previous bad experience was widely quoted
- Need for support, particularly well trained Contact Centre staff to help with the transition
- A considerable amount of feedback on issues surrounding the decision to withdraw the facility to submit substitute entries
- Technical issues with current systems in general which hinder current use. In particular there are problems with agent authorisation and rejection messages/reason for validation failures which don't always make it easy to see what's wrong with what's being filed.
- Need to cater for the very small proportion of people who cannot yet file online because it has not proved costs effective to provide facilities for their particular circumstances.
- On the other hand, representative bodies argued strongly that it is not necessary to legislate for an earlier filing date which aligns HMRC's deadline with that of Companies House.

- Concerns around the level of data tagging required in company accounts, CT computations and CT600s were raised but have largely been addressed by the use of Inline XBRL (iXBRL).
- How HMRC should respond to the filing of paper returns and forms by those businesses that will have been mandated to file online. The feedback HMRC received suggested that any sanctions against this behaviour should be implemented with a light touch and after a 'soft landing' transitional period.

Consultation within the Government

HMRC has worked closely with colleagues in HM Treasury to help ensure that this package of measures is business-friendly. HMRC are also in consultation with Companies House on providing a joint filing service capable of delivering a secure and efficient service for customers.

Annex C - Specific Impact Assessments

Competition Assessment

These measures introduce a small set-up cost, followed by long-term savings. Because the costs per business are relatively low, HMRC does not anticipate any major effects on competition or competitiveness, however, there will be a differential effect on different types of business, particularly in the short term, as set out below.

The competition filter test has been applied. The proposals apply across the board to all businesses and do not affect any particular markets. However, the costs (and benefits) will fall on those businesses which do not currently file online, and that means that some categories will be affected more than others. Small businesses, new businesses and businesses not using agents are more likely to be affected than larger firms.

HMRC will be looking to see how best to support those businesses and minimise the impact upon them. The possible cost of access should be weighed against the benefits of using online services from the outset. In certain sectors (the IT industry being an obvious one) firms are more likely to have access to online services, even when they are setting up, so would not be adversely affected.

Small Firms Impact Test

The majority of small businesses are likely to be affected by these proposals in one way or another. Even those who are not required to file their self assessment returns online may encounter mandation as VAT businesses or in their capacity as employers. There is no geographical or trade sector differentiation. The proposals are:

- PAYE - Small employers (those with fewer than 50 employees) will be required to file their annual returns online from April 2010 and their in-year forms online from April 2011.
- VAT – Mandation will not only affect existing VAT businesses with turnover >£100,000 p.a. but all new VAT businesses will be required to file their VAT returns online from April 2010, irrespective of turnover.
- All businesses will be required to submit their corporation tax returns online using XBRL from April 2011.

However, many small businesses have already made the move to submit returns online. In 2007 and 2008 around 1.3 million (64%) small employers filed their returns online although there was no requirement for them to do so. These employers have been able to benefit from the financial incentives of as much as £825 offered to encourage them to file online. For these customers the impact of the changes will be relatively minor.

The Carter programme has Customer Champions responsible for representing the needs of both Small & Medium Enterprises (SMEs) and micro businesses. They work with external stakeholders and with colleagues within HMRC whose work involves these customers. Our main external stakeholders in this area are:

- Low Income Taxations Reform Group (LITRG)
- Federation of Small Businesses
- Institute of Payroll Professionals
- Tax Aid
- UK Online Services
- British Chambers of Commerce
- Forum of Private Business
- National Federation of Enterprise Agencies.

Representation by agents significantly reduces the impact of mandatory online filing. Most incorporated businesses, both large and small, use intermediaries to file their company tax returns so the move to online filing is unlikely to present them with any major difficulty. Whilst agent representation amongst unincorporated small businesses is less common, these taxpayers will still have the option to file Self Assessment paper returns providing that they do so by 31 October.

Businesses that register for VAT after 31 March 2010 will be required to file their VAT returns online from the outset. This will include small businesses. However, our research indicates that internet use is highest among new businesses and we project that by 2010 it will be near universal.

The main impact will be upon small VAT registered businesses that have an annual turnover greater than £100,000. They will be required to file online from 2010 and many do not currently use intermediaries. Research shows that the majority are already users of IT but it is recognised that there will be additional costs for those who are not. Those businesses will need help and support in identifying the options open to them and making the changeover. However, adopting IT may produce wider business benefits such as streamlined accounting and invoicing and improved access to information, customers and new markets

The responses to the consultation with small businesses that was launched by HMRC in March 2005 indicate that small businesses are willing to conduct business with HMRC electronically provided that online services are reliable, easy to access and simple to use. Our latest research (conducted during summer 2008) shows that the use of computers and the internet continues to grow. Even among the smallest VAT businesses and employers around 90% have access to a computer at work or home.

There was a strong consensus that the combination of linking the enquiry window to the delivery of the return and a voluntary opt-in to earlier filing using a joint filing facility would be a positive benefit to small business. While the benefit is likely to be small for most individual companies, it will be significant cumulatively across the population of perhaps one and three quarter million small companies.

Legal Aid

There is no impact as legal aid is not, and will not be, available at tax tribunals.

Sustainable Development

No sustainable development impacts have been identified and none were raised in consultation.

Carbon Assessment

No carbon impacts have been identified and none were raised in consultation.

Other Environment

The obvious environmental impact arising from the move to online filing is the reduction of paper used in the process. Some elements of this impact cannot be quantified. For example, we have no research which enables us to say how many clients will, despite having filed online, continue to print their return in order to retain a hard copy for their records. This is not necessary as the return can be saved electronically. However, our behavioural research with Self Assessment customers tells us that some will prefer to have a paper file copy. We also know that many agents will produce a paper copy of a return in order to obtain a "wet" signature from their clients approving the contents. As this is often a requirement of their professional indemnity insurance, this is unlikely to change in the short term.

Health Impact Assessment

There is no significant impact on health. However, implementing these policies will speed up the processing of repayment claims within some returns, enable customers to be certain that a return has been received by HMRC, reduce the length of the enquiry window for some customers and improve the customer experience when compliance interventions are needed

(particularly for those filing CT returns and accounts using XBRL). This may result in a small impact in terms of reduced stress for some customers.

Equality Impact Assessment

Our Equality Impact Assessment (EQIA) conducted in July 2008, focussed, in particular, on small/micro businesses and individuals.

The Assessment considered all equality issues, and concluded that three issues, in particular, were likely to be particularly relevant:

- Religion and belief,
- Language, and
- Disability.

We were aware that these, and any additional impacts identified by this assessment, were likely to have a greater impact in small firms with fewer than 20 employees.

We were particularly interested in feedback on the impact on those small employers falling within the Direct Payments (DP) scheme. 45,000 disabled customers currently receive Direct Payments from their Local Authority, use that money to employ carers and have to operate PAYE in respect of their salaries. The vast majority of these customers pay for their employer-related responsibilities (PAYE, NI, National Minimum Wage, etc) to be handled by a payroll bureau, or another person or agent acting on their behalf. However, there are currently about 900 of these recipients who operate the payroll themselves. Their numbers could grow significantly as the concept of Individual Budgets is promoted and extended by Government. Some of these 900 customers file online now; others, who currently do their return on paper, may need special assistance with the move to online (or they may decide to switch to a payroll provider). We will need to consider how best to support these customers.

Several of the respondents identified the elderly and IT-illiterate customers as additional groups impacted by the proposals. However, it was recognised that none of these 5 categories highlighted defined a specific group of customers. On that basis, there was no clear cut case made for further exemptions to be included in the regulations.

The main requests from the EQIA respondents were for

- good, well targeted and well advertised support for those customers needing more help to enable them to file online and
- robust, well tested IT systems.

We have now begun to identify the customer support and communication products needed for each area of the proposals. We have commissioned some research from the HMRC Customer Understanding Team to enable us to segment the VAT and PAYE populations of very small business customers (those with fewer than 50 employees). Our conclusions will be tested in workshops with customer representatives. This will ensure that what we produce meets customer needs. Until this is done, it is difficult to predict precisely what form the support and guidance will take. However, based on our experience with Self Assessment we are likely to produce:

- a targeted marketing campaign for each area of tax (PAYE, VAT and CT). The segmentation data will help us to design the messages and place them in the best way to reach our target audience.
- a suite of support products for each area of tax, complementing the existing HMRC products. These will also be designed using segmentation data to determine the format and style most likely to meet the needs of the customers we expect to need most help with online filing.
- training and guidance for HMRC staff to enable them to provide support for these customers when they contact us by telephone or face to face.

Design and production of these will be a collaborative process, involving target customers and testing our conclusions throughout.

Race Equality

Our consultation revealed that the only potential race-related impact arose with customers for whom English was not their first language, and who were not sufficiently proficient in English to complete their SA return unaided. However, where that difficulty existed, the problem would also be experienced with a paper return, so the introduction of compulsory online filing did not materially affect the existing position. And the research also revealed that many ethnic businesses were more likely than usual to employ an agent to sort out their tax affairs for them.

Disability Equality

The initial EQIA raised some significant questions about the impact of the move to online services will have on our disabled customers. The Disability Discrimination legislation makes it unlawful to discriminate against a disabled person in the provision of services, where the effect is to make it impossible or unreasonably difficult for the disabled person to make use of that service. In such cases we have a duty to take reasonable steps to change policy, practice or procedure so that it no longer has that effect. We also have a duty to make contingency arrangements in the event of our services for disabled customers being unavailable. It is also illegal to discriminate against those with, or without, a disability.

The DDA defines a disabled person as someone who has a physical or mental impairment that has a substantial and long-term adverse affect on his/her ability to carry out usual day to day activities. Research estimates vary, but it would appear that somewhere between 20% to 25% of the UK population (i.e. 11.7m people, on the 20% estimate) are disabled. Many of these are pensioners, some of whom will not have computer skills. However, 6.9m of the 11.7m are of working age (19% of the working population).

Some disabilities (depending on their nature and severity) will have little or no impact on the customer's ability to complete and file returns, whether on paper or online. Those most likely to be affected by the move to online filing are individuals with the following disabilities:

- Vision loss (which could impact on their ability to understand and complete forms accurately and easily) – about 2.8m people, of the estimated disabled population of 11.7m.
- Arthritis (which, if the condition is advanced and affects their upper limbs, could impact their ability to use a pen or a computer) – about 9m.
- Various forms of learning disability, which could impact on their ability to understand and use computers – about 1m.

And about 4-10% of the overall population have dyslexia/dyspraxia.

There are further disabilities which might impact on the value of help we normally provide – for example, of the original 11.7m:

- 41% (4.8m people) have some degree of hearing loss – which could make it harder for them to receive telephone help and support
- 4.5m have a range of physical difficulties that make it difficult for them to travel or get into or around buildings (so harder for them to visit an Enquiry Centre for help).

HMRC holds little (if any) information about each of its disabled customers and whether that disability has an impact on the customer's ability to:

- deliver his/her responsibilities to, or claim his/her entitlements from, HMRC successfully; or
- to access most or all of the forms of help and support we currently offer.

We do hold information as to which customers (for Income Tax) claim Blind Person's Allowance. There are, of course, a range of visual disabilities for which BPA is not appropriate but which might impact on the customer's ability to complete returns easily and accurately.

We estimate that about 8 - 10% of our SA filers are disabled. A significant proportion of these will be pensioners (most of who file early, on paper, meaning that there are unlikely to be any additional impacts on them). However, there will be some self employed customers who are disabled and who also fall into the SA customer group. And, since it is Government policy to encourage disabled people into self employment, some of these SA customers may also become customers for CT, VAT or PAYE. As yet, however, we cannot provide an accurate estimate of the numbers of customers, in each of these three taxes, who would be adversely affected by the need to deal with their returns online (or on paper). On the information currently available, the numbers would appear to be low.

HMRC has undertaken research recently to try to get a better understanding of the needs of disabled customers and the barriers they face, as a result of their disability, when dealing with us. Much of this research is ongoing. In brief, the position is as follows:

- Some disabled customers welcome the internet, as their means to independence and (particularly for those with mobility problems) as their lifeline to the outside world. These customers are likely to grow in numbers, as – over the next ten years – current workers with disabilities and who have computer skills move into retirement. Feedback suggests that the issues are about making the internet as easy for them to use as possible, with the service provided being capable of being adjusted to ensure maximum accessibility and customisation for their specific needs.
- Some disabled users, while welcoming the internet, nonetheless have difficulties in using it, despite the accessibility and other functions which providers have made available. The reason is often (not always) due to the user's own equipment, which is sometimes outdated, and therefore creates difficulties for those users when interfacing with specific online services.
- Even with all the accessibility features that can be provided by the online service supplier, and up to date equipment at the user's end, there can still be difficulties in using an online service. These arise mainly because of the nature of the disability – for example, arthritis in the hands, wrists or shoulders, which makes operating a mouse or a keyboard painful for the customer. There are products available on the market which can help, but these may not be appropriate for all customers with these disabilities, leaving some who would still struggle. (These customers would probably experience similar problems in using a pen to complete a paper return).

There are various solutions to these issues. HMRC has already implemented a number of them. Others are included in our future plans. For example:

- The new SA online service has been designed to be W3C Double AA compliant. The Web Content Accessibility Guidelines 1.0 explain how to make Web content accessible to people with disabilities. We design our pages to conform to these Guidelines to help make them more accessible to users with disabilities.
- The free HMRC CD ROM, which enables employers with fewer than ten employees to maintain online PAYE records. HMRC piloted an enhancement to the CD – ROM which enables such employers to file their End Of Year returns for 2007 – 08 online. This enhancement has now been incorporated into the February 2009 release. This version of the CD ROM will also be improved to bring it towards the W3C Double A requirement.
- HMRC's VAT online service is also being upgraded to W3C Double AA compliance with effect by April 2010.
- CT - the W3C Double AA standard will also be applied to the upgraded HMRC CT product by April 2011.

In addition, there is guidance on our website (at www.hmrc.gov.uk/accessibility/index.htm), which explains to disabled users how to customise our online services to meet their accessibility requirements. And the website itself is being significantly improved, in a series of tranches, with

each new release designed to be W3C Double AA compliant, and written to be easy to use and understand.

There is little we can do, from a technical viewpoint, where the primary problem is the disabled user's own outdated equipment. Here, the solution may be one of making alternative arrangements for the disabled customer to file online – either through a friend or family member's computer (with the friend or family member inputting the details, if their computer is not configured for the disabled customer's use) or through a visit to an Enquiry Centre (EC) to file (if mobility permits) or a visit by an HMRC employee with a laptop. Another solution would be for the disabled customer to employ an agent or payroll bureau to do the returns on their behalf. However, for some customers the cost of this might be unwelcome (although evidence from the Direct Payment scheme, where the disabled person buys in care directly, using payment provided by the Local Authority, indicates that the cost of paying for a very simple payroll service is about £50 per annum).

The same range of solutions could apply to disabled customers who have no computer and no ready access to one.

Of the three taxes where compulsory online filing is planned, we think there is most likely to be an impact on PAYE employers who are disabled: in particular, those 45,000 disabled customers who currently receive Direct Payments from their Local Authority, use that money to employ carers and who have to operate PAYE in respect of their salaries. The vast majority of these customers pay for their employer-related responsibilities (PAYE, NI, National Minimum Wage, etc) to be handled by a payroll bureau – but there are about 900 of these recipients who operate the payroll themselves, and their numbers could grow significantly, if the concept of Individual Budgets is promoted and extended by Government. Some of these 900 customers file online now; others – who currently do their return on paper – may need special assistance with the move to online (or they may decide to switch to a payroll provider).

We think the number of CT and VAT customers with a disability which will impair their ability to file online will be very low. In most cases, the limited company, club/ association or VAT business's business will consist of more than one individual, one of whom might need additional or alternative support, but the rest not. Even so, the arrangements being put in place to make those services W3C Double AA compliant should enable access for most disabled customers.

Gender Equality

No gender impacts have been identified and none were raised in consultation.

Human Rights

No human rights impacts have been identified and none were raised in consultation.

Rural Proofing

No differing impacts have been identified for those in rural communities and none were raised in consultation. Concerns have been expressed that those in rural communities having more limited internet access than other customers. However, recent research indicates that this may be an area where perception lags behind reality. By the end of December 2005, 99.8% of the UK household population had access to broadband. In particular, following a joint initiative by Scottish executive and BT (Broadband for Scotland's Rural and Remote Areas) in 2005, BT estimates that 99% of Scottish households can get Broadband.

In addition, broadband is not necessary for HMRC online services – they are designed to work well with dial up.

Annex D

Summary of Responses to Equality Impact Assessment Consultation

Principled Objections to mandatory online filing for all.

“I am against compulsion; people should still have choice particularly with the ongoing questions about the security of personal information on the internet;”

“HMRC should allow customers freedom of choice between paper and online and should not make online filing mandatory;”

Several respondents were concerned that there may be customers who object to online filing for reasons other than religious conscience.

“If the system can accommodate the fact that those with religious objections and users of the simplified scheme can be excused from online PAYE filing, that option ought to be offered to any small employer who has a valid reason for not filing online e.g. afraid of computers, unable to come to grips with the technology for whatever reason, unable to afford to pay an outside person to file their return or understandably might not wish one of their employees to do so either;”

Although the choice to file on paper has been retained for SA customers, this is not the case for PAYE, VAT and CT taxpayers. If they fall within the mandated categories of businesses or employers, the only method of filing open to them will be online filing. The Low Income Tax Reform Group (LITRG) referred to “the recommendations of the Lords Select Committee in 2007 that – for small employers in particular – there should continue to be a paper filing facility for some beyond 2010.”

Concerns about data security.

“Security issues surrounding the use of public computers, or making use of IT facilities offered by a friend or acquaintance.”

These concerns related to suggestions within the EQIA that one way to comply with the requirements of online filing is to seek assistance from a friend or family member. Respondents suggested that this was neither practical nor acceptable in certain circumstances.

Concerns about adequacy of support and guidance.

The vast majority of the comments received fell into this category.

Respondents emphasised the importance of support for customers, specifically:

“Support for

- the elderly,
- small businesses,
- customers with language difficulties,
- those who do not use computers and have no intention to do so,
- those who would like to acquire a computer to comply but do not have the necessary skills to use it,
- those who would like to acquire a computer to file online but they do not have the finance to purchase one given that the level of their business activity do not justify one.”

The comments focussed mainly on the type of support that should be available, rather than suggesting that key groups should be allowed to file paper returns.

“HMRC should be concerned about carers, who may be short of time and for whom visiting an enquiry centre is all but impossible in view of their caring responsibilities. HMRC will have to provide publicised home visit service if there is no exemption for them from filing online;”

“HMRC could do more to support those with language difficulties by providing key messages e.g. how to access further help in the major migrant languages;”

The need for guidance and clear communications for customers was stressed, as was the need for proper training for HMRC staff to enable them to support those with particular needs.

“HMRC front line staff must also receive adequate training on how to deal with people with particular needs;”

“HMRC should for all groups publicise what is available for their relevant needs.”

Although some respondents referred to the Direct Payment scheme, many of these comments related to the mechanics of the scheme itself, rather than mandation. Those who did express concerns about online filing for Direct Payment recipients stressed the importance of appropriate support for these customers particularly for those who, if this were not provided, might need to incur costs using third parties to comply with their obligations.