

Summary: Intervention & Options

Department /Agency: HM Revenue & Customs	Title: Impact Assessment of online Corporation Tax Joint Filing with Companies House	
Stage: Final	Version: 1	Date: 28 October 2010
Related Publications:		

Available to view or download at:

<http://www.>

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

Each year, companies are required to submit Company Accounts to Companies House and a Company Tax Return (including Company Accounts) to HMRC. Lord Carter reviewed HMRC Online Services and one of his recommendations was that online filing for Company Tax returns was made mandatory. He also said that HMRC & Companies House should work together to provide a joint filing facility. On 1 September 2009 HMRC and Companies House issued a joint public statement confirming they would be providing a facility - for use on a voluntary basis - to allow online filing of company accounts, prepared under the Companies Act 2006, to both organisations. This new service becomes available from October 2010. Mandatory online filing for Company Tax returns comes into force from 1 April 2011.

What are the policy objectives and the intended effects?

The objective is to enable companies to key in their data once and to use it to submit online accounts that are prepared under the Companies Act 2006 to both HMRC and Companies House. Both HMRC and Companies House have the shared service objective of allowing companies to file in iXBRL to both organisations.

The intention is to make the process of filing accounts with both organisations easier and less burdensome for both HMRC and Companies House customers.

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

Option 1: Do Nothing: This option would run counter to Lord Carter's recommendations - which was accepted by Government in 2006 with both departments giving a public commitment in 2009 to work together to offer a joint filing facility.

Option 2: One submission to Government using HMRC systems with information sent to Companies House. This was discounted due to cost and legal obstacles.

Option 3 (preferred): To develop an online product to enable easier filing of accounts and returns to both HMRC and Companies House.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? HMRC will continue to monitor the take-up of joint filing over the next 3 to 5 years - on a monthly basis through customer feedback.

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 fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister:



.....Date: 2.11.10

Summary: Analysis & Evidence

Policy Option: 2

Description: To develop an online product to enable joint filing of accounts and returns to both HMRC and Companies House.

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' One-off HMRC cost of £1.8m for IT enhancements and an annual on-going support cost of £58,000 per year. One-off business cost of £1.6m is accrued for familiarisation with the new service. The extra box for opting in to joint filing gives an on-going annual cost to businesses of £40,000 per year.	
	One-off (Transition)	Yrs		
	£ 3.4million	1		
	Average Annual Cost (excluding one-off)			
	£ 0.1million	10	Total Cost (PV)	£ 4.3million
Other key non-monetised costs by 'main affected groups' None				

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Companies will have an on-going annual reduction in their administrative burden as there will be no need to send a separate version of their accounts to HMRC as they can utilise the same format accounts to meet their obligations to both HMRC and Companies House.	
	One-off	Yrs		
	£ Nil	1		
	Average Annual Benefit (excluding one-off)			
	£ 0.8million	10	Total Benefit (PV)	£ 6.6million
Other key non-monetised benefits by 'main affected groups' None				

Key Assumptions/Sensitivities/Risks The totals above, and the net benefit figures below, have been calculated over a 10-year timeframe, with an annual discount rate of 3.5% assumed. All figures are quoted in 2010 present-day terms except for the admin burden figure at the bottom of the page.

Price Base Year 2010	Time Period Years 10	Net Benefit Range (NPV) £ 2.3million	NET BENEFIT (NPV Best estimate) £ 2.3million	
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What is the geographic coverage of the policy/option?				United Kingdom	
On what date will the policy be implemented?				October 2010	
Which organisation(s) will enforce the policy?				HMRC	
What is the total annual cost of enforcement for these organisations?				£ n/a	
Does enforcement comply with Hampton principles?				n/a	
Will implementation go beyond minimum EU requirements?				n/a	
What is the value of the proposed offsetting measure per year?				£ n/a	
What is the value of changes in greenhouse gas emissions?				£ n/a	
Will the proposal have a significant impact on competition?				No	
Annual cost (£-£) per organisation (excluding one-off)		Micro n/a	Small n/a	Medium n/a	Large n/a
Are any of these organisations exempt?		No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)		
Increase of	£ neg	Decrease of	£ 0.7million	Net Impact	£ -0.7million

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

Evidence Base (for summary sheets)

Background

In accordance with the Finance Act 1998 & Companies Act 2006 it is a statutory requirement that companies submit company accounts to Companies House, and Company Tax Returns (including company accounts) to HMRC. At present, the information is sent separately to each Department and the level of information required differs - HMRC require more detail in the company accounts.

In 2006 Lord Carter was commissioned by the Government to undertake a review of HMRC's online services. In respect of Corporation Tax he recommended that it be made compulsory for returns to be filed online. He also suggested that HMRC & Companies House work together to provide a joint online filing facility as both HMRC and Companies House currently provide a voluntary separate online filing facility

Following regulations laid down in parliament in December 2009 it will be compulsory to file online returns with HMRC for accounting periods ended 31st March 2010 onward and filed after the 31st March 2011. For all companies, charities and unincorporated bodies such as clubs and societies that may be liable to Corporation Tax this means that the CT600 will need to be filed online along with accounts and computations in an XBRL format to HMRC. XBRL is a computer language that tags elements of the accounts and computational data for submission electronically and is computer readable – allowing non-manual processing and analysis of documents.

A joint statement was made on the 1 September 2009 stating that HMRC & Companies House would be working toward an online product to enable joint filing of accounts and returns. This facility became available on the 11th of October 2010.

Policy Objective

The objective of this operational policy is to reduce the administrative burden on companies making it easier and simpler to submit information to HMRC and Companies House.

Policy Options

Option 1: Do Nothing – this option would run counter to Lord Carter's suggestion – which was accepted by Government in 2006, with both departments giving a public commitment in 2009 to work together to offer a joint online filing facility.

Option 2: Firms making one submission to Government using HMRC systems and then transfer of information to Companies House was considered. However after initial discussions it became clear that there were cost and legal obstacles to this approach.

Option 3 (preferred): To develop an online product to enable easier filing of accounts and returns to both HMRC and Companies House.

Joint Filing Process

From 1 April 2011 it will be compulsory to use XBRL format for HMRC filing – using either an HMRC provided free-to-use software product (for the smallest businesses with straightforward tax affairs) or commercial software. The IT system for doing this is already in place and can be used on a voluntary basis. Or the same system can (until 1 April 2011) be used to file online with other formats (e.g. PDF attachments).

In consultation, Companies House and HMRC have developed the current HMRC free-to-use software product so that it can be used as a joint filing tool. It uses a development of XBRL called inline XBRL that produces both computer-readable information and normal 'human-readable' information in the same document. The product is template based, and all branding and layout is preserved and the receiver sees exactly what is sent by the company in the same format.

The product has been enhanced to allow the accounts 'subset' that Companies House requires to be submitted at the same time as data to HMRC. Companies and agents using the HMRC product will

have the choice of using the new joint filing facility to file their accounts to both organisations. Companies House have also upgraded their own service to support submission by commercial software providers.

HMRC has published on its website a detailed guide entitled "Filing your Company Tax Return online - a beginner's guide". This can be found at <http://www.hmrc.gov.uk/ct/online-return.pdf> and sets out the current process for filing online and will be updated to take into account joint filing.

The new joint filing process will present the user with a series of dynamic questions. On beginning completion of the information, the customer selects if they want to use the Accounts template and if so whether they want to file to Companies House too. The customer has to enter Companies House details. The template then contacts Companies House and data is pre-populated from their records.

Once the company has completed inputting the accounts they then select that they are ready to send the relevant set (either abbreviated or full) to Companies House. They would then submit online and once submission was successful they would then click link at bottom of page to complete tax return sections.

Information is available for software developers through technical packages that are published by HMRC & Companies House on their respective websites.

Assumptions

Private companies have 9 months and public companies 6 months to submit their accounts to Companies House after the end of each accounting reference period. This differs from the HMRC requirement. The deadline to pay Corporation Tax is before the deadline to file a Company Tax Return. Generally Corporation Tax must be paid 9 months and one day after the end of the company's Corporation Tax accounting period and the return and accounts must be filed by 12 months after the end of the same period. It is assumed that for an efficient business in the long term, the total number of companies taken forward in the costs and benefits section below will have all the information needed to complete both their Corporation Tax Form (CT600) in addition to their accounts to joint file 9 months after the end of their accounting period, i.e. 3 months ahead of the HMRC deadline.

Costs and Benefits

Benefits to Business – Administrative burdens

The administrative burdens relieved from this policy option are calculated using the Standard Cost Model. More information relating to this model can be found in the annex.

The reduction in administrative burdens has been calculated using approximately 275,000 companies who we expect to take advantage of the joint filing system. This consists of fewer than 200,000 companies using the HMRC product and the remaining using third party software. Sending their accounts to both HMRC and Companies House online in the same format and/or at the same time we have assumed joint filing will give an average saving of £2.43 per company. This results in the administrative saving of just under £700,000 per annum.

Benefits to HMRC – Compliance costs

All the benefits to HMRC are captured in the impact assessment for CT mandatory online filing. The additional benefits to HMRC of this joint filing initiative are negligible.

Costs to Business

There will be a cost to businesses for familiarising themselves with the new changes and reading through the published guidance to decide whether they want to joint file. This has been estimated using approximately 275,000 companies each taking 15 minutes. It is assumed the work will be carried out by an accounting professional at a cost to the business of £24 per hour. This results in a one-off cost of approximately £6.00 per company giving a total one-off cost estimated at £1.6million.

For businesses using the HMRC product and opting to use the Accounts Service (estimated just under 200,000 companies) they have to check a box to opt in to joint filing. This creates an additional administrative burden for the company. This is calculated again using an accounting professional at a cost to the business of £24 per hour taking approximately 30 seconds to tick either yes or no to joint filing.

It assumed at this stage that the worker will have all the knowledge to make the decision. Therefore the administrative cost for all companies is estimated to be just under £40,000 per annum.

Information has been made available for commercial software developers to incorporate joint filing into their products. It is assumed that any third-party software enhancements will be included in what are regular 'enhancement' updates and no specific cost will be passed on to the business.

Costs to HMRC

Enhancements to the HMRC product for filing accounts and returns online to allow for joint filing to occur has totalled to a one-off cost of £1.8million. There is also an annual IT support service for joint filing costing £58,000 per annum. The training of staff to use this system and for writing the guidance for joint filing is estimated to be negligible.

Specific Impact Tests: Checklist

Full details of the specific impact tests are listed at: <http://www.berr.gov.uk/files/file44548.pdf>. These have been applied to the options considered in this assessment

Competition Assessment

Following initial screening, we identify that the new process will not affect competition.

Small Firms Impact Test

There is no negative impact from the joint filing service: the service is voluntary to use and Companies can continue to file by paper with Companies House if they choose.

Compulsory online filing to HMRC from April 2011 is not assessed here but in the CT mandatory online filing impact assessment (previously published on 12 February 2009). Consultation with small businesses indicated that small businesses are willing to conduct business with HMRC electronically provided that online services are reliable, easy to access and simple to use. 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. The HMRC product was designed at the outset to be used by businesses with a turnover of £6.5 million or less with simple tax affairs and is based on the short CT600 with supporting pages A, E & J only.

Legal Aid

After initial screening, we identify that that there are no legal aid impacts associated with this process.

Sustainable Impact Test

HMRC has committed to five principles of sustainable development:

1. Living within environmental limits
2. Ensuring a strong, healthy and just society
3. Achieving a sustainable economy
4. Promoting good governance
5. Using sound science responsibly

After initial screening, we identify that the joint filing process will not impact on the first test as there is no environmental limitation. The new process will promote good governance, through justifiably relieving the burden on those that are required by legislation to file company information with HMRC & Companies House and who choose to use the joint filing service. That in turn supports the principle of a just society and a sustainable economy by making use of tested and available computer software, and reducing a dependence on paper.

Carbon Assessment

After initial screening, we identify that the new process has no significant carbon emissions impact.

Other Environment

After initial screening, we identify that the new process has no significant other environmental impact.

Health Impact Assessment

Using the Department of Health's three stage screening questions, we identify that joint filing process has no significant impact on health or well being. A complete health impact assessment does not therefore need to be completed.

Race, Disability, Gender Equality

The initial screening tests have been fully considered we identify that no impacts upon race, disability or gender arising from the new process from HMRC's perspective.

The current HMRC product has a Welsh language version for customers completing the form, although the IT application converts the template labels on accounts back to English for submission to HMRC to meet Departmental English language requirements. Companies House have a similar policy of only accepting accounts in English. Companies House Solicitors advised that the way the IT application converts back to English breaches Companies Act legislation. As a result, the Joint Filing service is only available in English

The CT mandatory online filing legislation does exempt companies where all directors can prove that based on their religious beliefs it would be inappropriate for them to use computers. However, joint filing is a voluntary extension only and this exemption does not need to be extended.

The Joint Filing template is based on the Adobe Reader product. Accessibility standards for this are under development by the World Wide Web Consortium (W3C). HMRC tests the template where appropriate against the W3C AA accessibility standards for web based products. The Joint Filing template passed all HMRC tests.

Human Rights

After initial screening, we identify that the new process does not impact upon human rights.

Rural Proofing

After initial screening, we identify no indications that the joint filing process will impact differently in rural areas.

Specific Impact Tests: Checklist

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

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

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

Annexes

HMRC is subject to quantified targets to reduce one aspect of compliance costs in particular; the admin burden on business of disclosing information to HMRC or to third parties. This burden is assessed through the 'Standard Cost Model', an activity-based costing model which identifies what activities a business has to do to comply with HMRC's obligations, and which estimates the cost of these activities, including agent fees and software costs.

The 'Standard Cost Model' (SCM) has been used to derive an estimate of the costs to business of complying with HMRC obligations to disclose information to HMRC or to third parties. The SCM considers which activities a business has to do to comply with an HMRC obligation, how many businesses have to comply, and how often they need to comply. The SCM considers the burdens applying to different sizes of business.

The SCM estimates the costs of using agents; the costs of undertaking work in-house; and the costs of actually transmitting the information. The SCM does not consider one-off costs or transitional costs. The SCM does not consider costs which a business would have incurred anyway had the relevant HMRC obligation not existed. It considers the costs which apply to a normally efficient business and the costs to businesses which comply. The SCM does not consider wider compliance cost issues, such as the costs of business uncertainty, cash flow costs, or the costs of deciding whether or not to do something.

The Impact Assessment template requires SCM figures to be presented in May 2005 prices, as admin burden reduction targets relate to a May 2005 baseline. The Impact Assessment also uplifts those figures to current day prices.