

Summary: Intervention & Options

Department /Agency:
HMRC

Title:
Impact Assessment of Payments, Repayments and Debt

Stage: Consultation

Version: 1.0

Date: November 2008

Related Publications: Payments, Repayments and Debt: the developing programme of work - June 2007; Responses to consultation and proposals - Jan 2008; Responses to consultation and proposals - March 2008; Payments, Repayments and Debt: the next stage – Nov 2008.

Available to view or download at:

www.hmrc.gov.uk/consultations

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

HMRC was created out of the former Inland Revenue and HM Customs & Excise departments in 2005. The powers of the former departments were carried forward to the new department unchanged. Some of these inherited powers are inconsistent and can impose undue costs on taxpayers and the Exchequer. The Review of Powers, Deterrents and Safeguards has been examining payment, repayment and debt management with the intention of modernising powers and achieving efficiencies. This programme of work requires changes to primary legislation and some changes were introduced in Finance Act 2008 (FA2008). This consultation is a continuation of that work.

What are the policy objectives and the intended effects?

The objective is to deliver more efficient systems for payment, repayment and debt management through a more taxpayer focused approach, making it easier for taxpayers to pay and enabling HMRC to tackle debt more effectively. The intended effect is to produce a fairer, modernised payment, repayment and debt collection system that more fully supports those who wish to pay what they owe on time, helps those who may have difficulty paying and takes more effective action against those who would seek to gain an advantage through not meeting their liabilities or delaying payment.

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

- 1) Do nothing and continue with present legislation and processes for payment, repayment and debt collection; or
- 2) A package of measures including: payment instalment schemes to allow more flexible payment of income tax and corporation tax; collecting small debts through Pay As You Earn; award of costs in successful court actions; tracing missing debtors and making greater use of financial securities.

Option (2) is preferred. It would provide greater focus on the taxpayer rather than the debt, make it easier to pay tax and improve the effectiveness of debt collection.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Post implementation review would take place around three years after the full implementation of any option.

Ministerial Sign-off For consultation stage Impact Assessments:

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



Signed by the responsible Minister:

Stephen Timms MPDate: 3 November 2008

Summary: Analysis & Evidence

Policy Option: 1	Description Do Nothing
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups'		
	One-off (Transition) Yrs			
	£ nil			
	Average Annual Cost (excluding one-off)			
£ to be determined		Total Cost (PV)	£ to be determined	
<p>Other key non-monetised costs by 'main affected groups' The cost of tackling debt would gradually increase as the effectiveness of current debt collection practices wane and the opportunity to take advantage of more cost effective methods was missed. Customers would need to meet lump sum tax bills without the facility to spread payment.</p>				

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'		
	One-off Yrs			
	£ nil			
	Average Annual Benefit (excluding one-off)			
£ nil		Total Benefit (PV)	£ nil	
<p>Other key non-monetised benefits by 'main affected groups'</p>				

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £ nil	NET BENEFIT (NPV Best estimate) £ nil
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What is the geographic coverage of the policy/option?					
On what date will the policy be implemented?					
Which organisation(s) will enforce the policy?					
What is the total annual cost of enforcement for these organisations?				£	
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?				£ n/a	
What is the value of changes in greenhouse gas emissions?				£ -	
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	£ nil	Decrease of	£ nil	Net Impact £ nil

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

Summary: Analysis & Evidence

Policy Option: 2a	Description Payment Instalment Schemes
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' It is envisaged that the most significant costs would come from one-off changes to HMRC's administrative processes and IT systems. Participation in a payment instalment scheme is voluntary. Costs to taxpayers would depend on which payment methods they used before and after joining such a scheme and number of payments made. These costs are being established as the proposal is developed in detail.		
	One-off (Transition) Yrs			
	£ to be determined			
	Average Annual Cost (excluding one-off)			
	£ to be determined		Total Cost (PV)	£ to be determined
Other key non-monetised costs by 'main affected groups'				

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'		
	One-off Yrs			
	£ nil			
	Average Annual Benefit (excluding one-off)			
	£ nil		Total Benefit (PV)	£ nil
Other key non-monetised benefits by 'main affected groups' Payment instalment schemes would enable businesses to better manage their cashflow. They would help taxpayers who struggle to meet their lump sum tax bills by spreading payment and support general compliance with tax obligations.				

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	United Kingdom				
On what date will the policy be implemented?					
Which organisation(s) will enforce the policy?	HMRC				
What is the total annual cost of enforcement for these organisations?	£				
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?	£ n/a				
What is the value of changes in greenhouse gas emissions?	£ -				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; background-color: #ffffcc;">Micro</td> <td style="width: 25%; background-color: #ffffcc;">Small</td> <td style="width: 25%; background-color: #ffffcc;">Medium</td> <td style="width: 25%; background-color: #ffffcc;">Large</td> </tr> </table>	Micro	Small	Medium	Large
Micro	Small	Medium	Large		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> </tr> </table>	No	No	No	No
No	No	No	No		

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £	Decrease of £	Net Impact £ to be determined

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

Summary: Analysis & Evidence

Policy Option: 2b	Description Collecting small debts through Pay As You Earn (PAYE)
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' The costs to HMRC of changes to IT systems and processes are being established as the proposal is developed in detail. There may be a small cost to employers where an employees' debt is coded out. This has been estimated at 50p for every tax code change. Employers may also incur costs in dealing with queries from employees. See evidence base for further details.		
	One-off (Transition) Yrs			
	£ to be determined			
	Average Annual Cost (excluding one-off)			
	£ to be determined		Total Cost (PV)	£ to be determined
Other key non-monetised costs by 'main affected groups'				

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'		
	One-off Yrs			
	£ nil			
	Average Annual Benefit (excluding one-off)			
	£ to be determined		Total Benefit (PV)	£ to be determined
Other key non-monetised benefits by 'main affected groups' Individuals' payment would be made in instalments and safeguards are built into the process to protect their level of income. It would reduce the cost to HMRC of collecting small debts.				

Key Assumptions/Sensitivities/Risks This assumes HMRC's IT and accounting systems will be robust enough to handle this process on a large scale.

Price Base	Time Period	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
Year	Years	£	£

What is the geographic coverage of the policy/option?	United Kingdom			
On what date will the policy be implemented?				
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£			
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?	£ n/a			
What is the value of changes in greenhouse gas emissions?	£ -			
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 £	Decrease of £	Net Impact	£ to be determined

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

Summary: Analysis & Evidence

Policy Option: 2c	Description Award of costs in successful court actions
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' The implementation costs for HMRC are likely to be relatively low. Taxpayers taken to court will incur greater costs than the court fees charged at present. Both sets of costs are being established as the proposal is developed in detail.	
	One-off (Transition) Yrs		
	£ negligible		
	Average Annual Cost (excluding one-off)		
	£ negligible	Total Cost (PV)	£
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'	
	One-off Yrs		
	£ nil		
	Average Annual Benefit (excluding one-off)		
	£ to be determined	Total Benefit (PV)	£ to be determined
Other key non-monetised benefits by 'main affected groups' The Exchequer is compensated for the cost of recovering debts through the courts which means that compliant taxpayers do not bear this burden.			

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	England, Wales & NI				
On what date will the policy be implemented?					
Which organisation(s) will enforce the policy?	HMRC				
What is the total annual cost of enforcement for these organisations?	£				
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?	£ n/a				
What is the value of changes in greenhouse gas emissions?	£				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; border: 1px solid black;">Micro</td> <td style="width: 25%; border: 1px solid black;">Small</td> <td style="width: 25%; border: 1px solid black;">Medium</td> <td style="width: 25%; border: 1px solid black;">Large</td> </tr> </table>	Micro	Small	Medium	Large
Micro	Small	Medium	Large		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; border: 1px solid black; text-align: center;">No</td> <td style="width: 25%; border: 1px solid black; text-align: center;">No</td> <td style="width: 25%; border: 1px solid black; text-align: center;">No</td> <td style="width: 25%; border: 1px solid black; text-align: center;">No</td> </tr> </table>	No	No	No	No
No	No	No	No		

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £ Nil	Decrease of £ Nil	Net Impact £ nil

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

Summary: Analysis & Evidence

Policy Option: 2d	Description Tracing missing debtors
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' The implementation costs for HMRC are likely to be relatively small with existing processes being extended. These costs are being established as the proposal is developed in detail. There would not be a cost to the taxpayer but there would be an administrative burden placed on third parties. The burden would depend on the volumes of requests which are the subject of consultation.	
	One-off (Transition) Yrs		
	£ to be determined		
	Average Annual Cost (excluding one-off)		
	£ to be determined		
Total Cost (PV)		£ to be determined	
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'	
	One-off Yrs		
	£ nil		
	Average Annual Benefit (excluding one-off)		
	£ to be determined		
Total Benefit (PV)		£ to be determined	
Other key non-monetised benefits by 'main affected groups' This proposal reduces the ability of taxpayers to avoid contact with HMRC, enables HMRC to pursue the debt more promptly and reduces the amount of tax debt written off due to the taxpayer being untraceable. It would give organisations statutory cover to pass customer details on to HMRC.			

Key Assumptions/Sensitivities/Risks

Price Base	Time Period	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
Year	Years	£	£

What is the geographic coverage of the policy/option?	United Kingdom
On what date will the policy be implemented?	
Which organisation(s) will enforce the policy?	HMRC
What is the total annual cost of enforcement for these organisations?	£
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?	£ n/a
What is the value of changes in greenhouse gas emissions?	£ -
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 £	Decrease of £	Net Impact £ to be determined

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

Summary: Analysis & Evidence

Policy Option: 2e	Description Greater use of financial securities
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' The taxpayer may be charged for particular forms of security for example a bank would charge for providing a bank guarantee. Where a cash deposit is lodged with HMRC, interest is not calculated. Costs to customers and HMRC are being established as the proposal is developed in detail.
	One-off (Transition) Yrs	
	£ to be determined	
	Average Annual Cost (excluding one-off)	
£ to be determined	Total Cost (PV)	£ to be determined
Other key non-monetised costs by 'main affected groups'		

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'
	One-off Yrs	
	£ nil	
	Average Annual Benefit (excluding one-off)	
£ to be determined	Total Benefit (PV)	£ to be determined
Other key non-monetised benefits by 'main affected groups' High risk businesses would be more likely to meet their tax obligations. Any security would be subject to a de minimis limit to exclude customers liable for a small amount of tax.		

Key Assumptions/Sensitivities/Risks

Price Base	Time Period	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
Year	Years	£	£

What is the geographic coverage of the policy/option?	United Kingdom
On what date will the policy be implemented?	
Which organisation(s) will enforce the policy?	HMRC
What is the total annual cost of enforcement for these organisations?	£
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?	£ n/a
What is the value of changes in greenhouse gas emissions?	£
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 £	Decrease of £	Net Impact £ to be determined

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

Evidence Base (for summary sheets)

HMRC consulted on these ideas as part of Review of Powers, Deterrents and Safeguards including publication of *Payments, Repayments and Debt: The Developing Programme of Work* in June 2007. A summary of the responses to that consultation was published in *Responses to Consultation and Proposals* on 10th January 2008 and legislation for some of the proposals was included in Finance Bill 2008. HMRC has been considering the remaining ideas in the light of the responses. A further consultation document *Payments, Repayments and Debt: the next stage* is published today which reflects this developed thinking, with draft legislation for some of the proposals to be published separately. The Powers Consultative Committee, which consists of representatives of the wider taxpaying community including small business, has considered the ideas in this consultation document at an earlier stage of the review.

These proposals will mean that HMRC can more fully support those who wish to pay what they owe on time, help those who may have difficulty paying and take more effective action against those who would seek to gain an advantage through not meeting their liabilities or delaying payment.

In the impact assessment, benefits and costs are considered for both taxpayers and HMRC. Certain costs to business qualify as administrative burdens. The technical definition of “administrative burden” is a specific, measurable sub-set of the costs to business of implementing tax legislation or dealing with HMRC forms, audits and inspections. The methodology is contained in the Standard Cost Model available at <http://www.hmrc.gov.uk/better-regulation/admin-burdens.htm>

(a) Payment Instalment schemes

Current Situation

Some taxpayers get into financial difficulties when they fail to provide for tax¹ such as self assessed income tax where payment is due once or twice a year. Research² has indicated that small businesses would like a more flexible system that offers the opportunity to make tax payments more frequently than at present and could help them better manage their cash-flow. Qualitative research with customers that had been in tax debt found that the idea of paying tax on a monthly basis was warmly received by participants³. In consultation, individual taxpayers and small businesses said that they would like the opportunity to take advantage of different payment arrangements. Possible models were discussed at consultation workshops. Feedback was positive and some alternative ideas were suggested.

This year, a new system has been launched to improve HMRC’s ability to collect and manage direct debit payments. The system will enable customers to schedule one-off payments of tax and facilitates budget payment plans for income tax: spreading payment towards future liability. Payments can be varied or suspended but the total paid should satisfy the liability by the due date. Customer surveys have estimated that up to 1 million SA customers will join such a payment plan.

¹ For the purposes of this document tax is taken to include all the taxes, duties and national insurance contributions for which HMRC is responsible. Taxpayer should be taken to include anyone paying all such taxes, and also, unless the context says otherwise, those receiving tax credits and child benefits. It also includes those paying tax on behalf of another person.

² Analysis of the impact of the tax system on the cash flow of small businesses: a Report for HM Revenue and Customs (HMRC) by Small Business Research Centre (SBRC), Kingston University, November 2005.

³ A summary of this research is given in Chapter 2 of the HMRC consultation document ‘Meeting the obligations to file returns and pay tax on time: consultation responses and refined models’, November 2008

How this measure will work

There would be two types of payment instalment schemes. The first model would see the extension of the income tax budget payment plan (outlined above) to corporation tax. In such a scheme, all the payments would be made *in advance* of the due date and there would be the facility to miss a payment or vary the amount of an instalment as long as the liability was met by the deadline. The second model would also apply to corporation tax and income tax. It would give taxpayers the facility to make regular monthly payments based on their liability but the payments would *straddle* the due dates, with the payments in advance of the due date balanced by those made in arrears. Interest and surcharges would be suspended in such an arrangement.

Benefits

Payment instalment schemes would enable businesses to better manage their cashflow whilst making regular payments to HMRC. The schemes would help taxpayers who struggle to meet their lump sum tax bills by spreading payment, enabling people to budget more easily and avoid getting into arrears. While the second model would be open to all taxpayers, for those in arrears it would only be available if they agreed to pay off the debt (which could also be done in instalments).

Further benefits may accrue from the payment method used in such a scheme. For example, direct debit would give both the customer and HMRC the advantages of speed and certainty.

Costs

The costs to HMRC are being considered alongside the detailed development of the schemes. The proposal and costs will be guided by the need to be affordable to the Exchequer and not impose undue burdens on the general body of taxpayers.

Administrative Burdens

The first model would have little impact on the administrative burden on businesses as there will be no additional requirement to make more payments than under the current payment regime. A normally efficient business will be able to make payments as frequently or infrequently as they require to optimise their administrative costs and any other considerations such as cashflow. A business would only see an increase in administrative burden if it felt that there were compensating benefits elsewhere.

In the second model, for those taxpayers already in arrears, additional payments to clear their debts would be outside the administrative burdens target (which measures burdens on the compliant only). For the compliant, there will be some additional administrative burden in the increased number of payments which taxpayers will be required to make to settle their liability, but this may be partially offset by a reduction in time taken to make payments as taxpayers move from a one-off payment by cheque, to a regular, less onerous, electronic payment method.

(b) Collecting small debts through the PAYE system

Current Situation

HMRC already collects small underpayments of income tax through the PAYE system by adjustments to an employee's tax code. An examination of tax returns for 2006/7 showed that 317,000 SA taxpayers elected to have underpaid tax from 2005-06 and earlier coded out. The total amount covered was £125m at an average of £395 each.

This proposal would extend this facility to collect any small debt owed to HMRC. Consent from the taxpayer would not be a pre-condition but HMRC would offer this route as a choice until a particular date. If the debt remained unpaid after this date then HMRC would have the option to collect the debt through PAYE. A taxpayer would, as now, be able to appeal against their tax code.

The views on this proposal in previous consultation were mainly favourable, recognising this as a sensible and proportionate method to collect small debts as long as there were safeguards against hardship and a taxpayer's right to appeal.

How this measure will work

Work is underway to establish how current systems and processes could be extended to enable the collection of any small debt through PAYE.

Benefits

Small debts account for a small proportion of the value but a large proportion of the volume of tax debts. This proposal would reduce the cost to HMRC of collecting small amounts whilst allowing taxpayers to spread payments. There are safeguards built in to the process to protect the level of the taxpayer's income. Taxpayers would not bear any costs, unlike distraint and county court action where they pay the costs associated with these actions.

Costs

HMRC costs are being worked up. These will include the transition costs and the ongoing costs of incorporating payment into the taxpayers' codes and handling the attendant enquiries.

A small cost may be incurred by employers. HMRC estimates there would be a cost to employers of about 50p for every tax code change. This is based on an assumption it will take 3.5 minutes for an employer to deal with a coding notice manually and 2 minutes for an employer using software. HMRC welcomes any comments on the scale of these costs.

HMRC would provide employees with information about how their PAYE coding will change as the debt is collected. Individuals may also turn to their employer for advice on their PAYE coding. Material would be produced for employers and agents to explain the coding notices to their employees and clients.

Administrative Burdens

HMRC recognises there may be an additional cost of administering in year changes as outlined above. HMRC welcomes views on any additional administrative burdens this may impose.

(c) Award of costs in successful court actions

Current Situation

In the commercial world, a creditor is entitled to include court fees and legal costs in his claim against a debtor in the County Court. HMRC cannot claim legal costs because officers of HMRC are normally neither solicitors nor paralegals nor litigants in person.

How this measure will work

This measure would apply to England, Wales and Northern Ireland. It would allow HMRC to claim fixed costs based on the value of the claim and thus align its position with other creditors. The proposal is to base the scale of costs on the scales currently in place in the county court and High court to recognise the higher value of HMRC claims.

This suggestion found broad support in consultation, although the point was made that adding costs to a debt simply adds to an individual's indebtedness.

Benefits

Currently, it is cheaper for the defaulting customer to be sued by HMRC than by other creditors. If HMRC were able to claim legal costs and thereby align its position with other creditors this would no longer be the case. The Exchequer would be compensated for the cost of recovering debts through the courts so compliant taxpayers would not have to bear this burden. As is the case now, where HMRC was not successful in securing judgment, the customer could claim the costs of legal representation and accountancy from HMRC.

Costs

Under this proposal, the defaulting taxpayer would pay legal costs as well as court fees. HMRC expects to take about 55,000 court actions during 2008/9. The scale of costs is given in the Annex to the consultation document. Further work is needed to determine the total cost that would be borne by defaulting taxpayers. HMRC would not incur major implementation costs. There would be some changes to guidance and accounting processes and minor enhancements to IT systems.

Administrative Burdens

This proposal falls outside the scope of administrative burdens.

(d) Tracing missing debtors

Current situation

HMRC makes every effort to ensure that the address information it holds is accurate and up-to-date, and uses a range of techniques to trace taxpayers who go missing including the extensive use of commercial databases.

However, there remain tax debtors that cannot be traced. The 2007 consultation suggested that HMRC should be able to require relevant third parties to disclose address and contact details of such missing debtors.

Responses to this proposal were fairly evenly divided. Those in support had little or no objection to requests from third parties, although the preference would be for any request to be made in writing rather than by telephone. Those against were concerned that client confidentiality or professional privilege might be breached if this power were to be given and that other sources of information should be searched before a third party was approached.

How this measure would work

The power would be operated by a specialised tracing unit within HMRC. In some instances HMRC already receives voluntary assistance from third parties. This proposal would ensure legal protection for this assistance. In other cases, this measure would enable HMRC to require third parties to provide the address or other contact details of a debtor. Such requests would be made to third parties in writing. There would be a penalty for non-compliance. Both the request notice and the penalty would be subject to appeal.

Benefits

This power would reduce the ability of taxpayers to avoid contact with HMRC, enable HMRC to pursue the debt more promptly and reduce the amount of tax that is written off due to the customer being untraceable. It would give HMRC additional means to find a taxpayer when other sources had been exhausted. While many third parties already comply voluntarily with such an approach, confidentiality undertakings and Data Protection issues currently inhibit co-operation. This measure would give such organisations statutory cover.

Costs

Previous work estimated the number of requests at fewer than 5,000 a year. The requests to third parties would be made manually after other information sources had been exploited. The cost to HMRC is still being explored.

There would not be a cost to the taxpayer but there would be an administrative burden placed on the third parties.

Administrative Burdens

Third parties likely to be affected are businesses such as tax agents, utility companies, banks and so on. The administrative burden would depend on the process for handling such requests and the volumes of requests received. HMRC welcomes any views on the cost of responding to such requests.

(e) Greater use of financial securities

Current Situation

HMRC requires some businesses owing or likely to owe indirect taxes and duties to provide security in order to ensure payments are met. The security can be in the form of a third party (usually a bank) guarantee or a cash deposit held with HMRC or paid into a joint HMRC/taxpayer bank account. This provision is most commonly used for VAT where the taxpayer has a poor payment record. In the year to March 2007, HMRC issued 2221 notices requiring security, seeking an average security of £41,363. The value of a VAT security is based on the tax at risk. In practice, the power is targeted at cases where the security would amount to over £10,000.

How this measure will work

The suggestion is to extend this provision to include PAYE, NICs or other direct taxes. The consultation asks for views on: the factors that should be considered in deciding whether to seek a security, whether the requirement to provide a security should be extended across taxes and the type of sanction that should exist for not providing a security.

Benefits

The extended use of securities would encourage greater compliance and secure revenue which might otherwise be at risk of non-payment. Of the customers required to give HMRC a security, many will be familiar with the way the system operates for VAT. The security will be based on the tax at risk and HMRC will operate a de minimis limit to ensure the measure is used proportionately.

Costs

HMRC costs are being explored. The systems and process currently used for administering VAT securities could be extended or new systems and processes introduced for a new regime. As above, the value of a security would be based on the tax at risk. Where the security is provided by a third party guarantee then the taxpayer may be charged for this facility. Interest accrues where the security is deposited into a bank account held jointly with HMRC and the interest is payable to the taxpayer but where a cash deposit is lodged with HMRC, interest is not calculated on the amount held.

Administrative Burdens

Administrative burdens are not calculated for non-compliant activity. However, HMRC recognises that the impact of this proposal would need to be targeted and monitored carefully so it does not become an additional burden on compliant businesses.

Specific Impact Assessments

Full details of the specific impact tests are listed at www.cabinetoffice.gov.uk. These have been applied to the high-level ideas presented in this consultation. They will be applied again to test the impact as more detailed proposals are developed.

Competition assessment

These proposals will not impact on any business's capacity to enter markets or compete rigorously within them.

Small firms impact assessment

Small firms are not exempt from these proposals.

Payment instalment schemes are intended to support small businesses and help them meet their payment obligations. The other proposals are aimed at non-compliant taxpayers. To exempt small businesses would be to exempt the vast majority of UK enterprises from changes which aim to level the playing field by tackling more effectively those who seek to gain an advantage through not meeting their liabilities or delaying payment. If a more flexible approach was offered to businesses of less than 20 or 50 employees then there would be a risk that larger businesses would disaggregate.

Views about some of the proposals were sought from a group of taxpayers drawn from the small business community and qualitative research was commissioned to better understand the issues around tax debt. HMRC has also consulted with representatives of small businesses.

By levelling the playing field, these proposals seek to assist small businesses which comply with their obligations.

Other specific impact tests

We have carefully considered whether these proposals will have any impact on:

- Legal Aid
- Sustainable Development
- Carbon Assessment
- Other Environment
- Health
- Racial Equality
- Disability
- Gender
- Human Rights, and
- Rural issues

And conclude that they do not impact.

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

