

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HMRC</b>	<b>Title:</b> <b>Impact Assessment for: Payments, Repayments and Debt: Responses to Consultation and the Next Phase</b>	
<b>Stage:</b> Final	<b>Version:</b> 1.0	<b>Date:</b> 27 March 2008
Related Publications: Payments, Repayments and Debt: The Developing Programme of Work (June 2007), Responses to Consultation and Proposals (January 2008), Responses to Consultation and Proposals – 27 March 2008.		

Available to view or download at: <http://www.hmrc.gov.uk/better-regulation/ia.htm>

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

The majority of taxpayers pay the correct amount of tax and pay on time. There are those who sometimes find it difficult to pay their tax at the time it is due. There are also those who delay paying their taxes for as long as they can and this can put those who do pay on time at a disadvantage. By streamlining the current processes HMRC will be able to help those who are having difficulty in meeting their tax obligations and deal with those unwilling to pay.

### What are the policy objectives and the intended effects?

The objective is to deliver more efficient and wider ranging systems for payment and repayment which will make it easier for taxpayers to pay and for HMRC to tackle debtors more effectively.

The intended effect is to produce a fairer, modernised payment and repayment system that more fully supports those who wish to pay what they owe on time, to support those who may have difficulty paying and to take more effective action against those who would seek to gain an advantage through not meeting their liabilities or delaying payment.

### What policy is being taken forward?

The legislation to be introduced will:

- extend the set-off of tax repayments against debts owed to HMRC across regimes;
- align HMRC's current enforcement powers so that it can take a single action to recover a debt owed by a taxpayer regardless of the type of tax involved;
- make payment by credit card more widely available.

These were generally supported in consultations and respondents welcomed the general aim of removing inconsistencies in HMRC's current enforcement powers.

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

Post implementation review will take place within 3 years of implementation.

### **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) the benefits justify the costs.***

Signed by the responsible Minister:

Jane Kennedy..... Date: 27 March 2008

## Summary: Analysis & Evidence

Policy Option: 1

Description: Extend use of setting off tax repayments against other tax debts

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' The most significant costs would come from the manual processing of set-off cases and these would fall to HMRC rather than taxpayers or the private sector (including employers and banks).
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	£ -		
	<b>Average Annual Cost</b> (excluding one-off)		
	£1.3M – 1.6M	<b>Total Cost (PV)</b>	£ 1.3M – 1.6M
Other <b>key non-monetised costs</b> by 'main affected groups' There may be a cost of communicating the set-off internally for organisations with different departments accounting for different taxes, or externally for those appointing separate agents for different aspects of their affairs.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Some taxpayers will avoid enforcement action, reducing costs for both HMRC and the taxpayer. This has not been possible to quantify prior to establishing the precise operation of the policy.
	<b>One-off</b>	<b>Yrs</b>	
	£		
	<b>Average Annual Benefit</b> (excluding one-off)		
	£ not quantified	<b>Total Benefit (PV)</b>	£ not quantified
Other <b>key non-monetised benefits</b> by 'main affected groups' The number of unproductive interactions between the taxpayer and HMRC will reduce.			

**Key Assumptions/Sensitivities/Risks** Up to £170m of debts are estimated to be settled earlier, with a consequent reduction in HMRC's debt balance. This is based on 10% of historical repayments being searched for potential set-off against debts. See evidence base for more details.

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

What is the geographic coverage of the policy/option?		United Kingdom		
On what date will the policy be implemented?		Royal Assent		
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?		£		
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

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)
Increase of £	Decrease of £	<b>Net Impact</b> £ n/a

Key: Annual costs and benefits: (Net) Present

## Summary: Analysis & Evidence

Policy Option: 2

Description: Align HMRC's current enforcement powers so that it can take a single action to recover a debt owed by a taxpayer regardless of the type of tax involved

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups'  The most significant costs are expected to arise from one-off changes to HMRC's systems, staff training and IT.	
	<b>One-off</b> (Transition)	<b>Yrs</b>		
	£ <b>Less than 1.5M</b>			
	<b>Average Annual Cost</b> (excluding one-off)			
	£		<b>Total Cost (PV)</b>	<b>£ Less than 1.5M</b>
Other <b>key non-monetised costs</b> by 'main affected groups'				

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups'  Reduced administration costs where currently there is action required for both direct and indirect taxes and reduced court costs for HMRC and taxpayers.	
	<b>One-off</b>	<b>Yrs</b>		
	£			
	<b>Average Annual Benefit</b> (excluding one-off)			
	£ <b>300K</b>		<b>Total Benefit (PV)</b>	<b>£ 300K</b>
Other <b>key non-monetised benefits</b> by 'main affected groups'  Extending the use of certificates of debt as evidence of non-payment will simplify the process within HMRC and standardise the information the court needs to consider.				

**Key Assumptions/Sensitivities/Risks** The changes to HMRC's powers to enforce payment through the courts will have effect on and after the date that Finance Bill 2008 receives Royal Assent. In England & Wales the power to take control of goods will come into effect in line with the appointed day for Schedule 12 to the Tribunals, Courts and Enforcement Act 2007.

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

What is the geographic coverage of the policy/option?			United Kingdom	
On what date will the policy be implemented?			As above	
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?			£	
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

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)	
Increase of £	Decrease of £	<b>Net Impact</b>	£ n/a	

Key: Annual costs and benefits: (Net) Present

## Summary: Analysis & Evidence

Policy Option: 3

Description: **Make payment by credit card more widely available**

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' groups' There will be a set up cost to HMRC to deliver changes to internal systems and processes. Due to the complexity of factors affecting taxpayer behaviour the costs to the customer are difficult to predict with any certainty. Ultimately, any merchant transaction fee would be passed on to those who pay by credit card, but this cost cannot be aggregated as we are unable to determine who will choose to pay by this method. The evidence base describes possible scenarios.	
	<b>One-off</b> (Transition)	<b>Yrs</b>		
	<b>&lt;£100K</b>			
	<b>Average Annual Cost</b> (excluding one-off)			
	<b>£Indeterminable</b>		<b>Total Cost (PV)</b>	<b>£ indeterminable</b>
Other <b>key non-monetised costs</b> by 'main affected groups'				

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Due to the complexity of the factors affecting taxpayer behaviour, the benefits are difficult to predict with any certainty though, as noted in the evidence base, we would only expect taxpayers to use this method if it is cost-effective for them to do so.	
	<b>One-off</b>	<b>Yrs</b>		
	<b>£</b>			
	<b>Average Annual Benefit</b> (excluding one-off)			
	<b>£ Indeterminable</b>		<b>Total Benefit (PV)</b>	<b>£ indeterminable</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Credit card facilities would provide improved flexibility and choice of payment method to the taxpayer. They may also help business and the self employed manage their cash flow; this would depend on the circumstances of the taxpayer which cannot be predicted. The evidence base describes possible scenarios.				

**Key Assumptions/Sensitivities/Risks** Accepting payment of tax by credit card has been viewed in the past as encouraging taxpayers into debt. However, recent consultation has shown that credit cards are used to manage cash flow, and may be a better alternative to other forms of finance. HMRC has improved its efforts to identify taxpayers who may be in financial difficulties.

Price Base Year 2007	Time Period Years	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £
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What is the geographic coverage of the policy/option?		United Kingdom		
On what date will the policy be implemented?		Autumn 2008		
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?		£		
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

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)
Increase of £	Decrease of £	<b>Net Impact</b>	£ Negligible

Key: Annual costs and benefits: (Net) Present

## Evidence Base (for summary sheets)

HM Revenue & Customs (HMRC) published for consultation “*Payments, Repayments and Debt: The Developing Programme of Work*” on 25 June 2007. This suggested options which would make it easier for taxpayers to pay their tax and be more effective in tackling non-payment. HMRC received many helpful and positive contributions, in writing, during face-to-face meetings and at a workshop for representative bodies held in September 2007. Following this another consultation was published asking for views on four of the original nine options in January 2008.

A summary of responses to the June consultation was also published in January 2008 along with draft legislation for some of the suggestions (“*Payments, Repayments and Debt: The responses to Consultation and Proposals*”). HMRC is now proposing legislating for three of these options.

Responses to the January consultations have now been received and reviewed. The alignment of HMRC powers was seen as a worthwhile simplification, and the package overall received general support. However there were concerns raised and, where possible, these have been reflected in changes to the proposed legislation. For example, the legislation has been amended to make it clear that where there is tax to be set off that the assignment to charity takes precedence to the tax obligation.

Other concerns will be addressed in the guidance that will accompany the implementation of the measures.

The collection of small debts through PAYE has been deferred so that HMRC can consider further the responses to this proposal and the operational impacts.

A full summary of responses to the January consultation has also been published to-day.

These proposals will mean that HMRC will focus less on the separate debts arising from each tax, and more on the whole of a taxpayer’s interaction with HMRC. This will mean the taxpayer can be supported in a more holistic way and, where subject to enforcement action, will be dealt with in a more joined-up and consistent manner.

By aligning the powers of the former departments of the Inland Revenue and HM Customs & Excise it is expected that this will improve services to the taxpayer and to the Treasury.

Three proposals are being legislated in the Finance Bill 2008. Draft legislation was included in the consultation document published on 10 January 2008 for proposals (1), (2) and (3) below.

## **Proposal (1) Extending setting off one tax repayment against other tax debts**

Instead of taxpayers having to manage receiving repayments and making payments across taxes, repayments can be set off against amounts owing and only the net balance need be paid or repaid.

There are significant overlaps between the different taxes, particularly for business. For example:

- 850,000 companies could be liable to pay both corporation tax and VAT, or receive repayments;
- 600,000 of these companies also operate at least one PAYE scheme;
- 200,000 non-corporate businesses pay income tax, are registered for VAT and operate PAYE.

### Benefits

Set-off is currently done within a single tax and between income tax and National Insurance Contributions. Such action may reduce taxpayers' contact with HMRC, reduce banking costs and eliminate unnecessary payment and repayment interactions.

Set-off across taxes where there is both an established debt<sup>1</sup> in one and an impending repayment in another will deliver benefits to the taxpayer of avoiding possible enforcement action and to HMRC of reducing the overall debt balance. Making greater use of set-off across different taxes would also help to realise the benefits of the merged Department.

Initially, set-off will be done manually until accounting systems are able to support greater automation across the whole range of the customer's financial dealings with HMRC. This measure paves the way for those greater benefits to be realised.

In 2006 work was conducted to assess the feasibility of setting off VAT repayments against CT debts. An automated matching exercise indicated that approximately 3% of VAT repayments by value could be set-off against CT debts outstanding.

More recently, a small scale case review was carried out to further explore the costs and benefits of setting off repayments and debts across the main taxes. Estimates are based on 2006/07 tax year repayments and debts.

The costs are those incurred by HMRC when the set-off process is done manually, as will be the case in the short term. The number of cases of manual set-off and hence the benefit will be determined by what can be done within existing resources. The costs and benefits of setting off tax repayments against tax credit debts have been excluded from the table.

- Three scenarios are presented to show the likely outcome for 10%, 20% or 30% of repayments being considered for potential set off against debts.
- From the trial we were able to estimate the likely staff costs, including overheads.
- The miscellaneous cost covers sending a letter to the taxpayer when a setoff is made, using the internal mail to send forms and schedules etc; assuming a cost of £10 per setoff.
- We were able to estimate the volume of debts which could be entirely set off and the monetary value they represented.

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<sup>1</sup> An established debt is a debt which is payable to HMRC at that time.

- Please note that the set off value cannot be taken in its entirety as a monetary benefit, as many of the debts would have been settled in time, without the need for set off.

The volume of debts satisfied by set-off represents a benefit to the taxpayers, as the debt is settled and they avoid further debt management action.

The results of the case review are summarised in Table 1.

Table 1	Scenario (% of repayments searched)		
	10%	20%	30%
Number of full time staff required	AO grade: 25 – 32 O grade: 3 - 7	AO grade: 49 – 64 O grade: 7 - 15	AO grade: 74 – 95 O grade: 10 - 22
Staff costs	£1.2M - £1.5M	£2.3M - £3.0M	£3.5M - £4.5M
Misc. costs	£0.07M - £0.15M	£0.14M - £0.29M	£0.21M - £0.44M
<b>Total Costs</b>	<b>£1.3M - £1.6M</b>	<b>£2.5M - £3.2M</b>	<b>£3.8M - £4.8M</b>
Number of debts entirely satisfied by set-off	4k – 11k	8k – 22k	12k – 33k
<b>Total value of debt set-off (full and partial)</b>	<b>£42M - £172M</b>	<b>£84M - £344M</b>	<b>£126M - £516M</b>

#### Assumptions and underlying data

Further detail is given of the trial results. Please note that the following includes partial set off cases, and New Tax Credit (NTC) cases which have been excluded from the main table. Consequently, these figures cannot be directly transposed into the main table, but are useful to understand the wider picture.

A case review of a randomly selected representative sample of repayments made during the 2006/07 tax year yielded the following results:

Repayment Head of Duty	2006/07 national picture		Sample	
	Number of repayments	Total repayment value £M	Number of repayments	Total repayment value £M
CT	741,534	4,738	103	0.9
SA	2,847,753	4,565	101	0.1
VAT	748,475	55,591	438	3.8

From the sample, estimates were made of the number of repayments in the 2006/07 tax year that could potentially be set off against a debt in another Head of Duty. The following table shows estimates of the national picture.

Repayment Head of Duty	Full set-off (k)	Partial and full set-off (k)
CT	15 - 81	20 - 90
SA	97 - 388	136 - 458
VAT	16 - 42	38 - 74
Total	156 - 455	229 - 559

Total value (£) of repayments suitable for set-off including full and partial cases:

Repayment Head of Duty	Total repayments (£M) in 2006/07 tax year	% of total repayment value suitable for set-off	Total suitable for set-off (£M), national picture
CT	4,738	0.1 - 4.8	5 - 227
SA	4,565	2.4 - 11.7	110 - 534
VAT	55,591	0.7 - 3	389 - 1,668
Total	64,894	1.0 - 3.1	645 - 2,014

Of the repayment cases which could be set off, the sampling exercise showed that the debt HoD varied. The following table shows the % of repayments able to set-off against debt, by HoD.

Repayment Head of Duty	Debt Head of Duty				
	PAYE	CT	NTC	SA	VAT
CT	67%	0	0	0	33%
SA	0	0	100%	0	0
VAT	26%	10%	32%	32%	0

### Calculation of staff numbers and costs

Estimates of the time taken to search each repayment for potential setoff were made during the sampling exercise. This is assumed to be carried out by AO grade staff:

Repayment Head of Duty	Average time spent investigating each repayment (min)
CT	11
SA	13
VAT	12
Overall	12

Once a repayment has a debt identified which is suitable for set-off, estimates suggest the time taken for accounting by staff at AO grade will vary both with the repayment HoD and the debt HoD as shown below.

Repayment Head of Duty	Debt Head of Duty				
	PAYE	CT	NTC	SA	VAT
CT	30		30	30	72
SA	30	30	30		72
VAT	90	90	90	90	

This is in addition to debt management activities (once a repayment has been identified as suitable for set-off) conducted at O grade, which have been estimated to take approximately 45 minutes.

The above data allowed an estimate of staff time to be made. The calculation assumed a staff member works full time for a full working year (213 days). Project rates (including salary and overheads) for 2007/08 were used for staff costs.

### Costs

In the short term, the most significant costs will be the manual processing of set-off cases. HMRC will also incur a small cost in amending guidance.

No additional information will be required by HMRC from taxpayers, nor should there be any additional accounting entries required. However, where an organisation has different people handling different taxes there may be a cost for communicating the set-off between the relevant people.

### Administrative burdens

The “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> but, by definition, the cases of set-off across taxes will affect taxpayers with established debts which are outside the scope of the model.

There was good support for the consultation proposals for setting-off repayments against debt.

**Proposal (2) Alignment of enforcement powers** so that a single HMRC action can be taken to recover the whole debt owed by a taxpayer regardless of the type of tax involved.

The responses to both consultations supported this idea. Greater clarity and consistency for all could be achieved from the alignment of the powers of the two former departments. The taxpayer will benefit from a more consolidated approach to debts owed to HMRC and HMRC will avoid having to take separate actions for different taxes owed by the same taxpayer.

## Distrain

### **Current situation**

At present HMRC cannot carry out one distraint action to cover both direct and indirect tax debts, to the detriment of the debtor and HMRC. The powers operate separately and cannot be combined which may mean HMRC having to take two separate actions at the same visit. In detail, the consequences of this are:

- Extended preparation time before the call is made to prepare two sets of distraint forms.
- During the call the distraint officer will carry out a distraint levy for the debt most appropriate to the value of the debtor's goods or, if there are sufficient goods, one for direct taxes and one for indirect taxes.
- The debtor may have to pay two sets of levy and possession costs.
- HMRC appearing to operate as two departments instead of one.

### Benefits

There are around 500, 000<sup>2</sup> distraint visits annually. Not all calls lead to a levy for the sale of seized goods, but there are around 11,000<sup>1</sup> levies annually.

Alignment creates the framework for HMRC to work the debts in a joined up way throughout the enforcement process. The findings of a three month trial linking debts across taxes suggested that approximately 25-30% of the indirect tax debts initially are susceptible to joint working which translates to a reduction of about 35,000 - 42,000 calls. This is a saving for HMRC and a benefit to the taxpayer who will be treated in a more holistic fashion.

The alignment legislation complements the changes to distraint ("taking control of goods") being brought about by the Tribunals, Courts and Enforcement Act (TCEA) 2007. Once both pieces of legislation are in force the debtor's goods can be taken into control in a single action under a common set of rules. This creates savings for HMRC in terms of the preparation of legal documents and additionally for the debtor as they will only be required to pay one set of costs. It is not possible to project the benefits as the date the TCEA comes into effect has yet to be announced.

### Costs

There will be a set-up cost to HMRC in changing the IT systems to produce one set of distraint papers covering all types of tax debt. (These costs are included in the county court section below.) Operationally there will be no extra cost to HMRC (the cost of implementing the Tribunals, Courts and Enforcement Act 2007 will be borne by HMRC anyway). There will be no additional costs to the taxpayer.

### County Court Proceedings

#### **Current situation**

HMRC cannot conduct court proceedings for both direct and indirect taxes in the same action. This prevents cases being processed automatically through the County Court Bulk Centre and from taking advantage of the reduced cost of each action as a result.

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<sup>2</sup> These figures are based on (a) actual figures for 2006/7 for direct taxes and (b) estimates based on 2004/5 for indirect taxes when the distraint process was contracted out.

Cases involving indirect taxes may be entered into the local court in the name of the Commissioners for Her Majesty's Revenue & Customs, but this is an entirely manual process which is labour intensive and costs more than the automated system in court fees, which are subsequently payable by the debtor. By aligning the system throughout HMRC this will reduce the cost of such cases and reduce the burden on the debtor.

### Benefits

Alignment will enable HMRC to operate effectively as one organisation when taking court action across different taxes and duties. There will be savings to the taxpayer in court fees which are subsequently paid by the debtor.

As stated above, in the autumn of 2007 a trial was run to link VAT debts to direct tax debts and work these linked cases in a unified manner. Applying information gathered in the trial to the VAT caseload for 2006/7, at least 7,500 claims for VAT or combined VAT and direct tax debt may be taken into County Court annually in the future. The overall figure is likely to be higher as:

- (a) the trial excluded cases where the trader had another VAT debt outstanding within the previous twelve months. Such cases form about half of the caseload and many of these would involve County Court proceedings;
- (b) the trial lasted three months with new debts being advised three times a month. Many of the debts were still being actively worked at the end of the three months. Some of these would be likely to progress to County Court subsequently.

It costs HMRC about £25 to put a case into court manually. Applying this to 7,500 cases, about £200,000 would be saved if the legislation is aligned and the process automated in the same way it is for most direct tax claims. Putting these cases into the County Court Bulk Centre would also lead to a saving of at least £10 per case in court costs which would be passed on to the customer. This comes to a total saving of £300,000 annually.

A small proportion of direct tax claims are currently put into court manually. Alignment will enable many of these to be entered into the County Court Bulk centre using the automated process as well.

### Costs

Changes will be required to internal systems, staff training and IT to extend the automatic processing of cases to indirect and combined direct/indirect tax debts. These costs are estimated to be less than £1.5 million.

### Certificates of Debt

These certificates help streamline court processes by summarising the evidence to show that tax owed to HMRC is unpaid. This measure will provide a common base for certification and will improve the process of tackling those who will not pay tax debts.

### Benefit

Of all the debts that HMRC currently collects, certificates of debt do not apply to Child Benefit Overpayments, Contract Settlements, National Minimum Wage Penalties and customs/excise duties. The extension of certificates would establish a uniform means of supplying evidence of non-payment across the taxes HMRC collects. This will help court processes run more smoothly and be simpler for HMRC to administer.

Certificates of debt are needed to support HMRC's claim in response to the defence from the taxpayer. HMRC is likely to take around 55,000 County Court actions this coming year. A small proportion of these will be defended, roughly 10-20%, varying according to type of debt.

### Cost

The production of certificates of debt is a manual process. This proposal will not reduce HMRC processing time. There is no cost implication to the taxpayer.

### Administrative burdens

Enforcement actions apply to all taxpayers in debt. The legislation will enable a more consistent taxpayer focussed approach and mean that more effective action is taken against those who would seek to gain an advantage through not meeting their liabilities or delaying payment.

### **Proposal (3) Making payment by credit card more widely available**

HMRC currently accepts credit card payments in very limited circumstances, such as paying customs duties at port and airports on imported goods. Responses to the June 2007 and January 2008 consultations suggest that all standard methods of payment should be accepted by HMRC. Representative bodies and taxpayers said that the option of paying by credit card could benefit small and medium size businesses which use credit cards to manage their money.

### Benefits

There are expected to be similar benefits to debit card payment including:

- greater convenience for the payer than using the post or visiting the bank etc;
- clearing the liability immediately;
- providing immediate reassurance to the taxpayer that the debt has been paid and stopping the HMRC interest charge more quickly than paying by cheque.

There are also particular benefits of credit card as a payment method:

- providing taxpayers with an alternative way of meeting their tax liabilities. Credit cards offer the taxpayer further choices to manage their finances;
- allowing taxpayers to take advantage of credit card features such as the interest free period, reward schemes etc.

There is anecdotal evidence that some taxpayers pay us with credit card cheques. These transactions are treated as cash withdrawals and usually attract higher costs than credit card purchases. A handling fee is charged of about 2% with a minimum of £2 up to a maximum of around £30; interest is charged immediately the amount is debited from the credit card account and at a higher rate than for purchases, usually above 20%.

We anticipate that taxpayers would only take up payment by credit card if it is cost-effective for them to do so but it is difficult to quantify the benefits from this provision, as the take up depends on taxpayer circumstances.

### Costs

There will be a cost to the taxpayer choosing this payment method as credit card transactions attract a merchant service charge. This is usually a percentage of the value of the transaction which varies depending on the credit card company and type of credit card. This charge will be passed back to the taxpayer. In principle, we would not anticipate taxpayers using this method of payment unless there are advantages to them in doing so.

There will be a set up cost to HMRC of under £100,000. This includes enhancing the current debit card systems to accept credit cards, amending guidance and staff training. Scenarios on page 13 describe the costs and benefits for taxpayers in various circumstances.

## Numbers of credit card payments

Figures published by APACS, the UK Payment Association, show that credit or charge cards made up 30% of card payments in the UK in 2006. The APACS figures have been used as a basis for possible scenarios showing numbers of credit card payments under different take up assumptions. Many retailers absorb the commission fee that HMRC intends to pass back to the taxpayers so the proportion of credit card payments for tax is likely to be lower than the APACS figure.

Table of debit card payments made to HMRC in 2006/7 and credit card take-up scenarios.

		<u>Credit Card Take Up Scenarios</u>		
<b>BROCS payments (PAYE)</b>				
Method of payment	Current no of payments	(10%)	(20%)	(30%)*
Debit Card Service (DCP)	12,372	<i>1,200</i>	<i>2,500</i>	<i>3,700</i>
BillPay System (NGB)	88,414	<i>8,800</i>	<i>17,700</i>	<i>26,500</i>
<b>COTAX payments (Corporation Tax)</b>				
Method of payment	Current no of payments	(10%)	(20%)	(30%)*
Debit Card Service (DCP)	7,494	<i>700</i>	<i>1,500</i>	<i>2,200</i>
<b>NTC payments (Tax Credits, repayment of overpaid awards)</b>				
Method of payment	Current no of payments	(10%)	(20%)	(30%)*
Debit Card Service (DCP)	78,868	<i>7,900</i>	<i>15,800</i>	<i>23,700</i>
<b>SA payments (Income Tax Self Assessment)</b>				
Method of payment	Current no of payments	(10%)	(20%)	(30%)*
Debit Card Service (DCP)	320,769	<i>32,100</i>	<i>64,200</i>	<i>96,200</i>
BillPay System (NGB)	423,870	<i>42,400</i>	<i>84,800</i>	<i>127,200</i>

Figures obtained from annual 2006/07 departmental management information report.

All figures in italics are estimates. They have been rounded to the nearest 100.

\*30% is the proportion of people paying by credit and charge cards as a % of card payments in the UK in 2006 (based on APACS figures).

Payment figures relate to the two debit card systems that would be enhanced to accept credit cards.

It has been assumed that people who pay by debit card are the most likely to switch to payment by credit card initially as:

- they are familiar with the existing card payment systems;
- they will be made aware of the option to pay by credit card when using those systems;
- they will be conscious of the benefits of this method of payment.

For taxpayers paying by other methods, the initial level of awareness will be low: information about credit cards will be available on the internet site and payslips will be amended in the annual review cycle. There is a general trend to switch from cheques to electronic methods but there is not sufficient data to predict how many of these payments will shift to credit cards versus other payment methods.

There may be additional payments from taxpayers choosing to pay by credit card and manage the debt themselves rather than accumulating surcharges or proceeding down the enforcement process but this cannot be quantified.

### How this might work in practice

Some examples follow of the likely direct costs to the taxpayer of paying HMRC by credit card and leaving the money in the bank to gain interest, or having a debt owing. These examples do not take into account any benefits to the taxpayer of being able to manage their cash flow (which will naturally vary between taxpayers depending on how they manage their finances).

For the purposes of illustration we have assumed that the taxpayer has a liability of £1000, a bank savings account paying 6% APR interest (assuming 4.8% net as interest is taxable), a credit card charging interest at 15.9% APR; assuming HMRC charges credit card commission of 1.6% back to the taxpayer, an interest rate of 7.5% for late payments of ITSA and CTSA and surcharges and penalties for late payment as follows (these are currently under review):

- ITSA – Interest runs from the due date to payment date, regardless of the reason for late payment. In addition there is a surcharge of 5% of tax unpaid 28 days after the due date and another 5% of tax unpaid 6 months late.
- CTSA - Interest runs from the due date to payment date regardless of the reason for late payment. There are no surcharges.
- VAT - Surcharges are based on the number of times the return and/or payment are late during a rolling 12 months period. After a warning the surcharge starts at 2% of VAT unpaid and rises to 5%, 10% and 15% geared to the amount paid late. Each transgression keeps the 12 month rolling period going. There is no surcharge at 2% and 5% where the value would be under £400. There is no separate interest, unless understatement is found.
- PAYE – While there is no interest on in year PAYE payments, there is interest from 19 April after the end of year PAYE.

Paying by credit card on the due date, keeping the money in the bank and paying off credit card bill at end of month (taxpayers able to pay)

- Interest accumulated on £1000 in bank savings account: £4
- Paying credit card company in full at end of month: £0 interest charged
- Credit card commission paid to HMRC: £16
- Total benefit of paying by credit card: minus £12 (plus any loyalty benefits)

Paying by credit card on the due date and paying off the credit card bill at end of 3 months (taxpayer has a short term cashflow problem)

- Paying credit card company in full at end of 3 months: £40.28 interest charged
- Credit card commission paid to HMRC: £16
- ITSA – interest/surcharge HMRC would have charged: £68.75 (£18.75+£50 (28 days late))
- CTSA – interest HMRC would have charged: £18.75
- VAT – no surcharge payable for first or second offence; for a third offence £100 and fourth offence £150 would be charged.
- Total benefit of paying by credit card:
  - ITSA £12.47
  - CTSA minus £37.53
  - VAT 1<sup>st</sup> and 2<sup>nd</sup> offence minus £56.28,
  - VAT 3<sup>rd</sup> offence £43.72,
  - VAT 4<sup>th</sup> offence £93.72

The impact on taxpayers will depend on their financial circumstances, the terms of their credit card, type of tax, size of liability etc. This cannot be predicted with any certainty so aggregate figures cannot be estimated. The scenarios above give some indication of the factors that may inform their decisions.

Administrative burdens

The impact is likely to be negligible. Paying by credit card will take about the same time as debit card. There will be a decrease in the administrative burden for all individuals and businesses which had previously paid by cheque. Credit card is an additional payment method aimed at increasing choice and flexibility.

## Specific Impact Tests: Checklist

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

### Where to find this document

This document can also be accessed from the HMRC internet site:  
<http://www.hmrc.gov.uk/better-regulation/ia.htm>

Hard copies are available from the address below. The Review team can be contacted by telephone on: 020 7147 3223.

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### Confidentiality

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