

Summary: Intervention & Options

Department /Agency: HMRC	Title: Impact Assessment of The Excise Movement and Control System	
Stage: Final	Version: 1.0	Date: 15 February 2010
Related Publications:		

Available to view or download at:

<http://www.hmrc.gov.uk/ria/#full>

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

The new Excise Movement and Control System (EMCS) is designed to control the movement of excise duty suspended goods within the EU and will be introduced in three stages from 1 April 2010. It will facilitate legitimate trade throughout the EU by replacing existing paper-based systems (in use since 1993) with an electronic system. It will also offer excise businesses the ability to communicate with HMRC and other Member States administrations electronically. The precise design and implementation of the EMCS is governed by EU law.

What are the policy objectives and the intended effects?

The objective of this policy is to implement the EU directive with little or no extra burdens on business. Introducing EMCS will allow business and excise administrations to operate in a paperless environment which will reduce administrative burdens on business, improve efficiency and minimise fraud. In addition the system will permit a more integrated, faster and risk oriented control approach for the excise authorities and will enhance HMRC/UKBA's operational response to fraud.

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

1. Do Nothing
2. Implement the required reforms under EU Directive 2008/08.

This option complies with the UK's legal obligation and has been developed in conjunction with trade bodies. This option minimises the cost to and impact on UK trade and also reduces administrative burdens significantly. This is the preferred option.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? HMRC will conduct a review within 3 years.

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:

Date: Sunday 28 February



Summary: Analysis & Evidence

Policy Option: 2	Description: Implement the required reforms under EU Directive 2008/08
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' HMRC expects one-off costs of £50.4m for the implementation of EMCS. Businesses are expected to incur one-off costs for acquiring 3 rd party software and training staff. Annual costs include the obligation to enter the data into the electronic system.	
	One-off (Transition)	Yrs		
	£ 50,500,000	1		
	Average Annual Cost (excluding one-off)			
	£ 7,900,000	5	Total Cost (PV)	£ 85,000,000
Other key non-monetised costs by 'main affected groups'				

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Businesses are expected to experience administrative savings as a result of EMCS. EMCS will reduce the cost of paper storage, photocopying and postage, as well as the time taken to complete the documentation.	
	One-off	Yrs		
	£ 0	1		
	Average Annual Benefit (excluding one-off)			
	£ 20,700,000	5	Total Benefit (PV)	£95,000,000
Other key non-monetised benefits by 'main affected groups' The introduction of the electronic system will help HMRC/UKBA better target, respond and intervene in excise fraud. A reduction in losses through fraud will provide additional revenue to the Exchequer.				

Key Assumptions/Sensitivities/Risks

The administrative costs for the paper system were estimated using the Standard Cost Model. These were then updated to reflect EMCS.

Price Base Year 2010	Time Period Years 5	Net Benefit Range (NPV) £ N/A	NET BENEFIT (NPV Best estimate) £ 10,000,000
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What is the geographic coverage of the policy/option?			UK		
On what date will the policy be implemented?			1 April 2010		
Which organisation(s) will enforce the policy?			HMRC		
What is the total annual MRC of enforcement for these organisations?			N/A		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			No		
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?			N/A		
Annual cost (£-£) per organisation (excluding one-off)		Micro £-500	Small £-500	Medium £-3,000	Large £-6,000
Are any of these organisations exempt?		No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)			(Increase – Decrease)		
Increase of	£ 6,400,000	Decrease of	£18,900,000	Net Impact	£ -12,500,000

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

Background and Overview

The movement of goods liable to excise duty, where that duty has been suspended, between EU member states is currently controlled using a system that is paper based. This system has been in operation since the introduction of the Single European Market in 1993 and has proven over time to be burdensome to business and open to abuse and fraud.

On 16 December 2008 the European Parliament adopted Council Directive 2008/118 concerning the general arrangements for excise duty. The directive provides the legal base for the Excise Movement and Control System (EMCS) which will computerise the movement and surveillance of excise goods in duty suspension.

Duty suspension is the term used to refer to the production, storage, holding or movement of goods liable to excise duty without payment of duty. Duty is payable only when the goods leave suspension, either legitimately for example when they leave an approved warehouse to be sold in retail premises, or irregularly, for example when irregularities take place during a movement in suspension, such as the goods not reaching their legitimate destination.

Policy Objective

The Excise Movement and Control System (EMCS) is an EU wide online service for the movement of excise duty suspended goods. It will replace the current paper based system which has proven over time to be open to fraudulent abuse, with a fully computerised system. Authorised operators will exchange electronic messages containing specific consignment and movement information with their trading counterparts throughout the EU, linking over 150,000 traders in 27 national administrations across the EU, 24 hours a day, 7 days a week.

EMCS will improve the control of duty-suspended movements by means of validation of data and real time notification of dispatch and receipt of goods within the EU. It will perform a risk based assessment of the movement to support enforcement and compliance efforts.

Each Member State will develop their own national EMCS application (to the EU agreed specification) and these systems will be linked to all other Member States through a central domain, maintained by the European Commission. If the system is unavailable for any reason then there is a provision for a paper based fallback system which enables business to continue trading until such time the system is restored.

EMCS will be introduced in three separate Functional Stages (FS) and these are:

FS 0 - From 1 April 2010 all Member States must be able to deliver the FS 0 functionality, that is be able to receipt movements sent via EMCS from other Member States.

FS 1 - By 1 January 2011 all Member States must be in a position to generate movements to other Member States using EMCS. Member States have the discretion to decide whether they will be ready to implement FS 1 functionality on 1 April 2010, or introduce it between then and January 2011. The UK will be introducing FS1 on 1 January 2011. Member States may provide simplified procedures for movements which take place solely on their territory. HM Revenue and Customs will however provide EMCS for intra-UK movements, to enable businesses to benefit from the savings afforded by it. Businesses will have the flexibility, if they so wish, to continue to use existing manual systems for certain intra-company movements which take place solely within the United Kingdom.

FS 2 – The final functionality is to be introduced by all Member States on 1 January 2012, and enhances alerts and message flows between administrations.

UK Requirements under EU Law

The Excise Goods (Holding and Movement and Duty Point) Regulations 2010 will transpose Chapters I to V of Council Directive 2008/118/EC (“the Directive”) concerning the general arrangements for excise duty and repealing Directive 92/12/EEC. These Regulations do not transpose Chapter VI of the Directive, which is transposed by other provisions.

Some of the provisions in the Directive reproduce provisions that were in Directive 92/12 /EEC which had already been transposed in the UK in, for example, the Excise Goods (Holding, Movement and REDS) Regulations 1992, The Excise Duty Points (Duty Suspended Movements of Excise Goods) Regulations 2001 and provisions in various product specific Regulations determining the duty point and the persons liable to pay the duty.

However, the Directive contains a number of new provisions and, in particular, provides the legal basis for EMCS which replaces the paper based system that was contained in Directive 92/12 and transposed in the UK by the Excise Goods (Accompanying Documents) Regulations 2002.

Consequently, the general approach in the Regulations has been to follow, as far as possible, the wording and structure of the Directive and to transpose within the one set of Regulations those provisions that reproduce what was in Directive 92/12 (and were transposed by the regulations referred to in paragraph 2 and the new provisions that introduce EMCS.

Policy Options

1. Do Nothing

We would be in breach of the provisions of the directive, and would be liable to infraction proceedings being brought against the UK by the European Commission. We would also be out of step with the rest of the EU, and UK business would be at a competitive disadvantage if they were unable to use the same system as their European business partners and competitors. The UK authorities would also be prevented from exchanging data with other Member States’ administrations.

2. Implement the required reforms under EU Directive 2008/08.

This option complies with the UK’s legal obligation, and has been developed in conjunction with UK business. This option reduces administrative burdens, and provides savings for business as a result of using electronic rather than manual systems.

How EMCS will work

To access the system businesses will need to register with HMRC’s online services (if they haven’t already done so) and then register and enrol for EMCS. Thereafter they will be able to access the Portal application from a hyperlink. As an alternative they may purchase 3rd party software rather than use the Portal, but they will still need to register and enrol with online services.

Costs and Benefits

Benefits to Business

There are approximately 3,700 Authorised Warehousekeepers and other HMRC registered traders expected to benefit from EMCS, through administrative savings. It is estimated that the net impact across all businesses will be a saving of around £13m annually. This net effect is the result of around £21m efficiency savings and around £7m in additional costs.

The cost and efficiency savings that EMCS enables are expected to recur annually; businesses are not expected to experience any one-off benefits.

EMCS will provide a swifter discharge of the movement guarantee required to be provided by businesses to cover the potential duty losses during a duty suspended movement. This is because a consignor would immediately receive notice of the arrival of his goods at their destination, a notice which would have the same effect as the current copy 3 of the paper document whose return means that the guarantee is released, discharging the guarantor of all other further responsibility for the movement. This

may reduce the commercial costs of providing those guarantees imposed on business by the financial institutions, thereby enhancing cash flow opportunities.

EMCS eliminates the obligations related to paper storage, photocopying and postage and their associated costs. Data entry costs are also expected to reduce for some businesses, as there is the potential to create the basic data required by EMCS directly from existing warehouse and stock management computer systems. EMCS may also eliminate some burdens such as notifying the tax authorities- functions that will become automated.

Intra-EU duty suspended movements currently use a paper form called an Accompanying Administrative Document (AAD). Copy 3 of the AAD is returned to the consignor upon receipt of the goods by the consignee.

The Standard Cost Model provided an estimate of 500,000 movements of this type annually.

- The administration costs associated with this paper system were taken from the SCM.
- The estimates from the SCM were then updated to represent the burdens using EMCS.
- The changes resulting in benefits to the business are listed here:
 - All costs related to copying and filing paper were removed.
 - All costs relating to paper storage were removed.
 - All postage costs were removed, as the new system will rely on electronic messages.
 - The cost of filling in the paper form was removed. This was then replaced with a new obligation to complete the electronic form.
 - The cost of notifying the tax authorities was removed, as this will be automatic.
 - The cost of amending the destination of the goods was reduced, as EMCS is expected to simplify this process.

Intra-UK duty suspended movements currently use a paper form called a W8. The W8 is similar in structure and content to the AAD. Consequently, businesses will experience the same savings for their intra-UK duty suspended movements as described for intra-EU movements. EMCS is expected to save around £5m annually for intra-UK transactions.

Benefits to HMRC

EMCS will help compliance and enforcement staff in HMRC/UKBA to better target, respond and intervene to tackle excise fraud. It is one of a range of tools at their disposal, and will underpin a package of initiatives driven by strategies to improve the impact on reducing losses from excise fraud.

Costs to Business

There will be some one-off costs incurred by business in setting up the system, particularly where they decide to align their existing electronic systems to interface with EMCS. Estimates of between £10,000 to £100,000 have been indicated but the trade has confirmed that they are willing to absorb these to achieve compliance and secure the benefits described once the system and associated processes are up and running.

Training and familiarisation activities will also be one off costs, expected to take around half an hour. Each of the 3,700 businesses are expected to train one user of EMCS, using the online information available; this will cost less than £100,000.

Businesses purchasing externally developed software expect to incur a cost for each transaction they make via EMCS. This cost will recur annually, and has been estimated at £1 per duty suspended movement. This assumption gives an annual cost of £900,000 across all businesses.

There will also be some additional administrative costs, recurring annually, though their impact is expected to be minimal. These include activities such as checking that the movement is authorised before beginning the consignment.

The costs to business were estimated using the same methodology as described in 'Benefits to Business'. The changes resulting in costs to the business are listed here:

- A new obligation was designed to include the costs of completing the electronic form.

- Additional obligations were added for the businesses to check email notifications.
- An additional cost was added for maintaining the EMCS system. This included the cost of electronic storage and licensing.

Costs to HMRC

EMCS will be introduced in three functional stages from 1 April 2010, 1 January 2011 and 1 January 2012. The cost of implementing EMCS for the first two functional stages (to January 2011) is £50.4m.

The costs relating to the third functional stage to be introduced in January 2012 will not be known until the financial year 2010/11 and a separate, further Impact Assessment will be completed at that time.

Calculation of Net Present Value Figures.

- The Net Present Values have been calculated to a five year horizon, discounting estimated future costs and benefits at a rate of 3.5%.

Rounding of figures.

- Annual and one-off costs and benefits have been rounded to the nearest £100,000.
- The 2005 Admin Burdens baseline figures have also been rounded to the nearest £100,000.
- The Net Present Value figures are rounded to the nearest £5m.

Consultation

Whilst HMRC has not formally consulted business on this change - it is not a discretionary matter (the system has to be designed to an agreed EU specification) it has worked closely with business during the development of the system. In addition to a concerted communication programme with newsletters and a dedicated website, there have been regular “user group” meetings with individual businesses of all sizes and trade federations as well as nationwide “road shows”.

Specific Impact Test

Competition assessment

EMCS will not impact upon the number or range of suppliers, or reduce the ability of the suppliers to compete.

Small firms impact test

The changes to the legislative requirements as a result of EU law apply to all businesses moving excise goods in duty suspension. Any concession to small businesses in the United Kingdom would adversely impact on their ability to trade with businesses in the rest of Europe who are using the EMCS.

HMRC has worked closely with all affected business sectors during development of the system. In addition to a concerted communication programme, there have been regular “user group” meetings with individual businesses and trade federations as well as nationwide “road shows”. EMCS will provide a number of potential cost and efficiency savings to businesses, from which small businesses should benefit.

Legal Aid

The proposal will not introduce new criminal sanctions or civil penalties, thus it will not impact upon the workload for the courts and Legal Aid.

Human rights

The proposal is compatible with the European Convention on Human Rights.

Carbon Assessment

The proposal will not significantly impact on carbon emissions.

Sustainable development

The proposal is within the environmental limits and promotes good governance and sound science.

Other environment

The proposal will not be vulnerable to the predicted effects of climate change. It will not impact on air quality, water pollution or waste management. It will not change the appearance of the landscape or townscape, pose a flood risk or change habitat and wildlife. It will not affect the number of people exposed to noise or the levels of exposure.

The health impact assessment (HIA)

The policy will not have a significant impact on human health or lifestyle. It will not change the demand on health and social care services.

HMRC has considered the following remaining impact and equality tests and has concluded that these areas are not significantly impacted by these reforms:

Rural proofing

Disability

Gender

Race

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.