

DRAFT PARTIAL REGULATORY IMPACT ASSESSMENT (RIA)

Electronic dividend vouchers and tax deduction certificates

Purpose and intended effect

1. Issue: Regulations are proposed to allow statutory dividend vouchers and tax deduction certificates to be delivered by electronic means. The Government do not intend to be prescriptive about the methods of electronic communication that may be used, but possibilities include sending PDF files by e-mail or making the voucher or certificate available on a secure website for the recipient to download. The change would be voluntary.
2. Objective: The aim is to support the Government's drive to encourage e-business, extending the number of statutory processes that can be carried out electronically. In the long term, the change is expected to deliver savings for companies, financial institutions and some discretionary trustees by reducing administration costs.

Options

3. There are four options:
 - do nothing,
 - require payers to provide dividend vouchers and tax deduction certificates in **both** paper form and electronically,
 - to make the change to electronic form mandatory; or
 - to make the change optional and subject to the agreement of both payer and recipient.
4. The commercial world is making ever greater use of electronic forms of communication and the Government is committed to e-business. Many individuals now also conduct their financial affairs over the internet. Consequently, the Government believes that doing nothing is not a realistic option.
5. Nor does it believe the second option to be acceptable – particularly because it would add to the burden of both payers and recipients.

6. The third option is also not acceptable because not everyone, principally individuals, has yet got access to electronic means of communication.
7. Accordingly, the Government believes that the fourth option is the only practical and sensible way forward.

Risks

8. Unless both parties agree to use electronic delivery of vouchers or tax deduction certificates, the current “hard paper” arrangements will continue. There is no perceived risk, subject to implementation of the usual security measures which any commercial body would want to put in place when communicating electronically with its customers.
9. The risk of abuse already exists with hard copies of dividend vouchers and tax deduction certificates. There is a risk that some non-resident shareholders would fabricate dividend vouchers in order to obtain the benefit of the tax credit (payable under some Double Taxation Agreements). A UK resident’s tax return or repayment claim form may include inflated or fictitious tax deductions to create a repayment. But there is no reason to believe that the risk of fraud would be increased as a result of electronic delivery of dividend vouchers or tax deduction certificates.

Benefits

10. Electronic dividend vouchers

- (i) Whenever a company pays a dividend, it is required by law to send a written statement (voucher) to each shareholder. The statement must be sent by post, and must show the amount of the dividend, the amount of the accompanying tax credit, and the date of payment. Most large companies use the services of registrars to distribute dividends to their shareholders (or custodians for delivery to overseas shareholders). Communication between company, registrar and shareholder is increasingly done by electronic means.
- (ii) The proposed change will allow companies, if they wish and the shareholder agrees, to send dividend vouchers electronically. This would reduce their costs, because it is normally cheaper to send a document electronically than through the post. Some companies and registrars would be able to realise the benefits immediately, if they have the appropriate systems in place, although there may be some initial set-up costs. Others might need to develop their existing systems before the proposal could be implemented, and could consider including the change along with any other improvements to their IT systems. While others might take several years before deciding to “spend to save” by putting in the necessary IT infra-structure.

- (iii) One company has estimated that annual savings might be in the region of £70,000 in the short term
- (iv) The benefits for investors would be improved customer service for those who prefer to do business electronically.

11. Electronic tax deduction certificates

- (i) Any persons, paying interest or making other payments from which they are obliged to deduct income tax must, when requested by the recipient in writing, send a written statement (certificate) showing the gross amount of the payment, the tax deducted, and the actual amount paid. Such certificates are also issued in connection with annual payments (such as annuities), patent royalties and charitable donations. Persons paying interest, annual payments or making income payments, include banks and building societies, local authorities, insurance companies, small companies, and discretionary trustees. Many banks and building societies now offer savers e-accounts and the option of electronic transfers. E-business will continue to grow as more and more people go online.
- (ii) The proposed change will allow payers of interest, annual payments, and other income from which tax is deducted, if they wish and the saver or beneficiary agrees, to issue tax deduction certificates electronically. This would reduce their costs, because it is normally cheaper to send a document electronically than through the post. Some companies, including banks and building societies, would be able to realise the benefits immediately if they have the appropriate systems in place, although there may be some initial set-up costs. Others might need to develop their existing systems before the proposal could be implemented, and could consider including the change along with any other improvements to their IT systems. While others might take several years before deciding to “spend to save” by putting in the necessary IT infra-structure. (Some of the very small building societies and friendly societies may not anticipate making the change in the foreseeable future.)
- (iii) The information gathered during the formal consultation process will provide useful information about the ability of banks, building societies, insurance companies, discretionary trustees and local authorities to cope with the proposed changes and about the costs or savings that might be involved.
- (iv) One building society has said “We have identified that there would be a reduction in postal costs, printing costs and reduced processing time with the added benefits of improved customer service.”.

- (v) The benefits for savers and beneficiaries would be improved customer service for those who prefer to do business electronically.

Vouchers, certificates etc relating to manufactured payments

12. Tax law requires certain statements, notices, certificates or vouchers to be sent when manufactured payments are made. Manufactured payments are made by the current holder of shares or securities to the original owner, to compensate the latter for non-receipt of the interest or dividends on those shares or securities. Most manufactured payments are made between major financial institutions, and typically arise during sale and repurchase agreements (repo) or stock loans.
13. The proposed changes will allow the institutions concerned to send these documents electronically, if they wish to do so. The benefits would be reductions in the costs of producing, sending, receiving, storing and retrieving the documents. The information gathered during the consultation process will enable the financial benefit to be estimated more accurately.
14. The Government issued a consultation document on 1st May 2003 proposing that all manufactured overseas dividends paid to non-UK recipients should be paid without the need to account for tax. This proposal would reduce the number of paper vouchers and certificates required, although the overall effect on the proposed use of electronic dividend vouchers is likely to be slight as the volume of manufactured payments are a very small part of the total.

Policy Costs

15. There are no policy costs in making the change.

Implementation costs

16. The proposed change is voluntary, and businesses and trustees are totally free to make a choice about whether to implement it or not. There is no timescale by which the changes must be in place, and if businesses or trustees choose to take advantage of the proposal, they can do so at a time convenient to them and at their own pace.

17. Electronic dividend vouchers

- (i) Companies or their registrars already have to collate and deliver to investors in paper form the information about the amount of the dividend, the amount of the accompanying tax credit, and the date of the payment which would be shown on the electronic voucher.

- (ii) There will be no additional costs for investors because no charge can be made by companies for dividend vouchers unless a duplicate has been requested.
- (iii) The costs to companies of implementing the change, by installing appropriate software, will vary, depending on whether the company has the IT infra-structure already in place, needs to upgrade its system, or has to put the IT systems in place from scratch.
- (iv) Even where a company's IT system is highly developed, facilitating electronic communication would probably involve them in some initial set-up costs. In addition, because shareholders will have the option of continuing to receive documents in paper form, there will be the cost of running the two systems in parallel. But as increasing numbers opt to receive their vouchers electronically, the costs will reduce.
- (v) There will also be some costs for the company in training staff and operating the system (although these bring the benefits already mentioned in paragraph 10).
- (vi) The information gathered during the consultation process will provide useful information about the ability of companies to cope with the proposed changes and about the costs or savings that might be involved.

18. Electronic tax deduction certificates

- (vii) As already mentioned (in paragraph 11(i), the potential breadth of the change is very wide, but in practice, banks and building societies are the most likely to take advantage of the change. Banks and building societies already have to collect, record, and return to the Inland Revenue details about gross interest paid, the tax deducted, and the net interest paid. Savers (and beneficiaries of discretionary trusts) can already request from their bank or building society (or trustees) in paper form the information about the total amount of the interest (or income) payment, the amount of income tax deducted, and the net interest (or income) payment which would be shown on the electronic certificate.
- (viii) There will be no additional costs for savers or beneficiaries of discretionary trusts because no charge can be made for a tax deduction certificate unless a duplicate has been requested.
- (ix) The costs to financial institutions of implementing the change, by installing appropriate software, will vary, dependent on whether the financial institution has the IT infra-structure already in place, needs to upgrade it's system, or has to put the IT systems in place from scratch.

- (x) Even where a bank's or building society's, or trustees' IT system is highly developed, facilitating electronic communication would probably involve it in some initial set-up costs. In addition, these organisations may have the cost of running the two systems in parallel. But as increasing numbers opt to receive their certificates electronically, the costs will reduce.
- (xi) There will also be costs for banks and building societies in training staff and operating the system (although these bring the benefits already mentioned in paragraph 11).
- (xii) The information gathered during the consultation process will provide information about the ability of banks and building societies to cope with the proposed changes and about the costs or savings that might be involved.

Securing Compliance

19. Since the change would be voluntary, no additional compliance activity would be required by the Inland Revenue. Guidance about implementing the change would be provided by the Inland Revenue for companies wishing to deliver dividend vouchers by electronic means and for companies, including banks and building societies, wishing to allow certificates of interest and annual payments paid and tax deducted to be requested and delivered electronically. Payers of dividends, interest and annual payments offering their investors the option of electronically delivered vouchers or tax deduction certificates would no doubt provide information about the change, to encourage take-up. In due course, the Inland Revenue will incorporate guidance in Tax Return Guidance Notes and Repayment Claim Guidance Notes.

Impact on Small Business

20. Smaller companies, banks, and building societies might face proportionally higher costs in setting up new systems to cope with electronic vouchers and tax deduction certificates. However, making the change is voluntary, and many small payers may choose not to change their existing procedures. We will be consulting with small payers to obtain their views on this.

21. The British Bankers' Association and the Building Societies Association, which represents a number of small banks and building societies, have already been consulted on an informal basis. We shall be seeking views from all members during the consultation period.

Competition Assessment

22. The measure would impact on the UK savings and investments market. There may be sub-markets where some firms have large market shares such as for registrars' services and stock broking services, but in the

general savings and investments market concentration is not high. (That is a small number of firms don't account for a large part of the entire market). It is not anticipated that the associated costs would significantly benefit or cost incumbent firms as against potential entrants. The costs would largely depend in each case on the appetite of consumers for the electronic service, as against the current service. This is not anticipated to be at variance in the customer base of incumbents as against the customer base of potential entrants.

23. If there is any impact of the proposed measure it may be a positive one through reduced costs of compliance and administration of paying agents and consumers. The reduced costs might feed through to retail product charges, thereby benefiting consumers and product market competition.

24. On this basis, we do not consider that a detailed competition assessment is needed.

Consultation

25. Some companies and financial institutions have already expressed enthusiasm for the proposed change. The Institute of Chartered Secretaries and Administrators, the British Bankers' Association and the Building Societies Association have welcomed it because it will give a choice to their members. Those wishing to develop their e-business in this way will have legislative backing to do so. Crestco and the registrars also welcome this proposed change; they believe it will lead to reduced costs in the longer term and encourage the development of electronic business. A three month period of consultation on the draft regulations will enable the detail to be discussed fully with industry representatives.

Monitoring and Evaluation

26. After the regulations have been in force for twelve months, we shall review the number of organisations that have opted to implement the change. However, at any stage we shall welcome feedback from business.

Summary and Recommendation

27. Companies and banks have been asking for the proposed change. Implementation would be in line with the Government's policy of enabling e-business. Businesses opting to send documents electronically would probably incur some set-up costs. But in the longer term the change is expected to deliver savings. Since the change would be voluntary there is no reason not to introduce the regulations.

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