

REGULATORY IMPACT ASSESSMENT: BURDENSOME TAX CHARGE ON MOBILE TELEPHONES LIFTED

1. The issue

One of the proposals in the recent Budget was that, from 6 April 1999, employees will no longer have to pay a tax charge on the private calls they make on mobile telephones provided by their employers.

2. The compliance burdens

Since 1991-92, where an employer provides an employee with a mobile telephone which is used for private calls, the employee has had to pay tax on an annual scale charge of £200. This has imposed an unwelcome record keeping and reporting burden on employers.

Employees could escape liability if they made no private use of the mobile telephone provided or if they were required to reimburse the full cost of any private use and did so. But that imposed further unwelcome compliance burdens on employees and employers.

3. The benefits

We have now taken informal soundings with a range of employers and attempted to quantify the compliance cost savings from exempting this benefit. On the basis of the assumptions in the Annex, we estimate that there could be compliance cost savings for up to 200,000 employers in the range of £3-10 million per annum, with a central estimate of £7.5 million a year, equivalent to more than one quarter of the £25 million yield from the tax.

4. Summary

Exempting this benefit will therefore remove a significant and disproportionate compliance cost burden from employers.

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ANNEX

COMPLIANCE BURDENS

1. In terms of the compliance burdens, there are three broad categories of response by employers to the ending of the benefits charge on mobile phones:

(i) some large and medium sized employers will decide to continue with their existing system of internal controls to record - and possibly limit - the use made of mobile telephones by their employees for private calls. This typically involves inspecting one month's mobile call accounts with employees reimbursing the cost of private calls made. Such inspections are generally the employee's responsibility but are subject to the employee's manager countersigning the claims. Such procedures would generally be sufficient, under a dispensation from the tax office, to avoid the £200 charge on employees for private use of the phones. The savings from ending the benefit charge are likely to be very small in these cases, as there will be hardly any reduction in record-keeping by employers and employees;

(ii) other large and medium sized employers will be at the opposite end of the spectrum to (i), and will take the opportunity to scrap their internal controls on private use of mobiles. This will generate a significant compliance saving for such employers, since it will enable them to dispense with their internal systems of recording and checking usage (plus the associated reimbursement) from 6 April 1999. There will also be savings from no longer having to report information on the P11D (the form on which employers report employee benefits to the Inland Revenue) for those cases where it was clear that there had been a private benefit but where records had not been kept. For example senior managers may be allowed unlimited personal and business calls, and so would have a P11D benefit recorded automatically for them. The

overall savings in all these cases will be significant in terms of time, effort and resources;

(iii) a number of small employers, and even some larger ones, may not have a detailed system of day-to-day controls for recording private calls by staff. The likelihood is that a mixture of business and private calls are made which is sorted out during the end-of-year internal auditing process, and results in the individuals being subject to the £200 standard benefit charge following reporting on the P11Ds. There will also be a number of cases where the benefit rules have not been applied properly; or where there has been some misunderstanding about their application, eg where the tariff structure has allowed “free” calls and it has been thought that no benefit arises. Overall, employers in this category are likely to make real savings from the ending of the charge - including those cases (several thousand cases a year at present) involving recovery of tax from the employer.

Compliance - numbers affected

2. There are currently some 13 million mobile phones in the UK, but there are no reliable estimates of those that are paid for by employers. The latest Revenue P11D records show about 350,000 employees with a taxable mobile telephone benefit.

3. In practice in many industries and in the public sector (notably in education), there are systems in place that seek reimbursement from employees for private calls; so that for every one employee with a taxable benefit on P11D, there may be up to ten employees who face no charge because they reimburse the full cost. Overall there could be up to 3.5 million individuals potentially affected by the ending of the tax charge on mobile phones, though only 350,000 of these are employees incurring a tax charge.

Compliance - Savings

4. Following the three categories (i)-(iii) above:

(i) around 5,750 employers, that is, around half of the 11,500 employers with 200 or more employees, representing 7¹/₂ million employees, will see effectively **no** compliance savings;

(ii) around 5,750 employers that is around half of employers with 200 or more employees, representing 7¹/₂ million employees, will see a significant compliance saving, as follows:

a) 750 employers saving £1,000 to £5,000 each

b) 5,000 employers saving £500 to £1,000 each;

taking the central estimate, this amounts to savings of about £6 million;

(iii) the 950,000 or so employers who employ less than 200 employees - and most of them have less than a dozen employees - are estimated to include at most 100,000 employers with employees for whom they submit a P11D with a mobile telephone benefit. If some allowance is made for the fact that there are also a number of employers who in fact make mobile telephones available to employees but where the employees make full reimbursement, there could be 200,000 employers in total who will benefit from the removal of the charge on mobile telephones. The saving in compliance could typically be £5 to £10 per employer, which represents an overall saving of £1m to £2 million.

Summary

5. On the basis of the soundings we have made with employers and on the assumptions made above, our central estimate of overall savings is £7.5 million (within a range of £3 million to £10 million) benefiting about 200,000 employers.