

## Summary: Intervention & Options

<b>Department /Agency:</b> HMRC	<b>Title:</b> New Risk-based Approaches to Employer Compliance Reviews (Review of Links with Large Business Proposal 6)	
<b>Stage:</b> Implementation	<b>Version:</b> Final	<b>Date:</b> 21 July 2008
<b>Related Publications:</b> Review of Links with Large Business publications in 2007 and 2008, available at <a href="http://www.hmrc.gov.uk">www.hmrc.gov.uk</a> .		

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 2006 Review of Links with Large Business identified the need for HMRC to introduce a new risk-based approach for undertaking employer compliance reviews. In the past, some businesses had found that these reviews were not always appropriately focused and the time and costs to resolve issues could be disproportionate to the amount of tax at stake. The new approach would be forward looking and based on system and control testing. Customers would benefit from a more focused and efficient approach, with a swifter resolution of issues and a greater focus on ensuring business processes are robust in the future.

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

The objectives are to develop:

- risk processes to enable HMRC to better understand large employer risk, resulting in better targeted activity, and
- appropriate activities and HMRC resource deployments to address the risks identified using a range of interventions - from education to full enquiry.

Improved risk identification will decrease the burden on the compliant, and all employers will benefit from a more focused, efficient approach with a swifter resolution of issues.

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

Option 1: Develop a "one size fits all" risk approach and review methodology that would be replicated nationally across HMRC and treat all large employers in exactly the same way.

Option 2: Develop a single national approach, but a more flexible one that would vary the type of intervention to match both the needs of individual employers, and any risks identified by HMRC.

Option 3: Develop a separate approach locally for each HMRC Directorate and their respective customers.

Option 2 is the preferred option.

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

The reform will be reviewed in stages, in line with its phased introduction. Precise timing is yet to be determined, but will take into account the links between this proposal and the other RLLB reforms.

### **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: 21 July 2008

## Summary: Analysis & Evidence

**Policy Option: Option 2 (preferred)**

**Description: Changing the way that investigation cases are selected and changing the intervention approach to employer enquiries**

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' The reform is not expected to affect the overall level of cost for employers as a whole. Individual firms could see a small rise or fall in compliance costs depending on their level of risk, need for guidance and level of compliance. The aim is for costs to be more proportionate to the risks being addressed.	
	<b>One-off</b> (Transition)	<b>Yrs</b>		
	<b>£ Negligible</b>	1		
	<b>Average Annual Cost</b> (excluding one-off)			
	<b>£ Nil</b>	p.a.	<b>Total Cost (PV)</b>	<b>£ Negligible</b>
<b>Other key non-monetised costs by 'main affected groups'</b> HMRC will incur a small one-off cost as the new procedures take effect (for staff training and so on), but this is not expected to be significant and will be absorbed within current budgets.				

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' The main benefit is an improvement in customer experience (shorter enquiry times, better targeting of risks, better education and guidance). These benefits cannot be quantified in monetary terms, but are nonetheless worthwhile and meet business needs.	
	<b>One-off</b>	<b>Yrs</b>		
	<b>£ Nil</b>	1		
	<b>Average Annual Benefit</b> (excluding one-off)			
	<b>£ Not quantifiable</b>	p.a.	<b>Total Benefit (PV)</b>	<b>£ Not quantifiable</b>
<b>Other key non-monetised benefits by 'main affected groups'</b> Improved risk assessment will enable HMRC to focus resource on the non-compliant, and also on those customers who require extra support and guidance. Low-risk and compliant firms will experience lighter touch interventions, with compliance costs likely to fall as a result.				

**Key Assumptions/Sensitivities/Risks** The benefits do depend on HMRC's risk assessment being accurate, customer relationships being well-managed and interventions being effective. Improved accuracy, and hence a greater focus on the non-compliant, should increase tax yield. HMRC will monitor developments continually and review these assumptions and effects where necessary.

Price Base Year: 2008	Time Period Years: p.a.	<b>Net Benefit Range (NPV)</b> <b>£ Positive (not quantifiable)</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ Positive (not quantifiable)</b>
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What is the geographic coverage of the policy/option?	National			
On what date will the policy be implemented?	ongoing from Apr-08			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ No change			
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?	£ Not applicable			
What is the value of changes in greenhouse gas emissions?	£ Not applicable			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro nil	Small nil	Medium nil	Large negligible
Are any of these organisations exempt?	Yes	Yes	Yes	No

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

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

## Evidence Base (for summary sheets)

### 1. The Issue

- 1.1 The Review of Links with Large Business, led by Sir David Varney, was commissioned by the Chancellor of the Exchequer to address business concerns about the nature of the relationship between large business and HM Revenue and Customs (HMRC). Government and business have a common goal of maintaining and enhancing the attractiveness of the UK as a place to do business in and to do business from. The relationship between large business and HMRC and the efficiency and effectiveness of the administration of the tax system are important in achieving this goal. The aim of this review was to fundamentally improve the nature of this relationship.
- 1.2 The Review of Links with Large Business targeted HMRC's largest business customers. The complexities of the tax affairs of these large complex businesses mean that they may have specific issues and needs. Nevertheless, HMRC believe that the principles underpinning the proposals arising from the Review of Links are equally applicable and relevant, albeit on a potentially different scale, to all of HMRC's business customers, be they large, medium or small and on this basis have extended many of the proposals to all our business customers.
- 1.3 The Review of Links with Large Business report, which can be found at <http://www.hmrc.gov.uk/large-business/review-report.pdf>, was published in November 2006 and identified four key outcomes that both business and HMRC wanted to see: -
  - Greater certainty;
  - An efficient risk based approach to dealing with tax matters;
  - Speedy resolution of issues; and
  - Clarity through effective consultation and dialogue.
- 1.4 HMRC wishes to improve the way in which employer compliance enquiries are conducted. The recommended option proposes a The consistent approach for all large employers, and one which ensures that each enquiry is proportionate to (1) the level of risk identified by HMRC, and (2) the needs of the customer in terms of support and guidance.
- 1.5 The overall level of audit and inspection activity is not expected to change, but the more proportionate approach means that there should be a shift away from low risk, compliant businesses, and towards those with greater risks, or with a greater need for support.
- 1.6 The approach relies on HMRC having effective customer relationship managers in place, and on the risk assessments themselves being as accurate as possible. This in turn depends on the quality of data used. HMRC intends to make better use of existing data rather than imposing additional information requirements on business, and will be monitoring the effectiveness of this approach. If circumstances arise where additional information is required (for example from the less compliant) then this is expected to be offset by faster resolution of the enquiry, and a reduced potential for problems in the future.
- 1.7 Overall, the reform is expected to improve the enquiry process for all customers and remove many of the problems that have been identified in the past.
- 1.8 HMRC conducts regular tax enquiries to help ensure that taxes are correctly paid, and that businesses are given the guidance and advice they need. The Review of Links with Large Business (RLLB), conducted by Sir David Varney in 2006, found that HMRC employer

compliance enquiries into large business were insufficiently risk driven. Some enquiries were conducted on a cyclical basis, rather than in direct proportion to the level of risk, or to business need. Some interventions:

- were not clearly explained to the customer;
- had no clear focus;
- were long in duration;
- involved extensive requests to access records; and/or
- eventually resulted in relatively small tax adjustments.

These characteristics potentially alienated the customer and deterred the forging of co-operative relationships. In addition it failed to ensure that sufficient emphasis was provided to support business in ongoing compliance. The RLLB recommended reform to address these concerns.

## **2. Policy Objectives and Intended Effects**

2.1 The objectives are to address the outlined issues by:

- developing an improved framework for risk-assessing business
- agreeing the nature, intent and extent of any necessary intervention
- sharing with individual businesses our understanding of any ongoing risk that they may need help with
- working with them to mitigate that risk; and
- encouraging voluntary compliance.

2.2 We aim to provide an outcome that:

- supports business aims in delivering their statutory obligations in a cost effective manner
- allows HMRC to protect the rights of individual taxpayers whose tax affairs are within the PAYE scheme; and
- maintains the appropriate flow of funds to the Exchequer.

## **3.Options**

3.1 The employer population affected by the RLLB is itself diverse, extending from businesses with large turnover or international presence but a small number of employees, to the country's major employers engaging many thousands of workers. Within HMRC, these firms have traditionally been allocated between two distinct HMRC directorates.

- The Large Business Service (LBS) handles the very largest firms (770 approximately)
- Local Compliance (LC) handles the remainder (although it is only the larger of those that are impacted by RLLB proposals)

3.2 The operational approaches used in each case, though similar in many ways, did have a number of fundamental differences. Any reform would need to strike a balance between consistency of approach, and the flexibility to adapt to individual customer needs.

3.3 The level of risk across the business population is also very variable, and a significant factor in determining the appropriate level of enquiry or intervention. In developing the options we have sought a solution that would present a proportionate response to both customer concerns and HMRC's need to address risk.

The three options considered were:

1. Develop a “one size fits all” risk approach and review methodology that would be replicated across both HMRC Directorates (Large Business Service and Local Compliance) and treat all large employers in exactly the same way.
2. Develop a single national approach for all Directorates, but a more flexible one that would vary the type of intervention to match both the needs of individual employers, and any risks identified in HMRC's risk assessment.
3. Develop a separate approach for each Directorate without aligning the risk or enquiry methodologies.

3.4 Based on the evidence and consultation, option 2 is preferred for the reasons specified below.

### 3.5 Option 1

Identification of the employer population and an analysis of previous compliance interventions enabled us to quickly establish that the level of support needed by individual businesses varied considerably. Some managed their affairs well and compliance interventions revealed few errors. Others had poor systems or displayed other indications of risk which suggested they might benefit from a different level of relationship management. It was clear that to offer an identical service to all customers would not only be resource intensive for HMRC but would place extra burdens on those businesses who in the main dealt with their affairs effectively. For this reason, option 1 has been rejected.

### 3.6 Option 2

The analysis of the population identified a range of business types and behaviours. These can help determine the nature of their contact with HMRC. At a high level:

- some businesses require contact regardless of the level of risk that they present by reason of the complicated nature of their taxation interactions
- some businesses rarely contact HMRC because they have confidence in their own systems; and
- some choose not to contact HMRC even when aware that errors have occurred.

3.7 By undertaking individual risk assessments HMRC would be able to determine, in partnership with the business, the level of support they need. For example, HMRC would avoid being intrusive where businesses are compliant and competent in the handling of their tax affairs. To facilitate this some businesses would need to move across HMRC directorates.

3.8 This approach has the benefit of providing a framework whereby business could work proactively with HMRC to determine the level of necessary contact. It also provides for a phased implementation that enables HMRC to fully engage with business without impacting on other core business deliverables.

3.9 Option 2 is the preferred option.

### 3.10 Option 3

3.11 Both HMRC Directorates (the Large Business Service and Local Compliance) have operated a different approach to risk assessment and case management. In simplistic terms, the LBS has dealt with the largest employers, and Local Compliance the remainder. This has resulted in uncertainty at the border between the two. Traditionally this has been managed internally by both formal protocols and local agreements. These have worked reasonably well, but the issue of consistency remains.

3.12 To develop a fresh approach that retained existing demarcations and limited the flexibility of options would have prevented HMRC from fully supporting the aims of RLLB of achieving appropriate customer engagement. Geographic structuring in Local Compliance would be unable to provide a 'whole customer view' where businesses were geographically spread, and would further formalise differences in treatment of customers across directorates. This approach would increase Departmental inconsistency, and fail to reassure customers and their agents.

3.13 Option 3 has been rejected.

## **4 .Consultation**

4.1 This took place in two forums, both the Large Employers Forum and an Agents Forum with additional market research undertaken as part of the wider RLLB consultation. The latter included bespoke research undertaken in respect of Proposal 6 (the focus of this Impact Assessment).

4.2 At the consultation events we were able to talk through the options, and (once option 2 had been identified as preferred) refine that option. Where concerns were raised we were able to either address these either by explanation or by process change.

4.3 Examples of concerns that were addressed included:

- a number of employers felt that new processes would cut through relationships already forged. HMRC were able to reassure them that this would be minimised and in some cases were able to restore contacts.
- agents were concerned that HMRC's risk assessment would not be open to challenge, and we were able to confirm that in sharing these with business we would be open to discussion of the issues raised.
- customers were supportive of those changes that brought greater certainty and consistency.

4.4 Agents were both positive and supportive regarding those aspects of the proposed changes that gave greater customer input into the manner and progress of our interactions and of our desired aims to support customers in respect of future compliance.

## **5. Costs and Benefits**

5.1 Options 1 and 3 have been rejected for the reasons stated. Option 2 offers a number of benefits to businesses at minimal cost to HMRC, and although most of the benefits cannot be quantified in precise monetary terms, they do form a strong case for reform.

5.2 The main benefits are:

- greater consistency of treatment across all large businesses

- better assessment of risk, enabling interventions to be geared more closely to those risks and hence to be proportionate
- better understanding of business needs, enabling HMRC to provide appropriate help and guidance during interventions
- improved focus on long-term compliance, by identifying problems early and providing appropriate advice to help business
- shorter enquiry times, particularly for the compliant and low risk
- reduced compliance costs for the same groups
- an improved focus on the non-compliant, resulting in a positive benefit for the Exchequer.

5.3 These benefits are difficult to quantify and HMRC will therefore be monitoring progress to ensure that the benefits are achieved, and measured where possible. The benefits will be, dependant upon:

- the development of new risk assessment procedures; and
- the introduction of new intervention approaches that will replace traditional compliance reviews. These changes will include the introduction of telephone contacts to resolve minor issues, and increasing use of written enquiries to help reduce disturbance at customer premises. Where visits are required, there will be a more focused approach that reduces the extent of records reviewed and the duration of the enquiry.

5.4 There are no significant costs to employers. Risk assessment will be based primarily on data already held by HMRC, or which are available within the public domain. The likelihood of businesses being asked to supply additional information upfront is low, and likely to be offset by the benefits of the reform generally. HMRC will monitor this aspect to ensure the new processes are proportionate.

5.5 HMRC itself has incurred some cost in training staff and setting up the new processes, although these costs are not large and have been absorbed within current budgets. In detail, in order to adopt the preferred option 2 both LBS and Local Compliance have embraced a significant change programme that required:

- guidance revision, resulting in improvements to national instructions
- population review, resulting in the movement of work both between and within HMRC business directorates. This allows us to provide a more customer-focused service.
- IT development in order to support both business change and management information requirements
- education and training for HMRC staff
- communication both internally and externally to ensure that the new procedures are understood and effective.

5.6 The overall impact of these initiatives will see a reduction in the compliance burden on those who are most compliant with a lesser reduction in respect of the non-compliant. There will also be a marked increase in the level of customer support provided as relationships outlined in the wider RLLB proposals develop.

5.7 These will arise as the following actions taken by both LBS and Local Compliance reach fruition in the coming months.

5.8 The main changes implemented are outlined below and Annex A provides an explanation of the changes made.

## **6. Actions taken within the Large Business Service.**

## 6.1 We have

- aligned our business population so that all customers in LBS will have clearer contact routes into the Department
- introduced a new risk based approach for Employer Compliance (EC) where the customer has greater direct involvement in determining both the method and outcome of HMRC enquiries.

6.2 Both these activities have been resource neutral, but have reduced direct customer interaction. In addition, we have

- adopted targets to reduce the number of small risks taken up and to clear old risks
- withdrawn the EC Questionnaire reducing a recognised customer burden
- introduced a risk assessment Aide Memoire for use internally by staff ensuring a greater business focus in our customer interactions.

6.3 Both of these approaches will reduce compliance costs for our customers. Finally we have

- appointed dedicated Tax Specialists to work with HMRC's Customer Relationship Managers (CRMs) giving the customer a named contact for EC issues
- changed procedures so that all dispensation and PAYE Settlement Agreement work for LBS customers is completed within the LBS providing the customer with a more consistent service.

6.4 To facilitate these changes we

- have delivered awareness workshops for CRM's undertaken to provide them with a high level view of Departmental Strategies for EC and to alert them to key areas of the business that impact significantly on EC. This will raise their awareness levels of EC issues and generate better and informed discussion with the customer
- are developing further training for EC staff to improve their technical knowledge. Intermediate training being developed to provide an accredited qualification on completion and introduction of training on NICs and Shares to up skill people in key areas of risk. The new intermediate training programme to be developed by May 2009
- are piloting a Processing "CRM" for some customers to bring a co-ordinated and focused approach to processing issues that cause them considerable difficulty. The pilot is to be evaluated later in the year.

6.5 These initiatives are being funded from within baseline costs (i.e. at no extra cost to HMRC) and seek to reduce future customer burdens.

## 7. Actions taken within Local Compliance

7.1 We have aligned our revised business population into two distinct groups, those who require

- regular ongoing relationships
- may require occasional support or risk based activity.

7.2 We have introduced a differentiated approach to risk assessment

- adopting the LBS approach on CM (Customer Manager) managed businesses, providing customer with named contact points
- introducing a risk-based approach for non CM cases that will result in less intrusive enquiries for many customers.

7.3 We have increased opportunities for our customers to disclose the extent of any errors without the risk of our opening a formal enquiry.

7.4 We have introduced a new process designed to give both the customer and HMRC assurance that statutory obligations are being met.

7.5 Both of these approaches provide opportunities to reduce the administrative burden placed on our customers, by reducing intervention time, and provide them with an open door at which to knock should they need help and support.

7.6 We are seeking to centralise Dispensation and PSA (PAYE Settlement Agreement) work.

7.7 To facilitate these changes we

- have introduced revised guidance and supported this through the delivery of awareness sessions for EC tax specialists in Local Compliance to provide alert them to key areas of the business that impact significantly on EC
- are involved in the development of further training for EC staff being led by the LBS.

## **8. Conclusions**

8.1 In both LBS and Local compliance the changes outlined above see a change of emphasis away from routine compliance activity, with a corresponding increase in the resource devoted to detailed risk assessment. Initially this will be done by analysing data already in Departmental or publicly available systems.

8.2 The outcome of this activity may result initially in increased customer contact as we work with customers to establish relationships. However for low risk customers the outcome will result not only shorter initial contact but will also determine the nature of contact required should future queries arise. This approach provides continued benefit for low risk customers that will also include greater opportunities for support where sought by the customer.

8.3 Whilst for those customer presenting higher risks our revised risk approach will see a more intense intervention procedure which will seek to work with the customer to seek early resolution of issues, it is expected that by April 2009 that at least 40% of RLLB customers will have low risk relationship status and therefore benefit from this approach with that figure rising as relationships develop.

## **9. Administrative Burden**

9.1 HMRC tracks one aspect of compliance costs in particular. The administrative burden on business is defined as the time and cost necessarily incurred by compliant businesses in retaining information and/or sending information to HMRC or a third party. The time and cost incurred during audits and inspections is included within this heading, although burdens arising through non-compliance are not.

9.2 In this case, we do not expect to see a significant change in admin burden at an aggregate level, primarily because many of the benefits are qualitative in nature. In addition, the total level of audit and inspection activity across all businesses is unlikely to change. There may be a shift from the compliant to the non-compliant, and the improved level of support for all customers may make it easier for them to comply with their obligations. However, most of the benefits (like

shorter elapsed times) are not measured by “admin burden” as narrowly defined. HMRC will use a range of performance indicators to measure progress accordingly.

## **10. Risks**

10.1 In formulating this approach we have identified a small number of risks.

- Risk Assessment may fail to accurately identify the nature or extent of specific risk, and this may result in unnecessary (or not enough) interventions. Although this risk remains, it is expected to be lower than it would be without the reform.
- This impact assessment has focused on employers, rather than employees. The new procedures will recognise that the employee is also a customer of HMRC.
- HMRC does need to manage some cultural change amongst compliance staff as the reforms are implemented.
- Customers may not fully engage with the new approach, although the earlier consultation suggests this is unlikely. The policy review will identify and address any problems, as well as confirming that the expected costs and benefits have been achieved.

10.2 Each of these will be monitored to ensure the reform has the desired effects.

## **11. Specific Impact Tests.**

Competition assessment

11.1 We would not expect this reform to have any material effect. Any reduction in compliance costs will improve competitiveness, but we would expect that impact to be fairly small. The increased focus on the highest risks will reduce unfair competition from non-compliant firms and HMRC will be monitoring the effects. All large business customers have an equal opportunity to benefit from the changes.

Small Firms impact test

11.2 The changes implemented have carefully considered for the potential impacts in respect of small firms impact test and there are no significant impacts identified. We do not believe the improvements to processes for larger firms will have any indirect effect on their smaller competitors' ability to compete.

Other impact tests

11.3 All the other tests in the annex have been considered, but are not materially affected by this reform.

## 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.**

<b>Type of testing undertaken</b>	<b><i>Results in Evidence Base?</i></b>	<b><i>Results annexed?</i></b>
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

## Annex A

This annex provides further detail on the reforms being undertaken within HMRC, and elaborates on the intended effects of those reforms.

### **Actions taken within the Large Business Service.**

We have

- aligned our business population so that all customers in LBS are covered for all taxes including employment taxes. With limited exceptions for specialised issues all employer compliance work on LBS businesses will be carried out within LBS. Where specialist teams outside of LBS carry out work on LBS customers this will be under the direction of the CRM (Customer Relationship Manager). This provides customer with a clear communication lines into HMRC and enables HMRC to develop better customer relationships
- introduced a new risk based approach for EC (Employer Compliance). We have abandoned the cyclical approach of full review work and moved to a new risk based approach under the direction of the CRM bringing it into line with the LBS Operating Model and Risk Framework. This new process makes better use of information already held within HMRC, requires the EC Tax Specialists to undertake risk assessment before approaching the customer or the CRM, will be more systems focused and enables the Tax Specialist to work with the customer to bring them to low risk status. It will enable compliance activity to be tailored both to the individual customer and the risk identified removing the 'one size fits all' approach to compliance interventions

Both these activities have been resource neutral, but have reduced direct customer interaction. In addition:

- EC has adopted targets to reduce the number of small risks taken up for intervention and to clear outstanding enquiries where the risks identified have only minor impacts.
- We have following customer consultation withdrawn the EC Questionnaire which was overly prescriptive, and introduced a Risk assessment Aide Memoir for use internally by staff. This encourages more analysis of risk and research to be undertaken before approaches are made to the customer and presents a much greater emphasis in understanding customer needs.

Both of these approaches will reduce compliance costs for our customers.

We have appointed dedicated Employment Tax Specialists to each of our businesses and they will work with the CRM and the customer on employment issues. This will include the negotiation of both Dispensation and PAYE Settlement Agreement ensuring consistency of treatment for those businesses with multiple PAYE arrangements. The EC Tax Specialist will work with the customer on a real time basis to deal with issues as they arise and will be the customers' point of contact with HMRC on EC matters, giving greater customer focus. This will enable us to develop consistency across businesses and sectors. EC Tax Specialists will be supported in respect of dispensations and PSA's by a dedicated central team.

## **Actions taken within Local Compliance**

We have aligned our revised business population into two distinct groups, those who:

- Require regular ongoing relationships- for the customers we have appointed customer managers and EC tax specialists and will offer a consistent process similar to that provided by Large Business Service customers.
- may require occasional support or risk based activity. For these customers, we have established a risk and contact history in a central database and arranged for the appointment of customer points of contact for the duration of any customer interactions

We have introduced a differentiated approach to risk assessment:

- adopting the LBS approach on CM (Customer Manager) managed businesses.
- introducing a risk-based approach for non CM cases that requires staff to consider customer impacts at the intervention planning stage, providing greater customer focus.

Both approaches requires the EC Tax Specialists to undertake risk assessment before approaching the CRM and / or customer and will be systems-focused and provide a framework that enables us to work with the customer to bring them to low risk status. It will require compliance staff to consider the nature of any proposed activity and seek management approval of the type of action proposed removing the 'one size fits all' approach to compliance interventions.

In cases where our enquiries do not reveal avoidance / evasion customers will be offered an increased opportunity to disclose the extent of their errors and provide HMRC with their calculations of lost duty. Such disclosures would have positive impacts for both the business and HMRC, in reducing enquiry times.

In addition we have introduced a new process designed to give both HMRC and the customer assurance that they are meeting their statutory obligations, to meet customer concern that they 'are getting it right' that will enable businesses to reduce the number of small risks taken up for intervention and to encourage voluntary disclosures through partnership working. We have introduced recording processes to measure the behavioural change by both HMRC and customers arising from this.

Both of these approaches provide opportunities to reduce the administrative burden placed on our customers and provide them with an open door at which to knock should they need help and support.

We are also seeking to centralise Dispensation and PSA (PAYE Settlement Agreement) work relating to this customer base through an established network of technicians to provide advice to both customers and EC tax specialists in order to support speedy resolution of issues and greater consistency. This will enable us to develop consistency across businesses and sectors.

To facilitate these changes we

- have introduced revised guidance and supported this through the delivery of awareness sessions for EC tax specialists in Local Compliance to alert them to key areas of the business that impact significantly on EC.
- Are involved in the development of further training for EC staff being led by the LBS.