

Summary: Intervention & Options

Department /Agency: HM Revenue & Customs (HMRC).	Title: Recommendations 4 and 8 of the Review of Links with Large Businesses, published by HMRC in 11/2006.	
Stage: Implementation	Version: Final	Date: 21 July 2008
Related Publications: HMRC approach to Compliance Risk Management for Large Business & Tax Compliance Risk Management Guidance for LBS Customers and Staff published 03/07 & 12/07.		

Available to view or download at:

[http://www. see links included within the papers below](http://www.see links included within the papers below)

Contact for enquiries: Janet Alexander

Telephone: 0151 703 8944

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

During the 2006 Review of Links with Large Business (RLLB), the large business community expressed concerns about the nature of the relationship and tone of engagement between large business and HMRC. In particular that HMRC's approach to risk should be efficient, effective and based on a risk assessment and risk working process that is shared with businesses and that is managed appropriately with a supporting Action Plan. To address this HMRC is introducing a new partnership approach that is open and transparent with businesses and their advisors.

What are the policy objectives and the intended effects?

The objectives are to:

- Develop in partnership with businesses and their advisors a risk review framework that will facilitate an open and transparent relationship between all parties.
- Provide greater clarity and certainty to business as to what the tax/duty risks are and the evidence on which they are grounded.
- Use action planning to deliver a managed process by which a speedier resolution of risks can be delivered.

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

The RLLB made 14 recommendations, all of which were accepted. The interaction between the 14 recommendations makes a traditional comparison of options impractical, and instead, the main proposals are presented separately for ease of reference. This particular assessment considers proposals 4 and 8 together (they are closely linked) and as such the preferred option is to implement both 4 (introducing a framework to ensure a risk-based approach to tax enquiries) and 8 (introducing action plans to speed up the progress of enquiries). Both will deliver benefits for business.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? In three years from the effective start date, circa early 2011. In the interim monitoring will be carried out quarterly.

Ministerial Sign-off For SELECT 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:	Description:
-----------------------	---------------------

COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' Broadly neutral after transitional period. In the short term, there will be increased information sharing and contact with HMRC Client Relationship Managers (CRM) and Customer Managers (CM). This one-off cost is expected to be offset by more efficient resolution in-year and this will leave average annual costs neutral or better.		
	One-off (Transition) Yrs			
	£ low			
	Average Annual Cost (excluding one-off)			
	£ broadly neutral		Total Cost (PV)	£ broadly neutral
Other key non-monetised costs by 'main affected groups' HMRC has incurred some one-off costs in implementing the proposals and in training staff to ensure effective delivery. These amount to £1.8m.				

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups' Key benefits are increased certainty, stability and predictability which have resulted from the reduction in 'low' value risks worked and 'quicker' settlement of high value risks. More transparent dialogue between business and HMRC is a shared benefit.		
	One-off Yrs			
	£ nil			
	Average Annual Benefit (excluding one-off)			
	£ small		Total Benefit (PV)	£ small positive
Other key non-monetised benefits by 'main affected groups' The value of transparent dialogue brings the certainty about the tax position of the business sooner than in the pre-Varney world. This has a considerable value. A further value is in the encouragement to undertake current transactions with expectation of the tax treatment being known sooner.				

Key Assumptions/Sensitivities/Risks i.) the majority of our customers want an open, transparent real-time working relationship. ii) HMRC does what it says it will with 'Low' risk customers. iii) we can still continue to provide the balance between customer focused activity and compliance. iv) targets and how HMRC have performed against them will be published in the HMRC annual report.

Price Base Year 2008	Time Period Years 3 to 5	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ small positive
-------------------------	-----------------------------	-------------------------------------	--

What is the geographic coverage of the policy/option?	U.K.			
On what date will the policy be implemented?	Phased to early 08			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ Nil			
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?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro na	Small na	Medium na	Large neutral
Are any of these organisations exempt?	Yes	Yes	Yes	No

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £	Decrease of £	Net Impact	£ negligible

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. 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, including the extended clearances service, 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 Proposal 4 of The Review of Links with Large Business and Proposal 8 specifically address, respectively, a risk based approach to dealing with tax matters and speedier resolution of issues. Consultation with Business after the publication of the Review of Links with Large Business report indicated that Large Businesses wanted HMRC to recognise the effort that they make in order to comply with their statutory tax compliance obligations.
- 1.5 In implementing proposal 4 HMRC has developed, in consultation with our customers and their advisors, a Risk Framework. This framework recognises that large businesses vary both in complexity and behaviours and these two factors mean that different businesses present different risks to HMRC and this should be recognised in the nature of the relationship. Where HMRC has confidence in how a business is managing its taxation obligations and the business is transparent on how it is achieving this then it can benefit from a low risk relationship.
- 1.6 In addition to the risk framework action has been taken by HMRC to substantially reduce the number of smaller risks taken up for enquiry and resolve smaller issues that were already under enquiry.
- 1.7 In implementing proposal 8 HMRC has put in place action plans for all issues that are under enquiry with large businesses. This is to give clarity to both businesses and HMRC as to how the issue will be progressed, who is responsible for the next action and the likely time to resolve the issue.

2. Policy Objectives and Intended Outcomes

2.1 The objectives of the risk framework and putting in place action plans can be summarised as follows:

- Reduce the number of small issues under enquiry with large businesses which are not material from their perspective and that historically added little additional revenue to the Exchequer.
- Provide clarity to large businesses of HMRC's evaluation of the tax compliance risk they individually present and clear guidance on how they can work with HMRC to change the evaluation if so desired.
- Reduce the elapsed times of enquiries.
- Redeploy HMRC resource from working small risks into tackling more significant risks with potentially more tax at risk.
- Improve the relationships between HMRC and large businesses and therefore encourage voluntary compliance.

2.2 The outcomes are expected to be:

- The UK is recognised by large businesses as being a good place to do business.
- Businesses are supported in delivering their statutory obligations in a cost effective manner

3. The Options

3.1 The Review of Links focused on prioritising the concerns of large business and developing, alongside large business, outcomes and proposals to address these concerns.

3.2 The findings of the Review of Links and responses to the subsequent consultation clearly demonstrated that improvements to day to day working practices were required by both large business and HMRC. Successful delivery of the Review of Links proposals was seen as fundamental to improving the relationship between HMRC and business.

3.3 In light of the support of business for the proposals contained within the Review of Links, and recognising the importance of building on our relationship with business to maintain and enhance the attractiveness of the UK as a place to do business and in order to increase the efficiency and effectiveness of the administration of the tax system, we have implemented the proposals as laid out in the Review of Links document.

3.4 Whilst large businesses, as defined in the Review of Links with Large Business, are dealt with in two separate HMRC directorates, Large Business Service and Local Compliance, the option of having different frameworks and a different approach to working issues was not attractive.

3.5 Both directorates have agreed a common approach but the precise implementation of the recommendations has varied. This was to recognise that the Large Business Service had already made substantial progress in developing a customer centric organisation since its creation in April 2005 whilst the Large & Complex organisation in Local Compliance only came into existence in November 2006.

4. Costs and Benefits / Impacts

COSTS

Costs to business

- 4.1 The risk framework (proposal 4) makes it clear what large businesses have to do to benefit from a low risk relationship. For those businesses who wish to engage with HMRC in this way then increasingly HMRC will rely on the businesses' own tax governance rather than post event checks and audits. For these businesses the costs of meeting their tax obligations will fall.
- 4.2 For businesses who do not wish to change the nature of the relationship then the costs will either remain the same or if there are significant tax risks then, as HMRC will be able to put more resource to these risks, the costs may increase.
- 4.3 It is hard to quantify either the decrease or increase in costs as each business has a bespoke relationship with HMRC and the outcome for each individual business will depend on whether they wish to engage with HMRC or not.
- 4.4 By putting action plans (proposal 8) in place the elapsed time for enquiries is expected to reduce. Any costs that a business occurs in addressing the issue under dispute will be the same but will be incurred in a shorter period of time. The total cost is likely to be the same but the rate of expenditure will increase.

Costs to HMRC

- 4.5 HMRC has incurred a number of one-off costs at the outset: administrative set-up costs, staff training and IT systems. There will also be costs involved in updating guidance. Most of the set-up costs have already been incurred and the one off staff costs are estimated at around £1 million.
- 4.6 Further training is to be provided to Large Business Service staff in autumn 2008 in both the risk framework and action plans. The staff costs will amount to another £700,000. Similar training is envisaged for the Autumn in Local Compliance (although more closely targeted on CMs) with staff costs of £100,000.

BENEFITS

Benefits for business

- 4.7 The benefits include:
 - improved communications between HMRC and business during the period of an enquiry with much greater clarity on the way that the enquiry will be progressed.
 - for businesses that have the benefit of a low risk relationship investigations by HMRC will be the exception rather than the rule and therefore reduce compliance costs.
 - shorter enquiry times, particularly for the compliant and low risk

- improved working relationships between HMRC and all businesses as expectations are clearer.
- increased certainty for low risk businesses, either through discussing risks as they occur or because HMRC no longer has to carry out multiple enquiries to gain assurance that tax obligations are being met.
- reduction in costs in dealing with smaller issues for all large businesses as these types of enquiries diminish.
- consistency in treatment even if there is a change in the staff dealing with their tax affairs

Benefits for HMRC

4.8 To a large extent, HMRC will benefit in a similar way to businesses.

The benefits include:

- continuing improvements in HMRC's relationship with large business, and in awareness of the issues of concern to those businesses;
- 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
- an improved focus on the non-compliant, resulting in a positive benefit for the Exchequer.

5. Administrative Burden

5.1 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.

5.2 In this case, we do not expect to see a significant change in admin burden at an aggregate level as the total level of audits and enquiries across all large 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 administrative burden as narrowly defined. HMRC will use a range of performance indicators to measure progress.

6. Risks

6.1 A number of risks have been identified in our ability to successfully implement both the risk framework and action plans. The significant ones are:

- Large Businesses may not fully engage with the new approach, although the earlier consultation suggests this is unlikely. Our continued engagement with business will monitor this and a survey of large business in autumn 2008 will establish their experiences to date.
- HMRC does need to manage some cultural change amongst compliance staff as the proposals are implemented.
- There is a slight risk that HMRC is unable to coordinate activity across a large number of specialist areas and therefore meet time commitments to Large Businesses in our action plans.

8. Monitoring and Evaluation

8.1 The objectives that are set out at paragraph 2 are being monitored by HMRC to see if they are achieved.

8.2 The Large Business Service is monitoring and targeting the following areas:

- The number of businesses that are designated low risk.
- The reduction in both small risks taken up and settled.
- The reduction in older issues (over 18 months old).
- The age profile of all open risks.
- The number of action plans in place.

8.3 Local Compliance is monitoring and targeting the following areas:

- The establishment of high and low risk relationships in cases where a CM is in place
- In the longer term the risk status of all its Large Business population
- A reduction in the number of older issues
- The age profile of all open risks
- The number of action plans in place

8.4 A survey of large businesses that was carried out in autumn 2007 will be repeated in 2008.

9. Impact Tests

9.1 Competition Assessment:

This measure provides large businesses with more certainty about how HMRC views the way in which they manage and conduct their tax affairs. Those businesses that HMRC

does not view as low risk can expect to spend more time dealing with HMRC and those classified as low risk will usually spend less. But this will not impact on any business's capacity to enter markets or compete vigorously within them.

9.2 Small Firms Impact Test:

Small firms are not within the Review of Links with Large Business Report but it is acknowledged and accepted that in time, HMRC will have to apply many of the recommendations to customers outside of the Large Business Segment.

9.3 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.

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