

Summary: Intervention & Options

Department /Agency: HMRC	Title: Impact Assessment of Redesigning the main Tax Return (including changing the Three Line Account threshold and introducing new shorter self-employment pages).	
Stage: Implementation	Version: 1.0	Date: 14 November 2007
Related Publications:		

Available to view or download at:

<http://www.hmrc.gov.uk>

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

Since Income Tax Self Assessment was introduced in 1997 there have been various calls to make the Tax Return simpler and easier to complete, particularly for unrepresented taxpayers (those who do not use an agent). HMRC has a target to reduce by 10 per cent the administrative burden on business from completing forms and returns by 2010 -11. Completing the self-employment pages of the Tax Return is one of the larger administrative burdens imposed on small businesses, and the redesigned Tax Return aims to reduce the burden imposed.

What are the policy objectives and the intended effects?

The policy objective is:

- a redesigned main Tax Return (including the self-employment supplementary pages) which is easier to understand and complete
- to allow more self assessment taxpayers to complete shorter versions of the Tax Return, including shorter versions of the self-employment supplementary pages

The intended effects are to reduce the compliance burden particularly for small businesses and to improve the customer experience of completing the Tax Return.

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

1. Do nothing.
2. Introduce a package of changes which would result in all taxpayers (and especially the unrepresented and those new to self assessment) finding the task of completing the Tax Return easier and more straightforward. Additionally, more small businesses would be able to complete the short Tax Return instead of the longer main Tax Return, or complete much reduced versions of the self-employment supplementary pages, leading to measurable administrative burden savings.

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

The reforms will be reviewed once they have bedded in, probably 2-3 years after implementation. A Compliance Cost Review will also normally be carried out once the policy has bedded in.

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: 21/11/07

Summary: Analysis & Evidence

Policy Option: Redesigned Return with raised thresholds	Description: Redesigning the main Tax Return (including changing the Three Line Account threshold to £30,000 and introducing new shorter self-employment pages).
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' Costs to HMRC (eg changes to IT systems) have been absorbed into the development work required by the wider Carter Programme.				
	<table border="1" style="width: 100%;"> <tr> <td style="width: 70%;">One-off (Transition)</td> <td style="width: 30%;">Yrs</td> </tr> <tr> <td>£ -</td> <td style="text-align: center;">1</td> </tr> </table>		One-off (Transition)	Yrs	£ -	1
	One-off (Transition)		Yrs			
	£ -		1			
<table border="1" style="width: 100%;"> <tr> <td>Average Annual Cost (excluding one-off)</td> </tr> <tr> <td>£ -</td> </tr> </table>	Average Annual Cost (excluding one-off)	£ -				
Average Annual Cost (excluding one-off)						
£ -						
Total Cost (PV)		£				
Other key non-monetised costs by 'main affected groups' Unrepresented taxpayers and agents may spend time familiarising themselves with the new changes. However we feel these are likely to be negligible overall.						

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups' Less time spent completing self-employment pages of the Tax Return due to increased thresholds and easier to use design. Slight reduction in number of people using an agent to complete the Tax Return. Benefits are measured using the Standard Cost Model.				
	<table border="1" style="width: 100%;"> <tr> <td style="width: 70%;">One-off</td> <td style="width: 30%;">Yrs</td> </tr> <tr> <td>£ -</td> <td></td> </tr> </table>		One-off	Yrs	£ -	
	One-off		Yrs			
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<table border="1" style="width: 100%;"> <tr> <td>Average Annual Benefit (excluding one-off)</td> </tr> <tr> <td>£ 3 - 5 m</td> </tr> </table>	Average Annual Benefit (excluding one-off)	£ 3 - 5 m				
Average Annual Benefit (excluding one-off)						
£ 3 - 5 m						
Total Benefit (PV)		£				
Other key non-monetised benefits by 'main affected groups' General perception that the form is easier to complete both for the self-employed and other types of self assessment taxpayers.						

Key Assumptions/Sensitivities/Risks Fees charged by agents do not change, but the redesigned Tax Return enables some self-employed taxpayers to complete the Tax Return themselves now rather than use an agent.

Price Base Year 2007	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	UK								
On what date will the policy be implemented?	6 th April 2008								
Which organisation(s) will enforce the policy?	HMRC								
What is the total annual cost of enforcement for these organisations?	£ Business as usual								
Does enforcement comply with Hampton principles?	Yes								
Will implementation go beyond minimum EU requirements?	N/A								
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)	<table border="1" style="width: 100%;"> <tr> <td style="width: 25%;">Micro</td> <td style="width: 25%;">Small</td> <td style="width: 25%;">Medium</td> <td style="width: 25%;">Large</td> </tr> <tr> <td>No</td> <td>No</td> <td>N/A</td> <td>N/A</td> </tr> </table>	Micro	Small	Medium	Large	No	No	N/A	N/A
Micro	Small	Medium	Large						
No	No	N/A	N/A						
Are any of these organisations exempt?	No								

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £	Decrease of £ 3 to 5m	Net Impact £ -3 to -5m

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

Evidence Base (for summary sheets)

In this impact assessment the term 'Tax Return' refers in general to all pages submitted to HMRC. The term 'main Tax Return' refers specifically to the full/long core return, with or without supplementary pages. The term 'short Tax Return' refers specifically to a shorter version of the 'main Tax Return'. The term 'self-employment supplementary pages' refers to additional pages which accompany the 'main Tax Return' only.

1. Proposal

To introduce a redesigned Tax Return with a more logical and less cramped layout, fewer questions and simpler, plainer English. The aim is to make the task of completing the Tax Return easier and less daunting for all taxpayers. The new redesigned Tax Return will include reduced reporting requirements for small businesses as follows:

- Doubling the qualifying limit for significantly reduced business profit reporting requirements (known as the 'Three Line Account') from £15,000 annual business turnover to £30,000; and
- Introducing a reduced reporting burden for small businesses with an annual turnover of less than the current VAT threshold (£64,000) but who do not benefit from the 'Three Line Account' facility.

2. Purpose and intended effect

The policy objective

The policy objective is to produce a main Tax Return which is easier for taxpayers to understand and complete and which reduces the compliance burden, particularly for small businesses.

The redesign of the Tax Return will benefit all taxpayers who complete a Return by making it simpler and easier to understand. Areas specific to business include:

- doubling the existing reduced business profit reporting requirement for small unincorporated businesses (known as the 'Three Line Account') from £15,000 to £30,000 resulting in more businesses qualifying for the short Tax Return or completing fewer questions on the main Tax Return hence reducing their compliance burden; and
- introducing new shorter supplementary self-employment pages in the Tax Return for most businesses with an annual turnover of less than the current VAT threshold (£64,000) but who do not benefit from the 'Three Line Account' facility.

The redesigned Tax Return and guidance is being introduced nationally from April 2008, for the 2007-08 tax year. A flyer explaining the new style form will accompany the redesigned Tax Return.

The redesigned Tax Return covers the whole of the UK and everyone that currently receives a paper main Tax Return will receive the new form. The online application is also being redesigned to take account of the change in content of the new Tax Return.

Background

Income Tax Self Assessment was introduced in 1997 and is the method by which about 9.5 million taxpayers must report income and capital gains to HM Revenue and Customs (HMRC). They do so by completing an annual Tax Return. Of the 9.5 million issued, around 1.5 million people are sent a four page paper short Tax Return, and around 3.5 million receive a 'notice to file'. The remaining taxpayers are sent a paper main Tax Return.

A 'notice to file' is a statutory notification to the taxpayer that they need to file a Tax Return. These are sent to people who have previously either filed a Tax Return electronically or who have used a computer generated 'substitute' paper Tax Return (used mainly by tax agents who have software packages to produce substitute Tax Returns, although from 2008 HMRC will no longer routinely accept paper substitute Tax Returns).

There is a wide range of taxpayers who receive annual Tax Returns and the criteria for who needs to complete a Tax Return are set out on the HMRC website. The criteria include:

- the self-employed;
- partnerships and partners;

- company directors;
- some higher rate taxpayers;
- some pensioners;
- trusts and estates of deceased people; and
- people with more complex tax affairs.

The present situation

The four page short Tax Return is sent to taxpayers who have simple affairs, based on the information in their previous year's Tax Return. Employees, people with rental income of less than £15,000 per annum and those self-employed, with annual turnovers below £15,000, can all qualify if they had no other 'complicating' factors.

The main Tax Return is completed by all those who do not qualify for the short Tax Return. All such taxpayers must complete the core main Tax Return questions (ten pages in the paper form) and then have to complete whatever 'supplementary' pages are appropriate to their circumstances and income. So an employee would have to complete, as a minimum, the 'core' main Tax Return and the two page 'employment' supplementary page, along with any other supplementary pages needed for that particular individual. A small business would have to complete the 'core' main Tax Return and a four page self-employment supplementary page, (covering 115 questions), as a minimum, along with any other pages appropriate to the individual (for example, the Trust supplementary page if they had trust income).

At present, HMRC recognises that one size does not fit all, and so has a reduced reporting requirement for the smallest businesses (those with an annual turnover of £15,000 or less). They can limit the information they provide on their self-employment pages of the Tax Return to turnover, allowable expenses and net profit, rather than provide the standard accounts information that is normally required. This is known as the 'Three Line Account'.

Rationale for government intervention

Since self assessment was introduced there have been various calls to make the Tax Return simpler and easier to complete, particularly for unrepresented taxpayers (those who do not use an agent). It has been subject to criticism in various Public Accounts Committee, Treasury Committee and National Audit Office reports for its complexity and use of technical language.

Reducing the administrative burden on businesses of completing forms and returns by 10 per cent is a Key Indicator linked to HMRC's Departmental Service Objectives. One of the more significant burdens imposed by HMRC on businesses is the cost of completing the self-employment pages of the Tax Return. HMRC also has a target to improve taxpayers' perception of their experience of dealing with HMRC, and the redesigned Tax Return should contribute to this target.

HMRC have already taken steps to reduce the compliance burden on taxpayers including small businesses by introducing in April 2005 a four page short Tax Return to accommodate those taxpayers with simple affairs.

There have been numerous calls from Representative Bodies and others for an increase in the 'Three Line Account' threshold. The British Chambers of Commerce, in their 2007 Budget submission, cited this as their first example of a deregulatory change that they were seeking.

3. Consultation

Within government

Relevant HMRC business units were consulted and Ministers approved the work. HM Treasury colleagues were consulted on the increase in the thresholds.

Public consultation

An informal consultative group, including the Federation of Small Business, Tax Aid, the Consumer Association and the accountancy bodies' representatives, was involved in the development and design of the redesigned Tax Return. A number of workshops with tax agents were held and focus groups and usability testing on the redesign were held with self assessment taxpayers.

The independently chaired Administrative Burdens Advisory Board, which includes representatives of small businesses, was consulted on the proposed increase to the 'Three Line Account' threshold and the threshold for the new short self-employment supplementary pages.

Pilot

A pilot of the redesigned Tax Return was carried out in April 2006 with around 7,500 taxpayers, including small businesses. The pilot included taxpayers who completed the Tax Return themselves and those who used an agent. It also included a control group with similar affairs who completed the existing Tax Return. The pilot was subject to an independent evaluation by the British Market Research Board who looked at customer experience of completing the Tax Return. The research will be published when finalised.

4. Options

1. Do nothing. The Tax Return would continue to receive criticism and there would be no reduction in the compliance burden for any taxpayers or the administrative burden on small businesses.
2. Introduce a package of changes as follows:
 - Redesign the Tax Return with a more spacious and logical layout, fewer questions and simpler, plainer English to make the task of completing it easier and less daunting for all taxpayers.
 - Double the 'Three Line Account' threshold to £30,000 so more small businesses could either qualify for the short Tax Return or complete the 'Three Line Account' on the self-employment supplementary pages. If the 'Three Line Account' had been raised in line with the Retail Price Index (RPI) it would have risen to £19,500. So an increase to £30,000 is a significant increase in real terms.
 - Alongside the above, introduce new shorter self-employment supplementary pages for businesses with a turnover below the current VAT threshold (£64,000).

This package would result in all taxpayers (and especially the unrepresented and those new to self assessment) finding the task of completing the Tax Return easier and more straightforward. Additionally, more small business would be able to complete the short Tax Return, the 'Three Line Account', or the shorter self-employment supplementary pages, leading to administrative burden savings.

5. Sectors affected

There are around 3.2 million sole trader businesses who must complete the self-employment questions of the Tax Return. Of these, around 0.3 million complete the 'Three Line Account' on the short Tax Return. The remaining 2.9 million complete the self-employment pages (form SA103) of the main Tax Return. There is currently one version of the self-employment pages. Of these 2.9 million taxpayers, around 1 million complete the 'Three Line Account' (not everyone who is eligible to complete the 'Three Line Account' is also eligible to do so via the short Tax Return), and the remainder have to complete the standard accounts information on the self-employment pages. HMRC's administrative burden baseline suggests that between 30 to 40 per cent of self-employed persons complete the Tax Return themselves and the remainder use an agent.

This impact assessment considers the change in burden resulting from:

- increasing the 'Three Line Account' turnover threshold from £15,000 to £30,000 per year; and
- introducing a shorter set of self-employment supplementary pages with a turnover threshold of the current VAT limit (£64,000)

Accountants and tax advisors will be affected by the need to familiarise themselves with the new forms and to ensure that any in-house developed software is updated. Software providers will also need to ensure that their packages can handle the new form structure. Although they would have to accommodate any annual changes as part of their business as usual costs, the significant simplification to the Tax Return this year may mean additional costs are incurred. However, given the level of competition in the software market, we do not anticipate that these costs will have a significant impact on prices and license fees charged. Other providers of support and information on the Tax Return will also need to update their guidance and products.

Accountancy firms that use third party software may have to spend some time installing and testing the updates. However, we expect that the costs of this would be largely incurred as part of the regular software update cycle. Accountants may also spend a small amount of time familiarising themselves with the changes.

6. Costs

Businesses and individuals

In the short term HMRC recognise that some taxpayers may need some time to get used to the new format as there are issues with familiarity. A flyer about the new style form will accompany the redesigned Tax Return. There may also be an increased number of calls to HMRC contact centres as a result of the new Tax Return, but we expect these to decline as the new style Tax Return becomes familiar.

To government and HMRC

The introduction of the new Tax Return and threshold will not affect the amount of tax collected. The cost of updating HMRC's IT systems to cope with the changes are being absorbed as part of the wider IT changes required by the Carter programme.

7. Benefits

To the Self-Employed

The task of completing the Tax Return is likely to be easier and quicker for self-employed taxpayers and their agents. The easier guidance should make the whole process less onerous. So there will be some non-tangible benefits in addition to the formal time saving or financial gain from switching to self-completion. Some taxpayers may decide they no longer need to be represented and this is evaluated in terms of the savings in fees no longer paid. Once taxpayers are familiar with the new form there is likely to be a reduction in compliance costs.

HMRC uses a Standard Cost Model to estimate the impact of a reform on ongoing administrative burdens. The impact on other types of compliance cost (such as one-off costs) is estimated separately where necessary. Independent consultants provided HMRC with a baseline administrative burden cost for every HMRC information obligation. This administrative burden baseline was measured at the end May 2005. HMRC assesses how particular reforms affect this baseline, and all computations relate to 2005 populations and prices. HMRC's baseline only covers the burden on business, such as the supplementary pages of the main Tax Return relating to self-employment (form SA103). The main Tax Return itself is not within the scope of the baseline as this was considered to be a form which relates primarily to individuals.

Although the costing primarily relates to the completion of paper forms, the savings will still exist if taxpayers move online. The new online interface benefits from the improved wording of the redesigned form, and also uses the same thresholds when working out which questions to present on screen.

Increasing the 'Three Line Account' threshold

Increasing the threshold for the 'Three Line Account' will simplify the reporting requirements for around 0.7 million self employed persons. HMRC estimate that around 85 per cent of those who can (i.e. of the 0.7 million) will take advantage of this increased threshold for the 'Three Line Account'. Of these we expect that between 30 to 40 per cent will continue to complete the forms themselves. For these businesses that complete the 'Three Line Account', the savings are estimated to be around **£2 million** per annum. This is based on an average estimated time saving of 40 minutes per main Tax Return. Some of these businesses will complete the 'Three Line Account' on the short Tax Return and others will do so on the self-employment pages of the main Tax Return.

Shorter Self- Employment Pages

In addition to the businesses now able to complete the 'Three Line Account', introducing a new shorter version of the self-employment pages will bring around 0.5 million extra businesses from the full version of these pages into this shorter version. Although these businesses will not be eligible to complete the 'Three Line Account' we estimate that they will save around **£500,000** per annum as a result of the shorter form being easier to complete than the full form. In the pilot, 69 per cent of self employed respondents reported that they found the shorter pages easier to complete. The remaining businesses will continue to complete the full self-employment supplementary pages. Again, these savings relate to those businesses which complete the form themselves.

Redesigned Return

Finally, the new full self-employment pages for 2007/08 has 15 fewer boxes on it than in previous years. Some expenses categories have been merged, and a number of the sub total boxes have been dropped. This may lead to time savings for those businesses completing the full pages themselves, but we do not expect these savings to be significant.

Returns completed by Agents

For the 60-70 per cent of sole trader businesses that outsource their self assessment tax affairs to accountants, administrative burden savings can come primarily from two sources. The fees that accountants charge may fall in reaction to any reduced costs, or taxpayers can switch to completing the Tax Return themselves. We do not believe that accountants are likely to change their fees significantly, as much of the work is done using software packages.

However, HMRC believes that introducing the new shorter version of the self-employment supplementary pages and raising the threshold for those completing the 'Three Line Account' may lead to some taxpayers with simpler affairs choosing to complete the Tax Return themselves. If 5 per cent of the population that currently uses an accountant makes the switch, savings could be in the region of **£1.5 million** per annum.

Total Savings

To self-employed individuals

Taking these savings together, we estimate that the administrative burden saving from the proposed changes is around **£3 – 5 million per annum** in 2005 prices, consistent with HMRC's administrative burden cost model. This range reflects the uncertainty about the extent to which self-filers will take advantage of the change, the time savings that can be achieved, and how those that currently use agents will react to the simplification.

The change has also been costed using the most recent data available and taking into account inflation. While inflation has pushed the savings up, more recent data shows a slightly higher proportion of self-employed are represented by agents, and this brings the savings down. In 2007 terms we estimate that the savings are still in the region of £3 – 5 million per annum. Given the open ended nature of this change this range has not been converted into a net present value.

To other individuals

The redesign of the main Tax Return will benefit other types of individuals, as well as the self-employed. The task of understanding the redesigned Tax Return is likely to be easier for most taxpayers (in particular the unrepresented and those new to self assessment). Research from the pilot showed that overall, taxpayers felt the new form was easier to complete and understand, and was more relevant than the existing form. Almost one half of taxpayers who received the redesigned form perceived it took them less time to complete, compared to only a quarter of the control group (who received the same Tax Return as in previous years).

To Government

As the short Tax Return is capable of automated data capture, moving more taxpayers onto the short Tax Return will result in a small efficiency saving for the Department.

8. Risks

The main risk to achieving the savings highlighted is whether people switch from using an agent to completing the form themselves. There may be considerable inertia in the relationship between client and agent that makes switching unlikely. However, there is also a considerable amount of churn within the Self Assessment population, and the new Tax Return may persuade first-time filers that they can manage on their own.

The benefits will also be reduced if software prices and license fees charged to individuals rise as a result of the costs incurred implementing the changes.

Information collected from Tax Returns is used for both risk assessment and policy evaluation. HMRC has focused on establishing a realistic balance between those needs and the need to manage the burden we place on business. Whilst it is recognised that some risk data may be lost if more taxpayers are eligible to complete the 'Three Line Account' and shorter pages, HMRC are confident that, together with third-party information, they will be able to continue to effectively enforce compliance within this sector.

9. Small Firms Impact Test

Informal consultation, including with the Federation of Small Businesses suggested any impact will be positive. Usability testing with small businesses also suggested any impact to be positive. There is no need to arrange a stage 2 Impact Test as the impact on small businesses will be positive.

10. Competition assessment

The redesign of the Tax Return including the increased reporting thresholds will have a positive impact on all self employed persons, with a larger impact on those with turnover below the new threshold. The changes are not expected to lead to any competition effects. This assessment has been informed through the use of the Office of Fair Trading Competition filter test.

11. Enforcement, sanctions and monitoring

HMRC's annual Customer Service Survey monitors ease of completion of Tax Returns and will indicate whether the new form has made things easier for taxpayers.

The new form will be issued from April 2008 but may not have been completed by all taxpayers before the October/November 2008 annual survey. Hence the full impact of the change will be evidenced by the October/November 2009 annual survey. Publication of that survey is expected in summer 2010. However, because of issues around familiarity it may be that the full impact will not be evidenced until the October/November 2010 survey. HMRC will also monitor the level of complaints both to gauge the impact of the change, and to address any emerging concerns with the new form.

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	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No