

Regulatory Impact Assessment

1. Title of proposal

Revised VAT application form. (VAT 1)

2. Policy Objective

To improve the design of the VAT 1 form to reduce errors.

3. Background

The EC VAT law requires Member States to maintain a register which identifies persons who are required to be on the register because the value of their taxable supplies exceeds the registration threshold, or who are trading below the threshold but wish to be registered. In the UK, the VAT 1 form is the form number 1 in Schedule 1 to the VAT regulations 1995(S1 1995/2518). The form is the means by which a person who has a liability to register for VAT is required to notify that liability. Persons, who wish to apply for voluntary registration, also use the form. This form was last revised in 2001.

The National Registration Service (NRS) operates the registration process, from registration applications through to notification of requests for deregistration. In 2005 - 2006, a total of 269,048 applications were processed, and a key part of the work of the NRS is to risk assess all applications for registration to identify fraudulent businesses and deny them a registration number. There are four Registration Units located in Carmarthen, Newry, Grimsby and Wolverhampton, staffed by approximately 540 people.

4. The need to revise the application form

The revision of the VAT1 form is in response to customer feedback and the report of the National Audit Office. This confirmed that the present version of the VAT 1 application form is not user-friendly, and it is too complicated for most applicants. As a result, many applicants are making errors, which delays the registration process. H M Revenue & Customs (HMRC) therefore decided to make changes to the form.

5. Consultation

Within Government

There was an audit carried out by the National Audit Office, and they recommended that the current version of the form should be revised to

assist applicants. The Small Business Service (SBS) also commented about weaknesses in the form.

Public Consultation

This exercise was carried out by writing to a number of representative bodies, agents in the “Working Together Network”, and taxpayers that have commented in the past about the problems they were experiencing when completing the form.

The view of most respondents is that the revised form and guidance note is an improvement on the current form in terms of volume and layout, and that it will be much easier to navigate through the form. The consultation exercise ended on 31 August 2006. HMRC are grateful to all the respondents to the limited consultation, and a summary of our response will be sent directly to respondents by the end of the year.

6. Options

Two main options were considered.

Option 1 – Do nothing and continue to rely on the current version of the form until the registration service is transformed under the project on Integrated Customer Management (ICM).

The O'Donnell Review, which recommended the integration of the Inland Revenue and HM Customs & Excise, identified the opportunity for HMRC to develop a ‘whole customer view’ as one of the chief benefits of integration. If HMRC do nothing until the implementation of the ICM project, the error rates on the form would continue to increase and this would lead to further delays in the registration process. HMRC would find it difficult to achieve their Public Service Agreement target and other business objectives for customer service improvement. **This option is not recommended.**

Option 2 - Improve the current version of the form

This is an improved version of the current form. HMRC have simplified the technical language used, and there are better signposts, which should assist applicants. We have re-arranged the questions to make the form user-friendly. The new form also includes a stand-alone guidance note, which should assist applicants when completing the form. The current form, which is 6 pages long, and contains 28 questions, has been reduced to 4 pages and 23 questions, and the flow of questions has been arranged more logically. We have also simplified the questions on the effective date of registration for VAT. Our analysis showed that most applicants filled in this part of the form incorrectly. We have made it easier for applicants registering on a voluntary basis.

These applicants should find it easy to navigate through the form, and will only need to complete 14 out of the 23 questions.

In addition to this, we have relaxed the rules relating to evidence from intending traders. This requirement has been identified as a significant cause of registration applications “failing” or being delayed. We will ask for such evidence only when our risk assessment suggests it is necessary. This change will take place from the introduction of the revised form. Also, authorised agents (accountants, solicitors etc) will now be able to complete the application on behalf of their clients. This option is not a radical change, but businesses and professional advisers should make fewer errors on the form, and this should lead to an improvement in the performance of National Registration Service. **This is our recommended option.**

7. Benefits of recommended option

Benefits for customers

- This will increase the proportion of customers that get it right the first time they complete the form.
- Easier to understand form and guidance.
- Registration number issued faster.
- Simpler language and easier navigation.
- Well-structured guidance notes to aid completion.
- Reduction in the time taken to complete the form.
- Businesses and professional advisors should spend less time replying to enquiries on incomplete forms.

Benefits for HMRC

- Improvement in the management of the VAT registration service.
- This should increase the proportion of VAT registration applications that are both complete and accurate on first receipt. Current performance fluctuates between 20% and 30%.
- Achieve Public Service Agreement targets and other business objectives relating to customer experience

8. Costs

The average number of VAT applications received every year is about 250,000, and the compliance cost for VAT registration based upon HMRC’s administrative burden baseline survey is £7.4 million per year. The survey established that about 70% of applicants are from businesses that are trading below the VAT registration threshold (voluntary registration), and that the average compliance cost for this category is £23 per applicant. The remaining categories of applicants

(30%) have an average compliance cost of £37 per applicant. The survey also established that the time taken for most business to retrieve all the necessary information, and also to complete the old form is on average about 120 minutes.

We have used this survey to evaluate the impact of the changes made. In HMRC's view, the revised form, together with the relaxation of the rules on evidence for intending trade, would save an applicant an average of 30 minutes, thereby reducing the compliance cost on VAT registration from £7.4 million to £5.6 million per year. This achieves a saving of £1.8 million per year.

This assessment is broadly in line with responses to the limited consultation exercise. The general view being that less time would be spent on the revised form. One respondent representing over 120,000 professional members commented that, since it is more likely that the revised form will be completed properly, there is the likelihood of a further reduction in compliance cost for those whose application form would have been rejected as incomplete using the old form. We will continue to monitor the impact of this change on the performance of VAT registration processing, and will review the compliance cost assessment in a post implementation review scheduled for June 2008.

9. Small Firms Impact Test

About 70% of applications are from small businesses. In our view; there will be a general increase in the ability of small firms to complete the form accurately.

10. Competition assessment

The introduction of the revised form is not expected to have any competition effects.

11. Enforcement, sanctions and monitoring

The revised form should benefit customers and this should reduce the number of errors that are presently made. We will continue to monitor this.

12. Implementation and delivery plan

The launch of the revised form is scheduled for 1 December 2006, a business brief will be issued, and the launch will also be publicised in VAT notes. We will continue to accept applications that are made on the

old form until 31 March 2007. The VAT Notice on “Should I be registered for VAT” is also being reviewed, and an updated version will be released before 31 March 2007.

13. Post-implementation review

HMRC has a programme in place to ensure that the compliance cost assessments made for all Regulatory Impact Assessments (RIAs) are reviewed within two years from when a policy is first implemented.

14. Summary and recommendation

In HMRC’s view, the revised form is a marked improvement on the current form, with better sign posting and clearer use of language. This, with the stand-alone guidance note for completing the form, should make the registration process much simpler, and businesses should make fewer errors.

15. Declaration

I have read the Regulatory Impact Assessment and I am satisfied that the balance between cost and benefit is the right one.

Signed

Paymaster General

31st October 2006