

REGULATORY IMPACT ASSESSMENT

TAX LAW REWRITE PROJECT - CAPITAL ALLOWANCES BILL

Introduction

The Tax Law Rewrite project aims to rewrite all (or most) of the UK's primary direct tax legislation so that it is clearer and easier to use, without changing or making less certain its general effect. The Capital Allowances Bill is the first Bill produced by the project.

Purpose and intended effect

2. Inland Revenue legislation has grown enormously in the last 25 years. In general, this is because existing taxes have become more elaborate. The language and structure of tax legislation and the procedures which produce it have been widely criticised. The Tax Law Rewrite Project was set up in 1996 in response to such criticisms.

3. The key points of the project are:

- clearer, more user-friendly tax legislation incorporating
 - a new, more logical structure
 - shorter sentences
 - more consistent use of definitions
 - modern language
 - clearer signposts to related provisions
 - similar rules grouped together
- no change in the underlying tax system (but the work of the project will not prevent any such changes)
- (possibly) some minor changes, where these further improve the legislation
- full consultation with interested parties throughout the life of the project
- new streamlined Parliamentary procedures for enactment of Rewrite Bills.

4. The first Bill rewrites legislation on capital allowances. Nearly all businesses claim capital allowances and most if not all tax practitioners need to learn and apply the legislation.

Benefits

General

5. It is generally agreed that the benefits of the rewrite project will become clear only when the rewritten legislation has been in force for some time. We shall then be able to canvass views on the practical benefits of the rewrite.

6. We carried out a stocktake of the project in late 1998, sending a questionnaire to some 200 people involved in our consultative process. We asked them about the likely costs and benefits of the project. All agreed that it would be difficult to quantify most of the costs in advance, and impossible to arrive at any objective measure of the benefits. But the people whom we consult on our work still firmly believe that any costs will be more than outweighed by the benefits flowing from the project.

Tax practitioners

7. These are people who use tax legislation in the course of their work as tax advisers for private clients or tax managers for individual companies or multinational groups.

8. Others who need to understand tax legislation for their business are providers of software for practitioners and others. The capital allowances legislation has little, if any, direct impact on payroll software.

9. One indication of the impact of the project is how these users perceive the rewritten legislation. We have been encouraged by the positive responses to our exposure drafts on capital allowances. For example:

“Altogether, the way capital allowances have been rewritten is to be applauded. The legislation is now clearer and better organised.”
(ICAEW)

“The real achievement of the Rewrite lies not in the simplification of the language at a detailed level, but in the way in which the material has been analysed and reorganised to put it into a coherent order.”

(CBI)

“I need to be able to find the legislation that is applicable, understand how it operates and advise my clients accordingly. For me, the Capital Allowances Bill represents a revolution in accessibility. It has a logical structure and for the first time in my experience it has actually been designed to help the user.”
(Special Committee of Tax Law Consultative Bodies)

10. The benefits to this broad group will come from the clarification of existing law and the clearer expression of future changes to that law. They include:

- less time deciding what the law is, and fewer errors caused by misunderstanding of the law;
- fewer issues on which they need to spend time and money getting specialist advice;
- fewer queries from clients and those they get should be easier to deal with;
- fewer discussions and disagreements with the Inland Revenue about the meaning of legislation;
- people new to tax will find the legislation easier to understand and learn.

Taxpayers

11. Few taxpayers consult primary legislation in order to resolve questions about their own tax liability and we do not expect this position to change. So any benefits to this group are likely to be indirect, derived from the greater ease of use for their advisers (which should result in lower fees for advice).

The Inland Revenue

12. Inland Revenue staff are in a similar position to other ‘tax practitioners’. Clearer legislation is likely to reduce the number of disputes over interpretation and the number of cases which need to be referred to Head Office for a definitive ruling. The production of training and guidance materials should be easier and more straightforward.

Compliance costs

13. Most businesses claim capital allowances, and most tax advisers have to understand the legislation. Some employees and directors also claim capital allowances. By far the most claims relate to allowances for expenditure on plant and machinery. Other claims relate to:

- industrial buildings allowances
- agricultural buildings allowances

- mineral extraction allowances
- research and development allowances
- know-how allowances
- patent allowances
- dredging allowances
- assured tenancy allowances

14. We anticipate there will be a net saving to taxpayers and their advisers as a result of the rewriting of the legislation , because:

- it will be easier to establish what the true position is, and this will result in lower fees and improved quality of tax advice for taxpayers;
- people new to tax should take less time to learn the legislation – trainee accountants, trainee Tax Inspectors, for example;
- there should be better voluntary compliance with the law and fewer disputes on points of interpretation.

However, although we have consulted on this issue, we have not been able to quantify the likely savings to business in making capital allowance claims once the new legislation is enacted - nor indeed to establish with any certainty whether, in fact, the cost to business will reduce.

Other Costs

15. The cost to the Inland Revenue in producing the Bill is approximately £3 million, spread over four years.

16. Other costs have fallen on the practitioners, tax professionals and representative bodies that have taken part in the consultation process. These costs are impossible to quantify. But those whom we are consulting continue to urge us to maintain the same level of consultation.

17. Additional costs will arise for commercial publishers and software suppliers, from the need to update their products. But these products are updated annually anyway, to reflect changes in the annual Finance Bill.

18. There will be other, indirect, costs on the Revenue, as staff take time to adjust to the new legislation. All these costs will be transitional.

Consultation

19. Full consultation with interested parties has been a feature of the project - and as indicated at paragraph 9 the reactions to our exposure drafts on capital allowances have been particularly positive and it is clear that support for the project among the

tax community is very strong. Earlier versions of this rewritten legislation were extensively revised in the light of comments and suggestions from tax professionals and other interested parties.

20. A draft of this Regulatory Impact Assessment (RIA) was made available in August 2000 to all those who have been involved in the consultation process and other interested parties and was also published on the Inland Revenue website. Comments were invited on the assumptions made in the draft RIA. No comments have been received.

Post implementation review

21. Once the rewritten legislation has been in place for a few years, we shall be considering – in conjunction with the relevant professional and representative bodies, and other interested parties – how best to assemble information on the short and long term costs of this Bill.

22. For further information about the Tax Law Rewrite project or comments on the Regulatory Impact Assessment please contact:

David Mutton,
Inland Revenue,
Room 831 Bush House,
SW Wing, London,
WC2B 4RD
Tel 020 7438 7606

email: david.mutton@ir.gsi.gov.uk

or visit our web site: www.inlandrevenue.gov.uk