



REGULATORY IMPACT ASSESSMENT:

INTERNET FILING OF TAX INFORMATION

Introduction

This assessment considers the costs and benefits of Internet filing of tax information and the associated one-off discounts available in 2000-01 and 2001-02 for Inland Revenue returns.

1. Purpose and intended effect

The Government has set targets that:

- all transactions with Government should be capable of being delivered electronically by 2005
- there will be universal access to the internet by 2005
- 1½ million small and medium-sized enterprises (SMEs) will be on-line by 2002
- electronic submission of tax information will improve customer service by offering businesses and taxpayers new ways of dealing with their tax affairs, that are available 24 hours a day, seven days a week.

The 1999 Finance Act paved the way for the Inland Revenue to accept electronic delivery of tax information over the Internet. The first Internet tax services allow for the electronic delivery of:

- Income Tax Self Assessment (ITSA) Returns
- Employer PAYE forms and returns

Full details of each service are in the Annex, together with details of discount schemes to encourage small businesses and individuals to use the Internet services announced by the Chancellor in February 2000 and extended in his March 2000 Budget.

2. Options

Filing

Existing legislation is generally drafted on the basis that communication between taxpayers and the Inland Revenue is on paper. So, for example, tax returns require a signed declaration that the information is correct and complete. To accept returns other than in writing requires statutory authority. Regulations have therefore been made to allow individuals and employers to make their declarations by electronic means.

Discounts

Linking discounts to timely filing and electronic payment is designed to encourage both the use of the new services and good compliance. And there are clear cost and security benefits for both the department and its customers if payments are processed automatically through the banking system.

Finance Act 2000 gave the Inland Revenue the power to offer incentives to their customers to use electronic communications. Regulations were made under this power, in early 2001, to enable the discounts to be given.

3. Risk Assessment

The main risks in accepting returns and payments over the Internet - both for the tax authorities and their customers are user identification and data security. Systems have been introduced to ensure both the sending of returns and the acceptance of payments are secure. Industry wide norms, such as User Identities and passwords and encryption of messages are standard for all electronic transactions covered by the new regulations.

4. Benefits

The main benefits to individuals and businesses are:

- the facility to send returns over the Internet including:
 - a) potential compliance cost reductions from time savings and lower handling costs from working in software or using electronic webforms
 - b) the reduced likelihood of errors through using self checking electronic forms and /or software packages;
 - c) improved customer service such as the security and convenience of electronic submission and automatic acknowledgements from the Inland Revenue
- the one-off cash discount for Internet filing, designed to kick start the Internet filing option;
- increased use of the Internet by small businesses is likely to have a small beneficial impact on productivity, arising from freeing up some employer time previously spent on compliance;

- other, wider, positive effects from encouraging the greater use of information age technology in the computer and Internet related industries.

The Internet services fit well with the Government's initiatives to encourage wider use of the Internet. There is a potential win-win situation for business and the Inland Revenue from the technology shift. The increasing availability of forms over the Internet and the ability to transmit forms direct should save time and reduce handling costs for both employers and the Inland Revenue.

5. Compliance Costs/Savings

Numbers of businesses affected

Estimating the anticipated take up of Internet filing services on an annual basis is difficult to predict with any accuracy. Actual take up for the first year of ITSA filing (1999/2000) was approximately 40,000. And anticipated take up of the PAYE Internet services in the first year is 5,000. These are expected to increase year on year. Research and the experience of ITSA internet filing have demonstrated that take up in the early years is likely to be low because of the perceived first year learning and transitional difficulties.

Costs and Savings

In this RIA we have assumed – based on our research - that the availability of Internet filing will not be the driver to a business acquiring IT or getting on-line. We have therefore only considered the marginal additional investment by a business or individual already on line.

a) Income Tax Self Assessment (ITSA)

It is assumed that access to the Internet will be seen in marginal cost terms. Individual taxpayers who are employees or pensioners will only use the Internet facility if they already have access to a PC with an Internet connection. For new users we expect that there will be a small first year additional learning cost of the Internet software or webform and there will be some phone time costs including registration. . But overall we anticipate that Internet Self Assessment filing is likely to result in time savings for users on an on-going annual basis after the end of the initial take up period - most significantly in doing the tax calculation. And once the agent service is available there is potential for agents to pass their savings to clients in the form of reduced professional fees or better customer service.

b) PAYE

Access to the Internet by proprietors of small or medium sized businesses is already high - almost eight in ten respondents to the Inland Revenue's market research claimed that they had access to the Internet at home or at work. This figure was virtually constant across various employer size categories within small or medium employers.

We expect costs for Internet filing for small businesses to be marginal, essentially the costs of:

- the extra Internet access/phone time
- the proprietor's time on-line

- some learning time less the savings on postage.

But, overall, we anticipate that the Internet Service for PAYE is likely to result in compliance cost savings on an on-going annual basis after the initial take up period, and employers will benefit from improved customer service.

Electronic preparation of returns and their submission over the Internet may fit better with the way that the business is run and the records are kept. For example, some software producers are already incorporating an Internet filing facility in their payroll products. Employers' end of year returns can be automatically prepared from the records kept during the year and then submitted at the touch of a button. The auto-calculation and self-checking facilities incorporated in such software will help to eliminate arithmetical and transcription errors.

6. Small Business Litmus test

These measures are primarily aimed at benefiting small businesses by encouraging them to adopt Internet technologies. Some larger employers already use Electronic Data Exchange (EDI) to transmit PAYE information electronically to the Inland Revenue. We consulted employers' representatives and other interested parties about the precise definition of a small business for the purposes of the PAYE and tax credit discounts in the autumn of 2000. Following that consultation, it was agreed that the PAYE and tax credit discounts would be available to all employers that use the Internet service to send their 2000/01 end of year return to the Inland Revenue and make at least one electronic payment for 2000/01.

Our research suggests that small businesses are most likely to use the service if it fits well with the way that they run their business. The development of payroll software products that incorporate Internet filing capability and the availability of Internet Payroll Bureaux are therefore likely to be important factors in the take up of the Internet Service for PAYE. Our experience with the EDI service also suggests that employers will find it most useful to be able to receive in-year PAYE forms, such as notices of coding, from the Inland Revenue over the Internet. This enhancement to the Internet service for PAYE is planned for later in 2001/02.

7. Other Costs

Administration

The Inland Revenue will incur capital costs to set up the service of approximately £18M.

Administrative savings are however expected to accrue as take up of both services increases which arise from the savings on second keying of the data by Revenue staff - many of these staff will be re-deployed into customer support for the Internet services. Actual administrative savings will depend ultimately on take up. They are likely to be negligible in the early years but could rise to several million pounds a year by 2005/06 if there is significant take up.

Costs of Discounts

The total cost of the ITSA, PAYE and tax credit discounts is expected to be in the range £500 000 to £1 million.

8. Other impacts

Survey statistics show that there is some gender imbalance within ITSA: 33% of males said they were interested in using the Internet as against 26% females; but age effects are more significant with 41% interested under 45 years, as against 24% for 45+ years.

9. Securing Compliance

The Internet services do not change taxpayers' obligations but they do offer an alternative way of fulfilling them. We anticipate that by making it easier for individuals and businesses to complete and send in their returns the Internet services will have a positive effect on compliance.

For those who do not comply with their tax obligations, the existing sanctions will apply equally to those who file over the Internet.

Guidance on using the Internet Services for Self Assessment and PAYE was first published on the Inland Revenue website in February 2000 and has been regularly updated.

10. Consultation

We consulted representative bodies, including the Taxpayer Service Delivery Sub-Group of the joint Inland Revenue and Customs Electronic Commerce Consultation Forum on the mechanism of the discount scheme and the draft regulations.

The Revenue have worked closely with the software industry so that commercial products can contain a wide range of Internet enabled forms, and integrated accounting and filing packages are available to help their customers.

The Inland Revenue awarded a pilot-level contract to Bath University to study the scope for Internet filing to reduce employer compliance costs associated with the end of the year process. Initial findings have been used to inform the assumptions on PAYE filing take up and the anticipated benefits/cost savings to employers.

11. Summary

These new measures are primarily aimed at benefiting small businesses by encouraging them to adopt Internet technologies. Overall, Internet filing for ITSA and PAYE returns is assessed as being broadly compliance cost neutral to slightly compliance cost saving.

E-filing and e-payment will make it easier for business and individuals to comply with their obligations and so help to get it right first time. And the Internet filing discounts will offer a useful one-year kick-start incentive to small employers and businesses to adopt e-filing and e-paying.

12. Monitoring and Evaluation

The Inland Revenue continually monitors and develops its services to meet customer needs, and to meet the Government targets for accessibility to on-line services access. The assumptions used for estimating the costs and take up of internet tax filing services for this RIA will also be monitored in the light of actual take ups and their costs. This information will be used to inform future Internet services.

COMMENTS

Comments on this Regulatory Impact Assessment are welcome and should be sent to:

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INTERNET FILING - DETAILS OF SERVICES

For Self Assessment (SA) taxpayers

From July 2000, most individuals have been able to send their Self Assessment tax returns over the Internet. First, taxpayers register at the Revenue's website and choose a password. They receive a User Identity (User ID) through the post, which they then use with their own unique password to e-file their returns.

For 1999/2000 returns, the Revenue provided some free software. This included the main self-assessment tax return SA100 and the most frequently used supplementary pages (employment and self-employment) – allowing most individuals who make a Self Assessment return to use the Internet to send their return.

For 2000/01 returns the IR offers a free web form service covering the main return and the employment and self employment pages. A service enabling agents to send SA returns over the Internet on their clients' behalf is planned for later in 2001.

For PAYE/NICs employers

The Internet service for PAYE was launched on 9 April 2001, allowing employers and their agents to send their 2000/01 end of year returns to the Inland Revenue. Employers and agents using the service first register at the Government Gateway. The Government Gateway offers citizens and businesses a single authentication service for all government transactions. Once the employer or agent has registered they are sent a User ID for use with a unique password.

The PAYE service will be extended to include other PAYE forms and returns later in 2001/02.

DETAILS OF THE DISCOUNTS SCHEME

- In 2000-01 individual Self Assessment (SA) taxpayers who sent their 1999-2000 return over the Internet and paid any tax due electronically received a one-off discount of £10.
- In 2001-02, employers who send their PAYE end of year returns over the Internet and pay any tax due electronically will receive a one-off discount of £50, plus a further £50 if they have paid any tax credits to employees through the payroll during the year.
- The PAYE and tax credit discounts will also be available to those employers who use an agent, payroll bureau, or other intermediary, to send their 2000-2001 end of year return over the Internet. To qualify for the discount the employer will need to register on-line for the Internet service and notify us of their agent's unique Gateway Agent ID. The employer must also make at least one electronic payment of tax for 2000-2001.