

REGULATORY IMPACT ASSESSMENT

TAX LAW REWRITE PROJECT – INCOME TAX (EARNINGS AND PENSIONS) BILL

Part One: The Background

Introduction

1. The Tax Law Rewrite project ("the project") aims to rewrite all 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.
2. This assessment considers the costs and benefits of the Income Tax (Earnings and Pensions) Bill, ("the Earnings and Pensions Bill"). This is the second rewrite Bill to be drafted by the project. The first, the Capital Allowances Act 2002, was enacted in the 2000/2001 parliamentary session.

Project background

3. Direct tax legislation has grown enormously in the last 25 years. In general, this is not because new taxes have been introduced but because existing taxes have become more elaborate. In addition, some of the existing language and terminology is outdated or conceptually difficult and cannot be adapted easily to reflect modern usage.
4. The project was set up in 1996 in response to such concerns.
5. The key objectives and characteristics 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)
- 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.

The Earnings and Pensions Bill

6. The Earnings and Pensions Bill will be the first of a series of (probably) three bills, which will rewrite income tax legislation – that is the legislation which, broadly, deals with who pays tax, on what income and with what exemptions and reliefs. The Earnings and Pensions Bill will comprise legislation (and certain extra-statutory concessions) dealing with employment income and pension and social security income. It will also contain the primary legislation for Pay As You Earn (PAYE). This will enable the PAYE regulations themselves to be rewritten using the same language as the Earnings and Pensions Bill. This rewrite is planned for the year following the enactment of the Earnings and Pensions Bill.
7. As well as dealing with the basic charges to tax on employment income, the Earnings and Pensions Bill will cover the benefits-in-kind rules and current share schemes legislation.

8. The project has introduced the rewritten material to the public through the publication of a series of 3 Exposure Drafts, containing draft clauses and accompanying commentary, and, finally, a draft of the complete Bill. Each draft invited and encouraged interested parties to respond, and the results of those consultations have been published in Response Documents.

9. In summary, the following publications have been issued:

May 1999: Exposure Draft No 6: Employment Income (Part 1).

December 1999: Response Document to Employment Income (Part 1).

January 2001: Exposure Draft No 11: Employment Income (Part 2).

July 2001: Response Document to Employment Income (Part 2).

December 2001: Exposure Draft No 12: Employment Income (Part 3).

July 2002: draft of the full Earnings and Pension Bill, with accompanying explanatory notes, incorporating responses to Exposure Draft No.12.

November 2002: Response Document to draft Earnings and Pensions Bill.

Part Two: Benefits

General

10. It is generally agreed that the benefits of the rewritten legislation, and the rewrite project as a whole, can become clear only when a particular block of rewritten legislation has been in force for some time.

11. We carried out a stock take 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 interested parties, whom we consult on our work, still firmly believe that any costs will be more than outweighed by the benefits flowing from the project.

12. The Capital Allowances Act 2001 was well received both outside and within the Inland Revenue. It is, however, too early to quantify the benefits. These will be considered in a post implementation review after the Act has been in place for a number of years.
13. That said, the benefits that will accrue as a result of the Earnings and Pensions Bill are likely to be more widely spread than those relating to the Capital Allowances Act 2001. This is because, generally speaking, the Capital Allowances Act 2001 has application only for businesses which incur capital expenditure whereas the Earnings and Pensions Bill will apply not only to all businesses which have employees but also to all individuals who have employment income, pension or taxable social security income.
14. The following table gives some idea of the numbers of taxpayers potentially affected, and the amount of tax involved. The figures are based on projections for the tax year ended 5 April 2002:

No of persons subject to Schedule E tax:	25 million
Total PAYE receipts:	£91.9 billion
Total PAYE receipts stated as percentage of total income tax receipts:	93.4%
Number of PAYE schemes:	1.5 million
Number of employers' P11D schemes:	365,000

15. The benefits are best further analysed by looking at each of the interest groups in turn. We have identified four main groups:

- Tax practitioners
- Taxpayers
- Employers
- Inland Revenue

Tax practitioners

16. These are people who use tax legislation in the course of their work. They include:

- tax advisers: these may be advisers within the legal or accountancy professions or tax managers working in house for companies and organisations;
- legal and accountancy publishers, both in the context of printed material and software.

17. One indication of the impact of the project is how these users perceive the rewritten legislation. We have been encouraged by the positive responses received to the three exposure drafts and the July 2002 version of the draft Bill itself. For example:

18. The Institute of Chartered Accountants in England & Wales, in response to Exposure Draft No 6 said:

"We find that the new structure of the benefits code is a major step forward. It is very much easier to find one's way around it, as well as follow what is being said."

Ernst & Young in response to Exposure Draft No 6 said:

"We believe that the aim to rewrite the UK direct tax legislation in clearer and simpler language is an admirable albeit formidable task. The revised format is a great improvement over the old style legislation".

The Chartered Institute of Taxation said (as a general response to the Draft Bill published in July 2002):

"Once again we would like to congratulate the Rewrite project teams on converting the convoluted phrases of earlier legislation, including numerous amendments and interactions,

into much more accessible and user-friendly form. This Bill is a most significant achievement."

Following meetings held with the TLR project team earlier this year, the Share Scheme Lawyers' Group said:

"As far as the share scheme legislation is concerned, we believe that the objectives of the rewrite project have been very substantially accomplished. The new text is clearer, more logically ordered and more user friendly while preserving the effect of the present legislation apart from minor policy changes (some of which we proposed and all of which we welcome".

19. The benefits to this broad group of users will come from the clarification of existing law and the clearer expression of future changes to that law. They potentially include:
- less time construing legislation and fewer errors caused by misunderstanding of the law;
 - fewer issues on which time needs to be spent on obtaining specialist advice;
 - less resource expended on interpretation type queries;
 - fewer disputes with the Inland Revenue about the meaning of legislation;
 - quicker lead in time for training of new professionals.

Taxpayers

20. In the context of the Earnings and Pensions Bill, this group will comprise employees, pensioners and those in receipt of taxable social security benefits.
21. Only a tiny minority of employees, pensioners and so on consult primary legislation in order to resolve questions about their own tax liability (though with 25 million employees etc that still means, in absolute terms, a worthwhile number of customers who will benefit).
22. While we do not expect this position to change dramatically, taxpayers themselves may be encouraged to consult the legislation because it is written in a more user-friendly style.

23. But the greatest benefit to this group will probably be indirect, i.e. derived from the greater ease of use for their advisers (which should result in lower fees for advice). And clearer legislation should also mean fewer disputes and resultant litigation.

Employers

24. For those employers who delegate their tax affairs to professional advisers, they should benefit through reduced professional costs. Changes, for example, to the benefits code, making the rules easier to follow and apply, should directly impact on employers fulfilling their obligations in relation to the collection and payment of tax.
25. To the extent that employers are using in house professionals, all of the benefits arising to tax practitioners will be available to employers.

The Inland Revenue

26. 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 material should be easier and more straightforward.
27. Moreover, as the legislation becomes easier to understand more resources can be released to concentrate on other issues, for example the provision of extra help and support to customers.

Implementation costs

Revenue costs

28. The cost to the Inland Revenue in producing the Bill is approximately £7.6m, spread over a period of 6 years (1997 - 2003). These costs can in part be offset by the costs that would have been expended on the consolidation of ICTA 1988 and the subsequent Finance Acts, but for the work of the project.
29. There will also be a small cost to the Inland Revenue in updating the relevant parts of the guidance manuals and internal training material.

Costs to business

30. There will be retraining costs for tax practitioners to enable them to become familiar with the new structure, section numbers and language used in the Bill although there will be no change to the underlying tax system. These costs are difficult to estimate, as they will vary depending on how training is organised.
31. Other costs have fallen on the practitioners, tax professionals and representative bodies that have taken part in the consultation process. Again, these costs are difficult to quantify. But those whom we are consulting continue to urge us to maintain the same level of consultation.
32. Commercial publishers and software suppliers will need to update their products (although many of these are updated on an annual basis in any event). These costs are likely to be passed on to the end users.
33. Taxpayers (whether or not through tax advisors) may have to make some investment in adjusting to the new legislation. If any cost is involved this will be of a one off nature.

Compliance costs

34. The costs of compliance fall upon tax practitioners, taxpayers, employers and Inland Revenue. We anticipate there will be an overall reduction in compliance costs to these groups 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;
 - there will be no significant changes made to the existing self assessment returns and other relevant forms (e.g. P11D), but these forms should be easier for tax advisers and employers to complete because the new legislation will be written in language that provides a better and more logical link between the statute and the compliance procedures;
 - people new to tax should need less time to learn the legislation – for example trainee accountants and Inland Revenue staff; and
 - there should be better voluntary compliance with the law and fewer disputes on points of interpretation.
35. While we are not yet in a position to quantify in absolute terms the likely savings or costs to users once the new legislation is enacted, we do believe that to do nothing would lead to the problems, and attendant costs, identified in paragraphs 3 and 4 of this document. It should also be remembered that the project removes the need for a further consolidation of ICTA 1988, and subsequent Finance Acts, which would have been necessary probably within the next 5 years.

Part Three: Other matters:

Consultation

36. Full consultation with interested parties has been a feature of the project. As indicated at paragraph 17, the reactions to our exposure drafts and the July 2002 version of the draft Bill 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.

Competition Assessment

37. The legislation relates to the taxation of the employment, pensions and social security income of individuals so there is no direct affect on markets. We considered the related market of tax practitioners and concluded that it is a wide one with many large, medium and small companies. Whilst the cost of assimilating the revision of the legislation will affect some companies more than others, it is not significant enough to affect the market. No other concerns were identified and we did not feel a need to carry out a detailed competition assessment.

Post implementation review

38. Once the rewritten legislation has been in place for a number of 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.

For further information about the Tax Law Rewrite project or to comment on the Regulatory Impact Assessment please contact:

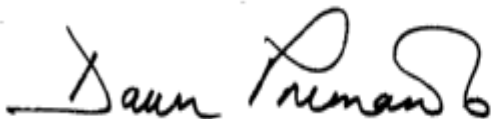
Simon Williams
Tax Law Rewrite Project
Inland Revenue
Room 831, Bush House SW Wing
Strand
London WC2B 4RD

Telephone: 020 7438 7606

E-mail: Simon.Williams@ir.gsi.gov.uk

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

I have read the Regulatory Impact assessment and I am satisfied that the benefits justify the costs.



Dawn Primarolo

Paymaster General

Date: 18th November 2002.