

## Summary: Intervention & Options

<b>Department /Agency:</b> HMRC	<b>Title:</b> Impact Assessment of Reduction of Administrative Burden of Stamp Duty Land Tax	
<b>Stage:</b>	<b>Version:</b> 1	<b>Date:</b> 30 January 2008
<b>Related Publications:</b>		

### 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?

£45m was spent in 2005 by businesses on the administrative burdens and compliance costs of Stamp Duty Land Tax (SDLT), plus there was also an estimated £300 million total compliance cost for individuals. Of this, 60% (£27m) was for the 'preparation and submission of the land transaction return'. In order to reduce the £27m figure, close scrutiny of the processes involved was required, along with how these could be minimised. In particular, HMRC looked at the notification threshold at which Land transaction returns must be filled. The current notification threshold is held at £1,000 for residential and £nil for commercial transactions.

### What are the policy objectives and the intended effects?

HMRC wanted to make the SDLT system as efficient and easy for its customers and their legal representative to engage with, in order to reduce the administrative burdens and compliance costs to businesses. The objective of this policy is to contribute towards the reduction of HMRC's administrative burdens by 10% for the completion of forms/returns and by 15% for audits and inspections.

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

1. Do nothing; 2. Act to reduce administrative burdens and compliance costs by: (a) raising the notification threshold for residential property to £40,000; (b) introducing a notification threshold for commercial transactions at this level; (c) abolishing self-certificates below the notification threshold ; (d) increasing take-up of online filing; (e) reducing administrative burdens and compliance costs due to correcting land transaction returns.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** Costs and benefits will be routinely reviewed after 1-3 years

### **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:

Angela Eagle .....Date: 13 February 2008

## Summary: Analysis & Evidence

Policy Option: 2

Description: Reduction of Administrative Burden of Stamp Duty Land Tax

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups'
	<b>One-off (Transition)</b>	<b>Yrs</b>	
	£ negligible	1	
	<b>Average Annual Cost (excluding one-off)</b>		
	£ 0		<b>Total Cost (PV)</b> £ 0
Other <b>key non-monetised costs</b> by 'main affected groups'			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups'  This policy reduces the administrative burden on businesses and compliance costs for individuals, which improves economic efficiency.
	<b>One-off</b>	<b>Yrs</b>	
	£		
	<b>Average Annual Benefit (excluding one-off)</b>		
	£ 80 m		<b>Total Benefit (PV)</b> £
Other <b>key non-monetised benefits</b> by 'main affected groups'  Increased activity in the shared ownership market for residential homes due to removing the tax disadvantage caused by the "£600 rule".			

### Key Assumptions/Sensitivities/Risks

The key assumption is that Standard Cost Model estimates of the administrative burden on business can inform estimates of the compliance costs of individuals.

Price Base Year 2008	Time Period Years	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	Budget Day			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
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)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline (2005 Prices)</b>		(Increase - Decrease)	
Increase of £	Decrease of £ 16.2 m	<b>Net Impact</b>	£ 16.2 m

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

## Evidence Base (for summary sheets)

### Background

In 2005, standard cost model research by KPMG measured all the administrative burdens imposed by the UK tax system (<http://www.hmrc.gov.uk/better-regulation/kpmg1.pdf>). This included an assessment of the administrative burden of Stamp Duty Land Tax (SDLT), estimated at £45m in 2005 prices (<http://www.hmrc.gov.uk/better-regulation/part22.pdf>). Of this, 60% (£27m) was for the 'preparation and submission of the land transaction return'. It is HMRC's commitment to reduce these administrative burdens by 10% for the completion of forms/returns and by 15% for audits and inspections.

The current notification threshold is held at £1,000 for residential and £nil for non-residential transactions. Yet the first threshold for tax is £125,000 for residential transactions (£150,000 in disadvantaged wards) and £150,000 for non-residential transactions. This means that some of the Land transaction returns are submitted even though no tax is due. However, this information is currently used to support the Valuation Office Agency (VOA) in its statutory duties in preparing and maintaining the non-domestic ratings and council tax lists. Data is also used for inheritance tax, capital gains tax, and undertaking compliance work by various parts of HMRC. Subsequently, the information is also passed onto other government departments, like DEFRA and DCLG.

Even when no SDLT 1 return form is required there is still a requirement to submit a certificate confirming that no land tax return is required. This takes the form of a short 2 page form, the SDLT 60, which is sent directly to land registries who use the data they get from the forms to get information on transactions where there is little or no payment made. The information can also be used by HMRC to check against their data and establish if it was correct that no payment or SDLT1 should have been submitted for that transaction.

### Options

#### **1. Do nothing**

Land transaction returns place a burden upon the customer groups, and they find it an irritant as a recent report showed (<http://www.hmrc.gov.uk/better-regulation/part22.pdf>, page 13). They "did not understand why this was necessary", and hence found the process laborious and superfluous. This may cause continued frustration with HMRC and lead to a feeling of misunderstanding. In addition, it is costly for HMRC to provide this service and the information gained can be sought from alternative sources already available.

#### **2. Act to Reduce Administrative Burdens and Compliance Costs**

##### **(a) Increase notification threshold to £40,000 for residential transactions**

Introducing a notification threshold of £40,000 on residential transactions would remove 190,000 transactions (12% of all residential transactions). This will reduce an irritant to businesses, but would not affect the administrative burden placed upon businesses undertaking property transactions. In addition, it would also impact upon VOA. When they receive notification of a sale, it "triggers" maintenance of the council tax and non-domestic tax lists. For transactions below the notification threshold, this would no longer occur. Consultation with HMLR is required so that VOA will be alerted of sales below the HMRC notification threshold.

The possibility of a higher threshold was considered but dismissed on two grounds. Firstly, a higher threshold could open up opportunities for tax avoidance or evasion, both of which create losses in welfare by increasing tax rates for compliant taxpayers. Secondly, a notification threshold causes a loss of data for VOA, as mentioned above. With a higher notification threshold, this loss of data collection might compromise VOA's ability to operate effectively.

Based on the number of transactions that will fall under the notification threshold rather than a land transaction return this will reduce compliance costs for individuals by an estimated £38m per annum. The compliance cost for individuals is based on KPMG's estimates of the administrative burden for very small businesses that outsource the completion of SDLT forms on the basis that very small businesses are the closest comparison for individuals and the vast majority of individuals outsource completion of the land transaction return to their solicitor. These costs are estimated as a saving of £200 per taxpayer under the notification threshold due to not having to complete an SDLT1, of which there will be an estimated 190,000 per annum.

### **(b) Increase notification threshold to £40,000 for non-residential transactions**

By enlarging the scope of the threshold to also include non-residential transactions, this would mean HMRC will remove the need for an additional 80,000 Land transaction returns (approximately 51% of all non-residential transactions). This simple to implement measure will save business £12.7m (28.2% of the burden) due to a reduction in the number of transactions that will have to complete an SDLT 1.

The figure of £40,000 is well placed within the structure of SDLT, as the first threshold for tax is a lot higher, as shown above. This means that the notification threshold is sufficiently low enough that there can be no opportunity to exploit this measure for tax avoidance purposes.

An increase in the notification threshold may not impact on SDLT yield, but it will mean another decrease in the information given to HMRC and, therefore, VOA. This impacts upon their statutory duties in other tax areas such as capital gains tax, inheritance tax and working with other governmental departments. For example, VOA would be unable to support compliance work across a range of taxes where the transaction is low value and below the notification threshold. Whilst most of this information can be supplied through HMLR, unfortunately VOA may need to create their own forms for new commercial leasehold transactions.

### **(c) Abolishing self-certificates below the notification threshold**

Traditionally a property title cannot be changed without a certificate showing that either tax has been paid or there is no tax payable. Once the notification threshold has been changed to £40,000, customer groups would then have to use the SDLT 60 (self-certification form) instead of the SDLT form to show that no tax is payable. This would lead to an estimated increased SDLT 60 administrative burden of around £7m per annum that would reduce the benefits of the £12.7m saving identified above. However, by abolishing the need for an SDLT 60 below the notification threshold, this increase in administrative burdens can be avoided.

### **(d) Increase Up-take of Online Filing**

It is believed that by increasing the take-up of online filing from around 0-5% at the time of the KPMG measurement of admin burden to 50% within the next year. Of this, it is difficult to estimate the proportion that is attributable to HMRC's efforts to increase uptake over-and-above making the service available. However, on an indicative basis, it is assumed that one half is due to these efforts. This will reduce the cost to business of complying with SDLT by 3.3% (£1.5m) per year due to the additional online filing achieved. Online filing reduces the difficulty of completing SDLT forms by providing immediate checks for inconsistency, removing irrelevant fields, highlighting missing information and saving on postage costs. HMRC has been actively promoting the uptake of online filing due to the reduced administrative burden. The HMRC

Outreach Team, for example, has also been continuing their efforts by speaking to Law Societies and customers who have registered but not yet activated their accounts, and the Problem Transactions team has been informing customers of the benefits of online filing in cases where there is customer contact.

For individuals, the equivalent estimate is £10m, which reflects the much higher number of residential transactions relative to commercial transactions, with a current ratio of 8:1.

### **(e) Reducing administrative burdens and compliance costs due to correcting land transaction returns**

There are a number of operational changes being implemented to reduce the costs of correcting land transaction returns, designed to reduce the number of returns that need to be corrected, reduce customer contact in those cases that do and to reduce the administrative burden and compliance costs where customer contact is still required. These operational improvements include:

1. A reduction in the number of SDLT 8s (which are issued by HMRC when incorrect details are submitted on a return and requesting correction) issued due to increases in online filing, whereby with online filing it is not possible for a transaction to generate an SDLT8 due to internal data validation carried out when the form is first completed;
2. Reducing the proportion of paper transactions that generate an SDLT8 from historically 16-20% (note that a central estimate of 18% is used below);
3. Correcting around 80% of incorrect land transaction returns without further customer contact;
4. Correcting the remaining 20% of incorrect land transaction returns initially via telephone call rather than by sending a paper SDLT8 to the customer; and
5. In cases where there is customer contact, this enables HMRC to inform users of the online filing system (where it is impossible to submit an incorrect return).

The SDLT 8 burden was not separately measured as part of the KPMG research. Instead it is incorporated in the admin burden for the land transaction return. It is estimated that the admin burden per transaction is increased by 50% if a paper SDLT 8 is required, i.e. the admin burden of an SDLT 8 is 50% of that of a land transaction return, other things being equal.

Based on the central estimate of 18% of transactions historically generating a paper SDLT 8, this implies that of the £27m baseline cost for the land transaction return, £24.8m is associated with the main return and £2.2m is the admin burden for SDLT 8s.

It is estimated that of this £2.2m administrative burden, there will be an estimated reduction of £2.0m, based on: (i) online filing rising to 50% in 2008 from 0% at the time of the baseline admin burden measurement; and (ii) 80% of land transaction returns that require correcting being corrected without customer contact. This results in a 90% fall in the administrative burden of correcting land transaction returns. For individuals' compliance costs, the equivalent estimate is a reduction of £15m, which reflects the much higher number of residential transactions relative to commercial transactions, with a current ratio of 8:1.

### **Summary**

The simplification package above has a cumulative estimated impact of reducing administrative burdens on business by £16.2m in 2005 prices, equal to around £18m in 2008 prices, and reduces the overall compliance costs faced by individuals by an estimated £63m, although the compliance cost impact should be viewed as indicative because it uses Standard Cost Model estimates of the administrative burden faced by business to estimate compliance costs faced by individuals. This £16.2m saving in administrative burdens is comprised of a £12.7m saving due to the introduction of the notification threshold, a £1.5m saving due to increasing uptake of online filing and a £2m saving from improved operational procedures in dealing with problem

transactions. The £63m compliance cost saving consists of a £38m saving due to raising the notification threshold, a £10m saving from increasing uptake of online filing and a £15m saving from improving how we deal with problem transactions. The total saving in administrative burdens and compliance costs is an estimated £80m annually to the nearest £10m.

Lastly, it should be noted that there will be no change in HMRC's operating costs, with instead only a reallocation of existing resources and funding.

## **Economic Impact Tests**

### **1. Competition Assessment**

This measure will have little or no effect on competition within the markets to which it applies namely conveyancers, VOA and other government departments. The measure does not affect any firms substantially more than any others. The only additional cost that can be foreseen with this change is how VOA, etc, gain the information if they still require it.

### **2. Small Firms Impact Test**

The raise in notification threshold will mean that all firms will no longer have to fill out paperwork for transactions under £40,000, thus reducing the administrative burden and saving time. In addition, if practitioners use the online facility for filing returns then all forms will be completed fully and accurately; thereby, reducing the need for further contact between HMRC and its customers. This measure provides a more expedient and efficient way for HMRC to deliver a Land Transaction Certificate to the practitioners.

With the help of the SDLT Working Together Steering Group, and its sub-groups, HMRC will be able to assess opinion and concerns on the introduction of a £40,000 notification threshold.

### **3. Legal Aid Impact Test**

There will be no need for a new criminal sanction or civil penalty.

## **Environmental/Social/Sustainable Development Impact Tests**

There are no other issues relating to this measure that need to be addressed.

## **Implementation and Delivery**

This measure was announced at the Pre-Budget Report 2007, with implementation occurring on Budget Day 2008.

### **Exceptions**

Not all of the transactions below the £40,000 threshold can be self-certified and therefore will still need the completion of an SDLT 1 form. These exceptions concern leasehold properties, whereby notification is required if the lease:

- is for a period of seven years or more and the grant is made for a chargeable consideration;
- is granted for periods of less than seven years, but tax is chargeable at a rate of 1% or higher on either or both any premium or rent paid; or
- would have been tax chargeable at a rate of 1% or higher but for the availability of a relief.

## **Consultation**

A full consultation was undertaken with practitioners to both ensure that the measure was properly understood and that the processes are in place to take advantage of the measure. It also provided time to those who will no longer receive the necessary information from the SDLT forms to find an alternative.

## **Post-Implementation Review**

Through the SDLT Working Together Steering Group, and its sub-groups, HMRC continues to work with all the key stakeholders of SDLT. Within these groups, stakeholders continually assess the performance of the SDLT regime, suggest ideas for improvements and evaluate changes that have already been made. This is a vital tool for gauging the effectiveness of any changes in the SDLT system and has already provided useful insights to further change.

HMRC will conduct a post-implementation review with reference to the operational impacts of this new process within a controlled timescale. It is currently anticipated that this will be between one and three years from the date of implementation. The review will cover the impacts for practitioners and the anticipated positive impact on transaction timescales for both practitioners/taxpayers and HMRC. It will also endeavour to see what impact the VOA, etc, have had on the cessation of information from HMRC for transactions below the £40,000 threshold.

## **Enforcement, Sanction and Monitoring**

SDLT has been continually monitored since its introduction in December 2003. As well as feedback through the help-lines, several surveys have been conducted on practitioner's experiences of the new tax. Close contacts have been maintained throughout with practitioners' representatives and the law societies via the SDLT Working Together Steering Group. These channels of communication will continue to enable HMRC to evaluate their effectiveness almost immediately.

## **Summary**

A notification threshold of £40,000 has been introduced as part of the Budget 2008 package, with it taking effect from Budget Day itself. Coupled with increase up-take of on-line filing and improvements in correcting returns, the related saving for administrative burden is around 36% (£16m). There will also be a reduction of compliance costs for individuals, estimated at around £63m. Consultation has shown that this measure has been well received by HMRC's customer groups, as it goes some way to reducing administrative burdens and compliance costs. Consultation with VOA and HMLR will need to continue to solve any problems surrounding the loss of information that HMRC will face.

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