Summary: Intervention & Options

Department /Agency:	**Title:**	
HMRC	**Impact Assessment of changes to indirect taxes Voluntary Disclosure arrangements**	
Stage: Final/Implementation	**Version:** 4.0	**Date:** 29 February 2008
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk/better-regulation/ia.htm

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What is the problem under consideration? Why is government intervention necessary?

Voluntary disclosure is the mechanism by which businesses are required to notify errors made on previously submitted indirect tax returns. The arrangements apply to VAT, Insurance Premium Tax, Air Passenger Duty, and environmental taxes. The Administrative Burdens Advisory Board (ABAB) and the Joint VAT Consultative Committee (JVCC) identified the existing financial thresholds applicable to voluntary disclosures as a major irritant for large businesses. HMRC consulted during the autumn on options for change.

Intervention is necessary to help reduce burdens on business.

What are the policy objectives and the intended effects?

To ensure that the procedure for disclosing errors on returns remains fit for purpose, that is that the system remains easily understood, continues to offer businesses the opportunity to claim overpaid tax, ensures that business does not face disproportionate costs in declaring errors, that HMRC are able to adequately assess the validity of claims and risks associated with significant errors.

Intended effects: Reduce the requirement for separate disclosure of all but the largest errors, while retaining the facility of taxpayers to claim repayments early.

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

Consultation identified 4 options. Option 1 (simple increase in current financial limit) cannot address large business concerns without jeopardising other policy objectives. Option 2 (different limits for different sized businesses) is the preferred short term option as it meets all policy objectives. It is supported by business representative bodies.

Options 3 (allow all errors to be declared on returns) and 4 (the development of a generic model to be used across all business taxes), are not acheivable in the short term. HMRC intend to look at these in more detail, consulting as appropriate.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

HMRC will conduct a Post Implementation Review of the new arrangements within 2 years of implementation. The review will seek the views of taxpayers.

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:

Jane Kennedy...Date: 6 March 2008

Summary: Analysis & Evidence

Policy Option: [Final]	Description: Increase the current indirect tax £2,000 voluntary disclosure limit to the greater of £10,000 or 1% of turnover, to a max £50,000.

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	One off compliance cost arising from familiarisation with the new proposal. Actual population likely to incur cost is unknown; likely maximum value calculated.
£ 2,500,000 (max)	1	
Average Annual Cost (excluding one-off)		
£ 0		**Total Cost** (PV) **£ 2,500,000 (max)**

Other **key non-monetised costs** by 'main affected groups'

None. Consultation suggests there are no extra costs expected from the turnover element of the proposal. No operational costs are expected for HMRC.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	Administrative burden saving from the estimated number of disclosures no longer submitted to HMRC.
£ 0		
Average Annual Benefit (excluding one-off)		
£ 33,000		**Total Benefit** (PV) **£ 33,000**

Other **key non-monetised benefits** by 'main affected groups'

No other benefits are expected.

Key Assumptions/Sensitivities/Risks

Risk: Behavioural assumptions may be too cautious or otherwise inaccurate. Other information: also a one-off VAT cash receipts cost of around £5 million, and negligible cost from foregone default interest.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			National	
On what date will the policy be implemented?			1 July 2008	
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?			£ Nil	
What is the value of changes in greenhouse gas emissions?			£ Nil	
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

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 | Decrease of £ 30,000 | **Net Impact** £ -30,000

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

Evidence Base (for summary sheets)

Background

Voluntary disclosure arrangements are in place for VAT, Insurance Premium Tax, Air Passenger Duty, Landfill Tax, Climate Change Levy and Aggregates Levy. Errors in excess of a de minimis limit of £2,000 (net errors in VAT) must be separately notified to HMRC. Any errors below the de minimis limits may be included in ther next tax return to be submitted.

An independent report on the tax administrative burden on business in the United Kingdom noted that the current voluntary disclosure arrangements are viewed by large business as an irritant. The report findings were confirmed by both the Administrative Burdens Advisory Board (ABAB) and the Joint VAT Consultative Committee (JVCC). HMRC therefore published a consultation document on 1 August 2007 called “A Review of the Voluntary Disclosure Arrangements for Notification of Errors of VAT, Insurance Premium Tax, Air Passenger Duty and Environmental Taxes”.

The consultation document sought the views of micro, small, medium and large business, as well as their advisers, on the existing voluntary disclosure arrangements. It also set out a number of possible options for change to the current arrangements and invited views on the merits and drawbacks of each, as well as welcoming other ideas on the way forward. The consultation period ran from 1 August 2007 to 31 October 2007.

Consultation objectives and options

The objectives behind the consultation were to:

- identify the strengths and weaknesses of the current arrangements;

- ensure that the procedure for disclosing errors on returns supports the compliant taxpayer, is simple, easy to operate, imposes the minimum administrative burden on business, whilst safeguarding the interests of all taxpayers;

- for errors that result in a refund to a business, to ensure that the procedure remains sufficiently flexible to enable repayments to be claimed, and made, at the earliest opportunity;

- safeguard the interests of all taxpayers by ensuring that corrections of significant errors provide sufficient information to enable HMRC to adequately assess the validity and completeness of the disclosure and, where a refund is sought, consider whether ‘unjust enrichment’ of the business would occur, i.e. put the business in a better economic position than would have been the case if they had not made the error; and

- ensure that the process includes an appropriate level of reassurance for taxpayers concerning the application of penalties (where their errors have resulted in an underpayment) whilst safeguarding the interests of compliant taxpayers.

Four options were consulted on:

- Increase the present financial limit for the mandatory notification of errors/net errors.

- Have different de minimis limits for nano, micro, small, medium and large business.

- Remove the requirement for separate notification of errors exceeding £2,000 and allow all adjustments to be entered on the next tax return.

- Develop a generic model for dealing with error or mistake claims across all indirect and direct tax regimes.

The above options were not considered to be exclusive or exhaustive and other suggestions, that would alleviate the administrative burden of the voluntary disclosure arrangements, were invited.

Responses to the consultation

During the consultation period HMRC received 40 written responses and held meetings with 11 companies/representative bodies. The responses were mainly from representative bodies, large business and their professional representatives. The views of micro and small business were represented in particular by the Institute of Chartered Accountants England and Wales, the VAT Practitioners Group, the Chartered Institute of Taxation and the Association of Accounting Technicians.

Detailed responses on the current arrangements and on options for change are contained in "A review of the Voluntary Disclosure arrangements for notification of errors of VAT, IPT, APD and Environmental taxes. Responses to the 1 August Consultation Document", published today with this Impact Assessment.

In summary, respondents welcomed the simplicity and flexibility of the current arrangements, the certainty that errors have been declared at an early stage, and the fact that overpayments of tax can usually be recovered more quickly via the disclosure system than via later tax returns. This latter facility is of particular benefit to micro and small businesses. The overwhelming majority of adverse comment on the current regime, from businesses of all sizes, related to the £2,000 de minimis limit. All find it too low, whilst large business and VAT groups in particular find the current limit a major irritant and disproportionate in relation to the size and volume of transactions they undertake.

Some of the procedures for making disclosures were also highlighted as an irritant. Examples included the layout of the declaration form, and the lack of an online declaration facility. Comments on these have been passed to systems owners within HMRC for consideration.

Views on the options

Comments from individual respondents are contained in the responses report published today. These may be summarised as follows.

Option 1: The overwhelming majority of respondents would welcome an increase in the £2,000 de minimis limit. Suggested increases ranged from £5,000 to £250,000. However, there was widespread recognition that any increase would have to be set at a level that did not pose a significant risk to the Exchequer, with only a few respondents, mainly micro and small, viewing this as the preferred option. The majority thought that it would be difficult to agree a single financial limit that reflected the size and complexity of all businesses.

Option 2: The majority of medium and large respondents favoured different limits for businesses of different size. However, there was a considerable divergence of views on the most appropriate method to define the requisite groupings. Suggestions included using the European Union definitions of micro, small, medium and large, or setting our own limits based on a percentage of throughput or sales turnover. Some respondents thought different limits would add complexity and had the potential to cause confusion.

Option 3: A significant number of respondents thought that this was the ideal long term solution. Benefits identified included allowing payments/repayments to be dealt with through the next VAT return and removal of the need for any limits. The option would entail the introduction of an additional two boxes on the VAT return. This was not seen by some as unduly onerous, although a number of respondents saw the introduction of additional boxes as a retrograde step, particularly in view of the effort over recent years to reduce the number of boxes on the return to nine. They noted that it appeared to run counter to HMRC's simplification process, and result in the need for changes to IT systems of both business and HMRC.

Option 4: Respondents generally thought a standard error notification model for all taxes would be of benefit in the long term. However, a number thought it had the potential to be administratively more burdensome. There was a consensus that any proposals within this option would need to be subject to further, detailed consultation.

HMRC view

In light of those responses HMRC will continue to explore the longer term solutions for disclosure of errors through the indirect tax return and development of a generic error correction system across all business taxes (Options 3 and 4). In due course we will consult further with business on any proposals for change that arise from this longer term work.

We accept that the current limit is too low, is a major irritant to large business and that, in the mean time, a short term solution is required. We are keen to ensure that the procedure for disclosing errors is simple, easy to operate and imposes the minimum administrative burden on business. However, to safeguard the interests of all taxpayers, HMRC needs to ensure that significant errors can be identified to enable an adequate assessment of the validity and completeness of the disclosure and, where a refund is sought, that it would not constitute unjust enrichment, i.e. put the claimant in a better economic position than would have been the case if they had not made the error.

Option 1 can be implemented within a few weeks. It merely involves increasing the de minimis level below which businesses are not required to notify errors separately to HMRC. Raising the limit in this way to will reduce significantly the numbers of errors requiring separate notification, but in order to make any significant impact on the administrative burden the regime imposes on large business, the limit would have to be set at a figure that would severely inhibit HMRC's ability to identify and intervene quickly in cases of potential revenue risk.

Option 2 can also be implemented within the same timeframe. In order to meet all the policy objectives of the Voluntary Disclosure regime, the current limit of £2,000 would have to be raised significantly, but be capped at a level that provides HMRC with information on significant errors, and the opportunity to intervene where appropriate. Of course what is significant in a small business may not be significant in a larger concern, and HMRC have looked at how the size of an error in relation to the size of the business concerned might be incorporated into the disclosure mechanism.

Option 3 involves withdrawing the present arrangements and allowing all adjustments to be made via tax returns. While this option would undoubtedly simplify the error correction process for some, the continuing need for HMRC to be able to identify significant errors means that the various return forms would probably have to include additional boxes specifically for recording errors. Such a step would be viewed by some taxpayers as a retrograde step. Changing forms and the systems capturing the data recorded on them is something that could not be done in the short term. Option 4 goes further, in that it envisages an entirely new model that deals with errors across all taxes administered by HMRC. Again, such a system could not be implemented in the short to medium term. HMRC are keen to explore the feasibility of options 3 and 4, and will take the work forward in due course. This process will include further consultation with the business community.

The proposed solution for now is to increase the current £2,000 de minimis limit to the greater of £10,000 or 1% of 'turnover' (Box 6 figure for the VAT return period in which the disclosure is made) subject to an upper limit of £50,000.

All net errors under £10,000 can be declared on the taxpayer's next return, although in the case of repayment claims businesses will still be able to use the disclosure regime if they wish. All net errors over £50,000 must be separately notified to HMRC, as all errors over this amount are considered to be significant. Net errors between £10,000 and £50,000 may be included on the taxpayer's next return, subject to measurement of the error against the turnover of the business concerned. HMRC believe that all but a handful of businesses covered by voluntary disclosure arrangements are VAT registered, and therefore have systems in place enabling them to calculate their turnover, including exempt outputs, for inclusion in box 6 of the VAT return. In those rare cases that a business is not registered for VAT but is required to submit other indirect tax returns, the limit for correcting errors on the next return due will be capped at £10,000.

Introducing a new de minimis limit of £10,000 will potentially reduce the numbers of errors requiring separate notification by around 17,500 per year, although we believe that the true reduction would be nearer to 6,000 annually because those businesses due a refund may still choose to request it via separate disclosure rather than wait until their next return falls due. The new arrangements for errors between £10,000 and £50,000 are estimated to further reduce the number of voluntary disclosures by up to an additional 2,000.

The proposal has been scrutinised by business representatives from the JVCC, VAT in Business Group, trade associations connected with the environmental tax regimes, and some individual businesses. In considering the proposal, HMRC asked those consulted to consider 5 questions;

Q1. The proposals seek to maintain the simplicity of the current system for users, while providing additional flexibility for medium and larger businesses. Do they achieve these aims?

Q2. Is the proposal to measure business size through the use of the box 6 turnover figures on VAT returns a reasonable method?

Q3. If not, what other measurement should we use?

Q4. Will the proposals add to your business costs or the costs of those you represent? If so, we would appreciate some estimation of the actual costs involved in activities such as additional calculations, possible advance calculation of box 6 figures, staff familiarisation and training time, any accounting system adjustments, and any other resulting business changes.

Q5. When should we introduce the changes? We see advantages in doing so as soon as possible, but wonder whether businesses might prefer a short delay in order to train relevant staff.

HMRC received responses from a number of taxpayer groups, including the CBI, the British Retail Consortium, the VAT in Industry Group, the Tax Faculty of the Institute of Chartered Accountants in England and Wales, the Chartered Institution of Wastes Management, and the British Aggregates Association, as well as from some individual large businesses.

Detailed responses are included as an annex to this impact assessment. In summary, all respondents agreed that the proposals achieved the aims of maintaining the simplicity of the current system while increasing flexibility, although one trade association felt that the proposals should make additional provision for errors up to £100,000. HMRC do not consider there is a strong argument for introducing a further layer of complexity at this time, but will consider the issue as part of the post implementation review.

All respondents agreed that using VAT turnover as the basis of measurement was reasonable. And, in response to question 3, no alternative method was suggested. The response to question 4 was particularly encouraging, with respondents suggesting that the measure would not increase business costs. Some suggested the measure could actually lead to a small cost reduction. Finally, all those consulted wished to see the new arrangements introduced as soon as possible.

Supporting Analysis and Evidence

HMRC's analysis is based on a complete set of data on VAT voluntary disclosures for 2006; VAT has been the focus, since around 99% of all disclosures and therefore impacts of this measure will relate to VAT. Summary analysis for previous years shows that 2006 is broadly typical of recent trends, and is therefore an appropriate year upon which to base the analysis. Our data shows the following basic statistics on VAT voluntary disclosures:

Table 1: Size (absolute net amount) breakdown of voluntary disclosures

Disclosure size band	No. of voluntary disclosures, 2006	% of voluntary disclosures, 2006
Under £2,000	8,250	22%
£2,000 to £10,000	17,600	48%
£10,000 to £50,000	7,250	20%
Over £50,000	3,600	10%
Total	36,700	100%

Table 1 shows the maximum number of disclosures (on current trends) that might be affected by this proposal. Nearly a quarter of voluntary disclosures currently submitted are for net amounts below the current threshold of £2,000. These disclosures can be said to be *truly* voluntary, and their existence suggests that many businesses will still choose to submit voluntary disclosures even after an increase in that threshold - particularly if it is in their interest to do so. The 3,600 disclosures for amounts greater than £50,000 would never be affected by this measure.

Around 17,600 disclosures were in the range £2,000 to £10,000 in 2006; if these proposals were in place in 2006, all these would no longer be required to be disclosed, and could be accounted for via return adjustments. The 7,250 or so disclosures in the range from £10,000 to £50,000 could also no longer be required, if the turnover criteria is met as well. In all, this measure *could* affect around 25,000 voluntary disclosures per year.

Although HMRC's administrative VAT data do not equate directly with mainstream measurements of business size (which tend to be based on employee numbers rather than turnover), that information does show that most disclosures are submitted by smaller businesses. As such, small businesses in particular may benefit from this measure.

It is stated above that around 25,000 voluntary disclosures *could* be affected per year. However, our analysis leads us to a much more cautious view. It is clear from the data that there are already a large number of truly voluntary disclosures; as shown in table 1, around a quarter of disclosures submitted at present are below the current £2,000 de minimis limit. There are several reasons why this occurs. We know that small businesses use the current arrangements as a way of obtaining refunds more quickly than would normally be the case if credits are claimed on the next tax return. Other reasons might include taxpayer concerns about "getting it right" fuelling a desire to inform HMRC of any error at the earliest opportunity, or perhaps they may be approaching their year end and wish to set off refunds against other liabilities in the current financial year. Whatever the reasons, all the evidence suggests that disclosures will continue to be submitted even though they need not be.

We see five different types of voluntary disclosures in the data, each of which should have different behavioural responses. These are:

- *Disclosures below £2,000 of any type.* These are already submitted voluntarily in the strictest sense of the word. As such, we do not see any reason why a further increase in the disclosure limit would lead to a reduction in disclosure numbers amongst this group. We have assumed that all of these disclosures would continue to be submitted under any proposal here.

- *Disclosures above £2,000 (as relevant to the option threshold) which seek repayment from HMRC.* As making an adjustment on the return would mean receipt of the amount later than would be the case with a voluntary disclosure, we assume that most errors of this kind would continue to be submitted by a voluntary disclosure. There would be a marginal impact if businesses see voluntary disclosures as a significant burden, and may see admin burden benefit/cash flow cost as a worthwhile trade-off, but we assume that 90% of this group would still submit disclosures.

- *Disclosures above £2,000 (as relevant to the option threshold) which makes a payment to HMRC, but without interest.* Since return adjustments and payments would occur later, there is a stronger incentive to stop correcting these types of errors as voluntary disclosures. However, this is purely a cash flow bonus to the business, and we think it wise to assume there will still be a fair proportion of disclosures submitted within this group (as evidenced by the smallest disclosure size band once again). We have cautiously assumed that around 75% of businesses might still choose to submit disclosures even if they have the option of not doing so.

- *Disclosures above £2,000 (as relevant to the option threshold) which makes a payment to HMRC, but with interest.* This group has a much stronger incentive not to submit disclosures; in addition to the cash delay bonus, they would also not have to make interest payments if adjusting for the error on their next return. As such we have assumed that only one third of these disclosures would still be submitted.

- *Disclosures for zero net amounts.* There are not many of these in the data, but they should relate to tax point errors. They are by definition for amounts less than £2,000 so in accordance with the point above we assume that all of these will continue to be submitted under the proposals.

These assumptions are all felt to be fairly cautious, as appropriate to the estimation of impacts of Budget measures. The true effect in terms of disclosures no longer submitted under this proposal may be greater than we are allowing for. Table 2 below gives a summary of the behavioural effects that we are assuming. Table 3 shows how this relates to numbers of disclosures, using the 2006 dataset. Please note that the size band "over £50,000" is included in the tables below for completeness, but this measure does not propose to affect these since the maximum limit proposed is £50,000. These rows are greyed out in the tables below.

Table 2: Summary of assumed behavioural effects – share of baseline voluntary disclosures *still submitted* under an option, if the option affects that size band.

Disclosure size band	Repayments from HMRC	Payments to HMRC, no interest	Payments to HMRC, with interest	Zero net amounts
Under £2,000	100%	100%	100%	100%
£2,000 to £10,000	90%	75%	33%	100%
£10,000 to £50,000	90%	75%	33%	100%
Over £50,000	100%	100%	100%	100%

Note: the over £50,000 band will not be affected by any option.

Table 3: disclosure numbers when factoring in the behavioural assumptions.

Disclosure size band	Repayments from HMRC	Payments to HMRC, no interest	Payments to HMRC, with interest	Zero net amounts	Total
Total disclosures					
Under £2,000	4,875	2,850	150	375	8,250
£2,000 to £10,000	9,100	1,650	6,850	0	17,600
£10,000 to £50,000	4,225	900	2,100	0	7,225
Over £50,000	2,200	700	725	0	3,625
Total	20,400	6,100	9,825	375	**36,700**
Still submitted					
Under £2,000	4,875	2,850	150	375	8,250
£2,000 to £10,000	8,200	1,250	2,250	0	11,700
£10,000 to £50,000	3,800	675	700	0	5,175
Over £50,000	2,200	700	725	0	3,625
Total	19,075	5,475	3,825	375	28,750
No longer submitted					
Under £2,000	0	0	0	0	0
£2,000 to £10,000	900	425	4,600	0	**5,925**
£10,000 to £50,000	425	225	1,400	0	**2,050**
Over £50,000	0	0	0	0	0
Total	1,325	650	6,000	0	**7,975**

Note: all figures are rounded independently and may not sum to totals.

What this aims to show is that on the basis of the assumptions used, we can estimate that:

- If there was just an increase in the disclosure limit to £10,000 then there might be around 6,000 fewer voluntary disclosures submitted to HMRC in practice.

- If there was just an increase in the disclosure limit to £50,000 then there might be around 8,000 fewer disclosures.

- With the turnover criteria coming into play for disclosures between £10,000 and £50,000 - some of the additional 2,000 disclosures will meet the criteria and some will not, so there should be between 6,000 and 8,000 fewer disclosures.

With respect to the latter point, the proposal is for the limit for any particular disclosure for amounts between £10,000 and £50,000 to be equivalent to one per cent of turnover in the accounting period in which the error would be disclosed or adjusted. If one per cent of turnover is less than £10,000 then the lower limit of £10,000 would apply automatically. If one per cent of turnover is greater than £50,000 then the limit is capped at £50,000.

Further analysis of the 2006 data suggests that around 95 per cent of disclosures for amounts between £10,000 and £50,000 would still face the lower limit of £10,000 because their turnover is too low. The remaining five per cent would either face a ‘personal’ disclosure limits set by their turnover level, or face the highest £50,000 limit. However, it is likely that even in these latter cases, a majority of disclosures would still be for amounts above these higher limits and would still have to be submitted to HMRC.

Our analysis therefore suggests that based on the 2006 data there would effectively be a £10,000 limit in most cases. The actual number of disclosures no longer submitted, even with the turnover element in place, is therefore likely to be closer to 6,000 than 8,000 per year. However, the overall caveat is that this is according to the 2006 dataset. Future disclosures may be able to make more use of the turnover system, leading to a greater reduction in disclosure numbers. It is also important to note that our behavioural assumptions are deliberately cautious, since they also feed into the Budget 2008 revenue impact estimates where caution is required.

Using a figure of around 6,000 fewer VAT voluntary disclosures per year (a reduction of around 15 per cent), administrative burden savings are likely to be around £33,000 per year in total or around £5.50 for a smaller business, rising to £9 for a larger business. These are as measured by the Standard Cost Model, uprated to 2008 values. One voluntary disclosure is assumed to take a small business around 25 minutes, up to around 40 minutes for a larger business.

In terms of revenue impact, there will be a cash timing effect from the potential delay between receiving errors from voluntary disclosures within an accounting period to having those adjustments made at the end of an accounting period, when the VAT return is due. As we have assumed that those disclosures requiring payment back to HMRC will be more prone to adjustment on the return instead, there will be a one-off net cash cost to HMRC's VAT revenues upon the implementation of this measure. The measure could also lead to an amount of default interest no longer being due on those errors now corrected on returns.

In terms of wider compliance costs, we only foresee an impact from VAT registered businesses having to familiarise themselves with the new criteria for voluntary disclosures. Although disclosures can potentially be used by all VAT registered businesses, the new system will only be of direct interest to businesses handling their own VAT affairs or to accountants and advisors. Based on the size of the current VAT register and drawing on assumptions in the Standard Cost Model about the rates of outsourcing for VAT purposes, we estimate that around 1,100,000 businesses may need to familiarise themselves with the proposals, at least in passing.

Familiarisation is unlikely to take long; most businesses will only have to recognise that the disclosure limit has increased. We assume and that each of the estimated 1,100,000 businesses will only need an average of 10 minutes to note the proposed changes. This gives an absolute maximum compliance cost of around £2.5 million in total, or around £2 for a smaller business rising to £3 for a larger business. While we cannot predict how many businesses will actually choose to read about this proposal, it is felt that this total cost is a safe maximum. A further mitigating factor that could rive down this cost is that many businesses may already be familiar with the broad nature of the proposals from consultation exercise.

We estimate the one-off cash effect for VAT to be a cost of around £5 million in 2008-09, and the (ongoing) effect from lost interest to be negligible. As VAT disclosures account for around 99 per cent of all indirect tax disclosures, all impacts from this measure on the other indirect taxes are estimated to be negligible.

Table 4: summary of estimated impacts from a disclosure limit system with a lower threshold of £10,000 an upper limit of £50,000 and turnover-based limits for disclosures between these.

	Reduction in number of disclosures	Admin burden saving	Wider compliance costs	Cash receipts effect	Interest effect
VAT	Approx 6,000 (15%)	£33,000 (15%)	£2.5m (max)	-£5m	Negligible (cost)
Other indirect taxes	Negligible	Negligible	Negligible	Negligible (cost)	Negligible (cost)

Note: cash effects are a one-off in 2008-09, interest effects will be ongoing per annum. All monetary amounts are measured in 2008-09 values.

Small firms may benefit from this measure particularly. There should be no impact on competition as a result of this proposal.

Conclusion

HMRC are of the view that these proposals achieve the balance they seek between business facilitation and the need to monitor taxpayer compliance. Smaller businesses in particular will benefit from the proposals, as the new £10,000 limit will ensure that most will no longer have to make separate disclosures to HMRC, yet they retain the right to make early claims for overpaid tax. Medium and larger businesses will also benefit from the new de minimis level and, subject to the turnover test, enjoy additional flexibility by being able to declare errors up to £50,000 on tax returns.

The proposals have no implications for competition and have no environmental, development, racial, gender, rural or HR impacts.

Specific Impact Tests: Checklist

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	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

REPRESENTATIVE COMMENTS FROM EXTERNAL ORGANISATIONS ON HMRC DISCLOSURE PROPOSALS

Q1. The proposals seek to maintain the simplicity of the current system for users, while providing additional flexibility for medium and larger businesses. Do they achieve these aims?

- The proposals achieve the stated aims. A limit of £100k / 1% would have been preferable for very large businesses, but £50k / 1% should cover many ordinary adjustments.

- We very much welcome the proposals, but are disappointed about the upper limit set. Whilst the proposals will achieve your aims of maintaining the simplicity of the current system for users, while providing additional flexibility for medium businesses, we feel greater flexibility could have been achieved without loss of Revenue for larger businesses.

- Yes, the proposals maintain the simplicity of the current system, while providing additional flexibility for larger businesses

- In our view the proposals do maintain the simplicity of the current system for users whilst providing additional flexibility for medium and larger business.

- We believe that these aims will be achieved in many cases. However, this could be further improved by setting a de minimis limit for individual errors, below which an individual error would not be taken into account when determining if the new limit had been exceeded. We suggest that a de minimis limit of £1,000, below which an individual error could be ignored. This could achieve a significant administrative saving, particularly for large groups.

- Yes. The changes are very simple to understand and implement for both small/ micro business (turnover of less than £1M) and large businesses (turnover of more than £5M) and provide some flexibility for small and medium sized businesses, although with a little more complexity for businesses where the turnover falls between these values, but this should be minimal. The £50,000 upper threshold may have a limited impact on larger businesses whose errors are more likely to be greater than this amount, and may not therefore materially reduce the number of voluntary disclosures they are required to make.

- The proposals do maintain the simplicity of the current system. The opportunity to separate large/medium businesses from smaller business through the increase in the threshold and the introduction of a higher threshold goes some way to providing flexibility for business, particularly medium size business. However, since our members operate through VAT groups the threshold is triggered at group level, so the increase in limit will not change the fact that each entity will need to report through to group. Most members do not anticipate the upper limit reducing the number of errors they are required to disclose. An upper limit of £100K for each VAT registered legal entity, which would apply the limit to each VAT group member would make a difference to large businesses.

- The £10,000 limit should be sufficient to take a large number of small businesses out of the need to make disclosures and, to that extent, the changes will provide some much needed simplicity. They will not do anything for very large businesses, where errors of £50,000 and above could be quite common.

Q2. Is the proposal to measure business size through the use of the box 6 turnover figures on VAT returns a reasonable method?

- This is reasonable and easily applied.

- We consider the proposal to measure business size through the use of the Box 6 turnover figures as very reasonable, although for a limited number of smaller cyclical businesses this may give an additional complication in checking they comply on each VAT return particularly at low points in their cycle.

- HMRC already use turnover as a measure of business size in other areas, therefore this would be a reasonable criterion to use as applied to voluntary disclosure limits.

- We are comfortable with the proposal to measure business size, the box 6 turnover figures.

- Yes. However, it should be noted that the figure in box 6 can be difficult to arrive at for complex businesses, especially those with international operations. There is also the complication of having to try to estimate what the box 6 figure will be during an accounting period, to know whether to separately disclose the error. This could be difficult to do and would not be an exact science.
  For businesses where the 1% of turnover test may result in a moving upper threshold from quarter to quarter, some clarity will be needed about when errors are discovered i.e. are they discovered when an accountant within the organisation becomes aware of the error (which may be one VAT return period) or when the VAT/tax department is notified (which may be in a different VAT return period).

- We think that if a turnover test is the favoured option, the VAT return turnover test is suitable for VAT errors but feel it would be more appropriate for other indirect taxes to have a separate (if parallel) test based on their individual returns.

- Turnover is a reasonable method for an established business. However, with run off companies or start-ups would past or projected turnover be acceptable measures? We anticipate that for businesses where the 1% of turnover test may result in a moving upper threshold from quarter to quarter, some clarity will be needed about when errors are discovered and which periods turnover they are to be measured against, i.e. are they discovered when an accountant within the organisation becomes aware of an issue which needs to be investigated (which may be in one VAT return period) or when the VAT/tax department is notified (which may be in a different VAT return period), or when the disclosure is made to HMRC?

- The proposal will probably be workable in most cases but a problem arises in some, eg in a business where the trade is largely seasonal or where a business is likely to be very large but is in a start-up position and therefore has very little or no turnover.

Q3. If not, what other measurement should we use?

- We think you have identified an acceptable measure.
- We have no alternative suggestions to make in the limited time available to consider this point.
- Any introduction of a separate test, not used elsewhere, will introduce fresh scope for misunderstanding, error and correction, particularly if return statistics are incorrect or by concession are not fully reported. However, in the context of VAT the proposed method seems the most appropriate.
- As this measure is to apply to IPT, APD and environmental taxes we see no alternative that would be as consistent as turnover.
- It is difficult to suggest other options without complicating matters but, of course, one possibility is to measure the size of an error by reference to the amount of expenditure.

Q4. Will the proposals add to your business costs or the costs of those you represent? If so, we would appreciate some estimation of the actual costs involved in activities such as additional calculations, possible advance calculation of box 6 figures, staff familiarisation and training time, any accounting system adjustments, and any other resulting business changes.

- We consider that the proposals will not add to business costs for large businesses and for small businesses any additional cost should be insignificant.
- I do not see this measure adding to business costs given it takes advantage of information already available.
- No, the proposals will not add to business costs, and may actually reduce costs due to the reduced administrative burden of less voluntary disclosures.
- We do not believe that the proposals will add to business costs. In most cases, subject to the penalty issue, they should be reduced.

- For small/ micro and large companies there should be no incremental costs in having to calculate their voluntary disclosure limit. For medium business with turnover between £1M and £5M the cost in calculating their voluntary disclosure limit should be minimal, so long as the method for calculation remains simple (e.g. Box 6 from VAT return as proposed), although a need to estimate box 6 in advance would increase costs. Businesses that for whatever reason conduct themselves through a number of individual companies that are not members of a VAT group would, however, would need to spend time monitoring this (we assume that the rules will apply to taxable persons rather than individual companies). Overall there should be cost savings to both business and HMRC by reducing the number of voluntary disclosures made and processed.

- For fairly small businesses, the £10,000 limit will have no impact on costs and may, in fact, save costs because there will be no need to record the details. Larger businesses will probably still have to monitor error levels, but we have not had sufficient response to comment in any detail on this.

Q5. When should we introduce the changes? We see advantages in doing so as soon as possible, but wonder whether businesses might prefer a short delay in order to train relevant staff.

- As soon as possible, NO to the short delay. .

- The changes should be introduced as soon as possible. We do not consider that any formal staff training will be required as the changes can be picked up "on the job".

- Introduce it as soon as possible i.e. before the new behaviour based penalties regime.

- The changes should be introduced as soon as possible; there is very little required in the way of additional staff training, and the procedure itself has not changed, simply the de minimis limit.

- In practice, in relation to APD, the number of individuals involved in dealing with APD returns is very limited, and it seems therefore no reason why any changes cannot be introduced forthwith. We suspect there will be more impact in relation to VAT, and if Government wishes to introduce all the changes at one time, there may be more a need to delay the implementation date. However, that need does not arise in relation to APD.

- We believe that the changes should be introduced with immediate effect. There appears to be no downside to this, as any business following the old rules will merely make a voluntary disclosure that is unnecessary.

- As soon as is practicable. As there is very little complexity within the proposed changes, it does not seem necessary to delay introduction to provide for staff training. The risk of delay would be that it may encourage businesses to defer making voluntary disclosures now which would not nee to be made in future.

- If introduced and provided clear guidance is available in advance from HM Revenue and Customs, we do not consider a significant lead in time would be necessary.

- The overwhelming response to this question is there is no advantage in delaying and the proposal should be introduced immediately. There is a strong view that any internal communication and training could be effected in a matter of weeks. Our members still favour the medium term option of a box on the VAT return to disclose errors that have been included.