

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HM Revenue &amp; Customs</b>	<b>Title:</b> <b>Impact Assessment of introduction of the UK Trade Tariff, due to be hosted on the Businesslink website</b>	
<b>Stage:</b> Implementation	<b>Version:</b> 1	<b>Date:</b> 3 January 2008
<b>Related Publications:</b>		

### Available to view or download at:

<http://www.businesslink.gov.uk>      wef. intended launch date of March 2008

**Contact for enquiries:** Andy Milne

**Telephone:** 01702 361870

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

The Integrated UK Customs Paper Tariff currently costs £245 per copy, which can be prohibitive for infrequent users. It is also frequently 30 days or more out of date and requires time to be spent to keep it up to date by business.

HMRC has the opportunity to improve this situation through the use of the Businesslink website. If nothing is done, HMRC could be seen to be failing to offer value added tariff services of immediate benefit to traders and government agencies. Traders would continue to make declarations frequently based on inaccurate information resulting in mis-declarations, inevitably leading to an increased burden for traders and their agents.

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

To provide a significantly improved, accurate and up-to-date online tariff information service to traders and Government Departments. The service should be able to serve as a platform for tariff related electronic tools that will offer significant benefits to UK traders and result in significant time and cost savings for importers and their agents and place them on a similar footing with traders in other EU Member States. HMRC's longer term aim is also to replace legacy systems used to maintain tariff data (i.e. the Consolidated Tariff System) with an automated maintenance system that could feed its operational system (i.e. CHIEF).

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

The chosen option for providing tariff information is a comprehensive free online UK Trade Tariff product hosted on the Businesslink website. This will provide a significantly improved service to traders and Government Departments. One of the key acceptance criterion in selecting a supplier able to deliver a free online UK Trade Tariff was the compatibility, in the longer term, between the free online product and the proposed future HMRC/EU interface system enhancements in relation to Tariff data (e.g. QUOTA 2, TARIC 3). The chosen option, via Businesslink, provides a platform for such future enhancements. Do nothing was not a viable option due to the cost of rejected declarations and rising burdens on the tariff helplines.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** Businesslink will review the take-up model, benefits management plan, training/testing approach and marketing strategy on an ongoing basis. Compliance costs of the policy are also routinely reviewed about 1 to 3 years after implementation.

### **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: 23 March 2008

## Summary: Analysis & Evidence

<b>Policy Option: 1</b>	<b>Description: introduction of the UK Trade Tariff, due to be hosted on the Businesslink website</b>
-------------------------	---

<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' Development/Integration costs amounted to £750,000. Maintenance costs are expected to be in region of £200,000 per year, which includes the costs of a Tariff Manager at BusinessLink for day to day management of the UK Trade Tariff, supporting guidance and future site enhancements. This will be absorbed within the overall maintenance costs for running and developing the Businesslink/ITSW services.
	<b>One-off</b> (Transition) <b>Yrs</b>	
	<b>£ 750,000</b> 1	
	<b>Average Annual Cost</b> (excluding one-off)	
	<b>£ 200,000</b>	<b>Total Cost (PV)</b> <b>£</b>
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' Introduction of UK Trade Tariff will result in ongoing savings to businesses of approximately £4m - £5m per annum (NB this is the annual benefit anticipated once the take-up estimates have been achieved).
	<b>One-off</b> <b>Yrs</b>	
	<b>£ Nil</b>	
	<b>Average Annual Benefit</b> (excluding one-off)	
	<b>£ 4 - £5m</b>	<b>Total Benefit (PV)</b> <b>£</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Offers a comprehensive up-to-date online Tariff product that is free and available 24-7 rather than the existing office hours service provided by Tariff Classification Helplines and HMRC Contact Centres		

**Key Assumptions/Sensitivities/Risks** The benefits reflect reduced charges for the existing tariff, time savings when using the online tariff versus the paper one, and improved service from the Tariff Classification helpline. Take-up rates for the new service have been modelled in consultation with HMRC and Tariff Classification Helpline experts according to anticipated trade shift from use of paper tariff to e-Tariff, and reduced calls to the Tariff Classification Helpline as a result of using the e-Tariff.

Price Base Year 2008	Time Period Years 4	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £
-------------------------	------------------------	-------------------------------------	---

What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	28/3/08			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ Negligible			
Does enforcement comply with Hampton principles?	Not applicable			
Will implementation go beyond minimum EU requirements?	Not applicable			
What is the value of the proposed offsetting measure per year?	£ N/A			
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 Nil	Small Nil	Medium Nil	Large Nil
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)
Increase of    £ 0	Decrease of    £ 3m pa	<b>Net Impact</b>	£

Key:

Annual costs and benefits: Constant Prices

(Net) Present Value

# Evidence Base (for summary sheets)

## 1. Rationale for Intervention

All import and export customs declarations rely on a classification system that links goods to commodity codes. The majority of Customs controls and measures applicable to UK imports and exports are referenced against these commodity codes in a publication called the Integrated Tariff of the United Kingdom. This publication is produced by HMRC and published by TSO. The information contained in the Tariff is essential for UK traders, but is also used by customs officers and other officials. TSO charge traders and other government departments £245 for the loose leaf paper version plus £38 for paper binders, £245 for the monthly CD ROMs equivalent and £245 for online access (all prices exclude VAT). The publication, in its three formats, is updated on a monthly basis.

At present the tariff publication serves as a handbook for customs clearance purposes. Although it is available online and as CD Rom, it is very much bound by the paper format in which it is produced. As such, HMRC work towards a 30 day printing schedule that means information contained within the published tariff can easily be 30 or more days out of date. By contrast, HMRC maintain this same information in real time in CHIEF (HMRC's mainframe import/export processing system). Given the different time frames, this frequently leads to inconsistencies between published tariff information and information required to lodge an electronic customs declaration. As a consequence, traders and customs officers do not always have the most up-to-date information necessary to process or make a correct customs declaration.

HMRC is committed to delivering a free electronic Tariff product that will provide a choice for the infrequent or frequent trader involved in International trade. Production of a Paper Tariff, for those who would still wish to subscribe to it, would still be available for the foreseeable future. This initiative will address trade pressures for an improved Tariff service to counter a lack of choice, a high cost for infrequent users, and frequently out of date information.

## 2. Policy Objective

The aim is to introduce the UK Trade Tariff in an online format which will provide a significantly improved, accurate and up-to-date tariff information service to traders and Government Departments.

The online format will also be able to serve as a platform for tariff related electronic tools that will offer significant time and cost savings to UK traders placing them on a similar footing with traders in other EU member states and third countries, where free online access to the Customs tariff is the norm. The online system will enable HMRC to expand the functionality of the tariff beyond the limits set by the paper format.

The online tariff also provides the starting point for further work to enable transactions containing Tariff data (such as commodity codes and licence requirements) which have been input by traders to be verified before submission to HMRC systems. This will significantly reduce pressures on electronic control systems and potentially reduce cross-government development and maintenance costs.

### 3. Options

#### Option 1: Do nothing

HMRC could be seen to be failing to offer value added services of benefit to businesses and Government agencies. Businesses would continue to make declarations based on out of date information causing them to be rejected or challenged during Customs post clearance checks. This will inevitably lead to increased burden for businesses and their agents in having to take corrective action. UK businesses would run the risk of taking poor business decisions due to the unavailability of up-to-date Tariff related information and also making errors which could lead to costly delays and demurrage charges.

Doing nothing would also have an implication for the continued operation of the Tariff Classification Helpline. Management information for 2005-2007 shows that the number of calls to the helpline from traders is increasing. Whilst statistics for the duration and wait times for calls are not deteriorating, the team are also responsible for other areas, such as responding to applications for Binding Tariff Information (BTI). If nothing is done to reduce the workload from the rising number of calls, HMRC would have to increase head count in the team (at the expense of another area of business) or accept a deterioration of service on BTIs.

#### Option 2: Enhance the current Tariff process

HMRC's aim is to replace legacy systems used to maintain tariff data (i.e. the Consolidated Tariff System, CTS) with an automated maintenance system that could feed operational systems (i.e. CHIEF). This involves introducing a free comprehensive online integrated UK Customs Tariff product which would provide significantly improved and up-to-date tariff information service to businesses and Government Departments. This would also ensure that UK businesses enjoy the same level of service enjoyed by businesses in other EU member states which already provide free online tariff.

In the longer term, the free online product would be compatible with future HMRC/EU interface system enhancements in relation to Tariff data (e.g. QUOTA 2, TARIC 3). However replacing existing maintenance systems in one go would be extremely costly and represent significant risk and potential disruption to Business operations.

#### Chosen Option

The chosen option to enhance the current Tariff process, via Businesslink, provides an incremental build for future enhancements. A range of suppliers were considered with one of the key acceptance criteria relating to compatibility of solution with Businesslink and HMRC's longer term goals for the tariff.

An implementation date of March 2008 has been scheduled to coincide with the release of the International Trade Single Window (ITSW) Information and Guidance 'Expert' Service, in which the e-Tariff will form an integral part of the 2<sup>nd</sup> tranche delivery of the Information service.

### 4. Expected Impact

A comprehensive online Integrated UK Customs Tariff product would provide to businesses;

- Reduced cost – traders and agents will no longer have to purchase the Tariff
- A likely reduction in the amount of time spent looking up tariff classifications and duty rates.
- A service that is available 24-7, rather than the existing office hours service provided by Tariff Classification Helplines;
- Improved accuracy as the website will be up-to-date.
- An improved reference to applicable duty rates, Anti Dumping Duty, preferences/quotas;
- An "email alert tool" able to automatically keep traders up to date with changes to the tariff e.g. commodity codes and associated information and measures;

- Cross-referencing to ITSW electronic guidance, aimed at helping new and experienced traders to understand their responsibilities and assist in interpreting and operating the e-tariff;
- Overall the e-tariff product offers the ability to reduce the errors on declarations by allowing traders to focus on their individual needs assisted by a series of electronic tools (as described above);

The online tool should also mean an improvement in service from HMRC's Tariff Classification Helpline. Currently due to high volumes of classification calls to the Helpline, trader's often experience lengthy delays or, due to length of time waiting, decide to hang-up. In addition to this the Tariff Classification teams handle applications for BTI's (Binding Tariff Information) which are received either on-line or by post. BTI decisions provide written confirmation of classification rulings of the product which, once given, are binding across the EU. Due to the ever increasing volumes of tariff classification queries received, classification staff are often stretched to maintain satisfactory service standards for processing BTI applications, leading to increasing backlogs. This is far from acceptable, but the burden can be managed if the workload of the helpline staff is reduced through higher use of the online tool.

The provision of the UK Trade Tariff will provide assistance to the following;

- Overall the provision of the e-tariff will enable a greatly improved service offered to our customers potentially reducing the number of basic classification enquiries (National Advice Services: NAS and Tariff Classification Helplines) and allowing our staff to deal with the more complex enquiries;
- Reduction in the number of Classification enquiries (currently 180,000 calls are received by Tariff Classification Helpline per annum) if publicity directs traders to utilise e-Tariff as first point of contact and therefore will significantly reduce queuing times for remaining Tariff Classification enquiries;
- Provides an electronic facility to assist HMRC staff with their enquiries (likely to be of benefit to both NAS and Tariff Classification);
- Free up more resource/time to reduce existing BTI application backlogs;

## **Sectors Affected**

All businesses which complete the customs declarations themselves and agents who complete declarations on behalf of others will be affected by this change.

Overall, around 163,000 businesses are involved in making imports, exports or both.

Analysis of declarations received shows that there are around 83,000 businesses involved with exports, and they make around 5.5 million declarations annually. Around 5 per cent of these traders complete the declaration in-house, the remaining 95 per cent out source their obligation. The businesses who do the work in-house account for around 17 per cent of the export declarations.

There are around 23 million import declarations received each year from 123,000 businesses. 62 per cent of these are produced by the two per cent of businesses who complete their declarations in-house.

Those businesses that complete the declarations in-house tend to be larger businesses. Approximately 50 per cent of all in-house declarations are submitted by the top 10 companies (ranked by declarations lodged).

## **Costs**

For agents and those businesses that produce customs declarations in-house, there is likely to be a small amount of time spent familiarising themselves with the new web-based tool and revising their internal processes where necessary. This is not expected to be significant, and will be quickly recouped by on-going savings.

The e-tariff has cost government around £750,000 to develop and integrate into existing systems. Ongoing maintenance costs are expected to be in region of £200,000 per year, which includes the costs of a Tariff Manager (which is in effect a new post) at BusinessLink. This role will cover day to day management of the UK Trade Tariff, combined with generation of supporting guidance and future site enhancements. The post will be absorbed within the overall maintenance costs for running and developing the Businesslink/ITSW services, although HMRC will continue to manage TSO contracts and delivery of their paper based products.

## **Benefits**

The benefits rely on the rate at which businesses take-up the new services. In particular, the benefits depend on the rate at which traders choose to switch from the paper tariff to the e-Tariff, and the rate at which traders choose to switch from using the Tariff Classification Helpline to the e-Tariff.

Estimates of time savings currently spent dealing with the tariff and the potential savings from the e-tariff have been developed in consultation with business and trade organisations (including the British International Freight Association).

The benefits represent annual savings, and have been modelled on the following basis:

### **Savings to businesses**

1. TSO estimate that there are around 6,000 subscribers to the paper tariff, paying annual subscription fees of £245 each. It also takes time to order the tariff from TSO and to maintain the tariff (e.g. incorporating the monthly updates). It is assumed that all of these costs will be removed for businesses which adopt the online tariff. We assumed that 50 per cent of subscribers will switch to the e-tariff, resulting in savings of approximately £1 million per year.
2. The online tariff will also reduce the administrative burden of completing the Customs Declaration, as measured by HMRC's standard cost model<sup>1</sup>. The new tariff will be faster to use for checking category codes, classifying new product lines, and carrying out tariff research. Discussions with businesses and trade bodies suggests that it can take around six minutes to look-up a tariff line in the existing paper tariff, and up to half an hour to make a complex classification. These activities are part of the process of completing a Customs Declaration. Assuming an overall 40 per cent time saving on these activities from using the e-Tariff instead of the paper tariff results in an average saving of 10 working days per business (although this will vary depending on the number of lines of trade a business deals with and the complexity of its returns). Taking into account the predicted take-up of the e-tariff from the paper subscribers suggests a saving of approximately £4-5 million per year. The range largely reflects uncertainty in the take-up of the new tool.
3. For businesses which do not use the tariff, or have a query that the tariff can not easily answer, there are projected time savings from using the e-Tariff instead of the Tariff Classification Helpline. We assume that 40 per cent of the queries to the Tariff Classification Helpline can be answered using the e-Tariff, and that for those calls, 40% of the current effort can be saved. This will save approximately £50,000 per year.
4. Businesses sometimes need to make formal applications for Binding Tariff Information (BTIs). These requests are fulfilled by the Tariff Classification Helpline team. It is

---

<sup>1</sup> At Budget 2006 HMRC published its Standard Cost Model study. The SCM is essentially activity-based costing to assess the burden of all information disclosure obligations on business for which HMRC is responsible. The full report, and an explanation of the associated methodology, are available at <http://www.hmrc.gov.uk/better-regulation/kpmsg.htm>

envisaged the productivity savings accrued by the introduction of the e-Tariff will enable the team to better handle existing workloads and re-focus their effort allowing BTIs to be processed more timely. This will lead to an additional benefit to businesses as Traders BTI applications will be processed quicker, reducing any potential for delays in the import process which may otherwise have adversely impacted them. This benefit has not been quantified in financial terms.

## **5. Consultation**

JCCC group were informed of the planned provision of an ITSW UK Trade Tariff to be hosted on the Businesslink website. The provision of a free electronic tariff was strongly supported and no objections to the changes proposed were raised during the debate.

Additionally ITSW Project Team have consulted and involved representatives from a wide cross section of Trade Associations, Importers, Exporters and Freight Agents from the outset of the project. This has continued with trade representatives actively being involved in Tariff Usability Exercises, which will be repeated during User Acceptance Testing during Feb/Mar 2008.

## **6. Implementation plan**

The scheduled implementation date is 28<sup>th</sup> March 2008. However launch strategy has yet to be formally agreed. Options being considered include a soft launch (for a very limited period) with a limited group of traders or a full national launch.

Customs Information paper (formally a JCCC paper) will be produced advertising the release of the ITSW Information and Guidance Service in which the e-Tariff will form an integral part of the 2<sup>nd</sup> tranche delivery of this service. Further information will be given on the HMRC web site, the Notice Board on the HMRC entry-processing computer (CHIEF), the Business Link web site and via other publicity media.

## **7. Competition and Small Firms Impact Test**

This measure removes a burden that potentially affects all businesses with the international trade sector. It does not alter the amount of tax or customs duties paid. As such it will not have an impact on competition, or a disproportionate negative impact on small businesses.

## 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	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