Summary: Intervention & Options

Department /Agency:	Title:	
HMRC	Impact Assessment of A New Approach to Compliance Checks: responses to consultation and proposals	
Stage: Consultation	**Version:** 1.0	**Date:** 10 January 2008

Related Publications: ***A new approach to compliance checks: responses to consultation and proposals*** **and** ***A new approach to compliance checks: draft legislation and commentary*****.**

Available to view or download at:

www.hmrc.gov.uk/consultations/index.htm

Contact for enquiries: powers.review-of-hmrc@hmrc.gsi.gov.uk **Telephone:** 020 7147 3223

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

HMRC inherited individual powers which prevent it from taking a whole taxpayer view when checking tax liabilities. Non-compliance is a serious problem for both the government and the compliant population and HMRC must have a framework of checks to police the tax system and address risks. It is inevitable that compliant taxpayers will be subjected to checks when they inadvertently match a risk and explanation is needed, or they are selected by random testing programs. An aligned, flexible compliance checking framework is necessary to minimise the impact of these checks on the compliant.

What are the policy objectives and the intended effects?

To develop effective compliance activities which tackle the full range of non-compliance across taxes, beginning here with CT, IT, VAT, PAYE and NICs. Compliance checks would be flexible and proportionate to risks and taxpayer behaviours. There would be a common approach to information gathering powers and time limits, where appropriate, balanced by safeguards to protect taxpayers' rights. The ability to check risks common to more than one tax and take a whole taxpayer view would reduce taxpayer burdens.

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

1. Do nothing; or
2. Aligned compliance checking powers; and/or
3. Aligned time limits for compliance checking.

Implementing options 2 and 3 together is preferred. This would give optimum alignment of powers which are essential for HMRC to achieve its original aspiration, to provide a unified service focused on the taxpayer and to do this more efficiently and effectively. Options 2 or 3 on their own would give some alignment, but leave some areas of duplication and inefficiency.

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

Post implementation review will take place after 2 years. Compliance powers will be reviewed continuously to ensure they continue to be capable of addressing new forms of non-compliance.

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Jane Kennedy

Date: 10 January 2008

Summary: Analysis & Evidence

Policy Option: 1	Description: Do nothing

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	There would be an opportunity cost to HMRC, the exchequer and the compliant taxpayer from foregoing the benefits of alignment following the formation of HMRC.
£ Nil		
Average Annual Cost (excluding one-off)		
£ Nil		**Total Cost** (PV) **£ Nil**

Other **key non-monetised costs** by 'main affected groups' Business taxpayers and their representatives are most likely to interact with more than one of the main tax regimes. They can face a number of approaches by HMRC on the same point, but for different taxes which may represent increased costs both for the taxpayer and HMRC and raise anxiety levels.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£ Nil		
Average Annual Benefit (excluding one-off)		
£ Nil		**Total Benefit** (PV) **£ Nil**

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

The current compliance checks and associated safeguards would be familiar to taxpayers, agents and HMRC.

Key Assumptions/Sensitivities/Risks

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

What is the geographic coverage of the policy/option?			Nationwide	
On what date will the policy be implemented?			Not before April 2009	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ n/a	
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?			£ 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	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 £ Nil Decrease of £ Nil **Net Impact** £ Nil

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

Summary: Analysis & Evidence

Policy Option: 2	Description: Aligned compliance checking powers.

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**	Costs for HMRC to train staff and write guidance are estimated to be £1 million. There would be one off training costs for agents and taxpayers, although published Codes of Practice would minimise these. HMRC invites contributions that would assist with quantifying these costs.	
£ 1 million			
Average Annual Cost (excluding one-off)			
£ Negligible		**Total Cost** (PV)	**£ 1 million**

Other **key non-monetised costs** by 'main affected groups' As with any change in policy there would be initial lack of understanding and anxiety about the new compliance checking framework. The Codes of Practice would minimise this by giving guidance to the taxpayer on how the framework worked and safeguards available.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'	
One-off	**Yrs**	Benefits from quicker checks have not been measured yet as it is difficult to compare existing checks to those which may be possible under the proposed framework. HMRC would welcome evidence on the benefit to taxpayers of quicker checks.	
£ Negligible			
Average Annual Benefit (excluding one-off)			
£ Not quantified		**Total Benefit** (PV)	**£ To be confirmed**

Other **key non-monetised benefits** by 'main affected groups' Taxpayers would spend less time undergoing checks compared to the current checking framework for individual taxes. This would benefit the compliant taxpayer and those who have made mistakes in their tax declarations. Taxpayers would have greater safeguards against the use of information and inspection powers.

Key Assumptions/Sensitivities/Risks While we feel that this option would help to reduce taxpayers' compliance costs and make HMRC more efficient in carrying out its responsibilities, we do not have the evidence base to provide accurate figures for the overall impact. We will endeavour to do so once further research is complete.

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

What is the geographic coverage of the policy/option?			Nationwide	
On what date will the policy be implemented?			Not before April 2009	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ n/a	
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?			£ 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	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	£ Nil	Decrease of	£ Not known	**Net Impact**	£ Decrease

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

Summary: Analysis & Evidence

Policy Option: 3.	**Description: Aligned time limits for compliance checking**

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' See Assumptions below.	
One-off (Transition)	**Yrs**		
£ Negligible			
Average Annual Cost (excluding one-off)			
£ Negligible		**Total Cost** (PV)	**£ Negligible**

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

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' See Assumptions below.	
One-off	**Yrs**		
£ Negligible			
Average Annual Benefit (excluding one-off)			
£ Negligible		**Total Benefit** (PV)	**£ Negligible**

Other **key non-monetised benefits** by 'main affected groups' Taxpayers and employers paying income tax and PAYE would benefit from increased certainty. Taxpayer compliance costs would decrease as checks will not go so far back into earlier years, except where deliberate inaccuracy is suspected.

Key Assumptions/Sensitivities/Risks The extension to VAT claim time limits would increase the likelihood of tax revenues being reduced through litigated cases. The annual impact is difficult to forecast and would depend on the type of cases. Further work is being undertaken during the consultation period to assess the potential impact to the exchequer of these proposals.

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

What is the geographic coverage of the policy/option?			Nationwide	
On what date will the policy be implemented?			Not before April 2009	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ n/a	
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?			£ 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	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	£ Nil	Decrease of	£ Not known	**Net Impact**	£ Small decrease

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

Evidence Base (for summary sheets)

Policy option 1: Do nothing

Existing powers were developed separately to suit particular taxes or specific situations. Over time this has led to the creation of a raft of different powers, many intended to do much the same thing. Some rules continue to meet specific requirements and do not fall within the scope of this consultation, but others are similar in their requirements and there appears to be scope for modernisation and broad alignment.

Business taxpayers and their representatives commonly interact with three broad regimes:

- Self Assessment (SA);
- Pay As You Earn (PAYE) and National Insurance Contributions (NIC); and
- Value Added Tax (VAT).

Currently these have to be checked in different ways. In SA the taxpayer completes the return and the compliance assurance process follows, looking into that return. In the others, the taxpayer's business premises and records may be considered for an overall view. Each tax is considered separately but this can mean businesses face a number of approaches on the same issue and how it affects each tax at different times. For instance, the purchase of a company car can have implications for VAT, PAYE, NICs and taxable profits.

Research by Ipsos MORI in 2006 into taxpayers' views found that anxiety levels were increased by trying to understand the interaction between the taxes, when faced with HMRC compliance. (Source: *HMRC: New Interventions Management Summary and Evaluation Report April 2007*).

Most respondents to the May 2007 consultation on compliance checks saw at least some benefits from greater alignment. The overall view might be summarised as "do it where it is practicable to do so". Strong supporters saw the potential for greater clarity and consistency. By removing differences between regimes there would be less potential for confusion about what applied in different situations.

However, there was a general feeling that there would be limits to how far it would be possible to go because of the differences between tax regimes, especially between transactional taxes (assessed on individual business transactions) and other taxes (assessed periodically on income or profits). Moreover, alignment should not be done for its own sake but only where the benefit outweighed cost and did not increase the burden of particular compliance checks. The fairest and most efficient alternative ways of facilitating alignment should be used. HMRC should not necessarily expect that changes could lead to a single officer being able to deal with a range of taxes in one check.

Policy option 2: Aligned compliance checking powers

This consultation sets out a compliance checking framework which would apply initially to income tax (IT), corporation tax (CT), capital gains tax (CGT), PAYE, and VAT. If successful it might be extended later to other taxes. It would provide a single framework in which HMRC could carry out its responsibilities for checking the accuracy of returns and liabilities, and confirming whether every person or business who ought to be subject to tax is indeed so. While the basic compliance checking process would be the same whatever tax was involved, there would be variations to address intrinsic differences between taxes.

This option moves HMRC closer to establishing a common compliance checking structure to support the major operational changes HMRC need to make in order to focus better on taxpayers and become more efficient in carrying out its responsibilities. Quicker and more flexible approaches to checking SA tax risks must be developed in addition to current, tax specific interventions. These new approaches would work across the taxes using different methods of communication (e.g. phone and letter) so that in future a taxpayer's tax position can be checked more quickly and with fewer contacts, thereby reducing administration burdens and costs for taxpayer. In 2006 there were six "new interventions" piloted using different approaches and involved 9000 taxpayers, who participated voluntarily in the absence of these powers being available. The evaluation of the results was published in April 2007 and can be found at: www.hmrc.gov.uk/new-interventions/index.htm.

Currently SA enquiries take a long time, despite efforts to complete them more quickly. On average it takes HMRC 86 days to obtain a reply to the first information request in a SA enquiry. This can cause additional expense to the taxpayer and increased uncertainty while the Enquiry is open. The following table sets out average elapsed time for HMRC's business compliance checks:

Type of check	Average elapsed months
Corporation Tax (CT) Full	23.8
CT Aspect	16.5
Income Tax (IT) Full	18.3
IT Aspect	14.5
Employer Compliance	11.0
VAT	2.7

Source: *HMRC management information systems. This excludes the Large Business Service and Special Civil Investigations.*

Although this table covers different types of interventions, taxes and taxpayers it gives a useful comparison of the different approaches, with those using written enquiry powers taking considerably longer.

The following costs and benefits of aligned information powers have been identified. HMRC will do more work to quantify the impact of these costs and benefits and invites contributions to assist with quantification.

Benefits

Benefits will arise from:

- aligned checks, working across taxes;
- quicker checks from visits and pre-return work;
- better compliance resulting from pre-return checking;
- a framework for non-SA taxpayers;
- a framework for hidden economy traders; and
- CTSA closing simplification.

Aligned checks, working across taxes

The O'Donnell Report suggested that alignment across taxes was necessary to deliver the new Department's potential. In particular an integrated approach to taxpayers' affairs would:

- permit more flexible deployment of resources between direct and indirect taxes; and
- enable more effective customer-focused activity by supporting checks which are flexible, proportionate to risk and tailored to the taxpayer group.

HMRC has already restructured its compliance operations, so that teams focus on taxpayer groups rather than specific taxes. This structure is still developing with nearly 5,000 staff now trained in cross tax awareness and a "general practitioner" role currently being trialled. However, more effective cross-tax working is needed and this must be supported by powers which allow an officer to address IT or CT, VAT and PAYE issues in the same way and at the same time.

The result of cross-tax working would be to increase the effectiveness of HMRC staff. One officer would be able to work one case instead of two officers with separate cases where there was an issue affecting two taxes. For example, entertainment expenses are subject to different rules according to the tax, but the source and value of those expenses could be examined in one go by a "general practitioner", who could then check to see if the differing tax rules have been applied correctly and take immediate action to correct any errors. This would mean a reduced burden for taxpayers, who would be subject to one check instead of two. There are other tax risks, such as poor record-keeping, understating sales, overstating expenses and the hidden economy, which have a detrimental impact on the UK's tax receipts and undermine legitimate taxpayers who do comply with their tax obligations. These could be tackled more effectively by aligned information and inspection powers and are examined in more detail below.

A cross-tax approach has received support from business representatives. For example, recent research done by the Forum of Private Businesses to inform the 2007 Comprehensive Spending Review showed that 55% of respondents see combining VAT and CT checks as priority action for cutting out red tape.

Quicker checks from visits to business premises and pre-return checks

A power to see business premises and assets should lead to a compliance check being completed more quickly. Being able to see the business and ask simple questions of the taxpayer would allow the HMRC officer to narrow down what needs to be checked. If something in a document does give rise to a query, this could be addressed in minutes rather than through a lengthy exchange of correspondence. The proposals would allow HMRC to look at records which have not yet led to a return. This would mean that instead of working through past records to see how a particular, regular transaction had been treated, the officer could see how it is done now, thereby saving time and the cost of retrieving old records.

The benefit of extending to SA regimes the power to visit business premises and carrying out pre-return checks would be shorter, more risk-focused checking, saving time for HMRC and taxpayers. This is evident in the shorter length of time a VAT or PAYE check takes (see above table).

Inspection powers would also allow HMRC to check whether taxpayers whose penalties had been suspended, following introduction of the new penalties legislation in FA 2007 had improved their records and behaviours.

Better compliance from pre-return checking

Currently for IT and CT, HMRC can only check records when it is too late to prevent submission of an incorrect return. The capability to check records before a return is submitted would mean that HMRC could check new businesses' record keeping and systems, and make recommendations to ensure the first return is correct. The benefit for the taxpayer would be that they could take action needed to submit a more accurate return, and less likelihood of a penalty for getting it wrong. The benefit for HMRC would be that the taxpayer would be more likely to get things right in future.

A framework for non-SA taxpayers

The vast majority of taxpayers are employees or pensioners. The UK system issues tax returns on a selective basis that excludes the majority of these people in the expectation that PAYE and other deduction at source schemes get their tax right. Issuing tax returns to all income tax payers would create unnecessary burdens and significantly increase the cost of tax administration in the UK.

The proposed information powers would include the ability to see tax records where no return had been submitted. Currently where there is a risk that a non-SA taxpayer has untaxed income, HMRC can only ask questions by statute through a written information notice pre-authorised by an Appeal Commissioner or by requiring a taxpayer to complete a tax return. This may be disproportionate where the query is a simple one. There is benefit for both taxpayers and HMRC in being able to ask a question, with clear statutory rights and safeguards, without time being taken up going through these processes.

Underlying this proposed framework is the principle that good records support accurate notification and return of tax liabilities and accurate claims. Consideration will be given, during the consultation, to any potential new burden to non-SA taxpayers from retaining records.

A framework for hidden economy traders

The ability to see taxpayer records where no tax return has been submitted would have a clear benefit to HMRC in tackling the hidden economy, where businesses and individuals remain outside the tax system by not declaring their economic activity or tax affairs. This poses a serious problem for legitimate businesses that inevitably suffer a competitive disadvantage. It is also an ongoing risk to the UK tax base, which suffers from loss of tax receipts. The true size of the hidden economy is not known, although its measurement receives a lot of attention amongst academics and a number of models have been produced. HMRC recognises the need to measure this population and is looking at different sources of information to help in the calculation of tax losses.

A joined-up approach across taxes has proved successful in tackling the hidden economy. Joint operational teams, comprising VAT and IT staff, were set up in the 1990s to visit businesses suspected of not notifying and paying their tax liabilities. This approach continues and in 2006-07 they successfully targeted 35,000 ghosts and moonlighters securing over 4,000 new VAT registrations, about £37 million additional VAT and £53 million IT. These results have in turn improved the competitive environment by helping to restore equitable trading conditions, reducing the opportunity for non-compliant business to undercut legitimate taxpaying rivals, and reducing the tax burden on compliant businesses by making the previously non-compliant contribute their fair share.

Currently VAT and PAYE officers can visit businesses, backed by their powers to inspect records, to check whether tax is being evaded. IT and CT officers have no statutory backing and instead must wait for a taxpayer to complete (or fail to complete) a SA return, before putting information requests to the business in writing. Extending inspection powers to IT and CT would speed up the work of these teams and free up time for more checks and greater coverage across the hidden economy population. It would allow one officer trained in both taxes to look at a business's records and come to a view across its tax liabilities. Where a non-compliant business wishes to become compliant, the position could be settled in one go, rather than settling the position for VAT and PAYE immediately but having to wait some months to settle the IT position. Where a compliant business is checked, it would be possible to establish its tax position with minimum delay and without the taxpayer needlessly having to complete a SA return before questions can be asked.

CTSA closing simplification

One part of this package is to simplify the closure of CT enquiries. This proposal follows existing practice for IT enquiries. The result of this would be to shorten CT enquiries, potentially by 30 days, and reduce the amount of work that needs to be done by taxpayers and HMRC.

Quantification of benefits for option 2

It has not been possible to robustly quantify these benefits.

The impact on HMRC costs and yields from checking depends on a large number of factors, including how many checks are carried out, how well they are targeted, and the extent and nature of non-compliance in the UK in future years. This in turn would be affected to some degree by reforms to penalties for the non-compliant.

Key benefits for taxpayers stem from checks being quicker and more risk based. Given the variety of taxpayers in the UK, HMRC is not able to reliably quantify the financial impact of a shorter compliance check. Different taxpayers would need to do different things to respond to different types of check. For some the cost would be in the taxpayer's own time, for some it would be that of employees, for others that of a professional agent. HMRC will endeavour to quantify the impacts of the proposals in the consultation document and would welcome contributions to assist with quantification.

Costs

There would be a cost to training all frontline and policy staff involved in VAT, IT, CT, PAYE and NIC. The type and intensity of that training will vary according to roles. The cost of training existing staff following legislation is estimated to be around £1 million. This would be a one-off cost as training programmes will incorporate the changes for new staff.

Drafting new guidance, Codes of Practice and revising existing guidance would be carried out by existing staff dedicated to these tasks. Therefore the costs will be part of normal business activity.

There could be a risk that checking at business premises could impose a new cost upon businesses. In practice this cost should not be greater than that of checking by correspondence, which can be protracted. However, it is important that the powers are used reasonably and correctly to ensure that visits to premises cause as little inconvenience as possible and that where it is more appropriate and less burdensome checking is still carried out by letter or telephone. The Code of Practice would aim to give an agreed position on this for taxpayers' representatives and HMRC. Further work to quantify costs will be undertaken and HMRC would welcome views to help this work.

Policy option 3: Aligned time limits for compliance checking

The May 2007 consultation document gave the option of removing the enquiry window time limit structures which currently operate for SA and CTSA. The current assessment time limits are given below. All times run from the end of the taxable period:

Tax	Mistake	Failure to take Reasonable care	Deliberate understatement
VAT	3 years	3 years	20 years
ITSA	5 years 10 months	20 years 10 months	20 years 10 months
CTSA	6 years	21 years	21 years
PAYE	5 years 10 months	20 years 10 months	20 years 10 months
NIC	6 years	6 years	6 years

Rather than allow compliance checks only within the enquiry framework, the proposal was to allow them on a more flexible basis but subject to an overall assessment time limit. In response to feedback this option has not been taken forward and this consultation document puts forward a different alignment of time limits.

The package includes a number of possible changes to current time limits, with a view to achieving more alignment and greater fairness. An option being considered is:

- to set the normal VAT assessing period at 4 years (increased from the current three);
- to reduce the period for IT including PAYE, CGT and CT during which tax can be brought into charge under a discovery within s29(5) TMA or para 41 of Schedule 18 to Finance Act 1998 to 4 years instead of the present 6;
- to set the period for error or mistake claims for IT, CGT and CT, and the period for VAT claims, at 4 years to retain symmetry;
- to set the period for tax lost as the result of a careless inaccuracy (failure to take reasonable care) at 6 years. This would be a reduction from 20 years for neglect for IT, CGT and CT. It would be an increase from 3 years for VAT;
- to maintain the period within which tax lost as a result of a deliberate inaccuracy (deliberate understatement) or failure to notify liability can be brought into charge at 20 years; and
- to set the period for charging tax lost as the result of an undisclosed avoidance scheme at 20 years.

Benefits

The current timing provisions make a unified approach to compliance checking difficult. A VAT quarter's return is normally filed within a month. A CT return covering the year in which the quarter falls is not required until a year after the end of the CT accounting period. A simultaneous compliance check for CT and VAT cannot start until the CT return is available. But the VAT assessing window closes three years after the end of the relevant VAT accounting period. A CT enquiry may bring to light an inaccuracy for CT and VAT purposes in (say) the fourth year after the taxable period. At present the VAT could not be assessed or repaid, even if the understatement were due to a failure to take reasonable care. It could only be recovered if the understatement were deliberate. This position can be worse where IT is involved and the accounting period ends early in the tax year. Extending the assessing period for VAT by one year should address most problems where the inaccuracy is due to a mistake; and extending it to six years, if feasible, where there had been a failure to take reasonable care would reflect the underlying taxpayer behaviour and bring parity with IT and CT.

At present it is not possible to accurately quantify this benefit. The current time limit structures mean that HMRC does not look at the VAT consequences when looking at IT and CT, as HMRC will be too late to make a correction. It is possible that extending the assessment time limit for VAT will result in extra revenue for the exchequer. Further work is being undertaken during the consultation period to quantify this impact.

There are other benefits which cannot be measured. For example:

- the impact a change to one tax may have on another (for example if a CT enquiry reveals VAT understatements, HMRC would have an extra year to recover them);
- the effects of behavioural changes (such as HMRC devoting direct tax resources to more recent years that are currently applied to older years).

It has already been mentioned that taxpayers' anxiety levels are increased by trying to understand the interaction between tax regimes. A key benefit of aligned time limits of would be to give the taxpayer greater certainty when dealing with SA and VAT. Reducing time limits for discovery assessments from 6 to 4 years would give taxpayers certainty that (except for fraud or failure to take reasonable care) they would not be faced with unexpected tax bills for closed years. It is not possible to quantify the benefit of greater taxpayer certainty, but consultation has shown that such certainty is very much valued.

Costs

Decreasing direct tax assessing time limits, in order to give taxpayers greater certainty, is not without cost for the exchequer. Where a compliance check does find an ongoing mistake or careless inaccuracy, HMRC will be correcting fewer past years. Instead the focus will be on improving compliance for the future. Further review of compliance checks will be conducted during the consultation period to estimate the impact to the exchequer, though there will clearly be no impact on compliant taxpayers.

There will also be an impact from the corresponding extension of VAT claim time limits in litigation cases. It is not possible to give an average yearly figure for this cost, as future litigation and the results of such litigation cannot be forecast.

There would be a continuing risk that lost VAT cases could cost more. Against this, moving to four years limits HMRC's exposure to big direct tax repayment claims.

Specific Impact Tests

Full details of the specific impact tests are listed at: http://bre.berr.gov.uk/regulation/ria/toolkit/specific_impact_tests.asp. These have been applied to the new compliance checking powers and timing provisions.

The competition filter has been applied at this stage, and the preferred option found to have little or no competitive impact. However, HMRC would be better able to tackle the hidden economy with the proposed powers. This would help provide a level playing field for legitimate business and reduce unfair competition.

HMRC has consulted on information powers and timing as part of Review of Powers, Deterrents and Safeguards with a Consultative Committee which consists of representatives of the wider taxpaying community including small businesses. This committee has considered the ideas in the consultation document. Compliant businesses will generally not face increased costs under the ideas in this document. HMRC welcomes views on impacts on small businesses.

These proposals would not significantly increase legal aid impacts.

These proposals are in accordance with the principles of sustainable development. In particular more effective finance arrangements across taxes promote good governance and a sustainable economy.

These proposals will have no significant impact on emissions of greenhouse gases, or other environmental impact.

These proposals will have no significant impact on health and well-being.

These proposals will have no significant race equality impact.

These proposals will have no significant disability equality impact.

These proposals will have no significant gender equality impact.

These proposals are compatible with the Human Rights Act.

These proposals will not have a significantly different effect in rural areas.

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	*Results in Evidence Base?*	*Results annexed?*
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

How to comment

We welcome comments on any aspect of this impact assessment. Comments should be received **by 6 March 2008**.

- by email to: powers.review-of-hmrc@hmrc.gsi.gov.uk;
- or by post to: HMRC review of powers: compliance checks, Room 1/72, 100 Parliament Street, London SW1A 2BQ;
- or by fax to: 020 7147 2375.

This document can also be accessed from the HMRC internet site: www.hmrc.gov.uk/consultations/index.htm.

Hard copies are available from the above address. The Review team can be contacted by telephone on: 020 7147 3223.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, among other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department will process your personal data in accordance with the DPA and, in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Any FOIA queries should be directed to the Review team, using the contact details above.