Summary: Intervention & Options

Department /Agency:	Title:	
HM Revenue and Customs	**Corporate Transparency: Personal Tax Accountability of Senior Accounting Officers of Large Companies.**	
Stage: Final	**Version:** 1	**Date:** 20 April 2009

Related Publications:

Available to view or download at:

http://www.hmrc.gov.uk

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

Large companies are major contributors to exchequer finances. Inadequate accounting systems within such companies (or groups) can lead to significant misreporting of tax liabilities. Under tax law companies, like other taxpayers, are expected to take reasonable care to ensure that they declare the correct tax liability. Failure can lead to the imposition of a penalty. However, HMRC may not discover that care has not been take or the accountabilities within the company may be insufficient. Intervention is necessary in order to reinforce the obligation.

What are the policy objectives and the intended effects?

To provide a clear point of accountability within a company for ensuring that systems and processes are sufficient to ensure that an accurate tax return is made or to identify that there are areas that require improvement within internal systems. A requirement to certify personally that adequate controls to prepare accurate tax computations were in place would make that responsibility clear and transparent. The clarity of the obligation would help Senior Accounting Officers to be sure of their responsibilties and would protect tax yield.

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

Only this option which reinforces an existing obligation.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The policy will be reviewed within 18-24 months.

Ministerial Sign-off For Final 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:

Date: 20 April 2009

Summary: Analysis & Evidence

Policy Option: 1	**Description: Introduce a process of personal tax accountability of senior accounting officers of large companies.**

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	The measure will impose no significant burden on those companies that have adequate accounting systems. Those companies that do not have adequate systems will need to invest some time in setting these up.
£ Neg		There will be no additional costs to HMRC as costs will be absorbed in current processes.
Average Annual Cost (excluding one-off)		
£ Neg		**Total Cost** (PV) **£ Negligible**

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

Clarity of accountability will reinforce the position of the Senior Accounting Officer (SAO) to ensure adequate controls are in place.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	The measure will result in some reduction in errors and improvements in system integrity for most companies.
£ Neg		These benefits will accrue to both businesses and HMRC.
Average Annual Benefit (excluding one-off)		
£ Neg		**Total Benefit** (PV) **£ Negligible**

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

Key Assumptions/Sensitivities/Risks

There may be an increase in tax revenue as a result of more accurate tax computations by those companies who do not presently have adequate accounting systems and for whom this measure prompts them to improve them to the required standard. We estimate there will be additional yield to the exchequer of £140 million over 4 years.

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

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			Finance Bill 2009	
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?			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 0	Small 0	Medium N/A	Large N/A
Are any of these organisations exempt?	Yes	Yes	No	No

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

Increase of £ Decrease of £ **Net Impact** £ Negligible

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

Evidence Base (for summary sheets)

This measure draws on the US 2002 Sarbanes-Oxley Act which put obligations on senior officers of US corporations to certify amongst other things that:

- they have established and are monitoring certain internal controls, and
- they have disclosed any material weaknesses in those controls to the company auditors.

Initial evidence is that this has led to a greater emphasis on internal accounting controls by US corporations and non-US multi-nationals. US corporations also report indirect benefits of enhanced shareholder and customer confidence. It would not be unreasonable therefore to expect a comparable improvement in voluntary tax compliance in the UK.

This clause would make SAOs of the largest companies and groups of companies liable to UK taxes personally responsible for ensuring and certifying that the accounting systems in operation are adequate for the purposes of accurate tax reporting.

In terms of tax gap closure, given the current set of powers and sanctions, our initial view of the additional impact of extending sign-off to the SAO is that it would have a relatively modest effect on the tax gap. We forecast an improvement in exchequer receipts of £140m over 4 years.

Companies within the proposed scope of this measure

The proposition is that this measure would apply only to 'large' companies as defined by the Companies Act 2006; [i.e. satisfying at least 2 out of the following 3 criteria]:

- Turnover, more than £22.8 million
- Balance sheet total, more than £11.4 million
- Employees, more than 250.

(The measure could be extended later to other companies if it proves its worth).

The total number of all live incorporated companies is around 2 million. Of these, just over 3% (circa 60,000) would fall within the Companies Act definition of 'large'. However, because most of these companies will be part of a group, and because in a group situation the obligation would fall on the group SAO only, the number of SAOs affected will be a fraction of that number.

The average size of a group is 3 or 4, but larger companies tend to be in larger groups. There are around 1600 groups with 10 or more members and most of these will be 'large' companies. We therefore estimate this obligation would apply to around 1,600 to 2,000 SAOs.

Requirement for SAOs

This would involve a rule that SAOs would have to certify that:

- they have established and are monitoring certain corporate tax governance controls, and satisfied themselves that these controls are adequate to produce accurate tax computations; and
- they have disclosed any material weaknesses in those controls to HMRC.

It is important to stress that the critical test will not be whether the tax return contains any inaccuracies, but whether sufficient controls were in place. The declaration made by the officer would be based on a similar duty of care to that applying to the declaration on a tax return. Therefore the additional impact on compliance costs and admin burdens is negligible.

The requirement would have to be backed up by a penalty for non-compliance. If a certifying officer failed to ensure that the necessary controls were in place, we propose that a fixed penalty of up to £5,000 should be charged on that officer. This would be in addition to any penalty levied on the company for submitting an incorrect return.

Specific Impact Tests: Checklist

The process of Equality Impact Assessment screening has been carried out.

Competition Assessment

The measure has been subjected to the competition filter and confirmed that it has no impact on competition issues.

Small Firms Impact Test

Small businesses are not subject to the measure.

HMRC has carefully considered whether these proposals will have any impact on the following other specific impacts:

- Legal Aid
- Sustainable Development
- Carbon Assessment
- Other Environment
- Health
- Human Rights, and
- Rural issues

and conclude that they do not impact.

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

Annexes