

Summary: Intervention & Options

Department /Agency: HMRC	Title: Raising the Three Line Account Threshold for Income Tax Self Assessment Forms	
Stage: Implementation	Version: 1.0	Date: 22 April 2009
Related Publications: http://www.hmrc.gov.uk/ria/ria-redesigning-tax-return.pdf		

Available to view or download at:

<http://www.hmrc.gov.uk/ria/index.htm#full>

Contact for enquiries: Mark Palmer

Telephone: 020 7147 0492

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

Small unincorporated businesses completing self-employment and/or UK property supplementary pages or sections in the main Income Tax SA Tax Return (MTR), Short Tax Return (STR), and Partnership Tax Return (PTR), are not required to provide a full breakdown of their income and expenses if their annual turnover falls below certain thresholds. Instead they may provide headline income, expenditure and profits information by completing a three line account. HMRC wishes to set these thresholds at the right levels given the objectives at stake.

What are the policy objectives and the intended effects?

The main intended effect is to find the right balance between the following objectives:

1. To reduce administrative burdens on business, including partnerships and the self-employed and improve the business customer experience of dealing with the tax system.
2. To ensure sufficient information is collected on forms and returns so that tax risk can be assessed properly and HMRC can operate as an effective tax administration. Also that sufficient information is available for policy analysis purposes to support wider economic objectives.

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

1. Do nothing, i.e. retain the current turnover thresholds for completing the 'three line account' (£30,000 for the self-employment supplementary pages and £15,000 for the UK property supplementary pages).
2. Increase each of these thresholds to permanently align them with the prevailing VAT registration threshold. In addition ensure that changes in the threshold are well publicised and promoted, especially in relation to the UK property pages, so that businesses eligible to complete the three line account do so in practice.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? We plan to review once we have received at least two or three years of Income Tax Self Assessment returns (under the new thresholds).

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:



Date: 6th April 2009

Summary: Analysis & Evidence

Policy Option: 2

Description: Increase the turnover limit for submission of a three line account in line with the prevailing VAT registration threshold

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' There are no significant costs to business.
	One-off (Transition)	Yrs	
	£ not quantified		
	Average Annual Cost (excluding one-off)		
£ Neg		Total Cost (PV)	£ not quantified
<p>Other key non-monetised costs by 'main affected groups' One-off business familiarisation costs are likely to be negligible. HMRC will incur transitional costs from adjusting and redesigning the current forms and IT systems for the three line account. HMRC will incur further transitional costs from promoting full uptake of the three line account.</p>			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Businesses completing the 'three line account' themselves will save time. Those using agents will spend less time furnishing agents with information, and that proportion of the agent fee relating to HMRC obligations should fall. Some businesses will start to complete the forms themselves rather than using an agent.
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
£ 68m		Total Benefit (PV)	£ 316m
<p>Other key non-monetised benefits by 'main affected groups' Ongoing benefits to HMRC operating costs are likely to be negligible. There may be intangible benefits from having a simpler regime. Any wider economic benefits to small business have not been quantified but are likely to be marginal.</p>			

Key Assumptions/Sensitivities/Risks Loss of expenses information poses a small but manageable compliance risk. Attitudes towards compliance should stay the same. Businesses should complete the 'three line account' in future if they are eligible, but there is currently low awareness of this option on the UK property pages so needs good publicity. Policy analysis objectives should still be met.

Price Base Year 2009	Time Period Years 5	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ 316m
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What is the geographic coverage of the policy/option?			UK		
On what date will the policy be implemented?			2009-10 tax returns		
Which organisation(s) will enforce the policy?			HMRC		
What is the total annual cost of enforcement for these organisations?			£ Absorbed		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			N/A		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ 0		
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	£ 59m	Net Impact	£ -59m

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

Background

The Income Tax Self Assessment regime applies to businesses which are not registered as corporations and hence not subject to Corporation Tax. This includes self-employed persons and partnerships. They are required to complete the Main Tax Return (MTR) if they are individuals or the Partnership Tax Return (PTR) if they are partnerships, plus whichever supplementary pages apply. Certain individuals with straightforward tax affairs are eligible to complete the simplified Short Tax Return (STR).

The smallest businesses with annual turnovers below a certain limit, (usually those with the simplest affairs), can provide only a headline figure for their total income, total expenses, and total profit, rather than providing a detailed breakdown of their income and expenses. This is known as a 'three line account' (TLA). The facility to provide just the TLA details is found on the self-employment and UK property supplementary pages of the MTR and PTR, and in the self-employment and UK property sections of the STR.

Before April 2008, businesses with a turnover of less than £15,000 per year were able to complete the 'three line account' on the self-employment and property supplementary pages or in sections of all three SA returns (MTR, PTR and STR). Following April 2008 the TLA limit was increased to £30,000 for the self-employment supplementary pages of the MTR and PTR and the self employment section of the STR. The £15,000 for property income has remained unchanged.

The Impact Assessment "Redesigning the Main Tax Return", published on 14th November 2007 (see link on page 1), assessed the impact of this change alongside other measures designed to make the task of completing the Main Tax Return easier. The majority of the £3m to £5m of benefits identified in that document relate to the raising of the three line account threshold.

The current reform supersedes the April 2008 change and this Impact Assessment updates the earlier one. In other words the costs and savings below compare the position which existed before April 2008 (three line account threshold for all forms at £15,000) with the position which applies from 2009-10 tax returns (three line account threshold for all forms aligned with the VAT registration threshold).

Objective

The purpose of these tax returns is to enable businesses to explain the basis of their tax self-assessment to HMRC. HMRC in turn uses this information for risk assessment and compliance purposes, and also for policy analysis purposes including details in relation to capital allowances. In the absence of this information HMRC's compliance activity could become less effective. HMRC's ability to ensure that tax policy supports wider economic objectives would also be affected.

There is, however, a cost to business from providing detailed information, especially where this would not otherwise be collected, and also a cost to HMRC from processing that information. The cost to business includes agents' fees where agents are used to prepare accounts and to complete returns. HMRC therefore wishes to find the right balance between business compliance costs and administrative burdens, tax risk, HMRC operating costs, and the wider impacts mentioned.

Consultation

A formal consultation exercise was not held as this reform largely updates the TLA limit changes introduced in April 2008, and also because the changes constitute a simplification

which is voluntary in nature – more businesses are being given the option of completing the simpler ‘three line account’. HMRC works closely with the external Administrative Burdens Advisory Board (ABAB) in identifying issues that matter to business. ABAB was established by the Chancellor in Budget 2006 and is made up of representatives from business, including from small business, trade bodies and professional bodies. ABAB’s role, amongst other things, is to advise HMRC on reforms which should make a real and noticeable difference in terms of reducing business administrative burdens, complexity and irritation factors, and improving the small business customer experience. The administrative burden of the SA suite of returns is one of ABAB’s priority areas.

Costs and benefits

As with the November 2007 Impact Assessment the Standard Cost Model (SCM) has been used as the basis for calculating all administrative burden impacts on business. The associated admin burden database baseline is set at May 2005 prices and populations. The changes calculated relative to this baseline have been up-rated by 3.5% per year to produce the 2009 figures.

Benefits

In addition to the quantified benefits outlined below there may be intangible benefits associated with the introduction of a simplified regime.

If the current limit for completing the TLA is increased, it is likely that many more small businesses (apart from partnerships and some others) will be eligible to complete the Short Tax Return (STR) rather than the Main Tax Return (MTR) plus the self employment and/or property supplementary pages. Businesses completing the STR only need to complete one relatively simple 4-page form rather than the longer and more complex MTR and relevant supplementary pages.

Some businesses are ineligible for the STR because they have more complex tax affairs. Those businesses with an annual turnover below the VAT threshold that are ineligible for the STR are likely to qualify for a ‘short’ 2-page version of the self employment supplementary page which asks for less information than the ‘full’ 5-page self employment supplementary page. Businesses will be able to provide TLA details on the short self employment page.

In addition, for the future, if the TLA limit is extended to match the current threshold for completing the short self employment page (VAT registration threshold), there would be scope for deleting some of the boxes on the short self-employment page which would enable other boxes found only on the ‘full’ page to be included on the ‘short’ page. This would extend the scope of the ‘short’ self employment page to include businesses who currently have to complete the ‘full’ self employment page (despite an annual turnover below the VAT threshold) because they need certain boxes currently found only on the full page. Such ‘switching’ from the full to the short pages would result in further admin burden savings for affected businesses.

These intangible benefits have not been quantified.

Self-employment supplementary pages

Internal HMRC data was used to estimate the number of businesses which have an annual turnover between £15,000 and the VAT threshold, this being around 1.2 million self-employed persons and around 150,000 partnerships.

For this business population the assumption is that the total business time spent completing each of these supplementary pages should fall by around 60%. This was based upon an analysis using the admin burden database baseline of how much time is spent completing each of the boxes in these supplementary pages. In line with our baseline data the assumption is

that this time saving will apply to businesses that complete the supplementary pages by themselves and to businesses using agents – those using agents should save time by not having to furnish their agents with so much detailed information.

Given that it is far simpler to complete the ‘three line account’ than it is to provide the full breakdown of expenses and income the assumption is that some businesses using agents to complete the supplementary pages will no longer do so in the future. The prudent assumption used in the analysis is that only 5% of businesses will switch. This is because data on the proportion of the smallest businesses which use agents indicates that whilst many such businesses would be capable of completing the supplementary pages by themselves the vast majority still prefer to use an agent. This may be rational and normally efficient behaviour, for example if the opportunity costs of completing the supplementary pages exceed the costs of using an agent – or put simply, if an entrepreneur’s time is better spent making money than completing tax forms.

For those businesses which continue to use an agent the assumption is that the agent’s fee will fall by 10% - or rather, that the proportion of the fee relating to HMRC obligations will fall by 10% in total. This relatively small figure reflects an assumption that for some of this business population, especially those with higher turnover, the agent might separately already be using software to produce full accounts for their client. In such cases there may be little, if anything, to be saved by the agent from providing HMRC with summary data compared to providing HMRC with the full breakdown of expenses and income.

The total effect of these assumptions is to reduce admin burdens by almost £17m in 2005 prices and populations, which translates to just over £19m in 2009 figures (using the calculation mentioned above). The figures for the MTR self-employment supplementary pages are just over £13m (2005 figures) and just over £15m (2009 figures), and for the PTR self employment supplementary pages are £3.5m (2005 figures) and £4m (2009 figures).

UK Property supplementary pages

HMRC’s internal data indicates that the current £15,000 threshold which applies to the UK property supplementary pages is not well known and that the ‘three line account’ here is generally not being completed. A first hand examination of the relevant supplementary pages compared to the self-employment and partnership supplementary pages supports this view – it is not clear at face value on the form itself that the ‘three line account’ is an option although this is explained in the notes for the relevant sections. This may give the impression that full details of income and expenses should be provided after all.

The following costing is based on the additional assumption that TLA option would be made more prominent on the UK property supplementary pages plus an effective HMRC publicity and promotional campaign so that the ‘three line account’ will in future be completed by businesses which are eligible to do so.

Internal HMRC data was used to estimate the number of businesses with income from property which have an annual turnover between £0 and the VAT threshold - around 1.3 million. For this business population the assumption is that the total business time spent completing the supplementary pages should fall by around 60%, again based upon an analysis of how much time is spent completing each of the boxes in the supplementary pages. As above the assumption is that this time saving would apply to all businesses whether or not they use an agent.

As above the assumption is that some businesses which use agents to complete the supplementary pages will no longer do so in future. However, the population of businesses which complete the UK property supplementary pages differs noticeably from that completing the other supplementary pages. In particular the former is likely to include persons gaining business income from owning second properties, such as buy-to-let properties. Such persons

may have lower opportunity costs than a self-employed person running their own business. As such the assumption is that for the UK property supplementary pages there would be a significantly greater inclination to switch away from using an agent. The costing includes an assumption that 20% would switch.

For similar reasons the assumption is that for those businesses which continue to use an agent the proportion of the fee relating to HMRC obligations will fall by 20%. This higher figure stems from the view that a lower proportion of agents serving the 'UK property business population' are likely to be producing full accounts for their clients using software. Where such accounts are not being produced there should be a genuine reduction in the resources needed by the agent to satisfy HMRC's obligations.

The combined effect of these assumptions is to reduce admin burdens relating to the UK property supplementary pages by almost £42.5m in 2005 prices and populations, and by just under £49m in 2009 figures (using the calculation mentioned above).

The total benefits from raising the TLA limit for the self-employment and UK property supplementary pages come to £59m in 2005 prices, equivalent to £68m in 2009 prices.

Costs

Businesses and agents will incur one-off familiarisation costs stemming from the increased 'three line account' thresholds. These are likely to be negligible. The same applies to any costs associated with deciding whether to complete the 'three line account' or whether to provide the full breakdown of expenses and income.

HMRC will incur one-off costs associated with amending the current selection criteria for the STR, changing the threshold parameters for selecting the MTR short/full self employment supplementary pages, possibly redesigning the short self-employment supplementary page and making changes to the associated IT systems. In addition HMRC will incur some further one-off costs for the publicity and promotional campaign needed to ensure maximum take-up of the three line account from eligible businesses. These have not been quantified.

Information obtained from these supplementary pages is currently fed into risk analysis models which help HMRC target businesses for audit or inspection. Going forward compliance activity for this part of the taxpayer population will be driven by other techniques, such as use of third party information and more flexible interventions, which are more likely to be effective than detailed examination of the break-down of expenses. On this basis the assumption is that there should be no increased audit and inspection activity (and associated burdens) as a result of this change for those businesses complying with their tax obligations.

Tax yield

As mentioned above information obtained from these supplementary pages is currently used for risk analysis purposes. Our analysis is that this change poses a small but manageable compliance risk (for the reasons set out above).

Policy analysis implications

Information obtained via the supplementary pages is currently used for policy analysis purposes, including in relation to capital allowances. Whilst the loss of information will have some impact on the data available for policy analysis and monitoring it should still be possible to produce analysis of a sufficiently high standard and quality, and any effects here would be justified by the benefits outlined above.

Further assumptions

The above assessment of costs and benefits reflects a number of other assumptions:

- These changes are unlikely to lead to businesses switching from the Corporation Tax regime to the Income Tax Self Assessment regime. HMRC will continue to monitor the relative burdens for similar sized businesses in these two regimes.
- There will be no change in business compliance attitudes. Possible changes include reduced accuracy in relation to self-assessment as a result of less detailed information being provided on the forms. Alternatively there may be increased accuracy as a result of businesses responding positively to the more customer-friendly regime which is being introduced. HMRC will be monitoring this closely.
- There will be no change in overall tax yield as a result of any movement in the 'threshold bulge', i.e. businesses under-declaring their income (as being less than £15,000) in order to complete the 'three line account', and then declaring the correct and higher amount when the threshold rises.
- 'Business as usual' costs are not included in the estimates, i.e. if a business voluntarily chooses to provide HMRC with a full breakdown of their expenses when not required to do so then we have not counted the additional costs involved.
- Following the greater prominence of the TLA option on the UK property supplementary pages, coupled with the planned HMRC publicity and promotion campaign, all those eligible for the 'three line account' will complete it in future.
- There will be no wider economic benefits from the reduction in admin burdens, e.g. in the form of higher productivity or more innovation.

Specific Impact Tests material

Competition Assessment

These reforms are not expected to directly or indirectly limit the number or range of suppliers, or limit the ability or incentives of suppliers to compete and to do so vigorously. If anything these reforms support increased competition because they reduce the entry barriers (in the form of regulatory burdens) applying to new entrants.

Small Firms Impact Test

The small firms impact test focuses on the effects on businesses with fewer than 20 employees. As the proposal outlined in this Impact Assessment is designed to benefit businesses up to the VAT registration threshold, it intrinsically has a small firms focus. The analysis in this Impact Assessment is therefore all relevant to the impact on small firms.

Legal Aid

There are no impacts on legal aid and no new criminal or civil sanctions are being introduced.

Sustainable development

These reforms are not expected to have any impact on the five principles of sustainable development, notably living within environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; promoting good governance, and; using sound science responsibly.

Carbon assessment

These reforms are not expected to have any impact on greenhouse gas emissions.

Other environment

These reforms are not expected to have any impact on waste management, air quality, the appearance of landscape or townscape, habitat and wildlife, noise levels or any other environmental factor.

Health

These reforms are not expected to have an impact on health, well-being or on health inequalities.

Race equality, disability equality, gender equality

These reforms have no negative impacts in these areas and will improve accessibility by increasing the simplicity of the return used by some customers.

Human rights

These reforms are not expected to affect human rights.

Rural proofing

These reforms are not expected to have a different impact in rural areas.

Specific Impact Tests: Checklist

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Annexes