EXPLANATORY MEMORANDUM TO

THE INCOME TAX (PAYMENTS ON ACCOUNT) (AMENDMENT) REGULATIONS 2008

2008 No. 838

1. This explanatory memorandum has been prepared by HM Revenue & Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. Description

The instrument contains the necessary machinery to enable the threshold below which taxpayers do not need to make in-year payments on account of their annual income tax liability under the Income Tax Self Assessment (ITSA) system to be raised from £500 to £1000. It shall have effect from 6 April 2009 for tax year 2009-10 and will then be applied for subsequent years of assessment.

3. Matters of special interest to the Select Committee on Statutory Instruments

None

4. Legislative Background

4.1. The powers to make this instrument are in section 59A(1)) of the Taxes Management Act 1970.

4.2. These Regulations amend regulation 3 of the Income Tax (Payment on Account) Regulations 1996 (SI 1996/1654) increasing the assessed amount prescribed for the purpose of section 59A of the Taxes Management Act 1970 from £500 to £1000 for the year of assessment 2009-10 and subsequent years.

4.3. Taxpayers within the ITSA regime are required to make two payments on account (POAs) towards the income tax due for any year, unless their income tax bill for the previous year was less than £500 (or more than 80% of their tax was deducted at source). This figure was set in consultation in 1996. In order to relieve small business and individuals of the burden of calculating, paying and making claims to reduce POAs the threshold will be doubled to £1000 from 6 April 2009.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

These Regulations are subject to annulment and do not amend primary legislation. Accordingly the Financial Secretary is satisfied that no statement as to compatibility with the Convention rights is required.

7. Policy background

7.1. The £500 threshold was introduced in 1996 to ensure that most employees and pensioners (and others with small tax liabilities or who have the bulk of their tax deducted at source) would not have to make POAs, but rather make a single payment by 31 January following the end of the tax year.

7.2. Doubling the threshold will more than restore its 1996 value and remove a significant number of taxpayers from the POA net. This increase will simplify the tax system and reduce the administrative burden for those who will no longer have to make POAs.

7.3. The new threshold will be introduced for the year of assessment 2009-10 and not earlier as it will not be possible to make the necessary IT changes to SA until then. The threshold will applied to that and all subsequent years and will mean that those taxpayers with liabilities under £1,000 in 2008-09 will not have to make instalment payments on 31 January and 31 July 2010 towards their 2009-10 liability, but will instead make a single payment on 31 January 2011.

8. Impact

A Regulatory Impact Assessment has been prepared for this instrument and is attached as an annex.

9. Contact

Robert Horwill at HM Revenue & Customs Tel: 020 7147 2447 or e-mail: robert.horwill@hmrc.gsi.gov.uk can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
HMRC	Impact Assessment of increasing Income Tax Self Assessment (ITSA) payment on account (POA) threshold	
Stage: Full assessment	**Version:** 1	**Date:** 03 October 2007
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Stephanie Allistone **Telephone:** 020 7147 2394

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

Most taxpayers within the Income Tax Self Assessment (ITSA) system make two payments on accounts (POAs) towards the income tax due for any year. But no POAs are required from those whose income tax bill for the previous year was less than £500. These taxpayers make one payment of tax 10 months after the end of the tax year. This threshold was set in 1996 at a level designed to ensure that most employees and pensioners would not have to make POAs. There have been strong calls to increase the threshold because its value has eroded over time resulting in taxpayers who would have been excluded when ITSA was introduced now having to make POAs.

What are the policy objectives and the intended effects?

The aim of raising the ITSA POA threshold is to more than restore its 1996 value and so remove a significant number of ITSA taxpayers from the POA net. In line with the Government's aim of increasing productivity this increase will simplify the tax system for those no longer having to make POAs, and reduce the administrative burdens of the affected taxpayers as they will no longer have to calculate and make in-year payments, nor make claims to reduce payments on account of their annual income tax liability.

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

1. Leave the threshold unchanged at £500

2. Raise the threshold from £500 to £800

3. Raise the threshold to £1000. Doubling the threshold increases the number of taxpayers taken out of the POA net and is affordable in the current economic climate. Raising the threshold above £1000 increases the interest loss to the Exchequer and may not be prudent for those taxpayers who prefer to pay smaller amounts more regularly. This is the preferred option.

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 once it has bedded in, probably 1 - 3 years after implementation.

Ministerial Sign-off For final proposal Impact Assessment:

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 **4th October 2007**

Summary: Analysis & Evidence

Policy Option: 1	Description: Leave threshold unchanged at £500

COSTS		
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	Those currently making POAs will continue to do so as now.
£ Nil		
Average Annual Cost (excluding one-off)		
£ Nil		**Total Cost** (PV) **£ Nil**

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

BENEFITS		
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	Taking this option would mean missing the opportunity of reducing administrative burdens on business and of simplifying the tax system for those ITSA taxpayers with smaller profits and lower income.
£ Nil		
Average Annual Benefit (excluding one-off)		
£ Nil		**Total Benefit** (PV) **£ Nil**

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

Key Assumptions/Sensitivities/Risks This option would further erode the real value of the exemption from POAs and, over time, would force more individuals and businesses to make POAs of their annual income tax liability.

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

What is the geographic coverage of the policy/option?			All ITSA taxpayers	
On what date will the policy be implemented?			Already in force	
Which organisation(s) will enforce the policy?			n/a	
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 **nil**	Small **nil**	Medium **nil**	Large **nil**
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:** **(Net) Present**

Summary: Analysis & Evidence

Policy Option: 2	Description: Raise the ITSA POA threshold to £800

COSTS

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

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

In the short term, those affected may have queries, or may wish to change their current budgeting arrangements. Any time spent is not expected to be significant.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	The annual reduction in compliance costs for the 237,000 taxpayers affected by the increase would be £35m. Within that total, 205,000 have business-related income, giving a reduction in the burden on business of £30m.
£ Nil		
Average Annual Benefit (excluding one-off)		
£ 35m		**Total Benefit** (PV) **£ 35m**

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

Taxpayers who no longer make POAs will have more time to pay. With the threshold at £800, around £100m in tax will be deferred by an average of 9 months, giving an annual cashflow benefit to the taxpayer (and an interest cost to the Government) of around £4m.

Key Assumptions/Sensitivities/Risks "Business" refers to individuals with some form of business income (such as self-employment or partnership income). All figures are best estimates and subject to uncertainty and assume 100% take-up of the opportunity not to make in-year payments.

Price Base Year 2005	Time Period Years	**Net Benefit Range** (NPV) **£ 35m ± £ 5m**	**NET BENEFIT** (NPV Best estimate) **£ 35m**

What is the geographic coverage of the policy/option?	All ITSA taxpayers			
On what date will the policy be implemented?	06 April 2009			
Which organisation(s) will enforce the policy?	n/a			
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 **nil**	Small **nil**	Medium **nil**	Large **nil**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of £	Decrease of £ 30m	**Net Impact**	£ 30m decrease

Key: **Annual costs and benefits: Constant Prices**

Summary: Analysis & Evidence

Policy Option: 3 (Preferred option)	**Description: Raise the ITSA POA threshold to £1000**

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

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

In the short term, those affected may have queries, or may wish to change their current budgeting arrangements. Any time spent is not expected to be significant.

BENEFITS		
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	The annual reduction in compliance costs for the 367,000 taxpayers affected by the increase would be £54m. Within that total, 319,000 have business-related income, giving a reduction in the burden on business of £47m.
£ nil		
Average Annual Benefit (excluding one-off)		
£ 54m		**Total Benefit** (PV) **£ 54m**

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

Taxpayers who no longer make POA will have more time to pay. With the threshold at £1000, around £180m in tax will be deferred by an average of 9 months, giving an annual cashflow benefit to the taxpayer (and an interest cost to the Government) of around £7m.

Key Assumptions/Sensitivities/Risks "Business" refers to individuals with some form of business income (such as self-employment or partnership income). All figures are best estimates and subject to uncertainty, and assume 100% take-up of the opportunity not to make in-year payments.

Price Base Year 2005	Time Period Years	**Net Benefit Range** (NPV) **£ 54m ± £ 10m**	**NET BENEFIT** (NPV Best estimate) **£ 54m**

What is the geographic coverage of the policy/option?			All ITSA taxpayers	
On what date will the policy be implemented?			06 April 2009	
Which organisation(s) will enforce the policy?			n/a	
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 **nil**	Small **nil**	Medium **nil**	Large **nil**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £	Decrease of £ 47m	**Net Impact** £ 47m decrease

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

Evidence Base (for summary sheets)

ISSUE

There have been periodic calls from taxpayers and their representatives that all monetary thresholds are kept under review. The threshold for making payments on account under the ITSA system was set in consultation in 1996. It was designed to exclude most pensioners and individuals who paid the majority of their tax under deduction from the need to make in-year payments towards their annual income tax liability. The threshold also reduces the burden on those businesses with lower profits.

Calculating and making payments on account, and claiming to reduce in-year payments were measured as administrative burdens on business in the Standard Cost Model in 2005. As such, now seems a good time to review this threshold with a view to removing these burdens from a section of ITSA taxpayers, many of whom have business income.

OPTIONS

1. Leave threshold unchanged at £500. This would neither restore the value of the threshold in real terms, nor reduce the administrative burden on business or taxpayers.

2. Raise the threshold to £800. This restores the value of the threshold to its 1996 level and so fulfils the original policy intent to remove a specific category of taxpayers from having to make payments on account.

3. Raise the threshold to £1000. This higher increase benefits more taxpayers both with and without business income, is affordable for the Exchequer and makes a good contribution towards reducing administrative burdens on business (by removing 319,000 taxpayers with business income from the payment on account net). It also does not go so far as to cause problems for those who prefer to pay smaller sums on a regular basis.

EXPECTED IMPACTS

The table shows the number of people and businesses affected, and the expected effects of raising the threshold, for the leading options (all figures are quoted relative to the status quo option 1).

	Threshold (£)	Taxpayers taken out of POA (‘000s)	Of which, those with business income (‘000s)	Total reduction in costs (£m)	Of which, admin burden reduction for business (£m)	Amount of tax deferred per 6 months (£m)	Cashflow benefit to taxpayers / cost to Exchequer (£m)
Option 1	500	No change to the status quo					
Option 2	800	237	205	35	30	50	4
Option 3	1000	367	319	54	47	90	7

1. All figures are based on population and tax revenue data for the 2004-05 financial year and assume 100% take-up of the facility; the administrative burden figures are quoted in May 2005 terms.

IMPACT ON ADMINISTRATIVE BURDEN

The estimated annual benefits presented above are based on a detailed comparison of the obligations that ITSA taxpayers have in terms of submitting the required information to HMRC and making payments on account towards their income tax liability under existing rules. Our assessment points to an overall reduction in administrative burdens, which represents a benefit to a group of ITSA taxpayers most of whom have business income. For the preferred option i.e. raising the threshold to £1000, the total annual benefit to this group of taxpayers is estimated at around £54m (£47m for those with business income and £7m for the remainder).

This figure is calculated according to HMRC's Standard Cost Model (SCM) methodology, which, in particular, distinguishes costs according to the size of firm and whether key operations are handled in-house or outsourced. In adopting the SCM approach, we have sought to identify the main obligations on ITSA taxpayers under the new proposed limits (relative to the existing limits).

The projected savings assume that those who no longer make POA will save both time, and if they employ an agent to handle their POA for them, money. The average saving based on the SCM methodology is estimated to be £150, although the amount will vary considerably depending on whether a taxpayer employs an agent or not.

CASHFLOW BENEFITS

In addition to the administrative benefits generated by the increase in the threshold this group of taxpayers will also benefit from increased cashflow from not having to make payments on account. There will however be an equivalent cashflow loss to the Exchequer. For the preferred option this group of taxpayers would no longer be required to make the January POA of £90m and they would further retain another £90m from not having to make the July payment. Instead they would make one single payment of £180m to the Exchequer the following January.

As a result, there is a benefit to taxpayers, and a corresponding loss to the exchequer in respect of interest. For the preferred option this is estimated at just over £7m, based on £90m being deferred for 6 months, and another £90m for 12 months, at an interest rate of 5.5%.

IMPLEMENTATION

The revised threshold would be introduced in April 2009 to first affect the POAs made towards the 2009/10 tax liability, ie those due in January and July 2010. It is important to note that the January and July 2009 POAs would still need to be in full, as those payments are towards the tax due for 2008/09 as shown on the tax return filed by 31 January 2009.

SMALL FIRMS IMPACT TEST AND COMPETITION ASSESSMENT

This measure increases a threshold; it therefore affects all taxpayers within the ITSA regime, dependent on their level of taxable income. It does not alter their tax bill, but simply eliminates the need for in-year payments for those whose previous year's income tax bill was less than £1000 (rather than the current £500).

Small firms in particular will benefit from an in-year cashflow impact. But this benefit is a relatively small gain on a per taxpayer basis, and is not expected to have an impact on competition in any particular business sector.

Specific Impact Tests: Checklist

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	No	No
Small Firms Impact Test	No	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