

**EXPLANATORY MEMORANDUM TO  
THE STATISTICS OF TRADE (CUSTOMS AND EXCISE) (AMENDMENT)  
REGULATIONS 2009**

**2009 No. 2974**

1. This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue and Customs and is laid before Parliament by Command of Her Majesty.
2. **Purpose of the instrument**
  - 2.1 Intrastat is the system for the collection of trade in goods between EU Member States for statistical purposes. All VAT registered businesses that reach a set threshold, expressed in terms of annual value of intra-Community trade, are required to submit Intrastat declarations on a monthly basis. The threshold applies separately for dispatches to other EU Member States (intra-EU exports) and arrivals from other EU Member States (intra-EU imports).
  - 2.2 The instrument increases from £270,000 to £600,000 the threshold at or below which a business in the UK is exempt from providing Intrastat Arrivals information and reduces from £270,000 to £250,000 the threshold at or below which a business in the UK is exempt from providing Intrastat Dispatches information. This is to comply with Community rules on the percentage of trade to be captured through Intrastat.
3. **Matters of special interest to the Joint Committee on Statutory Instruments**
  - 3.1 None.
4. **Legislative Context**
  - 4.1 The Community provisions governing Intrastat are European Parliament and Council Regulation (EC) No 638/2004 (OJ No L 103, 7.4.04, p1) and Commission Regulation (EC) No 1982/2004 (OJ No L 343, 19.11.04 p3).
  - 4.2 Regulation (EC) No 638/2004 has been amended by European Parliament and Council Regulation (EC) No 222/2009 (OJ No L 87, 31.3.09, p160).which was cleared by the House of Commons EU Scrutiny Committee on 27 February 2008 and by the House of Lords EU Scrutiny Committee on 11 March 2008. The Regulation was adopted following its First Reading.
  - 4.3 Article 10 of Regulation (EC) No 638/2004 provides for simplification within the Intrastat system. Article 10(1) requires Member States to define each year thresholds expressed in annual values of intra-Community trade below which a business is exempt from providing any Intrastat information. Article 10(3) requiring Member States to ensure when setting the exemption threshold that at

least 97% of their total trade with other Member States (expressed in value) is captured by the Intrastat system was amended by Regulation (EC) No 222/2009. While Member States are still required to capture at least 97 per cent of their total dispatches (expressed in value) by the Intrastat system, the percentage for arrivals has been reduced to 95 per cent.

- 4.4 The Statistics of Trade (Customs and Excise) Regulations 1992 (S.I. 1992/2790) set the Intrastat thresholds in domestic legislation as required by Community legislation. Regulations 3(2) and 3(3) set the threshold at or below which a business is exempt from providing any Intrastat information.

## **5. Territorial Extent and Application**

- 5.1 This instrument applies to all of the United Kingdom.

## **6. European Convention on Human Rights**

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

## **7. Policy background**

- 7.1 Intrastat is a common framework for the systematic production of Community statistics relating to the trading of goods between Member States.
- 7.2 The effect of these revisions is to ensure that the Intrastat system captures the correct number of traders required to submit Intrastat declarations.
- 7.3 The threshold below which a business is exempt from providing Intrastat Arrivals declarations has been increased, following the amendment to the EC Regulations, to ensure the United Kingdom will only capture the required 95 per cent of total trade by value within the Intrastat system.
- 7.4 The threshold below which a business is exempt from providing Intrastat Dispatches declarations has been reduced to ensure that, due to the sharp fall in economic activity affecting intra-EU trade, the UK maintains the coverage for the Dispatches flow at 97 per cent of total trade by value.
- 7.5 No major policy changes in the United Kingdom result from this instrument.

## **8. Consultation outcome**

- 8.1 A public consultation on Intrastat simplification was undertaken between June and September 2007. The consultation put forward various options to simplify the Intrastat system in order to reduce the administrative burden on businesses required to submit Intrastat declarations. These options were to reduce the percentage coverage from 97 per cent to either 90 or 95 per cent or to implement a Single Flow system whereby each Member State would collect declarations for one trade flow (either arrival or dispatches) and then exchange this with other EU Member States to produce statistics for the other flow.

- 8.2 As a result of this consultation and discussions with key Government stakeholders who use the data, the UK Government decided to press the EU Commission for a reduction in coverage from 97 per cent to 95 per cent for both the Arrivals and Dispatches flows as a short term measure. This would enable the UK to significantly increase the threshold below which businesses are exempt from submitting Intrastat declarations thus reducing the numbers of businesses required to submit declarations. In the longer term the decision of the UK Government was to support the introduction of a Single Flow system.
- 8.3 However the EU Commission put forward a proposal to reduce the percentage coverage from 97 per cent to 95 per cent for arrivals only, whilst maintaining the dispatches at 97 per cent. Although this reduction did not go as far as the reduction on both flows, the UK Government supported this proposal. This was because there was little support from other Member States for a reduction in both flows to 95 per cent and there is a very strong argument for keeping the coverage at 97 per cent for the preferred flow (dispatches) that will be maintained if the Single Flow system is introduced.

## **9. Guidance**

- 9.1 A Revenue and Customs Brief will be issued to announce the revised Exemption thresholds.

## **10. Impact**

- 10.1 The impact on business, charities or voluntary bodies is to reduce the number of these entities that are required to submit Intrastat declarations.
- 10.2 The impact on the public sector is nil.
- 10.3 An Impact Assessment covering the changes to the Arrivals Threshold has been prepared for this instrument (see Annex 1).

## **11. Regulating small business**

- 11.1 The legislation applies to small business.
- 11.2 No provision is taken to minimise the impact of the requirements on firms employing up to 20 people, because the overall effect of this instrument is to decrease the regulatory requirements on such firms by ensuring that businesses with the least intra-Community trade are exempt from providing Intrastat information.

## **12. Monitoring & review**

- 12.1 The outcome of these revisions will be subject to internal review after 12 months and will be monitored to ensure that Community rules on the percentage of trade to be captured through Intrastat are complied with.

## **13. Contact**

Margaret Kingston at HM Revenue and Customs Tel: 01702 366576 or e-mail:  
Margaret.Kingston@hmrc.gsi.gov.uk can answer any queries regarding the instrument.

## Summary: Intervention & Options

Title:

**Impact Assessment of Intrastat Simplification**

Date: 26 October 2009

**Related Publications:** Consultation Document: Intrastat: Consultation on Potential Changes; Options Stage Impact Assessment; Results Report of the Consultation

**Available to view or download at:**

<http://www.hmrc.gov.uk/ria/ria-intrastat-simp.pdf> & <http://www.hmrc.gov.uk/ria/ia-intrastat.pdf>

**Contact for enquiries:** Margaret Kingston

**Telephone:** 01702 366576

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

Trade in goods between EU Member States is collected by the Intrastat system. Member States are required by EC legislation to define annually their Intrastat exemption thresholds applicable from 1 January.

Following an amended EC regulation adopted on 11 March 2009, the percentage coverage requirement for arrivals (EU imports) has been reduced from 97 to 95 per cent of trade by value.

Government intervention is required to ensure the number of businesses required to submit Intrastat declarations is kept to a minimum.

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

The policy objective is to revise the Intrastat exemption thresholds so that only the required coverage of intra-Community trade is collected. The effect will be that around 6,900 businesses will no longer be required to submit Intrastat arrivals declarations, reducing the administrative burden by an estimated £2 million per annum (as calculated by the 'Standard Cost Model' see Annexe).

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

1. Do nothing; retain coverage for both flows at 97 per cent.
  2. Reduce the percentage of arrivals trade to be captured from the current 97 per cent to 95 per cent.
- The agreed simplification option to be taken forward is Option 2.

Option 1 would not deliver a reduction in the administrative burden on business so would not be well received.

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

Three years after the implementation of the revised EC legislation or in order to tie in with the timetable of the Commission's own review if this is different.

**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: 26 October 2009

## Summary: Analysis & Evidence

<b>Policy Option: 2</b>	<b>Description: Reducing Percentage of Trade Captured to 95 per cent for Arrivals Flow Only</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' This option will reduce the number of traders within the Intrastat system by raising the threshold to capture only 95 per cent of arrivals trade. The administrative one-off cost of introducing this system is nil for those affected, who will no longer need to submit Intrastat arrivals declarations.
	<b>One-off (Transition)</b>	<b>Yrs</b>	
	£ 0	0	
	<b>Average Annual Cost (excluding one-off)</b>		
£ 0		<b>Total Cost (PV)</b>	£ 0
Other <b>key non-monetised costs</b> by 'main affected groups' None			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' It is estimated that 6,900 traders will no longer need to submit Arrivals declarations, reducing the administrative burden by £1.8m per annum (standard cost model 2005 prices). This saving is calculated against the base period of January 2007, using constant 2005 prices.
	<b>One-off</b>	<b>Yrs</b>	
	£ 0	0	
	<b>Average Annual Benefit (excluding one-off)</b>		
£ 2.0m		<b>Total Benefit (PV)</b>	£ 2.0m
Other <b>key non-monetised benefits</b> by 'main affected groups' The group of traders who will benefit from this are those who currently have the least amount of arrivals trade in the Intrastat regime. Thus the effect of raising the threshold reduces the administrative burden directly for the 'smallest' of arrivals traders, making them exempt from declarations.			

**Key Assumptions/Sensitivities/Risks** By reducing the arrivals coverage to 95 per cent, there is a possible risk of a negative impact upon data quality and detail. Enhanced estimation methodologies will be implemented to take into account the drop in percentage coverage and maintain quality standards.

Price Base Year 2010	Time Period Years 1	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £ 2.0m
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What is the geographic coverage of the policy/option?		United Kingdom		
On what date will the policy be implemented?		1 January 2010		
Which organisation(s) will enforce the policy?		HMRC		
What is the total annual cost of enforcement for these organisations?		£ No added costs		
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?		£ 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

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)	
Increase of	£ 0	Decrease of	£ 1.8m
		<b>Net Impact</b>	£ 1.8m

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

## Evidence Base (for summary sheets)

### Background

The Intrastat system, introduced in 1993, governs the collection of information on trade in goods between the EU Member States. All VAT registered traders who reach a set threshold for their value of arrivals and/or dispatches (sometimes called EU imports and EU exports) are required to submit Intrastat declarations on a monthly basis.

As only traders above these thresholds (referred to as Exemption thresholds) are required to submit Intrastat declarations, the majority of businesses who trade with other Member States (about 80 per cent of the UK VAT registered traders who trade with other Member States) are exempt. However, in spite of the Exemption threshold and other simplifications introduced since 1993, Intrastat is still the biggest statistical burden on UK businesses.

There are currently around 33,500 traders on the UK Intrastat register, who are required to submit Intrastat declarations.

### Consultation

HMRC undertook a public consultation on Intrastat Simplification between June and September 2007 and put forward three options for simplification of the Intrastat system:

1. reducing the volume of trade on which data must be collected from the current level of 97 per cent of value to 95 per cent;
2. reducing the volume of trade on which data must be collected from the current level of 97 per cent of value to 90 per cent; or
3. implementation of a Single Flow system whereby each Member State would collect data for one trade flow only (arrivals or dispatches) and then exchange this with other EU members.

A copy of the Options Impact Assessment (Impact Assessment of Intrastat Simplification – June 2007) that dealt with the 3 options discussed at the Consultation stage can be found on the HMRC website: <http://www.hmrc.gov.uk/ria/index07.htm>

As a result of the consultation and following discussions with key Government stakeholders (users) the UK Government decided to press the EU Commission for a reduction in coverage to 95 per cent as a short term simplification with the long term aim of introducing a Single Flow system.

### Further simplification option

Since the publication of the Options Stage Impact Assessment, a 4th option was put forward for consideration by the EU Commission. This was to reduce the percentage coverage from 97 per cent to 95 per cent for arrivals, whilst maintaining the dispatches at 97 per cent. Although this reduction did not go as far as the reduction on both flows, the UK Government supported this proposal. This was because there was little support from other Member States for a reduction in both flows to 95 per cent and there is a very strong argument for keeping the coverage at 97 per cent for the preferred flow (dispatches) that will be maintained if the Single Flow system is introduced.

A copy of the Options Stage Impact Assessment (Impact Assessment of Intrastat Simplification – July 2008) which introduced Option 4 can be found on the HMRC website: <http://www.hmrc.gov.uk/ria/index08.htm>

It is important to note that since this Impact Assessment was published, global economic activity has gone through a significant downturn therefore the initial forecasts for savings have had to be re-assessed and have been reduced to take into account the fall in intra-EU trading.

The EU Legislation governing Intrastat has now been amended, in line with the Commission proposal, to reduce the percentage coverage of arrivals trade that Member States are required to collect to 95 per cent, whilst maintaining the dispatches flow at 97 per cent.

## **Options**

### Do nothing

This would maintain the level of businesses submitting Intrastat at the current level of around 33,500 and the administrative burden on business of meeting the Intrastat requirement at £17.9 million (in 2005 constant prices). It would be seen as a missed opportunity to reduce the burden and would not be well received by businesses, particular as it will be adopted in other Member States.

### Implement the reduction in the arrivals coverage

This will allow HMRC to offer a significant reduction of the administrative burden on business. Reducing the coverage of arrivals trade to be captured from 97 per cent to 95 per cent will allow HMRC to raise the Intrastat exemption threshold to a level that will significantly reduce the number of traders required to submit arrivals returns whilst maintaining the quality of the data at an acceptable level for key users.

The risk of reducing the arrivals coverage to 95 per cent is the possible negative impact upon data quality and detail. Enhanced estimation methodologies will be implemented to take into account the drop in percentage coverage and maintain quality standards.

Implementing the reduction in the arrivals coverage to 95 per cent is the preferred option for HMRC.

## **Benefits and costs**

### Benefits

By reducing the percentage value capture rate to 95 per cent for intra-EU arrivals (imports) this will directly impact on and reduce the administrative burden of the 'smallest' traders who currently submit monthly Intrastat declarations. Traders who are currently just above the Intrastat threshold will be exempt from having to submit Intrastat declarations. Therefore this administrative burden reducing measure directly targets the 'smallest' international traders (where 'smallest' is defined as those with the least amount of arrivals trade). It is likely that the vast majority of the traders who will become exempt from submitting Intrastat arrivals declarations will be classed as Small and Medium -sized Enterprises (SMEs).

It is estimated that by reducing the percentage value capture rate to 95 per cent for intra-EU arrivals (imports) this will reduce the total administrative burden of Intrastat by £1.8m (in 2005 constant prices). This equates to a £2.0m reduction in total administrative burden in current prices (taking into account inflation since 2005). This is in excess of a 10 per cent reduction on the current total administrative burden. It is also estimated that around 6,900 of the 'smallest' traders will no longer need to submit Intrastat arrivals declarations. This is over a 20 per cent reduction of the total Intrastat trader population. These reduction figures are calculated against the January 2007 recorded obligations for Intrastat on the Standard Cost Model, using constant 2005 prices.

### Costs

This proposal will reduce the number of traders within the Intrastat system. There will be no administrative one-off cost of introducing this simplification.

As Intrastat is the system for collecting statistical information on trade in goods between EU Member States there are no tax yield implications.

## **Implementation plan, monitoring and evaluation**

This will be implemented in the UK, following an amendment to the UK Intrastat legislation, from 1 January 2010.



A Revenue and Customs Brief will be issued to publicise the revised exemption threshold. We will also issue an electronic notification to those traders signed up to our email alert service and amend the Public Notice that provides information on Intrastat.

The outcome of the amendment will be subject to internal review after 12 months. The revised exemption threshold will be monitored to ensure compliance with the Community rules on the percentage of trade to be captured through Intrastat.

## **Specific Impact Tests**

### Competition Assessment

Implementation of this simplification to the Intrastat system will have no impact on competition.

### Small Firms Impact Test

No specific provision has been taken to minimise the impact of the requirements on firms employing up to 20 people, because the overall effect of implementing this option is to decrease the regulatory requirements on traders by ensuring that those traders with the least intra-Community trade are exempt from providing Intrastat information. Those international traders with the least amount of EU trade are likely to include some that will be classed as Small Firms.

### Legal Aid

No impact on Legal Aid.

### Race, Disability, Gender and Human Rights

There are no specific impacts by race, disability, gender or human rights.

### Sustainable Development, Other Environment and Carbon Assessment

Insignificant impact on sustainability, environment and carbon – most traders submit electronically but it is assumed a small number of traders will stop submitting Intrastat declarations by paper.

### Health Impact Assessment

No impact on health, well-being or health inequalities.

### Rural Proofing

No impact on 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	<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

The 'Standard Cost Model' (SCM) has been used to derive an estimate of the costs to business of complying with HMRC obligations to disclose information to HMRC or to third parties. The SCM considers which activities a business has to do to comply with an HMRC obligation, how many businesses have to comply, and how often they need to comply. The SCM considers the burdens applying to different sizes of business.

The SCM estimates the costs of using agents; the costs of undertaking work in-house; and the costs of actually transmitting the information. The SCM does not consider one-off costs or transitional costs. The SCM does not consider costs which a business would have incurred anyway had the relevant HMRC obligation not existed. It considers the costs which apply to a normally efficient business and the costs to businesses which comply. The SCM does not consider wider compliance cost issues, such as the costs of business uncertainty, cash flow costs, or the costs of deciding whether or not to do something.

The Impact Assessment template requires SCM figures to be presented in May 2005 prices, as admin burden reduction targets relate to a May 2005 baseline.