5 HMRC Online Services: Increasing Use Of Online Filing And Electronic Payment

PURPOSE AND INTENDED EFFECTS OF THE MEASURE

The policy objectives

5.1 To maximise customer take-up of the online services offered by HM Revenue and Customs in order to:

- provide a better and more cost effective service for customers
- encourage wider use of new technology that can provide further benefits for customers; and
- capture clean, easily processed data to help drive down costs for HMRC and its customers

5.2 The aim is to encourage all customers, and in particular business customers, to file income tax self assessment (SA) returns, company tax returns, value added tax returns (VAT) and pay as you earn (PAYE) in-year forms online. Businesses will also be required to pay VAT and corporation tax (CT) electronically. The changes described below will be implemented in phases from 2007-08 to 2011-12. HMRC is aiming for universal online filing of the main businesses tax returns by 2012. It is also aiming to maximise online filing by IT literate individuals.

Background

5.3 The Government has invested over £500 million in HM Revenue and Customs online services. The return on this investment takes the form of improved services for its customers, lower operating costs and greater service delivery flexibility. To maximise the benefits the services need to be robust and customer orientated, HMRC is planning to spend around £170 million in systems designed to deliver these proposals between now and 2012. The investment will be focussed on improving the existing services so that they are resilient and tailored to users' needs.

5.4 Over one third of Income Tax Self Assessment returns are now received online and this has grown year on year since the service was introduced in 2000-01. Almost 2.9 million people filed their 2006-07 return online by 31 January 2007, with the system coping with a peak demand of 14,500 returns per hour. This was a major test of the robustness of the HMRC online service, and the upgraded systems performed very well.

5.5 However, take up of the online services for the main business tax returns has been slower to date.

5.6 A corporation tax (CT) online filing service was introduced in 2003, and HMRC received over 25,000 company tax returns through this service in 2005-06.

5.7 An electronic VAT return was first introduced in 2001 and 10% of VAT traders have signed up to make returns online since an improved online VAT service was launched in 2004.

5.8 This shows that slow but steady progress in increasing levels of take-up of online services can be achieved through voluntary adoption. However, the Government has concluded that more pro-active measures will be needed if the benefits are to be fully realised within a reasonable timescale.

5.9 Following Patrick Carter's Review of Payroll Services[1] in 2001, the Government announced a three-stage move to universal online filing of employers' end of year returns. The first stage, for large employers[2], was implemented in Spring 2005 and there has been a dramatic increase in the use of the PAYE service. These measures included financial incentives for smaller employers to move to online filing ahead of the planned requirement for them to do so - 65% of small employers took advantage of this in 2005-06.

Rationale for Government Intervention

5.10 In July 2005, the Government asked Lord Carter to undertake a Review of HMRC Online Services[3]. The purpose of the review was to look at ways of increasing take up of online services for SA, VAT, CT and PAYE and maximising benefits for customers whilst ensuring that the department continues to deliver sustainable and efficient services that support compliance.

5.11 Lord Carter found that online services have the potential to offer benefits to businesses, taxpayers and the Government. He concluded that they can help customers to fulfil their tax obligations accurately, more quickly and provide them with greater certainty. For Government, customer use of online services will provide opportunities to free up resources from low value tasks, such as processing and error correction, to focus on more complex activities such as compliance and customer support. Lord Carter's recommendations are set out in Annex A.

5.12 Failure to increase the speed of customer adoption of online channels would mean that

- take-up of online services would be likely to plateau.
- customers, and businesses in particular, would not gain from the benefits that adoption of online services can provide including reductions in their compliance costs.
- HMRC would not realise the significant savings that can be achieved with greater take-up.

CONSULTATION

5.13 The aim of the consultation work has been to secure customers' input to the detailed development and implementation of the proposals from an early stage, and to ensure that there are no insurmountable obstacles to increasing the use of online services.

Details of the Consultation

5.14 A full summary of the consultation with the public and other government departments can be found in Annex B.

1 Published with the Pre-Budget Report 2001 – http://www.hmrc.gov.uk/pbr2001/carter_review.pdf
2 Employers with 50 or more employees
3 Review of HMRC Online Services (2006) - http://www.hmrc.gov.uk/budget2006/carter-review.htm

5.15 In brief:

- A wide range of consultation began shortly after Lord Carter's report was published and has involved representatives from small, medium and large businesses, agents, software developers, trade associations and other groups.
- Most of those consulted broadly accept the proposed changes and the issues raised have been predominantly technical for example what specifically will or won't be available to be done online? Problems with the current online services and concerns about previous bad experience with HMRC and other government departments were also raised.
- The most frequently raised concern was that requirements to file online would be introduced before HMRC were able to provide a robust and resilient online service, resulting in reduced customer confidence and satisfaction.

Changes Following the Consultation

Income Tax Self Assessment

5.16 Following responses to the Partial Regulatory Impact Assessment Lord Carter agreed to review further evidence about the potential impacts of his proposed changes to the filing date for Income Tax Self Assessment. After considering representations from tax practitioners, he recommended that, for 2007-08 and subsequent returns, the filing period for paper returns should be reduced to seven months - the new deadline should be 31 October - and the filing period for online returns should remain at ten months - with a deadline of 31 January. The Government accepted his revised recommendation.

Corporation Tax

5.17 Following the joint consultation on aligning filing dates with Companies House, launched at PBR 2005, the Government also concluded that it should not change the company tax return filing date at this time. Removing disincentives to early filing and offering an easy and convenient process for filing the accounts and the tax return together may in themselves lead to many companies filing their company tax returns online within nine months of the end of their accounting period (the deadline for sending accounts to Companies House). This approach avoids penalising companies and agents who might have genuine difficulty complying with an earlier statutory deadline for company tax returns. The Government will keep the issue of an earlier statutory filing date under consideration.

OPTIONS

1. Do nothing

5.18 Option 1 is to do nothing extra and hope that, through continuing investment, service enhancement and promotion, levels of voluntary use of online filing will continue to increase. However, though progress has been made it has been relatively slow. HMRC's projections indicate that voluntary adoption will plateau and that widespread adoption will not be achieved without further action. Under this scenario, the full benefits to both customers and HMRC of widespread online filing and electronic payment would not be delivered for many years, if at all.

5.19 Lord Carter's report identifies a relative reluctance to engage with government online, even among the majority of businesses and taxpayers that use IT for other tasks. Other research also indicates that UK businesses are much less likely to use public sector websites than their European counterparts[4]. In this context, the Government does not believe that reliance on organic growth will be a sustainable approach and so it has rejected it in favour of the more pro-active approach recommended by Lord Carter.

2. Lord Carter's Recommendations

5.20 Option 2 is the package of measures recommended by Lord Carter. These are set out in Annex A. The detail of HMRC's plans for income tax self assessment (SA), corporation tax self assessment (CTSA), value added tax (VAT) and pay as you earn (PAYE) online are set out below.

5.21 The ongoing investment in HMRC's online infrastructure makes it confident that its systems will be ready to meet the even higher demand projected under the Carter recommendations. HMRC's SA service successfully processed almost 2.9 million 2006-07 returns by the 31 January 2007 deadline, including 150,000 during the peak period in the final 24 hours. HMRC will be keeping the position under close review as HMRC moves towards implementation

Income Tax Self Assessment

5.22 Income Tax Self Assessment applies to individuals, partnerships and trusts. Included within these groups are the self-employed, employees with additional sources of income and pensioners. Within this population there is a very wide range of behaviours and abilities. There is no neat correlation between their taxable activities and their e-literacy.

5.23 The approach to increasing online filing by this group therefore stops short of setting a requirement to file online. Instead Lord Carter has proposed measures to encourage those who are e-literate, or who use intermediaries such as tax agents, to file their Self Assessment returns online. The option to submit a return on paper will remain but taxpayers who choose that route will need to file earlier, helping HMRC to spread the processing load.

5.24 Nearly 30% of paper Self Assessment tax returns are currently submitted as 'substitutes' (paper outputs, approved for use in advance by HMRC, from computers using tax software products) submitted by post. The vast majority of the software products can be used to file online. More than 90% of these substitute returns are produced by tax agents.

5.25 Printing and re-keying these returns is a wasteful process that can introduce error into the clean data produced by software. Even where optical data capture processes are available, manual intervention is frequently necessary.

5.26 The filing period for SA returns is currently 10 months, which is far longer than the OECD average for personal tax returns of 4 months. This can be unhelpful, as taxpayers are less likely to have the relevant information to hand if they complete their return towards the end of the filing period. It can also make enquiries into returns more

4 Eurostat 2006 Dataset: E-government usage by enterprises – http://epp.eurostat.ec.europa.eu

difficult and stressful as the events during the return period may be less clear in the taxpayer's mind.

5.27 The House of Commons Committee of Public Accounts' report on Filing of Income Tax Self Assessment Returns[5], published in February 2006, suggested that changing filing deadlines could smooth the workflow of processing in HMRC, with benefits for efficiency and accuracy. It also noted that overseas tax authorities typically allow far shorter filing periods than the UK and recommended that, subject to Lord Carter's review, HMRC should explore differential filing dates for paper and electronically filed returns.

5.28 For Income Tax Self assessment returns Lord Carter initially proposed that for 2007-08 and subsequent returns, the income tax Self Assessment filing deadline should be brought forward from 31 January to 30 September for paper returns and to 30 November for returns filed online. Lord Carter has since reviewed the responses to the Partial Regulatory Impact Assessment published with his report and has received further representations from tax practitioners and he now recommends that:

5.29 the deadline for filing 2007-08, and subsequent, paper returns should be 31 October, following the end of the tax year in April;

5.30 the deadline for filing 2007-08, and subsequent, online returns should remain 31 January, following the end of the tax year in April;

5.31 From 6 April 2008 paper substitute returns will not be accepted for 2007-08 and subsequent years; and

5.32 For 2007-08 and subsequent years' returns the enquiry window will be linked to the date the return is filed (this will encourage early filing and give taxpayers certainty sooner)

5.33 The SA payment dates (31 January and 31 July) will not change. The new filing dates will mean that all taxpayers that file on time will know how much they need to pay by 31 January as they will either receive a tax calculation from HMRC before that date[6] or, if they file online, the software will produce an automatic calculation. These proposals take account of both the needs of tax professionals and the operational requirements of HMRC.

Corporation Tax and VAT

5.34 VAT and CT are taxes operated by business. Most businesses that pay these taxes already use information technology[7] or will be able to make the move to using it without too much difficulty. Many small businesses will be employers and will have received financial incentives to help them make the transition to online filing for PAYE.

5.35 The proposals for VAT and CT are aligned so far as possible, but mandatory online filing of company tax returns (for corporation tax purposes) will not start until 2011 to allow for service improvements and the bedding down of XBRL[8].

5 http://www.parliament.the-stationery-office.co.uk/pa/cm200506/cmselect/cmpubacc/681/681.pdf

6 Currently taxpayers that file after 30 September are required to include a "self assessment" of the tax due with their return. As part of the Carter legislation that will be changed to 31 October.

7 ONS report *Information and Communication Technology (ICT) Activity of UK Businesses (2004)* indicates that over 90% of businesses were using ICT by 2004

8 eXtensibleExtensible Business Reporting Language: ICT standard for business financial reporting

5.36 The proposals for CT are that:

- online filing of company tax returns, and use of XBRL for accounts and tax computations, required for all companies for accounting periods ending after 31 March 2010 where the return is submitted after 31 March 2011. Paper submissions will not be accepted. Companies will also be required to pay their CT electronically.
- working with software developers and others to implement a joint filing facility for companies with HMRC and Companies House. This will allow companies who wish to do so to make a single electronic transmission over the internet to file their company tax return and their accounts for the public record. This facility will be in place in plenty of time for the beginning of mandatory online filing of the company tax return in 2011.
- the enquiry window, for most companies[9], will to be linked to the date the return is filed for accounting periods ending after 31 March 2008.

5.37 The proposals for VAT are as follows:

- online filing of VAT returns, and electronic VAT payments required for traders with an annual turnover of more than £100,000 for accounting periods starting after 31 March 2010.
- online filing of VAT returns, and electronic payment of VAT, required for traders newly registering for VAT after 31 March 2010; and
- traders with an annual turnover below £100,000 will be encouraged, but not required to file online. The continuing need for this exemption will be reviewed in the run up to 2012, in line with Lord Carter's recommendation that HMRC should aim for universal electronic delivery of the main business tax returns by 2012.

Electronic Payment for CT and VAT

5.38 To encourage businesses to comply with the requirements to pay using HMRC's accepted electronic methods such as Direct Debit, BACS or CHAPS, changes will be made to the way HMRC handles payments made by cheque.

5.39 This approach is also consistent with other areas where electronic payment of taxes is required e.g. Large VAT traders on the Payments on Account Scheme.

5.40 In line with Lord Carter's recommendation, HMRC proposes to continue to allow most VAT traders[10] extra time for filing VAT returns online and making electronic payments.

PAYE

5.41 The three-phase move to compulsory online filing of employers' end of year returns is already underway. The final phase is planned for completion in May 2011. Employers using payroll software will see year-on-year benefits as the software generates clean data from the point that staff records are created, and helps to avoid problems at the end of the year. The announcement of compulsory online filing saw a

9 Existing rules will apply for large grouped companies.

10 The incentive does not apply to large VAT traders on the Payments on Account scheme.

huge demand-driven increase in the number of payroll products that could be used for online filing.

5.42 Lord Carter's Review of Payroll Services in 2001 also recommended that employers should, in time, be required to send in-year forms electronically. His Review of HMRC Online Services proposed a timetable for these changes. Employers will be required to file starter and leaver forms (P45 and P46) online:

- from April 2009 for large and medium sized[11] employers
- from April 2011 for all other employers[12]

5.43 Online filing of these forms will generate electronic coding notices (the notices issued by HMRC to employers that tell them what code to operate to calculate an employee's tax). Electronic coding notices are generated and issued far quicker than paper notices meaning that employees tax positions can be updated faster. Electronic coding notices can be automatically uploaded by payroll software and reduce the work employers have to do to update employee records.

SECTORS AND GROUPS AFFECTED

5.44 Most businesses whether they are large or small, incorporated or unincorporated, will, by 2011-12, be subject to the new online filing requirements. However, in practice, many businesses will already be filing online by the time the requirements apply. Such businesses will not have to do anything beyond what they have already done or were planning to do.

5.45 This RIA assesses the impact of the new Carter proposals on just those businesses and taxpayers that will actually need to modify their behaviour as a result of the proposed changes. In other words, the baseline against which costs and benefits are measured is Option 1 (the status quo). This avoids any risk of double-counting businesses which have already gone online voluntarily.

Table 5.1: Estimated proportions of taxpayers filing online by 2011-12

Area of Tax	Option 1 (natural growth)	Option 2 (Carter proposals)	Increase
Corporation Tax	22%	100%	+ 78%
VAT	19%	100%	+ 81%
PAYE in-year	47%	100%	+ 53%
Self-assessment	50%	77%	+ 27%

11 Those with 50 or more employees

12 It is expected that special rules will apply for groups that have a religious conscience objection to the use of computers and the Internet

Table 5.2: Estimated number of businesses and taxpayers who will switch from paper to online filing.

Area of Tax (Businesses affected by more than one regime are included in every row that applies.)	Number of businesses / taxpayers
Corporation Tax – all company tax returns must be filed online from 01/04/11.	1.50 million
VAT – all returns must be filed online from: 01/04/10 – for new registrations regardless of size..	0.25 million p.a.
01/04/10 – for existing registrations with turnover > £100k.	0.95 million
01/04/12 – The Government will consider existing registrations below £100k in 2011/12. No decision on mandating the 0.50 million businesses in this group has been made.	-
PAYE in-year forms (P45 / P46) – online filing from 6 April 2009 for employers with 50 or more employees.	0.05 million
PAYE in-year forms (P45 / P46) – online filing from 6 April 2011 for all employers.	1.25 million
Self-assessment tax returns – paper substitute returns no longer accepted from 06/04/2008.	1.40 million
Self-assessment tax returns – increase in online filing resulting from differential filing dates introduced for the 2007-08 and subsequent tax years.	1.00 million

5.46 Overall the proposals will affect all taxpayer groups that file CT, VAT, PAYE or SA returns and who are not yet filing online. In addition, the benefit of linking of the enquiry window to the filing date for Corporation Tax and Self-Assessment will affect all taxpayers in those regimes, including those already filing online.

5.47 The impact will be greater for businesses that pay CT or VAT as all but the smallest VAT traders (who will be considered in the run up to 2012) will ultimately be required to file returns online and make payment electronically. The proposals may impact sooner on new, small businesses registering for VAT after 31 March 2010, than existing small businesses, as the former will need to file their VAT returns online, and pay electronically, from the outset. It is recognised that this will create differences in the treatment of smaller traders for the transitional period until the time is considered right for full mandation. However, our research shows that new businesses are more likely to be users of IT[13]. The requirement to file online from the outset will also mean that they avoid later transition costs.

5.48 The impact on the SA taxpayers (partnerships, individuals and trusts) is less as these groups will still have the option of sending SA paper returns, though they will need to do so by 31 October following the end of the tax year. There is a small percentage of people who will continue to be unable to use online filing. HMRC will continue to explore service enhancements to enable these groups to file online and in the meantime no taxpayer in these groups will be penalised for sending a paper return after 31 October

5.49 An initial diversity screening has indicated the only significant diversity issues surrounding this package of measures has been addressed by not making online filing of SA returns mandatory for any individuals. The earlier deadline for those unable to file online should not be a significant disadvantage. Special rules will be in place for businesses run entirely by individuals that have a religious conscience objection to using IT. A small number of very small employers may choose to use an agent to file where they have not before.

5.50 HMRC's web services will be as accessible as practicably possible to a wide range of users, so as to be more compatible with equipment for those with visual impairment or other disabilities affecting their use of internet technology. In addition, HMRC's literacy programme will address the needs of those who have difficulties with written English.

5.51 Self employed SA taxpayers, or their agents need to prepare accounts information in order to complete their returns and this work cannot be started until all information has been received from third parties. Many SA taxpayers have all the information they need to complete their returns by the end of July and those that do not may include provisional figures in their returns if necessary. A further recommendation is that further work be done to better understand the barriers, such as the late receipt of information from third parties, that stand in the way of introducing earlier filing dates at some time in the future.

5.52 The most popular software products for producing SA substitutes already incorporate online filing functionality and HMRC anticipate that the announcement that substitutes will be withdrawn from 2008 will lead the remaining software producers to incorporate that functionality in their products. HMRC therefore does not anticipate that the withdrawal of substitutes should cause agents to incur significant additional hardware or software costs.

5.53 The change to the SA filing dates potentially impacts all SA taxpayers and their agents. Although the costs of completing a tax return should not change it will be essential that the new deadlines are well communicated to all SA taxpayers and HMRC is working with professional tax agents to achieve as smooth a transition as possible.

13 The 2004 HMCE business needs survey found that 84% of newly registering VAT traders had Internet access compared with 79% of all VAT traders.

COSTS AND BENEFITS

Overview

5.54 Online filing offers a range of benefits to businesses, taxpayers and to Government. There is a transitional one-off cost associated with online registration, familiarisation and (for those firms without it) Internet access itself. But thereafter, the time and cost of completing the returns should be lower than the paper equivalent, particularly when combined with electronic payment and other online services.

Benefits

5.55 Online filing offers a significant number of benefits. Complex returns may be completed more quickly as the software presents only those sections of the form that apply to the particular taxpayer. This reduces the time needed to work through the form and relevant guidance. Even for simpler returns and forms, the integral calculation and checking functionality will reduce the need for manual calculation and reduce the chance of error. There will be additional savings on printing or photocopying and postage. Accountants and other intermediaries can expect to see similar savings, which could be passed on to their customers.

5.56 To assess the total value of these benefits, the RIA discusses each of the main impacts in turn. Not all benefits are quantifiable, but figures are included wherever possible.

5.57 First, HMRC has considered the main business-related tax returns and forms affected by the Carter proposals (namely the CT600, VAT100, P45, P46, SA800, SA103, SA104 and SA105). For each, the cost of completing the form is compared between those that file online and those that do not. This comparison is based on research from KPMG into the main administrative burdens associated with completing and submitting tax returns[14].

5.58 The results vary considerably between different returns, different types of business and whether or not a business employs an agent. Typically, the saving is between 1% and 2% of the equivalent paper-based burden. The expected saving to business as a whole is around £10-£15 million per year, although this does not include consequential benefits, such as a reduced risk of error (discussed later).

5.59 In addition to filing the P45 and P46 forms themselves, online filing allows the resultant coding notices (P6 and P9) to be processed automatically by the employer's payroll system, instead of being keyed in manually. Many firms are already filing online and receiving this benefit, but for those affected by the new proposals, the saving should be between 2 and 5 minutes per form. We estimate the total benefit across all businesses to be between £5 million and £12 million.

14 Following Budget 2005, HMRC commissioned KPMG to use the "Dutch" Standard Cost Model (essentially activity-based costing) to assess the burden of all information disclosure obligations on business for which HMRC is responsible. KPMG's findings were published at Budget 06 and provide detailed analysis of the tax obligations that businesses face, and the associated administrative burdens in monetary terms. This work had not been completed when the analysis leading to the partial RIA was being developed, but has been taken into account in this later analysis. The full KPMG report, and an explanation of the associated methodology, are available on HMRC's website at http://www.hmrc.gov.uk/better-regulation/kpmg.htm

5.60 A further benefit relates to the core SA100 individual tax return. Around 2.4 million returns are expected to switch to online filing as a result of the Carter proposals, and the impact is again expected to be a reduction in compliance costs. Quantifying the benefit is difficult because there is huge variation in the population affected, but it is likely to be highest for those who have online access, but who currently submit substitute paper returns. Software vendors estimate the total saving of online filing for that group to be between £18 and £25 per return, and we expect 1.4 million such returns to be affected, giving a total benefit of around £30 million. Around 55% of these returns (and hence the benefits) are expected to come from businesses, and 45% from private individuals.

5.61 For those not using substitute returns, but switching online to take advantage of the extended SA filing deadline, the benefits are likely to be similar to those seen with other forms. The full SA return (including supplementary pages) typically takes 2-3 hours to complete, although this varies considerably with individual circumstances and is considerably less for those issued with the Short Tax Return.

5.62 A survey of 2,000 online-filing taxpayers in 2005 found strong support for the online approach. 48% said the time taken was a lot less than paper, 27% a little less, 15% no change and 9% a bit more. The actual amount of time saved will vary according to individual circumstances. As a minimum, a taxpayer with simple tax affairs might save around 10-15 minutes. However, for the half who said they saved a lot of time, the savings could be a lot higher and may well exceed an hour in many cases. Our research shows that the time taken to use the online system decreases with familiarity, so the savings may be slightly less initially, but fully realised thereafter. Our estimate of the total benefit in financial terms is £5m-£30 million, this range reflects the potential for significant savings but also the likely variation amongst those affected. The enquiry window will be linked to the filing date rather than the filing deadline for many businesses, which in practice will shorten the period of uncertainty and be beneficial to business.

5.63 Online filing may provide a foundation for more significant e-reforms in future, including the wider use of XBRL and improvements in the way HMRC relates to customers.

5.64 HMRC's consultation has indicated that businesses and their agents will appreciate the certainty they gain by using the online services' automatic error-checking and handling routines. They also value the immediate delivery of a filing receipt and acceptance notice.

5.65 The use of software will also promote clean data and reduce the amount of time taxpayers have to spend on follow up queries after the form or return has been submitted.

5.66 The introduction of the joint filing service with Companies House will bring a reduction in the compliance costs associated with providing overlapping information to two government departments. The saving to a company will depend upon their current practice and the extent to which professional agents' fees are currently charged for the separate operations of filing with HMRC and with Companies House.

5.67 Coupled with online filing, using electronic methods of payment will give companies better control over their cash-flow. HRMC project that encouraging electronic payment, and removing the extra time incentive of using cheques, will encourage much greater use of methods such as BACS and Direct Debit to settle accounts.

5.68 There are no major environmental or social benefits, although the proposals will contribute to a reduction in paper usage, and also to the widening of Internet usage and skills amongst business generally.

5.69 The Government should benefit from savings in terms of processing and administration costs. These savings are estimated to climb to £64 million per year by 2012-13. Part of these savings will be used to fund improvements to the service offered by HMRC to taxpayers.

Costs

5.70 The most significant cost relates to the one-off costs of registering with the HMRC website. Assuming internet access is already available, this process is free and should take no more than 30 minutes. Businesses do not need to register for each regime separately, so there are considerable economies of scale for businesses affected by more than one tax area. The time taken would also be less where the person registering (or their agent) has previous experience of HMRC's online service.

5.71 The 30 minutes taken to register would typically cost around £10 in salary costs. From Table 2, the total number of existing taxpayers switching to online filing is 6.15 million (of whom around 5.1 million are businesses), but we estimate the actual number of business registrations would be around 60% of the 5.1 million, because many businesses would handle more than one regime and only need to register once. The total one-off cost would therefore be around £31million for businesses and just over £10m for private individuals. Both numbers reflect the large number of taxpayers affected – the cost per taxpayer is small.

5.72 This figure applies to existing taxpayers not already filing online. In future, new businesses would need to register online too again at £10 each (although this might be cheaper than the status quo where online registration replaces paper-based alternatives). The number of new business registrations is typically around 10%-15% of the prevailing population per year, giving an indicative cost of under £4 million. The cost for individuals would be around £1 million.

5.73 Those who do not currently have internet access will be required to obtain it, but there are various ways of doing that and HMRC will be working with taxpayers and businesses to ensure that a range of options are available. The costs involved would vary, depending largely on levels of IT literacy, and whether a business chose to buy or borrow the necessary equipment. Our best assessment is that up to 250,000 taxpayers will need to obtain access to the internet as a result of these proposals (unless they were planning to go online anyway). HMRC will be offering help and support to ensure that the costs are kept to a minimum and the benefits of online filing achieved.

5.74 For Self-Assessment, if a taxpayer chooses not to file online, then they will need to adapt to the change to filing deadlines. There may be some transitional costs, particularly for agents' changing their working practices to adapt to the earlier filing date for paper returns, although these costs are expected to be modest and a one-off.

5.75 The Government will incur costs associated with the transition in providing support services and advice throughout the process. These costs include publicity and other communications relating to the new SA filing deadlines. These costs are estimated to be £36 million for initial set-up plus £3 million per year from 2012-13.

5.76 There are unlikely to be any significant social or environmental costs. The risk of online fraud is judged to be minimal but HMRC recognises that security is a concern for many people. HMRC will continue to ensure that its services use industry standard encryption and that clear information is provided to customers about the security measures built into the services and what they should do to protect themselves.

Summary

Table 5.3: Summary of Quantified Costs and Benefits

5.77 This table summarises the main costs and benefits for the recommended Option 2. It shows that Option 2 will reduce costs for businesses and HMRC by over £100 million per year in the medium term. However, the true benefit to taxpayers is genuinely expected to be higher, because a number of additional costs and benefits cannot be quantified accurately. These are summarised in Table 3b.

(£m per year)	One-off costs	Recurring costs (per year)	Recurring benefits (per year)
Businesses	31	4	35-42
Private individuals	10	1	18-43
HMRC	36	3	64
Total	77	8	117-149

Table 5.4: Summary of Unquantified Costs and Benefits

5.78 The following costs and benefits are difficult to quantify at a global level. Overall, though, we expect the benefits to significantly outweigh the costs and provide a net benefit to both business and taxpayers. This is in addition to the quantified figures above. The impact on HMRC beyond the quantified figures is likely to be negligible.

Additional Costs	Additional Benefits
acquiring (one-off cost) and maintaining internet access if not held already; agent fees if choosing not to file online in person; one-off costs associated with the change in filing date for SA taxpayers who choose to file on paper.	reduced chance of error and consequent queries / correction; immediate acknowledgement; faster transmission (24/7); shorter enquiry windows for most businesses; enables easy electronic payment (which is also more secure and reliable than postal methods); additional cashflow benefits (more time to pay); future-proofing / enabling access to other electronic services and support;

	enabling greater use of XBRL data transfer and associated benefits; greater synergies between accounting and tax-related software and data; instant updates to guidance (e.g. to reflect budget announcements after paper forms have been printed); and synergies with joint filing with Companies House.

n.b. All these costs and benefits are recurring unless stated otherwise.

Administrative Burdens Assessment

HMRC is committed to reducing one aspect of compliance costs in particular: the administrative burden on business of disclosing information to HMRC or third parties. This benefit is included within the figures above, but is itemised separately in this section for tracking purposes.

This "admin burden" is assessed through the Standard Cost Model [15]. It considers the recurring activities that businesses need to do to comply with their legal obligations, and estimates the recurring cost of such activity. One-off impacts, and non-business taxpayers (including the SA100 form itself) are excluded.

In this case, HMRC estimates that by 2012, the administrative burden of completing forms and returns will be reduced by £9 million per year as a result of the Carter proposals [16].

SMALL FIRMS IMPACT TEST

5.79 Small businesses will be affected by these proposals but many small businesses have already made the move to submit returns online. Small businesses that have employees are benefiting from the financial incentives offered to encourage them to file online and over one million small businesses (65%) sent their 2004-05 returns online although there was no requirement for them to do so.

5.80 Most incorporated businesses, both large and small, use intermediaries to file their company tax returns so the move to online filing is unlikely to present them with any major difficulty. Unincorporated small businesses will still have the option to file Self Assessment paper returns providing that they do so by 31 October.

5.81 Businesses that register for VAT after 31 March 2010 will be required to file their VAT returns online from the outset. This will include small businesses. However, our research indicates that internet use is highest among new businesses and we project that by 2010 it will be near universal.

5.82 The main impact will be upon small VAT registered businesses that have an annual turnover greater than £100,000 as they will be required to file online from 2010 and many do not currently use intermediaries. Research shows that the majority are already users of IT but it is recognised that there will be additional costs for those who are not. Those businesses will need help and support in identifying the options open to them and making the changeover. However, adopting IT may produce wider business

15 See footnote 13 earlier in this document for further information on the SCM methodology.

16 This is a net figure based on the £10-£15 million recurring benefit identified in para 52 less the £4 million recurring cost in para 66. As explained in the main text, the SCM measures a subset only of the total costs and benefits to taxpayers.

benefits such as streamlined accounting and invoicing and improved access to information, customers and new markets

5.83 The responses to the consultation with small businesses that was launched by HMRC in March 2005[17] indicate that small businesses are willing to conduct business with HMRC electronically provided that online services are reliable, easy to access and simple to use

5.84 There was a strong consensus that the combination of linking the enquiry window to the delivery of the return and a voluntary opt-in to earlier filing using a joint filing facility would be a positive benefit to small business. While the benefit is likely to be small for most individual companies, it will be significant cumulatively across the population of perhaps one and three quarter million small companies.

COMPETITION ASSESSMENT

5.85 These measures introduce a small set-up cost, followed by long-term savings. Because the costs per business are relatively low, HMRC does not anticipate any major effects on competition or competitiveness, however, there will be a differential effect on different types of business, particularly in the short term, as set out below.

5.86 The competition filter test has been applied. The proposals apply across the board to all businesses and do not affect any particular markets. However, the costs (and benefits) will fall on those businesses which do not currently file online, and that means that some categories will be affected more than others. Small businesses, new businesses and businesses not using agents are more likely to be affected than larger firms.

5.87 HMRC will be looking to see how best to support those businesses and minimise the impact upon them. The possible cost of access should be weighed against the benefits of using online services from the outset. In certain sectors (the IT industry being an obvious one) firms are more likely to have access to online services, even when they are setting up, so would not be adversely affected.

ENFORCEMENT, SANCTIONS AND MONITORING

5.88 There are already provisions in place to secure compliance with the filing and payment requirements. There are

- financial penalties for failure to file returns by the filing date; and
- financial sanctions for failure to make payment on the due dates.

5.89 Under these new proposals there is no intention to make changes to those existing compliance provisions other than to link the existing sanctions to the new SA filing deadlines.

5.90 In the long term, HMRC envisages that paper returns and forms will not be accepted. However, while the requirements to file VAT returns and PAYE forms are being phased in, the rejection of paper would be resource intensive creating extra work for businesses and HMRC. It could also be detrimental to employees because it could lead to delays in updating their tax codes, and pensions and benefits entitlements.

17 'Working towards a new relationship: small business' at http://www.hmrc.gov.uk

5.91 HMRC have worked with a number of consultative bodies and are planning a package of measures to support the transition and enforce the requirements to file online. HMRC will identify businesses that should be filing online that have submitted paper and send them letters explaining their obligations and offering guidance and support. Ultimately, if businesses continue to fail to file online, without good reason, a penalty will be charged. In response to consultation feedback received , we plan to have a transitional period of nine months during which we will focus on alerting businesses to the requirement to file online where they fail to and so and no penalties will be charged before April 2010.

IMPLEMENTATION AND DELIVERY PLAN

5.92 As explained above, HMRC have an ongoing programme of meetings and discussions with representatives of all the groups affected by the changes including: businesses both large and small; individuals; trusts; agents and payroll providers; and IT and software providers. The collaborative work is enabling HMRC to prioritise and design enhancements to the services around the needs of users.

5.93 The main proposals will be introduced, subject to the right “building blocks” being in place, between April 2008 and April 2011. During that period the success of the proposals will be constantly monitored and evaluated so that any necessary improvements can be made to communications, processes and support.

POST-IMPLEMENTATION REVIEW

5.94 The compliance costs and savings analysis will be subject to HMRC’s post implementation procedures. Each area of tax will be considered separately.

5.95 The review will focus on take-up rates, compliance costs and benefits - confirming in each case whether the predicted effects were realised (both for taxpayers and for the Government). Any indirect effects (such as a reduction in errors on tax returns) will also be reviewed where practicable. HMRC will consider in due course how best to consult businesses and other taxpayers to inform this review.

5.96 The review will inform HMRC’s decision on whether to expand the Carter package of measures to help meet the Government’s aspiration of universal online filing by business and IT-literate individuals.

SUMMARY AND RECOMMENDATION

5.97 Technologically, the United Kingdom is now one of the most wired-up countries in the world and UK businesses are ranked amongst the most sophisticated users of information technology. Culturally, citizens and businesses have come to expect easy–to-use, high quality websites that provide quick access to information and services. In line with Lord Carter’s recommendations HMRC will be working towards universal electronic delivery of business tax returns by. HMRC will also be looking at further measures to encourage IT literate individuals to file online.

5.98 HMRC will continue to invest in the right infrastructure. That also means building in more rigorous testing to confirm it has capacity to cope with anticipated demand at peak times.

5.99 To maximise the benefits that the recommendations seek to achieve, the services, must be designed collaboratively and around the needs of customers.

5.100 To realise the benefits to both the customer and HMRC of online filing, legislation will be introduced to following changes, together with a package of measures to ensure they are adopted:

- SA – for 2007-08 and subsequent returns, the filing date for paper returns will move to 31 October while the date for filing online will remain at 31 January. The enquiry window will be linked to date the return is filed.
- PAYE – from 2009 employers with more than 50 employees must do in-year business online with smaller employers following in 2011.
- VAT - in phases until 2012. Only in the run-up to this year will the Government consider universal mandation for the smallest businesses.
- CT - from 2011 returns from all companies will only be accepted online and in XBRL format, with the enquiry window linked to the filing date for all except large grouped companies.
- Cheque payments for CT and VAT will be discouraged and any cheques will be treated as made only when the funds have cleared into HMRC's accounts.

ANNEX A – LORD CARTER'S FINAL RECOMMENDATIONS

A.1 These recommendations follow an amended timetable to give businesses and HMRC more time to prepare for the changes.

A.2 Government should set an aspirational goal for HMRC that it should aim for universal electronic delivery of Business tax returns by 2012. It should also aim for universal electronic delivery of individuals' tax returns from IT literate groups by the same date.

A.3 HMRC should benchmark customer satisfaction with its online services against commercial online services and seek to learn from best practice.

A.4 HMRC should work with other public and voluntary organisations to ensure that access to the internet, and appropriate assistance with using IT, are available locally, for example at libraries and UK Online centres, for taxpayers who wish to file their returns online but do not own a computer.

A.5 HMRC should introduce mandatory online filing and payment for most businesses as follows:

A.6 VAT:

- All traders with an annual turnover in excess of £100,000 should be required to file their VAT returns online, and make payments electronically, for accounting periods starting 31 March 2010.
- Paper filing will remain an option for traders with turnover below £100,000 but the Government should review the need for this exception in the run-up to 2012.

A.7 CT

- All companies should be required to file their company tax returns online, using XBRL[2], and make payments electronically, for returns due after 31 March 2011.

A.8 PAYE

- Large and medium-sized employers (those with 50 or more employees) should be required to file in-year forms (P45 and P46) online from 6 April 2009.
- Small employers (those with fewer than 50 employees) should be required to file in-year forms (P45 and P46) online from 6 April 2011.

A.9 HMRC should establish a Taxpayer Data Standards Forum, with membership drawn from a cross-section of Employers and chaired by an independent external person. The forum should be tasked, over a 1-2 year period, with identifying and disseminating best practice for cleaning data and maintaining quality.

A.10 Consideration should be given to reducing the filing periods for income tax self assessment (SA) and company tax returns, to bring them closer to the international norms, and that HMRC should offer extra time for online filing of SA returns.

A.11 From 2007-08, the filing period for SA taxpayers for paper returns should end at 31 October; anyone filing between 1 November and 31 January must do so electronically.

A.12 NB: This is the revised recommendation Carter agreed, following extensive feedback from agents.

A.13 HMRC already offers VAT traders an extra 7 calendar days to submit their VAT Returns online. This incentive for online filing should be continued, at least until April 2010.

A.14 Period in which HMRC can query SA tax returns and most company tax returns (the 'enquiry window') should be linked to the date that the return is submitted. This will promote earlier filing and give taxpayers certainty sooner.

A.15 HMRC should stop accepting computer generated SA 'substitute' Returns on paper, from April 2008 for 2007-08 and subsequent returns.

A.16 HMRC should review the payment rules for the different methods of payment and different types of taxes and consider what changes should be made to harmonise the rules.

A.17 HMRC should provide an electronic payment facility on its website which would allow taxpayers to set up a future electronic payment. This would enable taxpayers to complete the filing and payment tasks in a single session.

A.18 HMRC should offer agents workshops on online services, possibly in partnership with software developers, in the run up to the implementation of recommendations

A.19 HMRC should offer an agent registration scheme. This could enable potential clients to identify agents that are registered for and using HMRC online services. Agents that apply for the scheme could be required to abide by a Code of Practice.

A.20 HMRC should consider offering agents a regular email newsletter, which could update them on developments relating to online services and respond to common queries.

A.21 HMRC should provide a list of consultation fora on their website, details of the matters which are considered by each group and how to contact members of those groups.

A.22 Test services for software developers should be provided for all services at least 6 months before major changes to tax returns or the online services.

A.23 HMRC should share more of the risk rules used to select cases for enquiry with software developers.

A.24 HMRC should explore the idea of an online forum for software developer bodies to see if it could offer an opportunity for enhanced collaboration between HMRC and developers.

A.25 HMRC should look closely at how it both produces standard letters and provides online forms to see if it can do so at lower cost using new technology, while still giving customers a good experience.

A.26 HMRC work with DWP to speed up the issue of work-related NINOs for adults both through links with other departments and through exploring the idea of a 'work-related NINO'.

A.27 HMRC should continue to work with Companies House to provide a joint filing facility by 2011.

A.28 HMRC should build in more rigorous testing. Each of the services should be capacity tested at least a year before our recommendations are implemented, and if any tests are not successful the measures relating to that service should be deferred.

A.29 HMRC should streamline the processes by which taxpayers authorise HMRC to disclose confidential information to their agents.

A.30 Agents should be able to file returns for clients who have not yet given HMRC authorisation to disclose.

A.31 HMRC should streamline and align the requirements for client approval of a return so that it may be done electronically in all cases.

A.32 HMRC, working with the Government Gateway, should improve the facilities for managing the secure credentials required to access and use online services.

A.33 HMRC should continue to support digital certificates, but not compel customers to use one.

A.34 HMRC and the Government Gateway should, working with agents, consider how the processes for delegating authority to file and access client data within large agent organisations could be improved, for example, by enabling bulk uploading and downloading of data.

Additional Suggestions/Proposals (Embedded In The Text)

A.35 HMRC should consider letting software industry provide all necessary software, and focus instead on providing infrastructure for exchanging electronic data with customers, agents and other intermediaries.

A.36 HMRC to explore opportunities for intermediaries to develop and offer innovative methods to enable their customers to meet their tax obligations, conveniently for customers and effectively for everyone.

A.37 HMRC to work in partnership with agents, software developers and other potential intermediaries, to consider how best to reduce the strain on existing service provision.

A.38 Website improvements to include the dating of pages and highlighting changes to guidance.

ANNEX B – CONSULTATION SUMMARY

Consultation with the public

B.1 A wide range of consultation began shortly after Lord Carter's report was published and has involved representatives from small, medium and large businesses, agents, software developers, trade associations and other groups. This has included:

- Meetings arranged specifically to canvass comments on the recommendations and how they should be implemented. These focused on groups highlighted by Lord Carter, such as agents and software vendors, as well as organisations such as UK Online who help customers who will find it less easy to access and use online services.
- Putting Carter implementation on the agenda for existing regular business meetings, for instance, internally, the PAYE Employers and the IMS Software Developers Support Team forums and, externally, the 100 Group Fiscal Committee. These meetings have been used both to publicise the planned changes and to raise and respond to issues.
- Attending 55 external events and exhibitions held by software developers, such as "Softworld" at the NEC, in order to publicise Carter changes, respond to questions and feed back issues raised by both vendors and their customers.
- Engaging, through HMRC's regionally based Business Development Consultants, with around 12,000 agents since April 2006 to raise awareness of Carter messages and to promote use of current online services as well as feeding back comments and issues raised.
- Reviewing new and existing research and feedback from sources including internal and external surveys; customer research; and ongoing user feedback on the current online services.

Who was involved

B.2 Where HMRC have hosted meetings, usually professional and representative bodies and trade associations have been invited, who in turn choose a representative or cross section of their membership to attend – for instance, for one meeting ICAS (Institute of Chartered Accountants of Scotland) invited a range of their members which included a sole practitioner and representatives from small, medium and very large practices. Many groups engaged are already actively talking with HMRC.

Other initiatives

B.3 HMRC are continuing to expand the consultation approach going forward, including:

- Usability testing – this is focusing on small businesses and builds on work already done in HMRC Online Services. It is a process where volunteers are recorded using our services (in a test environment) and details such as particular pages on the website where they encounter difficulty can be noted. The outputs are due in March. Volunteers for this are being recruited from the locality of the testing as well as from businesses represented at other meetings who expressed an interest in taking part.
- Marketing plans to inform people of the changes to their obligations as these are implemented and to make them aware of the benefits of transacting with HMRC online.
- Work to increase our customer insight, including research, training in the issues faced by customers (delivered by external representative bodies to HMRC staff), and a 'case study' approach to understand the issues faced by larger and more complex accountancy firms in bringing their business with HMRC online, which will support improved guidance and processes for the future.

Main Issues raised

B.4 Most of those consulted broadly accept the proposed changes and the issues raised have been predominantly technical for example what specifically will or won't be available to be done online? Problems with the current online services and concerns about previous bad experience with HMRC and other government Departments were also raised.

B.5 The most frequently raised concern was that requirements to file online would be introduced before HMRC were able to provide a robust and resilient online service, resulting in reduced customer confidence and satisfaction.

Issues included

- Whether HMRC could provide robust systems in the time available, previous bad experience was widely quoted
- Need for support, particularly well trained Contact Centre staff to help with the transition
- A considerable amount of feedback on issues surrounding the decision to withdraw the facility to submit substitute entries
- Technical issues with current systems in general which hinder current use. In particular there are problems with agent authorisation and rejection messages/reason for validation failures which don't always make it easy to see what's wrong with what's being filed.
- Need to cater for the very small proportion of people who cannot yet file online for infrastructure or operational reasons.

- On the other hand, representative bodies argued strongly that it is not necessary to legislate for an earlier filing date which aligns HMRC's deadline with that of Companies House.
- How HMRC should respond to the filing of paper returns and forms by those businesses that will have been mandated to file online. The feedback HMRC received suggested that any sanctions against this behaviour should be implemented with a light touch and after a 'soft landing' transitional period.

Consultation within the Government

B.6 HMRC has worked closely with colleagues in HM Treasury to help ensure that this package of measures is business-friendly. HMRC are also in consultation with Companies House on providing a joint filing service capable of delivering a secure and efficient service for customers.

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REGULATORY IMPACT ASSESSMENT

HMRC Online Services: Increasing Use Of Online Filing And Electronic Payment

Statement of Ministerial Approval

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible Minister:

Dawn Primarolo
Paymaster General

Dated: 13th March 2007