

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HM Revenue and Customs</b>	<b>Title:</b> <b>Impact Assessment of climate change levy accounting document (CCLAD) simplification</b>	
<b>Stage:</b> Implementation	<b>Version:</b> Final	<b>Date:</b> 31 January 2008
<b>Related Publications:</b> N/A		

**Available to view or download at:**

<http://www.hmrc.gov.uk>

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

Consultation with the larger suppliers has confirmed that the requirement to identify an energy bill as a climate change levy accounting document (CCLAD) for supplies of gas and electricity is an unnecessary burden that can be removed without any risk to climate change levy (CCL) revenues or the levy's environmental objectives. HMRC's Standard Cost Model identified the requirement for CCL registered energy suppliers to issue a CCLAD as the single most burdensome CCL obligation. Intervention is necessary as primary law change is required to effect the change.

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

The policy objective is to reduce business burdens.

The intended effect is to remove the requirement for electricity and gas suppliers to identify their energy bills as CCLADs, thereby allowing energy suppliers to bill customers in a less burdensome way while still being able to provide the information required by HMRC to assure the regime. It also will free up space on suppliers' energy bills by removing the requirement to include the phrase "climate change levy accounting document" or "CCL accounting document".

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

There are two options:

- 1) Do nothing - retain the obligation to identify a document as a CCLAD; and
- 2) Remove the obligation to identify an energy bill as a CCLAD. This is the preferred option.

At the time CCL was introduced in 2001 the obligation was considered necessary to create an accounting document for CCL and to support CCL bad debt relief claims. After consultation we believe that energy bills can achieve these requirements without the need to be identified as a CCLAD. The obligation can be removed without risk to CCL revenues or its environmental objectives.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** A review will be undertaken once the policy has been implemented, probably between one and three years after implementation.

**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:***

Angela Eagle .....Date: 20 February 2008

## Summary: Analysis & Evidence

**Policy Option: Remove CCLAD requirement**

**Description: Removal of the requirement for electricity and gas suppliers to identify their energy bills as climate change levy accounting documents (CCLADs).**

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' One-off initial costs will be incurred by CCL registered suppliers in amending the energy bill template and/or software re-programming costs. This cost will affect those CCL registered suppliers who opt to take advantage of the simplification measure - expected to be the vast majority of CCL registered suppliers (there is no compulsion on suppliers to do so).
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	<b>£ 40-50k</b>	1	
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£ n/a</b>		<b>Total Cost (PV)</b> <b>£</b>
Other <b>key non-monetised costs</b> by 'main affected groups'			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Removal of the CCLAD obligation will relieve £2.3m real costs of the administration burden (in 2007 prices). This should benefit the vast majority of CCL registered suppliers.
	<b>One-off</b>	<b>Yrs</b>	
	<b>£ n/a</b>		
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ 2.3m</b>		<b>Total Benefit (PV)</b> <b>£</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Removal of the requirement to include the CCLAD phrase will free-up space on the energy bill for other regulatory or customer information.			

### Key Assumptions/Sensitivities/Risks

It is assumed that 90% of energy suppliers will take advantage of this measure. Some may continue to issue CCLADs due to the costs involved in implementing the change.

Price Base Year 2007	Time Period Years	<b>Net Benefit Range (NPV)</b> <b>£</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£</b>
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What is the geographic coverage of the policy/option?	United Kingdom			
On what date will the policy be implemented?	Royal Assent FB 2008			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ neg			
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?	£ Nil			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro n/a	Small n/a	Medium n/a	Large n/a
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	£ 2.1m
		<b>Net Impact</b>	<b>£ 2.1m</b>

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

## Evidence Base (for summary sheets)

### Options

There are two options:

- 1) Do nothing; and
- 2) Reduce burdens on energy suppliers by removing the legal requirement to identify an energy bill as a CCLAD.

### Option 1 - Do nothing

The 'do nothing' option maintains the status quo and therefore perpetuates the identified business burden. This would be contrary to the policy intention of reducing business burdens where appropriate.

### Option 2 - Reduce burdens on energy suppliers by removing the legal requirement to identify an energy bill as a CCLAD

This is the option chosen.

HMRC is committed to reducing compliance costs to businesses, and in particular the administrative burdens incurred due to requirements to disclose information to HMRC or third parties. This "administrative burden" is assessed through the "Standard Cost Model" (SCM), an activity-based costing methodology which considers the activities that businesses need to do to comply with their legal obligations, and estimates the cost of such activities.

When the climate change levy (CCL) was introduced in 2001, the primary legislation (Finance Act 2000, Part I, Schedule 6) included requirements for energy suppliers to issue a climate change levy accounting document (CCLAD) and to include specified wording on their energy bills stating that the bill was a CCL accounting document. As well as providing an accounting document for CCL, these obligations were introduced in order to provide evidence in support of bad debt relief claims relating to CCL. This policy was agreed with energy suppliers.

Consultations with suppliers have confirmed that, if the legal requirement to identify an energy bill as a CCLAD is removed, they will continue to provide bills to customers that show details of the way the cost has been calculated. These bills will still show CCL and VAT charged and so can continue to be used to support claims for bad debt relief, as well as providing key information to customers on the total cost of their energy to inform decisions about using energy less or better or switching to non taxable sources (like renewables). The bill will remain the key document that records individual transactions to build up business records for company accounts and for audit. Suppliers have indicated that they will use the space the words "Climate Change Accounting Document" or "CCL Accounting Document" take up to provide better information to customers.

The SCM baseline for the obligation to issue a CCLAD is £4.2m per year for 225 CCL registered energy suppliers, on the basis of an estimated 9 million energy bills which are identified as CCLADs being issued each year. The administrative burden saving of removing the obligation to include wording on the energy bill stating that it is a CCL accounting document is estimated to be £2.3 million per year for energy suppliers (an average of £10,000 for each registered supplier), compared with a current baseline of £5.6 million per year for CCL as a whole (an average of £25,000 per registered supplier), all in 2007 prices. The remaining £1.9m of the CCLAD administrative burden represents a requirement to include the period covered on the energy bill which is necessary to maintain CCL regime integrity. As outlined above, these

savings will not involve any additional risk to CCL revenues or the scheme's environmental objectives.

This measure will therefore repeal paragraph 143(2)(a) of Schedule 6 to the Finance Act 2000 and remove the obligation to state that an energy bill is a CCLAD by removing the requirement for energy bills to contain the phrase "climate change levy accounting document" or "CCL accounting document". This small primary law change will remove the superfluous requirement to add this information to energy bills, reducing a significant burden on energy suppliers.

### **Implementation**

HMRC will update guidance to reflect these changes as soon as possible.

### **Enforcement**

The change will make no difference to HMRC's assurance of the levy. HMRC will ensure continued compliance of the levy through their risk and assurance programmes, and will consider any comments received from industry on the effectiveness of this change in due course.

### **Competition Assessment**

There are no competition implications since this measure removes the requirement to identify energy bills as CCLADs but suppliers will still be able to opt to continue this practice if the benefits of ceasing to identify energy bills as CCLADs are negligible (primarily this is likely to be smaller suppliers that send fewer bills and who might therefore not consider any system change would be warranted).

### **Annual Costs**

This measure is not expected to have any impact on CCL revenues or environmental effectiveness as the obligation being removed is not integral in ensuring taxpayers pay the right amount of tax. The change is expected to create a one-off cost to businesses in removing the CCLAD identifying phrase from their energy bills, which is assumed to be around £100 per business to arrange for a revised energy bill template to be printed or around £250 per business to make appropriate changes to current software. Assuming 90% of CCL registered businesses do choose to take advantage of the removal of the requirement, the initial costs for revising energy bills across the industry would be around £40-50k in total. These will be more than offset by the impact of the change in reducing administrative burden costs.

### **Consultation**

The administrative burden being removed by this measure was first revealed by the research into administrative tax burdens undertaken by KPMG and published in 2006. Subsequent to this, consultations with the large energy suppliers have revealed that they see this as a burdensome and superfluous requirement as it is not necessary in order to specify the point at which the levy becomes due and other assurance information can easily be provided by other means. Thus energy suppliers have welcomed the removal of the requirement. Those smaller suppliers that consider the cost of system changes outweighs any benefits in burden reduction will be able to continue their current practice as there is no compulsion on suppliers to take advantage of the removal of this requirement.

## 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	No impact	No
Small Firms Impact Test	No impact	No
Legal Aid	No impact	No
Sustainable Development	No impact	No
Carbon Assessment	No impact	No
Other Environment	No impact	No
Health Impact Assessment	No impact	No
Race Equality	No impact	No
Disability Equality	No impact	No
Gender Equality	No impact	No
Human Rights	No impact	No
Rural Proofing	No impact	No