KPMG

GOVERNMENT SERVICES

Administrative Burdens – HMRC Measurement Project

Annex A

Detailed Description of Methodology and Application in Practice

20 March 2006

Restricted – Commercial

AUDIT ▪ TAX ▪ ADVISORY

HMRC

Administrative Burdens: HMRC Measurement Project

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Detailed Description of Methodology and Application in Practice

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KPMG LLP

20 March 2006

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1 Introduction

1.1 Purpose of Annex A

Annex A sets out:

- how the Better Regulation Executive's ('BRE') manual 'Measuring Administrative Costs: UK Standard Cost Model' dated 30 September 2005 (the 'SCM') was applied in practice by KPMG to build a model of the UK tax administrative burden on business as at 31 May 2005 (the 'Project')
- the methodological issues that may impact on the interpretation of data in the model or are important to consider when taking the model forward

The steps described in Annex A are those set out in the SCM. Specific methodology issues are noted in italics for each step, as relevant. These issues are relevant in understanding some of the key assumptions that needed to be made, interpreting the model and prioritising further work as the model is taken forward.

The purpose of Annex A is to help the reader of this report to understand how the model was built up and how to interpret the data shown in the illustrative tables set out in this report. It therefore aims to give the reader an understanding as to how we came up with the data produced, and how we went about doing this on a practical level. It is not a detailed manual as to how a project of this scale and complexity was done.

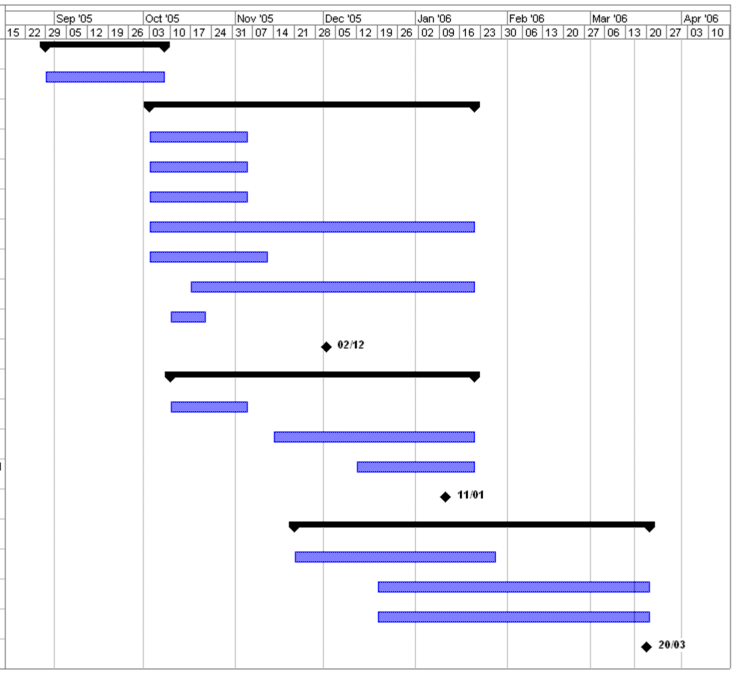
1.2 Project timeline

The Project took place between September 2005 and March 2006. The timing of the SCM steps is shown in the high level Gantt chart below; this clearly shows that the steps were carried out in parallel and not sequentially. This was necessary to meet the very tight timetable to complete the Project before Budget 2006.

This meant more iteration throughout the process as planning for the next step had to begin before the previous step was completed. Therefore, at all stages in the process, both HMRC and KPMG had to begin work before the practical applications of various concepts taken from the SCM had been fully developed. Therefore, a very practical and constructive approach was required on both sides.

Figure 1: High level Project Timeline

ID	Task Name
1	**Phase 0 - Start Up**
2	Step 0 - Start Up
3	**Phase 1 - Preparatory Analysis**
4	Step 1 - Identification of IOs, DRs and admin activities and classification by origin
5	Step 2 - Identification and demarcation of related regulations
6	Step 3 - Identification of segments
7	Step 4 - Identification of population, rate and frequency
8	Step 5 - Business interviews versus expert assessment
9	Step 6 - Identification of relevant cost parameters
10	Step 7 - Preparation of interview guide
11	Step 8 - HMRC review of Steps 1 - 7
12	**Phase 2 - Time and Cost Data Capture and Standardisation**
13	Step 9 - Selection of typical businesses for interview
14	Step 10 - Business interviews
15	Step 11 - Completion and standardisation of time and resources estimates for each segment by activity
16	Step 12 - HMRC review of Steps 9 - 11
17	**Phase 3 - Calculation, Data Submission and Reports**
18	Step 13 - Extrapolation of validated data to national level
19	Step 14 - Reporting
20	Step 15 - Transfer of database
21	Step 16 - HMRC Review of Steps 13 - 15



2 Overview of Standard Cost Model

2.1 Overall methodology

The Standard Cost Model (SCM) methodology is set out in the Better Regulation Executive's manual. The SCM applies a base formula: Activity Cost = Price *(tariff x time*) x Quantity *(population x frequency x rate).*

This formula applies 'activity-based costing' (ABC) to model the tax administrative burden. ABC has been around since the 1980s and has been used in many other business areas. In simple terms, ABC analyses the activities involved in making a specific product or delivering a specific service and attempts to estimate their costs. The model implements this approach for the UK tax system.

The core of the model is the estimate of internal costs (the SCM sets out 16 administrative activities), external costs (the costs of working with external intermediaries, such as accountants, agents etc) and acquisition costs (non-time costs of dealing with an administrative requirement, such as software or postage). These costs are then multiplied up by the number of businesses that undertake that requirement to estimate the tax administrative burden on business.

The model does not lump all businesses in together. Some factors, such as the size of the firm, whether they do the work in house or outsource, and whether or not they file online are allowed to affect the burden. For example, smaller businesses may have higher individual burdens because it takes them longer to carry out an activity as they lack the software available to larger firms. Alternatively it may be that a higher salaried person carries out the activity in a smaller firm. Within the model, splitting the population down in this way is referred to as segmentation.

It is important to note that the estimates used in the SCM are indicative. They are based on talking to a small number of businesses, relative to the total number of businesses, and as such it is not possible to state a precise figure of administrative burden. What the SCM does show is where the most burdensome areas of regulation are and the drivers that create that burden.

2.2 Creating the data framework

The first step was to create the data framework that would allow the model to be built. This involved:

- mapping all tax regulation to the 16 administrative activities, external and acquisition costs. This was done by analysing the regulation in terms of its 'Information Obligations' (IOs) (the blocks of information business is required, by law, to submit to HMRC, submitting to third parties or keep on record) and 'data requirements' (DRs) (particular elements of data business needs to provide to comply with these IOs)

- assessing whether the impact of the obligation on the administrative burden would differ across businesses (e.g. due to firm size) and segmenting accordingly
- categorising the IOs into 13 different types which may have similar implications for business processes even if related to very different tax regulations
- analysing the IOs into 'Subject Groups' and 'Tax Areas' as a way of navigating around tax regulation for the purpose of building the model. These categories are not an integral part of the BRE model

2.3 Filling in the data framework

The data framework was then filled with a series of consistent estimates informed directly or indirectly by independent empirical data. This was done as follows:

2.3.1 Price

UK businesses from sole traders to large multinationals were contacted and interviewed to establish the time and costs they incur in meeting their administrative requirements. Businesses were contacted using several commercially available databases and targeted contacts were made with businesses in specific industry sectors. Focus groups were set up using KPMG's independent network of accountants and legal advisers who work with small businesses and sole traders. Empirical data was obtained for over 50% of all IOs by number, which makes up over 70% of the burden by value.

The interviews were carried out by trained interviewers. The interviews were predominately conducted face to face, with the remainder conducted by telephone. The interviewee was, where possible, the person or persons responsible for actually carrying out the activities. The interview involved a structured discussion around the activity time and other costs incurred for particular DRs together with the collection of general feedback and business observations.

This empirical data was then standardised by a KPMG team of 13 tax specialists. The aim of the standardisation process is to make an assessment of how much time and resource it takes a normally efficient business to comply with an IO. The tax specialists all attended an accreditation course before starting work. This course ensured they understood the SCM and understood the criteria to use when standardising interview data. As with the IO analysis, to maximise the consistency of the standardisation work, the team was co-located in the Project offices, worked in pairs and was subject to regular peer review.

The team of tax specialists then used the experience from standardising the empirical data to make informed estimates of time and costs for those IOs that did not go to interview, drawing on deep technical knowledge and/or in depth industry experience as needed.

2.3.2 Quantity

Population, rate and frequency act together as multipliers in the model.

- population is the number of business affected by an IO, or the number of occurrences of the IO
- frequency is how many times in a year the IO has to be complied with where this is a prescribed mandatory periodic occurrence. If not a mandatory periodic occurrence frequency is set to one.
- rate is the proportion of businesses complying with the IO that comply with a given DR within that IO

Once standardised time and cost estimates are complete, these multipliers are applied to calculate the total burden for a particular IO, which can be looked at either on a UK or a by segment basis. Thus these multipliers are a key component in determining the total burden, and the relative burden of each IO and the relative burden between segments.

The most important number is population; that is the number of businesses that undertake an IO or the number of occurrences of the IO.

It became clear early on that HMRC would only be able to provide population numbers for some of the information obligations and some overarching figures for industry, process and legislatively specific areas in the model. The concept of an information obligation is new, and HMRC management information systems are not structured in such a way as to record all of this information.

To seek to deal with this challenge, the next step was to see if a generic population model could be applied in the absence of other data. This proved not to be effective because the way that the tax regulations impact on business is not generic. It was then decided that the only practical way forward was to rely on informed estimates. These estimates were prepared by a KPMG team of five tax specialists. The tax specialists reviewed, by IO, the population numbers provided by HMRC and the application of the generic model. The KPMG team took a view on whether the resulting number was ‘not unreasonable’. If needed, an alternative estimate was substituted. A series of focus groups was then held with HMRC teams to discuss the amended population numbers for the areas where there was less information available and therefore a greater degree of estimation required. The HMRC teams challenged the numbers and, if needed, made adjustments to the estimates. The outcome is a series of consistent estimates formed by KPMG and HMRC working together as a team.

The work described above was done to estimate total population numbers of businesses affected by an information obligation. These totals then needed to be allocated across the different segments to give the segment population numbers. For the size segments, this was done by applying a generic percentage allocation, based on Small Business Service data for either the number of businesses or number of employees. This issue is dealt with in detail later on, in particular the methodology issues it raises.

2.4 Use of the data framework

The full value of the model is in the data framework and the different ways in which it can be interrogated. The data framework is being transferred to HMRC. Like all models, this should be seen as a ‘living tool’ that will continually be refined as it is used.

The data framework has also been used to pull out certain tables, as requested by HMRC. These tables set out initial findings and seek to indicate the framework's potential as a tool for HMRC to take forward. This report is not a detailed analysis of the data in the data framework.

2.5 Engagement of stakeholders

A Project Board was set up, comprising representatives from HMRC and KPMG, to authorise plans, review progress and confirm tasks were completed. The Project Board reported to the HMRC Steering Group, the key decision-making body for strategic issues affecting the Project. The Project Board gained valuable feedback, guidance and advice from an Advisory Board, comprising members of representative bodies and business representatives.

2.6 Key methodological issues

Two key issues are outlined below that need to be taken into account when interpreting the data framework and deciding how to take the data framework forward.

2.6.1 Population

As noted in 2.3.2, HMRC were not able to provide population numbers for every IO. For the routine, mandatory, returns, the numbers of returns submitted to HMRC made were largely available. Information on numbers of returns filed electronically was also readily available. In addition, where particular taxes affect only a small number of businesses in a particular industry sector, for example Aggregates Levy or Petroleum Revenue Tax, then HMRC were able to provide population numbers for the tax, although not always populations for all the IOs in the tax area, particularly the more event driven IOs.

The population data that were particularly difficult for HMRC to provide were the numbers of businesses affected by the large number of rarer, contingent obligations, for example, the number of businesses making a particular claim, appeal or application for guidance, which are usually done by letter. Because there is no centralised recording of businesses that have to, or choose to comply with these obligations, these numbers could not be obtained from HMRC information systems.

Obligations to third parties presented a particular problem. As there is no interface between business and HMRC, there is therefore no reasonable way for HMRC to capture this population data, and no reason for them to need this in the course of their normal activities. A key obligation to third parties is the VAT invoice; the model required us to input a population for the total number of VAT invoices issued by UK businesses. Clearly, this is a very difficult figure to derive or even estimate. The estimate used in the model is 300,000,000. Thus, we have population figures ranging from 1, for the very rare obligations, up to and beyond 300,000,000 for some of the transaction based IOs.

The population numbers are key in calculating the overall burden, whether in total or by segment. A number of important issues arise:

- population data was only available for some subject groups and IOs. The population numbers are therefore a priority area for further work as the model is taken forward
- the allocation of total population numbers to different segments through generic percentages means that it is unlikely the segment populations fully reflect the actual number of business affected by an IO in each segment. Thus the segmented total burden should be used with caution
- the population numbers were the best estimates of the annualised population for the year to 31 May 2005. This is appropriate where the number of businesses affected by an IO is stable over time. Where, however, there is new regulation it may take time for the stable population of businesses to emerge. Further thought should be given on how to reflect such trends in the SCM and assess the impact of new regulation

2.6.2 Marginal Cost

The Project sought to capture the burden of administrative activities that businesses only carry out because tax regulation requires it. In line with the literature on compliance costs, this has been referred to in the HMRC project as the 'marginal cost', ie the cost that would fall away if tax was abolished overnight. The way the model has been implemented means that only 'marginal cost' is included in the estimates. This reflects the approach in demarcation (only tax regulation was analysed into IOs and DRs), the way the interviews were structured (the interviews focussed only on time and costs specifically related to tax DRs) and the way the resulting interview data was standardised (again with the focus only on the costs created as a result of a tax DR). A more detailed note on marginal cost is included as Appendix 1.

2.7 What the model does and does not cover

The model is a series of consistent estimates for an extremely large data framework. It does not, of itself, provide the answers directly. It does, however, have huge potential as a diagnostic tool to see where the problems and issues are:

- what are the most burdensome areas? Why?
- what are the underlying activities that really take up businesses' time?
- how does the ratio of administrative burden and revenue raised compare for each tax?
- can we estimate the likely administrative burden implications of new tax regulation? Are those implications properly taken into account?
- what are the areas where HMRC should focus operational changes to help business?
- what practices can HMRC encourage, publicise or facilitate business to adopt?

The model only covers the administrative burden, the costs of doing something to comply with an administrative requirement set by tax regulation. It does not cover the much wider concept of compliance costs; in particular it does not cover:

- the cost to businesses of dealing with change, whether of regulation or business model
- the cost of uncertainty
- the cost of working out whether to do something, more specifically the cost of working out not to do something

These are all very important aspects of the total compliance cost and the perception of ‘red tape’.

3 Phase 0 Start Up

The work undertaken in Phase 0 established a solid foundation for all the subsequent phases of the measurement in terms of infrastructure, resource and IT tools.

3.1 Roles and Responsibilities

A simplified structure chart is attached as Appendix 2.

An SCM measurement exercise has not been conducted before in a country with a business community as large and diverse as that of the UK, or in such a short timeframe. Early on in the planning process, KPMG therefore recognised the importance of incorporating the experiences of those from other organisations who have carried out similar measurements exercises in Europe.

KPMG partnered with a team from Rambøll Management, a Danish based company that has carried out similar SCM projects in Denmark, Sweden and other parts of Europe. Rambøll has provided advice and experience from previous exercises and has allowed us to anticipate possible methodology issues that have arisen in previous exercises.

Rambøll has licensed KPMG with 'Ramvab', a database tool to support the measurement process. Ramvab enables capture of all the data relevant to this type of exercise and enables standardisation of the results and reporting.

3.2 Infrastructure and Resource

A range of activities was undertaken associated with setting up the infrastructure of the project and the mobilisation of the resources required. These activities included:

- setting up a dedicated project office for up to 120 staff in Victoria, close to HMRC's offices
- the mobilisation of a core project team to be available throughout the project
- the establishment of appropriate project management procedures to carry out the set-up and monitoring of the key phases of the Project
- the establishment of links with the Cabinet Office project to ensure, where possible, consistency in the practical application of the SCM and consistency of messages to the UK business for the parallel measurement exercise that was run across all government departments

3.3 Creation of IT tools to access, share and maintain information

An IT infrastructure was developed to underpin the storage, sharing and manipulation of information required by a project of this size and complexity. Key activities included:

- implementation of a secure IT network infrastructure which allowed staff to access the KPMG intranet, email and internet
- the set up of a web based information management tool, KClient, which enabled the management, storage and exchange of information across the project team and with HMRC
- the translation of the Ramvab measurement data framework and support tool from Danish into English
- the ‘stress testing’ of Ramvab under the operational demands anticipated in this project and in particular the number of users and the data volumes expected
- the testing of Ramvab business continuity plans to cope with an ‘event’
- the development, and application, of user training for all Project team members in KClient and Ramvab

4 Phase 1: Preparatory analysis

4.1 Step 1: Identification of Information Obligations (IOs), Data Requirements (DRs), administrative activities and classification by origin

4.1.1 Overview

The analysis of UK tax regulation into IOs and DRs underpinned the following steps and phases of the project. This is because the IOs and DRs are the building blocks by which the SCM links the huge mass of UK tax regulation to the 16 types of Administrative Activities that businesses actually carry out. Thus, the IOs and DRs are a key means of navigating around the UK tax regulation both in compiling the model and to take the model forward, for example through analysing the administrative impact of new regulation.

In order to build an effective model, it was vital to ensure that UK tax regulation was analysed into IOs and DRs with a clear and consistent methodology. Both terms are formally defined in the SCM. However these definitions could be applied in practice in a number of different ways. There was no clear 'right or wrong' cut off point. What mattered was the determination of the appropriate cut off point to build the model and to ensure the cut off point was applied consistently.

4.1.2 Original analysis of UK tax regulation into IOs and DRs

The Project began on the basis that HMRC would provide the database of UK tax regulation, analysed into IOs, for automatic uploading into Ramvab. The KPMG team would then identify the data requirements (DRs) and other required fields associated with the IOs identified by HMRC.

The database was provided by HMRC. However, as KPMG reviewed the database, prior to taking it forward, it became clear that there were some significant inconsistencies in the way the IOs had been applied in practice by the different HMRC teams. This was largely a reflection of the fact that the final SCM manual, setting out consistent definitions of IOs, was still being developed at the time the mapping work was undertaken by HMRC. This meant it would be inappropriate to use the HMRC IO analysis as the only basis for the model and all subsequent work.

The matter was discussed in detail with HMRC. It was decided that KPMG would re-analyse the regulation into IOs using a consistent defined interpretation of what an IO is and create a new, starting point database.

4.1.3 Analysis of UK tax regulation into IOs and DRs by KPMG

A KPMG team of 60 tax specialists was employed on this task. The tax specialists all attended a two day accreditation course before starting work. This course ensured they understood the SCM, understood the criteria to use when analysing the regulation into

IOs and DRs and were confident using Ramvab. To maximise consistency, the team was co-located in the Project offices, worked in pairs and was subject to regular peer review.

The UK tax regulation analysed was as follows:

- regulation enacted and in force at 31 May 2005 was both analysed and fully modelled as part of the Project
- regulation enacted but not in force at 31 May 2005 was analysed into IOs. However, it was not then included in the capture of price and quantity data as the total burden being measured by the Project is the administrative burden at 31 May 2005. The model assumes that business would not incur any administrative activity costs at 31 May 2005 for regulation not yet in force

It was agreed that the source of regulation would be that set out in the LexisNexis Tolley's Tax orange, blue, red and yellow handbooks. The regulation was categorised as 'enacted' and 'in force' according to what was set out in those handbooks. Certain regulations in the Handbooks have not been included. This is either because it is not in scope of HMRC (for example Vehicle Excise Duty) or because it would not apply to a 'compliant' business (for example business processing a late filing penalty). Certain items in HMRC's guidance notes that have the force of law have been included where requested by and agreed with HMRC.

Methodology issue: If the model is to succeed going forward, it is important that all HMRC users have a clear consistent understanding of how the IO and DR analysis was done, in particular how the 'cut off' decision was made on what is an IO and what is a DR.

Methodology issue: The description of individual IOs was done for the purpose of building the model using Ramvab. The description may not be immediately clear to the user, when read in isolation. It is recommended that HMRC users do not rely on the IO description alone, but always consider an IO as part of the wider data framework, in particular using the related regulation and DRs to understand the full context of the IO.

Methodology issue: Subsequent to completion of Step 1, HMRC has advised us that some of the regulation in the Tolley's Tax handbooks is, in practice, no longer enforced by HMRC. In order to ensure consistency, however, and unless HMRC have specifically notified us, these IOs are still flagged as in force as at 31 May 2005 as they remain on the statute books even if they are not actively enforced by HMRC.

4.1.4 Linking of IOs to regulation

All IOs are linked to the relevant regulation.

- several IOs may link to one regulation (in particular the various Finance Acts). If so, each IO is linked separately to the regulation
- one IO may link to several regulations (for example, for VAT retail schemes there is both a Statutory Instrument and a Public Notice derived from it). If so,

all the regulations are described in the relevant field and the IO will show as linked to one regulation only.

Methodology issue: If HMRC users wish to see which regulation is linked to which IO it is far more effective if they directly access the data framework. This is the only way to have full visibility over all regulation links.

Methodology issue: The number of regulations shown in the report tables may underestimate the total number of regulations. This is because if one IO has several regulations, the table will capture the information as the IO having one regulation only. The multiple regulations are generally all part of one umbrella regulation so the overall impact is reasonable.

Methodology issue: Where a DR has a different regulation than its respective IO the HMRC database does not pick this up, this is because it is only picking up regulations attached to IOs. In the vast majority of cases the regulations are identical, therefore details of the small number that are not have been provided separately to HMRC.

4.1.5 Linking of IOs to origin

KPMG then classified each IO by origin of the regulation and input this classification into the data framework. The origin classifications set out in the SCM are:

A DRs that are exclusively and completely a consequence of EU rules and other international obligations. The international rules describe which information businesses have to produce

B DRs that are a consequence of EU rules and other international obligations. The purpose will be formulated in the international rules, while implementation (including formulation of the specific data requirements) will be left to the member states. The international rules do not describe which information businesses have to produce

C DRs that are exclusively a consequence of rules formulated at national level

In practice it proved challenging to apply the principles of the SCM definitions consistently to three of the more burdensome areas of the tax universe where the obligations are heavily influenced by EU and other international regulation; VAT, Customs and Excise Duties. The reason for this is that the VAT, Customs and Excise Duties regulations are structured and implemented by the UK in distinctly different ways to each other. There is also a subjective element to the interpretation of the regulation and how it has been implemented in the UK as it applies to the model.

This subjective element was dealt with by analysing origin at IO level. Whatever origin was assigned to the IO was then, in turn, assigned to the DRs for that IO. Generally speaking, it is clear what the origin of the IO is. It is often less clear whether the DR is set out in, say, EU regulation and is mandatory for the UK to enforce or whether the UK is given the right of discretion over whether the requirement will be enforced on UK business. As the DRs are ultimately driven by the IOs the most consistent approach was to determine origin at IO level.

A brief explanation of the different tax areas' legislative origin and the rules applied when identifying the origin of the obligations in each area is set out below.

4.1.5.1 *VAT*

The legal origin of VAT obligations is primarily EU legislation. The EU legislation has direct application on UK businesses or has been interpreted and implemented into UK law. In addition, HMRC has introduced rules, regulations and simplification measures which it has the scope to do within the authority of the EU legislation.

The majority of the obligations have a B origin, which is where a rule is set out in the EU legislation which is followed by the UK but the UK sets out the conditions and requirements that UK business have to fulfil. For example, VAT registration matters are origin B because the EU legislation means that the UK must identify persons who should be VAT registered, but all the associated registration requirements are determined by the UK not the EU regulations.

Rules Applied

- Origin A - all obligations identified as sourced from EU legislation where it is mandatory for the UK to effect an obligation on business and the data requirements are set out in the EU legislation
- Origin B - all obligations identified as sourced from EU legislation where it is mandatory for the UK to effect an obligation on business but the requirements are not set out in the EU legislation
- Origin C - all obligations identified as linking to domestic Acts, Statutory Instruments, statutory concessions and other guidance with the force of law where the EU legislation gives leave to the UK to derogate from the rules set out in EU legislation or where the UK has a specific derogation agreed with the EU which is in force

4.1.5.2 *Customs*

The regulation governing Customs-related activities is a combination of EU and UK regulation. The EU is a 'Customs Union', and the EU legislation is therefore applicable to the UK. The UK regulation supports the EU legislation.

In the vast majority of instances, the UK regulation is a direct implementation of the EU legislation because the UK is not given any discretion regarding how it is implemented. However, there are some exceptions where the UK has domestic discretion within the parameters of the EU legislation and effectively has the power to change this legislation.

Rules Applied

- Origin A - all obligations identified as sourced from EU legislation whether or not they are also linked to UK regulation
- Origin B - none

- Origin C - all obligations identified as only sourced from domestic Acts, Statutory Instruments, statutory concessions and other guidance with the force of law

4.1.5.3 *Excise Duties*

Excise Duties have a mixture of UK and EU legislation. The vast majority of obligations arise from UK Statutory Instruments, although certain EU legislation has been adopted to harmonise the Excise Duties rules across the EU.

There are a small number of obligations with origin B where the EU legislation sets out details of what the UK must legislate for in relation to the holding and movement of goods within the EU single market. However, the legislation does not set out detail of the specific requirements to be enforced on business.

As noted, generally the Excise Duties obligations are derived from domestic regulation. This is because the majority of the Excise Duty obligations must conform with the guidance laid out in the EU legislation. That EU legislation does not though, compel the UK regulation to be set out or to operate in a particular way, hence the UK regulation has a wide authority to set out the actual obligations on business at a domestic level.

Rules Applied

- Origin A - none
- Origin B - all obligations identified as linking to EU legislation and any Statutory Instruments put in place to effect the EU legislation after the EU harmonisation regulations came into force
- Origin C - all obligations identified as linking to domestic Acts, Statutory Instruments, statutory concessions and other guidance with the force of law

4.1.6 Linking of IOs to forms

Where appropriate, IOs have been linked to an HMRC form and a narrative description of the form.

- several IOs may link to one form (for example Form 42). If so, each IO is linked separately to the form
- one IO may link to several forms (for example, a land transaction return for the purposes of stamp duty land tax which is one IO but there potentially four forms that may be required to be completed to fulfil the obligation). If so, all the forms are described in the relevant field and the IO will show as linked to one form only

Methodology issue: The data framework does not contain pdf copies of forms or URL link, This is primarily because forms and internet links change frequently so it would be hard to keep up to date.

Methodology issue: The number of forms shown in the report tables may underestimate the total number of forms. This is because if one IO has several forms, the table will *capture the information as the IO having one form only. A further note is that the multiple forms are generally all part of one umbrella form, or the forms are alternatives.*

4.1.7 Categorisation of IOs into IO types

The SCM sets out 12 IO types. KPMG added an extra IO type, an application for guidance, as it is possible in certain tax areas to request guidance from HMRC as to how a particular transaction should be treated for tax purposes. Each IO was categorised into one of these IO types.

The 13 IO types and how they were applied in practice for UK tax regulation are set out below.

IO Type in SCM	IO Type – practical translation	Further description and examples
Framing appeals and complaints	Appeals against assessments and HMRC decisions	This includes for example an Appeal to the General Commissioners.
Providing statutory information to third parties	Providing information to third parties	Third parties include customers, employees and shareholders, but not HMRC. Examples include producing a VAT Invoice and giving an employee a P60 or copy of P11D.
Statutory labelling for third parties	Labelling and marking	This includes tobacco labelling and marking containers.
Co-operating with audits/ inspections	Co-operating with HMRC enquiries visits and inspections	This includes, for example, dealing with a CTSA Enquiry or a PAYE Audit.
Keeping commercial emergency plans and programmes updated	Record retention	This contains all obligations for retention of records, invoices, accounts, business transactions, business registers, data etc. Record creation and retrieval are activities that are captured under other types of obligation. This is because the creation of the record is an integral part of the IO itself. For example, the IO for a CT return (which is in 'Returns & Reports') includes the creation of a record, the CT return. However the essence of the IO is making the return not creating a record. This also includes obligations relating to specific logistical arrangements.
Applications for subsidies, grants, allowances or credits	Claims, elections, and applications for reliefs	This covers any claim with a financial impact, for example a Capital Allowances claim.
Carrying out inspections	Inspections to be carried out by business	This applies where the business is itself required to carry out inspections, enquiries, and investigations. This will typically be inspections of third parties and may

IO Type in SCM	IO Type – practical translation	Further description and examples
		include a contractor checking a subcontractor's certificate as part of the requirements of the Construction Industry Scheme.
Entry in a register	Entry in an external (normally HMRC) list or other permanent record	This includes, for example, providing a National Insurance number to HMRC.
Returns and reports	Provision to HMRC of regular returns and payment of tax	This only applies to the regular returns and not to notification regarding one off events. Examples include the VAT Return, the employers' annual return (P35) and the Corporation Tax return.
Notification of activities/ Registration	Registration, or notifying HMRC of an event or circumstance	This includes notification of taxable status, and disqualification events. An example is the notification for VAT purposes of intention to issue electronic invoices.
Applications for authorisation	Application by the business for a statutory clearance, authorisation, or for a certain status.	An example is the application for approval of a Company Share Option Scheme.
Applications for permission or exemption	Applications for permission or exemption	Applications for permission are applications to apply a certain process, for example, establishing Group Payment Arrangements for Corporation Tax or applying for a P11D Dispensation. This can be distinguished from applications for authorisation which are to do with the tax status of the business or its activities. This includes applications for monthly VAT returns, applications for dispensations and applications for group payments arrangements for CT.
Application for Guidance	Application for HMRC guidance, opinion or ruling.	This includes, for example, the use of the HMRC Code of Practice 10.

Most of the categories are self explanatory. Record keeping has been categorised under 'Keeping commercial emergency plans and programmes updated etc'

Methodology issue: The IO types and impact on the total burden measurement is different between the HMRC and BRE project models. However, this is reconcilable.

4.1.8 Categorisation of IOs into Tax Areas

The project identified 28 Tax Areas within UK tax regulation. All IOs were classified by Tax Area and this classification was input into the *data framework*. This was done to enable Tax Area tables to be extracted from the *data framework*. The Tax Areas were devised for the purpose of navigating around tax regulation. The tax areas are set out below.

Aggregates Levy	Inheritance Tax
Air Passenger Duty	Insurance Premium Tax
Capital Allowances	Intrastat
Capital Gains Tax	Landfill Tax
Climate Change Levy	Pensions
Construction Industry Scheme	Petroleum Revenue Tax
Corporation Tax	Stamp Duty
Customs	Stamp Duty Land Tax
Double Tax Treaties	Stamp Duty Reserve Tax
EC Sales List	Tax Credits
Employer Taxes	Tax Management Provisions
Excise Duties	Tonnage Tax
Gaming Duties	Value Added Tax
Income Tax for Businesses	Withholding Tax

Four other tax areas were originally identified as potentially required. For three of these, namely:

- Money Laundering
- Estate Tax Treaties
- Insurance Contribution Treaties

there were in fact no IOs using the SCM approach.

The fourth area was National Insurance Contributions ('NICs'). As NICs are closely aligned with other obligations under Employer Taxes or Income Tax for Businesses, the obligations originally allocated to the NICs tax area were reallocated to those tax areas.

4.1.9 Categorisation of IOs into Subject Groups

It became clear early on that a further way of grouping IOs was needed to provide an intermediate level between individual IOs and Tax Areas. It was decided to group IOs into Subject Groups. Subject Groups were then used as:

- an appropriate group of IOs to take to a single business for interview
- a way of navigating the data framework

The aim was to group IOs by reference to how business deals with tax compliance, not by reference to regulation. The IOs in a Subject Group are likely to be dealt with by the same person in business and relate to similar business issues.

IOs were classified by subject group and the classification, and subject group name, input into Ramvab.

4.1.10 Identification of Administrative Activities

The Administrative Activities used were set out in SCM and are the same as those used by the BRE project. The activities that business carried out in complying with the obligation were discussed and analysed during interviews with business, as described in Step 10.

The 16 Administrative Activities set out in the SCM and how they were applied in practice for UK tax regulation are set out in the table below.

Administrative Activity in SCM	**Administrative Activity – practical translation**	**Further description and examples**
Familiarisation	Understanding the requirements	This activity applies from the point when the business has decided to carry out the IO and is the time for staff to familiarise themselves with what they have to do to fulfil the DRs. For example, when a box in a form needs to be completed, the person completing it may need to spend time understanding what should be put in that box.
Information retrieval	Information retrieval	This is obtaining the information required to fulfil the DR. It does not include time to create records, or to store them. For example, before making a capital allowances claim, a business will need to retrieve details of all its fixed asset expenditure in the period.
Assessment	Identifying relevant information	Having retrieved all potentially relevant information, this activity relates to reviewing that information and determining what is required to fulfil the DR. Continuing the previous example, once a business has retrieved all information all fixed asset expenditure, it then has to consider what information it will provide to HMRC when making the claim.
Calculation	Calculation	Performing the necessary calculations needed to comply with the IO. For example, this would include calculation of 25% writing down allowance when making a capital allowances claim.
Presentation of figures	Presentation of figures	Presenting the calculated figures in tables or other formats prescribed by the DR. This covers only the figures required and not the accompanying narrative. An example would be entering the required figures into the Intrastat return. This could include figures in boxes on forms or figures in a table in notification or letter.
Checking	Checking	This covers either a person checking their own work, or review of this work by another individual. This includes checking calculations, reviewing drafting of letters, and checking that forms have been completed correctly.
Correction	Correction	This is the time taken to make any corrections needed if the business's own checks (the activity above) reveal errors in the calculations, or identify other changes required to the DR. This activity does not include time taken to make changes identified by HMRC.

Administrative Activity in SCM	**Administrative Activity – practical translation**	**Further description and examples**
Description	Narrative	This relates to any narrative required for the DR. This includes both writing letters, for example, the writing of a Short Life Asset election letter for capital allowance purposes and completing text boxes in forms, for example entering the business name in a VAT registration form.
Settlement/ payment	Payment	This covers making payment of the tax, charges or other payments due.
Internal meetings	Internal meetings	Meetings held internally between the various members of involved in complying with the IO. For example, this might include a meeting between the tax department and the accounts department to discuss analysis required for the Corporation Tax return.
External meetings	External meetings or presenting in person	This includes meetings with the businesses' external advisors and the requirement to present something in person, for example presenting a document for stamping at the Stamp Office or presenting a Construction Industry Scheme certificate in person.
Inspection by public authorities	Interaction with HMRC during inspection	Businesses must assist external inspectors when they carry out their inspection at the business. This activity covers the time taken to interact with the HMRC person during the visit or inspection. Time spent on retrieving information required by the HMRC person either before or during the visit is included under information retrieval above.
Correction resulting from inspection by public authorities	Correcting errors identified by HMRC	If, as a result of an enquiry or an inspection, HMRC identifies errors or defects, corrections must be made by the business. This activity covers the time taken to make those corrections.
Training	Specific training	The time measured is any training time needed for the particular DR. It is not the cost of a general annual tax update, which is out of scope.
Copying, distributing and filing	Copying and putting on file	This is the time to make a copy of the return/letter/other document and put this copy on a file. It is not the cost of filing the underlying data or storing the files or documents. For example, before a VAT return is submitted to HMRC, a photocopy of the return will be made and put on file.
Reporting and submitting information	Submitting information	Where compliance with an obligation requires the submission of information to either HMRC or a third party, the time to send the information is captured within this activity. This includes, for example sending the Corporation Tax return to HMRC, or issuing year end P60s to employees.

4.2 Step 2: Identification and demarcation of related regulations

4.2.1 Overview

It was essential that regulation for which HMRC is responsible should be included in the tax model and that regulation that other government departments are responsible for is excluded.

This was essential to ensure that:

- there was no double counting of administrative burden
- the administrative burden was allocated to the department responsible for it and thus capable of influencing it; and
- only the burden arising as a result of tax regulation were included in the tax model

4.2.2 Practical application

The general principle adopted in determining the demarcation of regulation was that an IO 'belonged' to the relevant regulation from which it originated, which in turn 'belonged' to the public body responsible for the policy.

All the IOs identified in Step 1 were reviewed and a clear demarcation agreed with HMRC and the BRE project.

In most cases the policy and administration of policy 'belonged' to one department. However, in some cases policy 'belongs' to other government departments but certain aspects of administration 'belong' to HMRC. Where HMRC has issued specific regulation for the purpose of collection or control, that HMRC regulation has been included within the scope of the Project and the IOs arising from that regulation have been analysed and included in the tax total burden.

An example is Employer Taxes. The obligation to provide a payslip to an employee detailing tax deductions does not derive from tax legislation, but rather the Employment Rights Act 1996, which is the responsibility of the Department for Work and Pensions ('DWP'). The payslip is therefore outside the scope of the HMRC project. However, the P60 annual summary of payments to an employee derives from tax legislations and is in scope.

Examples of areas where demarcation issues arose and how they were resolved are shown in Annex D.

The strict approach to demarcation means that only administrative activities and other costs related to tax DRs were covered at interviews and the standardisation of interview data. The whole drive within the model is to cover the burden created by tax regulation only.

4.3 Step 3: Identification of segments

4.3.1 Overview

Segmentation was applied to ensure that the difference in administrative burden was properly captured for different business segments likely to have different business processes. The segmentation variables used were:

Business size:

- Nano businesses – 0 employees
- Micro businesses – 1-9 employees
- Small businesses – 10-49 employees
- Medium businesses – 50-249 employees
- Large businesses – 250 + employees

Business processes:

- Businesses using accountants or other service providers to conduct a substantial part of the process (outsource)
- Businesses complying with the obligations themselves (in house)
- Businesses using e-government solutions
- Businesses not using e-government solutions

Segments specific to particular Tax Areas or obligations where there is likely to be a significant effect on business process:

- Businesses with a P11D dispensation
- Businesses to which IR 35 applies
- Business to which the VAT Tour Operators Margin Scheme applies
- Businesses which are partially exempt for VAT

4.3.2 Practical application

The approach adopted was to consider, for each IO, which segments were relevant. The presumption was that each segment was relevant unless specifically decided to the contrary. Each IO was then reviewed to decide:

- whether, as a matter of law, the relevant tax regulation only applies to businesses of a certain size
- whether, as a matter of practice, the relevant tax regulation is only likely to apply to normally efficient businesses of a certain size
- whether an e-government solution is available, regardless of whether or not a normally efficient business would use the electronic option

- whether the other, very specific segments, apply to a particular IO for a normally efficient business

4.4 Step 4: Identification of population, rate and frequency

4.4.1 Overview

The population, rate and frequency act together as multipliers in the model. In simple terms the SCM requires that:

- each IO has a population number, (that is the number of business affected by an IO or the number of occurrences of the IO)
- each IO has a frequency, (that is how many times in a year the IO has to be complied with where this is a prescribed mandatory periodic occurrence. If it is not a mandatory periodic occurrence frequency is set to one)
- each DR has a rate, (that is the proportion of businesses complying with the IO that comply with a given DR within that IO)

The standardisation of time and resource estimates for each segment by activity is completed first (Step 11). The resulting time and resource estimates are then multiplied by population, rate and frequency to calculate the total burden for a particular IO, which can be looked at either on a UK basis or a by segment basis. Thus these multipliers are a key component in determining the total burden and the relative burden of each IO.

4.4.2 Original approach to gathering population data

Work on Step 4 began on the basis that HMRC would provide population data for each IO and a rate for each DR. The HMRC Project Team spent a large amount of time working with colleagues across the department to identify usable population data. However it became clear early on that HMRC would only be able to provide population numbers for some of the IOs and some overarching figures for industry, process and legislatively specific areas in the model. The concept of an information obligation is new, and HMRC management information systems are not structured in such a way as to record all of this information.

The matter was discussed in detail with HMRC. To seek to deal with this challenge, the next step was to see if a generic population model could be applied in the absence of other data. This proved not to be effective, due to the huge variations in the tax system and the way that obligations affect businesses. For example, many IOs are event driven and only apply if the business chooses to do something or third parties influence its actions.

It was then decided that the only practical way forward was to rely on informed estimates. The approach is set out in 4.4.3 below.

Methodology issue: The difficulty in obtaining population data suggests there is a major gap in HMRC's ability to monitor a key part of its operations – who are its 'customers' and which parts of the tax regulation its customers actually use. This clearly impacts the *model. More fundamentally, better customer data would inform HMRC's approach to policy (strategy), day to day activities (operations) and infrastructure investments (IT, call centre, resource levels). It is recommended that further work is done on population numbers as the first stage in transferring the model to the HMRC teams and developing the model as a living tool.*

4.4.3 Final approach to gathering population, rate and frequency data

4.4.3.1 Total population numbers

The data was gathered, or estimates prepared, for the position at 31 May 2005. In practice this meant taking the best estimate of the annualised population for the year to 31 May 2005.

Population numbers are driven by number of businesses, number of employees or number of events, depending on the relevant IO, how frequency is determined, and what data was available. For example:

- VAT invoice: This is event driven. The frequency is 1 (see below). This is appropriate as the population is the estimate of the number of VAT invoices issued in the UK in the year to 31 May 2005
- number of year end P60s issued to employees: This is driven by number of employees
- Self Employed supplementary pages to the Income Tax return: This is driven by number of businesses

Methodology issue: The model is a snapshot of the tax total burden at a particular point in time, 31 May 2005. The SCM works well for IOs where the number of businesses affected is stable. The SCM works less well for IOs where the number of businesses affected is changing. For example, where there is new regulation it may take some time for the 'stable' population of businesses to emerge. Further thought should be given on how to reflect such trends in the SCM and assess the impact of new regulation.

The estimates of population number were made as follows:

- a KPMG team of five tax specialists reviewed, by IO, the population numbers provided by HMRC and the application of the generic approach. Using their practical experience the KPMG team took a view on whether the number was 'not unreasonable.' If the number was clearly 'unreasonable', the KPMG team proposed an alternative estimate based on their experience and comparability with other population numbers within the data framework
- a series of focus groups was then held with HMRC teams to discuss the amended population numbers for the areas where there was less information available and therefore a greater degree of estimation required. The HMRC teams challenged the numbers, and adjustments were made accordingly. In many cases, HMRC focus groups reduced population numbers, particularly for the rarer IOs
- the outcome is a series of consistent estimates formed by KPMG and HMRC working together as a team

4.4.3.2 Segment population numbers

Once the total population for each IO had been agreed, a generic approach was used to allocate the total population to the different segments for that IO. The generic approach was as follows:

- business size: Small Business Service Statistics were used to provide a percentage split of businesses in each size segment on two bases:
  - number of businesses within the five size segments
  - number of employees employed by businesses with the five size segments

  the relevant percentage was used, depending on whether the total population was by number of businesses or number of employees. If the total population was by number of events (e.g. VAT invoices), the percentage used was generally by number of employees. This is because the number of employees increases significantly with business size as does the number of events
- e-government solutions: The percentage split between each size of business was based on data provided by HMRC. HMRC provided generic data on number of businesses using e-government. This was then applied to the total IO population to work out the percentage undertaking e-government. This percentage was then applied across the various size segments to get the e-government/non e-government split in each
- outsourcing: The percentage split, for each size segment, between businesses dealing with the IO on an in house/outsource basis was based on the percentage split obtained from data collected by the Call Centre which was used to identify appropriate businesses for interview. The Call Centre asked businesses they contacted whether they outsourced the work for IOs in a subject group which the Call Centre was looking to interview about. The answers were collected, even if the business did not agree to a full interview. The data gathered in this way was then used to produce generic percentages using the subject groups and tax areas to add some granularity to the approach. These percentages were then applied to apportion the populations in the in house and outsource segments for each size segment where both in house and outsource segments were appropriate for an IO

Methodology issue: A consistent generic approach was taken. However, it is unlikely that the resulting allocation of population fully reflects the actual number of businesses affected by an IO in each segment. It is important that users of the data framework recognise this and that the segmented total burden should be used with caution. This is an area where further work is needed by HMRC, as the model is taken forward as a living tool.

Methodology issue: Where a small IO population is spread across size segments using the generic approach, this can result in a segment population of less than one. Clearly, this is not a fair reflection and will need to be revisited by HMRC as part of taking this model forward as a living tool. However, it should be noted that rounding these populations up to a population of one has minimal impact on the total burden.

4.4.3.3 Rate

Unless specifically agreed otherwise, the rate for each DR was set at one. This was because either:

- the IO only had one DR (thus by definition a business dealing with the IO must be dealing with that DR), or
- for many IOs, all DRs had to be completed to be compliant with the IO

For some of the key returns, it was recognised that the rate at which a DR is used will vary significantly. The relevant rates for DRs for these returns were given to us by HMRC. The returns affected are the CT600, customs declaration, Income Tax return, P11D, VAT return, Stamp Duty Land Tax return and Intrastat.

4.4.3.4 Frequency

The frequency for each IO was entered by the KPMG team of tax specialists carrying out Step 1. In general the frequency was one. If a return, say, needs to be submitted a number of times each year, the frequency was set at the relevant number. For example the IO relating to the VAT return was split into three separate IOs, one IO for businesses that filled monthly, quarterly or annually. The respective frequency for these IOs was twelve, four and one.

The frequency setting was always considered when estimating population, to ensure consistency and no double counting between the frequency and the population multipliers.

4.5 Step 5: Business interviews versus expert assessment

4.5.1 Overview

The SCM requires that the standard burden of each IO be assessed, either:

- through interviewing a sample of businesses (through face to face interviews, telephone interviews, or focus groups); or
- through expert assessment

HMRC quality requirements stated that to be credible, the exercise should aim to ensure that:

- over 50% of IOs were taken to interview
- all IOs in areas understood to be high irritants/high burdens were taken to interview
- IOs were taken to interview in a way that was relevant to business and made it as easy as possible to identify who to speak to in a business and be as effective a use of their time as possible
- all relevant segments were covered for IOs taken to interview where practical

4.5.2 Application in practice

IOs were allocated to interviews or expert assessment using Subject Groups. Thus, Subject Groups became the key grouping for setting up interviews, running interviews, and so on.

Where possible all items in HMRC's list of key irritants were interviewed. This list is set out in Appendix 3. Not all irritants identified are actually IO related. There are several reasons for this. For example, although PAYE and NICs were interviewed, the 'definition misalignments' are simply a factor in the activities required to comply with those IOs. Another example is 'monitoring the VAT registration threshold' – the cost of monitoring the threshold is not in scope, but only the registration obligation once the threshold is exceeded. Other irritants relate to the need to review business structures, or the uncertainty around which scheme to choose for VAT. Again, these do not relate to a particular IO, although they are a factor in the overall complexity and compliance burden of the tax system. Not surprisingly, however, many of the irritants that are not IO specific were raised by businesses as part of the qualitative stage of the interview. These comments are summarised in Annex C. The list of key irritants originated from the results of various recent HMRC consultations with business and Budget representations.

A set of criteria was developed and applied as follows:

- was the IO capable of being grouped with other IOs into a Subject Group?
- was the IO included in the HMRC list of high irritants?
- is an IO or process encompassing IOs in a Subject Group understood to be likely to produce a high burden?
- if so, could businesses to which the subject group applied, be readily identified?
- if so, the Subject Group was sent to be interviewed either in a face to face or telephone interview
- if not, the Subject Group was sent to be interviewed at a focus group
- if the IO was not capable of being grouped with other IOs into a Subject Group, it was taken to expert assessment

The resulting interview plan, showing Subject Groups and related segmentation, was then used to set up interviews.

4.6 Step 6: Identification of relevant cost parameters

4.6.1 Overview

The cost parameters, or measurement units, applied were as set out in the SCM:

- Internal costs: minutes for each of the 16 activities administrative activity multiplied by average hourly wage per wage group of personnel performing the activity, including overheads
- External costs: fees paid to external advisers

- Acquisition costs: non-time costs of dealing with administrative requirements

4.6.2 Practical application

4.6.2.1 Internal costs

The minutes taken and employee type working on an administrative activity were captured in the interview guide in discussions with businesses.

Nine employee types were identified as typically working in tax administrative activity. The hourly cost to the employer was established by taking the relevant wage for the relevant occupational group from the Office for National Statistics 2005 Annual Survey of Hours and Earnings, and adding a 30% uplift for overhead costs, in accordance with the SCM.

The rate for the self employed 'opportunity' cost was agreed with HMRC, taking a weighted average income from the HMRC 2003/04 survey of personal incomes with an inflation increase to 2005. This was verified in a focus group interview session.

The resulting hourly rates are set out in the table below:

Description of Employee	**Hourly cost to employer* £**
General office assistants/clerks	10.17
Accountant and wage clerk, book-keeper, other financial clerks	11.70
Personnel and industrial relations officers	15.13
Office manager	18.50
Business and finance officers	18.93
Tax experts	19.75
Chartered and certified accountants	23.83
Functional manager	26.94
Corporate manager and senior official	47.70

** Median hourly rate of pay in 2005 from the Office for National Statistics Annual Survey of Hours and Earnings, plus an assumed overhead of 30% (in line with the SCM manual).*

Rate for self employed	**'Opportunity' value of time to self employed £**
Average rate hourly	11.70

4.6.2.2 External costs

Where external advice was used to assist with a particular IO, it was necessary to quantify the external costs charged by the external intermediaries for work done. Data regarding external costs was collated from interview data and focus group interviews.

4.6.2.3 Acquisition costs

Acquisition costs relate to expenditure incurred by a business in order to comply with an IO or DR. Several different types of acquisition costs were identified. These are set out in Appendix 4. The key types are software, storage costs, postage and stationery, and labelling.

4.7 Step 7: Preparation of interview guide

The interview guide was a key component in the data gathering process as it enabled the interviewer to focus on:

- the specific costs (internal time – the 16 administrative activities), external and acquisition costs) required for each DR and IO being covered at the interview
- the relevant hourly cost to the business
- qualitative comments on each IO, DR and other business concerns and suggestions

Interview guides were prepared for each Subject Group. Each interview guide was reviewed before being sent out for use by the interviewers to ensure that there were appropriate descriptions of the Subject Group, its IOs and DRs to enable both the interviewer and interviewee to understand the purpose of the IO and the nature of the DR, as it may affect the interviewees' business.

A sample of interview guides was used in a series of pilots and the learning points incorporated into later interview guides.

Full details of the format of an interview guide are given in Annex B.

4.8 Step 8: HMRC review of Steps 1-7

The work undertaken in Steps 1 to 7 was reviewed and approved by HMRC. The work was formally signed off at a Project Board meeting.

An Advisory Board meeting was held on 2 November 2005 at which an overview of the work undertaken in Steps 1 to 7 was presented. The Advisory Board membership and terms of reference are set out in Appendix 5.

5 Phase 2: Time and cost data capture and standardisation

5.1 Step 9: Selection of typical businesses for interview

Businesses were selected using three methods:

- through a UK based Call Centre working with several commercial databases ('Call Centre interviews')
- through KPMG tax teams targeting businesses in specific industry sectors contacting these through trade bodies, Advisory Board contacts and so on ('targeted interviews')
- through KPMG tax teams setting up interviews with KPMG's PASAS network ('focus groups'). PASAS is a network, which has been developed by KPMG, of independent small accountancy and legal practices across the UK

5.1.1 Call centre interviews

5.1.1.1 *Commercial database*

Businesses were targeted using a database containing over 200,000 UK businesses sourced from several commercial suppliers. Over half of the businesses in the database were nano businesses to ensure that there was a spread of businesses in the database that was broadly representative of the UK business environment.

The database contained sufficient information fields to allow businesses to be identified according to the criteria required by the interview and segmentation plan and to ensure that businesses in England, Wales, Scotland and Northern Ireland were covered.

5.1.1.2 *Selection of businesses for interview*

Businesses were, in the main, randomly selected for interview by the Call Centre. The Call Centre was provided with the interview plan and told for which Subject Groups interviews were to be set up.

A filtering system was used to ensure that the businesses contacted met the segmentation criteria and had experience in dealing with the Subject Group in question. This was to ensure the interview was a good use of the Project's and businesses' time.

In addition, businesses contacted were asked whether they outsourced the work for a particular IO. The answers were collected, even if the business did not agree to carry out a full interview. The resulting percentage split was used to allocate total population for an IO between businesses that dealt with an IO on an in house or outsource basis.

Where interviews were required in industry specific areas or the total business population in a segment was very low, the database was specifically searched for businesses that met the interview criteria. In some cases, the Call Centre was unable to find a suitable business to interview. This was particularly the case for the 'needle in the haystack' IOs

– those IOs where businesses only encounter the obligation infrequently. If it was possible for a suitable business to be identified by KPMG and approached directly to arrange an interview, then a 'targeted interview' was set up instead. If it was not possible to identify specific businesses to interview, but the obligation was one that an accountant or lawyer in practice was likely to have experience of through their client base, the subject group was interviewed in a PASAS focus group. Where no business could be identified, or where no business in a particular sector agreed to be interviewed, and the Subject Group was not one that was suitable for a focus group of small accountancy and legal practices, then the Subject Group was moved to expert assessment.

5.1.1.3 *Arranging the interviews*

A 130-seat UK based commercial contact Call Centre was employed to make the calls to businesses and set up appointments for the interview team.

All Call Centre staff attended a two-day training module. This included Call Centre induction, an overview of the Project, soft skills training, systems training and role-plays.

KPMG, in conjunction with the Call Centre, developed generic calling scripts, appointment letters and appointment emails (these were sent to the businesses with whom the appointments were secured) tailored for each Subject Group. All telephone calls were recorded in case of query or complaint about the call. A system was put in place to ensure that businesses were not contacted more than once unless the business agreed they could be contacted again.

5.1.2 Targeted interviews

For certain types of IO it was not appropriate to use the Call Centre approach. This was either because the IO was relatively rare so that a Call Centre would not find an appropriate business to interview, or that the business was sufficiently large (eg within the FTSE 350) that a direct or trade body facilitated approach from KPMG would be more successful.

5.1.3 Focus groups

For some Subject Groups, predominantly Subject Groups relating to nano or small business, a number of focus groups were held using the PASAS network. The focus groups were led by a KPMG tax specialist. As noted above, PASAS is a network, which has been developed by KPMG, of independent small accountancy and legal practices across the UK. The focus groups were able to cover IOs which business encounter irregularly. Consequently a Call Centre approach for these IOs would not be feasible. Many of the PASAS members have small business clients for whom they provide full outsourcing services so that they were able to contribute practical experience of the issues facing small businesses in complying with these IOs. An example of this type of IO was rollover relief for chargeable gains.

5.1.4 Empirical data collected

Nearly 80,000 calls were made by the Call Centre during the course of the Project. The Call Centre was able to make contact with almost 50% of these, and spoke to the 'decision-making contact' in nearly 20,000 cases. A detailed filtering process, as referred to 5.1.1.2, was then undertaken by the Call Centre to ensure that the business was a suitable interview candidate for the campaign in question. Overall, only just over a third of those decision-making contacts were in fact eligible for the campaign for which they had been contacted. The relative level of take up as detailed is a reflection of the 'long tail' of tax regulations that only apply to a small number of businesses.

Many businesses were keen to participate in the interview process. However, the challenge was finding the 'needle in a haystack' – a business with experience of the IOs in the Subject Group. It became apparent early on in the Call Centre process that it was going to be hard to identify businesses to interview in some campaigns as so many tax IOs are contingent in nature. A huge effort was made to set up interviews, which resulted in 954 interviews being successfully conducted and a great deal of empirical data collected. Over 50% of the IOs were interviewed and over 70% of the administrative burden in the model is directly informed by IOs that were interviewed.

5.2 Step 10: Businesses interviews

5.2.1 Business interview methods

Interviews with business were carried out by one of three methods

- face to face
- telephone
- focus groups

5.2.2 Business Interview Process

The same highly structured approach was taken in all interviews. An interview guide was created for each interview and was used in same way by all interviewers. An example of an interview guide is included in Annex B, with the 'quick reference' guidance cards that were provided to interviewers to assist them in conducting the interviews and recording the businesses' responses.

All interviews (including focus groups) followed the same process. The interview was conducted considering one IO at a time. The whole drive of the interviews was to focus on what business actively had to do, the time and resource spent by that business on completing a particular IO. The interview gathered empirical data on:

- internal costs, looking at the administrative activity time and the level of the staff used to carry out that activity. The business was asked for the total time it would take to comply with the IO. The interviewers then asked the businesses to consider each of 16 administrative activities, decide which were needed to fulfil each DR, what level of staff would conduct the activities and then to put a time against each activity. The activity times were then added to give a total time for that DR. The results for each DR were then added up to give a total time for each IO. In the event that the total time arrived at by adding up the DR differed from the original time that the business had attributed to the IO, the original IO time was adjusted

- external costs, asking business about fee levels paid to external intermediaries
- acquisition costs, asking business about non-time costs incurred solely to deal with the IO. Interviewers were given guidance on the likely acquisition costs to discuss

In addition, the interviewers captured any qualitative comments that the businesses made either on the IOs being interviewed, or any other dealings with HMRC. These were captured under the headings:

- Irritations
- Simplifications, and
- Examples of best practice

A summary of this feedback is included in Annex C.

Once the interview was completed, the interviewer was responsible for completing an upload to the Ramvab site within 24 hours of completing the interview.

Regional Managers were responsible for filing a daily report of interviews conducted, whether they were successful or not, and any issues arising. Regular conference calls were held with the Regional Managers to address any issues arising, and communicate any updates as necessary.

5.2.3 Training of interviewers

Interviewers were selected based on their performance at an assessment centre, which included carefully controlled exercises simulating the interview process itself along with the use of Ramvab. Eight Regional Managers and 55 interviewers were selected to conduct the interviews.

Interviewers and Regional Managers undertook a training programme to understand the HMRC project, interaction with the Call Centre, use of interview guides, how to complete the interview documentation, and how to upload to Ramvab. Interview simulation exercises were also undertaken.

Regional Managers were responsible for a team of interviewers in their area. They acted as the main point of contact for any queries the interviewers had with appointments, technology, interview techniques and so on. Regional Managers were also responsible for quality assuring the interviewers by observing them during sample interviews (an interview observation form was designed specifically for this purpose) and providing feedback.

5.3 Step 11: Completion and standardisation of time and resource estimates for each segment by activity

5.3.1 Overview

The aim of the standardisation process is to make an assessment of the time and resource it takes a normally efficient business in each segment to comply with an obligation. The definition of a normally efficient business is defined in the SCM as one that handles their administrative tasks in a normal manner, i.e. neither worse nor better than may be reasonably expected.

The standardisation was done using the two methods outlined in the SCM:

- standardisation of IO time and resource using interview data
- standardisation of IO time and resource where no interview data is available – 'expert assessment'

The standardisation process was applied to each of the prescribed time and resource measurement units – internal time (the 16 administrative activities), external costs and acquisition costs.

A team of 13 KPMG tax specialists, from all key tax areas, were employed to standardise the IOs. Prior to commencing this phase of the project, the team attended a two day course to ensure a complete and consistent understanding of the standardisation process. The course ensured that each team member understood the concept of a normally efficient business, was clear on the methodology of standardisation and was confident in entering the data onto Ramvab. Each team member was provided with a comprehensive standardisation toolkit containing process flow charts and guidance.

The team was divided into three sub-teams of Indirect Tax, Direct Tax and Employment Tax. The overall team was led by a standardisation team leader. The teams were co-located and held regular meetings to discuss the issues arising. This was key to ensuring a consistent approach across all tax areas.

What constituted a normally efficient, and compliant, business was determined by the specialist on a segment by segment basis, who formed a view as to what was the norm for that segment. Several factors were taken into account when determining the norm for example, the typical degree of automation, the approach to risk and how frequently or regularly a business in that segment would be likely to encounter the IO (that is, the degree of familiarity).

5.3.2 Practical application

5.3.2.1 Standardisation of IOs using interview data

The first stage was the standardisation of the IOs that had been taken to interview. The quantitative interview data was compared with the tax specialist's own assessment of how long it would take a normally efficient business to carry out the particular obligation. If consistent, the time and resource were entered into Ramvab. Where the data did not support the tax specialists' initial assessment, further analysis of the qualitative data from the businesses was undertaken to attempt to identify the source of the discrepancy, discussions were held with the relevant team leader and standardisation team leader, prior to entering the standardised time and cost estimates into Ramvab. This discussion sought to understand the discrepancy. For example, did it reflect very different business models, what did the accounts of the business show, was some of the data unrepresentative of a normally efficient business, was the data a more accurate reflection of the actual business process, could the rest be averaged and so on.

In most circumstances, the standardisation process was carried out at the DR level. This standardisation was carried out for:

- internal costs looking at the administrative activity time and the appropriate employee type carrying out the activity
- external costs looking at the interview data on fees paid to external intermediaries
- acquisition costs looking at the interview data and ensuring consistency based on some overall cost assumptions and demarcation of costs with other IOs

5.3.2.2 Standardisation of IO where no interview data is available – 'expert assessment'

The second stage was the standardisation of the IOs where no interview data was available.

The initial approach was to consider whether any generic rules could be applied to these IOs based on the interview data.

Two tools were developed with this in mind. The first was an 'IO predictor', a spreadsheet-based tool which incorporated the results (in minutes) derived from the interview data to predict the time likely to be taken for a particular IO, based on IO type, number of DRs and various other criteria.

The second was a very similar tool to predict the distribution of activities for a particular DR based on a series of dominant patterns.

However, despite spending considerable time and effort on developing these tools, when they were applied in practice to IOs, the results did not appear particularly meaningful. This is another reflection of the fact that it is not possible to apply generic rules to tax. (The same point arose in the context of populations as noted above at 4.4.2 above.) It became clear that there was no substitute for a manual standardisation process.

Estimates were therefore derived using the tax specialists' own assessment of the time and cost requirements of a particular obligation, based on their experience, consultation with other KPMG tax specialists, and taking into account relevant results, trends and consistencies noted from the experience gained through standardising the interview data related IOs.

The standardised time and resource measurement units were then input into Ramvab.

5.3.3 Key issues arising

Set out below are the key methodological issues common across all tax areas.

5.3.3.1 Demarcation of IOs

Normally efficient businesses are unlikely to duplicate activities to meet their obligations under different IOs. However, where this situation does arise, the burden of those business activities has been allocated between the different IOs to avoid double counting.

Examples of demarcation split between IOs

Regulation/ IO/DR	Related Regulation/ IO/DR	Demarcation description	Effect of cost allocation
EC Sales List	Intrastat return	Businesses typically used some of the data gathered for the Intrastat return to complete the EC Sales List.	Some data gathering costs excluded from EC Sales Lists IO to avoid duplication.
Corporation tax return	Company financial statements	The burden of computing the corporation tax liability for the corporation tax return has not included the burden involved in preparing the tax disclosure note for the company's financial statements.	No effect for this project.
Employer's annual reports to HMRC	Employer's provision of information to employees	An employer has to provide information to HMRC on employment income earned during the year for each employee and also any employee benefits provided in the year. Copies of this information have to be provided to the employee.	The burden has been allocated to the returns that need to be submitted to HMRC. The burden of providing information to employees is mainly copying the information provided to HMRC. The latter burden is of course, included in the burden calculated for third party obligations.
Corporation tax return	Capital allowances claims	A number of IOs which are claims for relief are typically included within the corporation tax return.	The burden allocated to the corporation tax return is in the main related to its completion. The burden relating to particular claims, including those within the corporation tax return, are allocated to the relevant claim for relief IOs.

5.3.3.2 'Piece of string' IOs

The regulations contain IOs that proved a challenge to standardise due to the potential wide ranging scope of the obligation. The terminology used for this type of IO during the standardisation phase was 'piece of string' IOs. For each of the 'piece of string' IOs a consistent methodology was applied by the team based upon both interview data and expert assessment. The reason that this methodology was important was that there are a fairly large number of contingent IOs relating to appeals and enquiries.

Examples of 'piece of string' IOs are appeals to the Commissioners and HMRC enquiries.

An HMRC enquiry may simply be the request for information regarding one particular entry within a return. On the other hand, the enquiry may be a full enquiry requiring the business to produce a significant number of documents and explanations. The length of the enquiry from the initial HMRC notification until its closure can also vary significantly.

Appeals to the Commissioners vary in cost and duration. They can also vary significantly depending upon the nature of the issue being debated.

5.4 Step 12: HMRC review of Steps 9-11

The work undertaken in Steps 9 to 11 was reviewed and approved by HMRC. The work was formally signed off at a Project Board meeting.

An Advisory Board meeting was held on 11 January 2006 at which an overview of the work undertaken in Steps 9 to 11 was presented.

6 Phase 3: Calculation, data submission and reports

6.1 Step 13: Extrapolation of validated data to total level

6.1.1 Overview

The aim of the extrapolation is to bring the different parts of the model together to apply the SCM formula: Activity Cost = Price (*time x tariff*) x Quantity (*population x rate x frequency*).

6.1.2 Practical application

This calculation was performed by Rambøll using the database system. The calculations included the calculation of the relevant numbers for inclusion in the tables in the report.

6.2 Step 14: Reporting

The purpose of the report is to document how the model was prepared and to set out certain tables as initial findings and as an indicator of the power of the data framework. The format of the report was prescribed by HMRC.

6.3 Step 15: Transfer of data framework

6.3.1 Overview

A Microsoft Access database was constructed to transfer the data collected in Ramvab to HMRC for future analysis and modelling.

No time and cost data from the actual interviews was transferred; the only data transferred was the standardised data.

All qualitative interview notes were fully anonymised prior to the transfer. If qualitative interview notes could not be anonymised, for whatever reason, the interview notes have not been transferred to HMRC.

6.3.2 Practical application

The construction of the database and its transfer to HMRC was performed by Rambøll working directly with HMRC.

6.4 Step 16: HMRC review of Steps 13-15

The work undertaken in Steps 13-15 was reviewed and approved by HMRC. The work was formally signed off at a Project Board meeting.

An Advisory Board was held on 22 February 2006 at which an overview of the work undertaken in Steps 13-15 was presented.

Appendix 1 – Marginal cost

Overall aim

The aim of the model is to measure the 'marginal cost' of tax, that is, the additional burden caused by tax system, and not the 'business as usual' costs. Another way of putting this is that we aimed to measure the cost that would fall away if tax were abolished overnight.

Approach taken through project methodology

The way that this Project has been conducted means that only marginal cost data has been collected.

The starting point for the Project was to identify the tax regulations. One of the first steps undertaken was demarcation. This ensured that the model would only measure the regulations 'owned' by HMRC and not regulations 'owned' by other departments.

The tax regulations were then broken down into IOs and DRs so that we could measure the underlying activities. Thus, the activities to be measured all have a tax regulation origin.

As regards the interview process, there are, conceivably, two ways in which a business could be interviewed. First, the business could be asked about all its administrative activities, and then asked to drill down to those that are required for tax. Alternatively, and this is the route chosen, the business interviews could start with the DR and then explore the activities required to fulfil that DR. In theory, either approach should achieve the same result. However, trying to achieve clarity and consistency using the first approach is a lot more difficult. Starting with the tax DR gives a clear boundary as to the elements of the process being examined.

When conducting the interviews, the interviewers were provided with a guide that set out the tax DRs with boxes to fill in for the related activities. It was reinforced at interviewer training that the times recorded should be those for complying with the tax DR only, and not the whole business process.

The next step was to standardise the interview data. The standardisation team also focussed on the cost of the tax DR in question, ensuring that no business as usual costs were measured.

Examples in practice

There are some well-known examples where it was anticipated that identifying the tax marginal cost might cause difficulties. These include the issue of a tax invoice for VAT purposes, the P60 year end notice to employees and the preparation of accounts in order to complete a tax return.

Tax invoice

There is clearly tax regulation that requires a VAT invoice. As noted already, the tax regulations have been analysed into tax IOs and DRs, so that all fields on the tax invoice that are mandatory for tax purposes have been identified. These DRs include the value of the supply, the VAT registration number of the supplier issuing the invoice as well as their name and address.

An invoice may have other information on it. For example, it may give details of payment terms, or any applicable late payment penalties. These are not tax mandatory requirements and so the cost of including them on a tax invoice has not been measured.

Another way of looking at this is to ask what would a normally efficient business do if there was no VAT. There is no one answer to this question – a lot would depend on the type of business. However, it is likely that if businesses were free to collect their income in any way they chose, they could almost certainly find more efficient ways of collecting cash and recording who owed them money. We have interviewed businesses who have said that they would not issue any invoice at all. Other businesses might use cash in hand, accept copies of purchase orders instead of issuing the invoice, alternatively e-payable systems or "bill presentment" as is used in the US.

If the tax obligation and associated DRs were abolished overnight, the mandatory tax invoice fields would fall away and businesses would be able to make whatever arrangements were most suitable for collecting cash. Therefore, the whole cost of the tax DRs relating to the VAT invoice has been treated as a marginal cost for tax.

P60

This form is required to be provided by the business at the end of the tax year to each employee to show tax deducted in the year. Many elements of the payroll process are not tax obligations. For example, the payslip is a requirement of employment law rather than a tax requirement. Also, deductions from salary for student loans are out of scope as HMRC does not 'own' the policy for Student Loans. However, the P60 is a tax IO. As for all other IOs, this has been analysed into the tax DRs, for example the statement of deductions made, and the activity time for only these tax DRs measured.

As for the tax invoice, the other way of looking at this is to ask what would a normally efficient business do if there were no PAYE or NICs. Again, there is no one answer and much will depend on the type of business and type of employees. The payslip would, of course, still be provided under employment law. There may well be no need for an annual statement in addition to monthly payslips. If the employee needed a salary confirmation for a loan or mortgage, this could be provided by letter.

The only reason that an employee really needs a P60 is to complete his or her own Income Tax return. If the tax DRs were abolished overnight, the mandatory P60 fields would fall away and businesses would be able to choose what annual salary statement would be provided, if any. Therefore, the whole cost of the tax DRs relating to the P60 has been treated as a marginal cost for tax.

Preparation of accounts

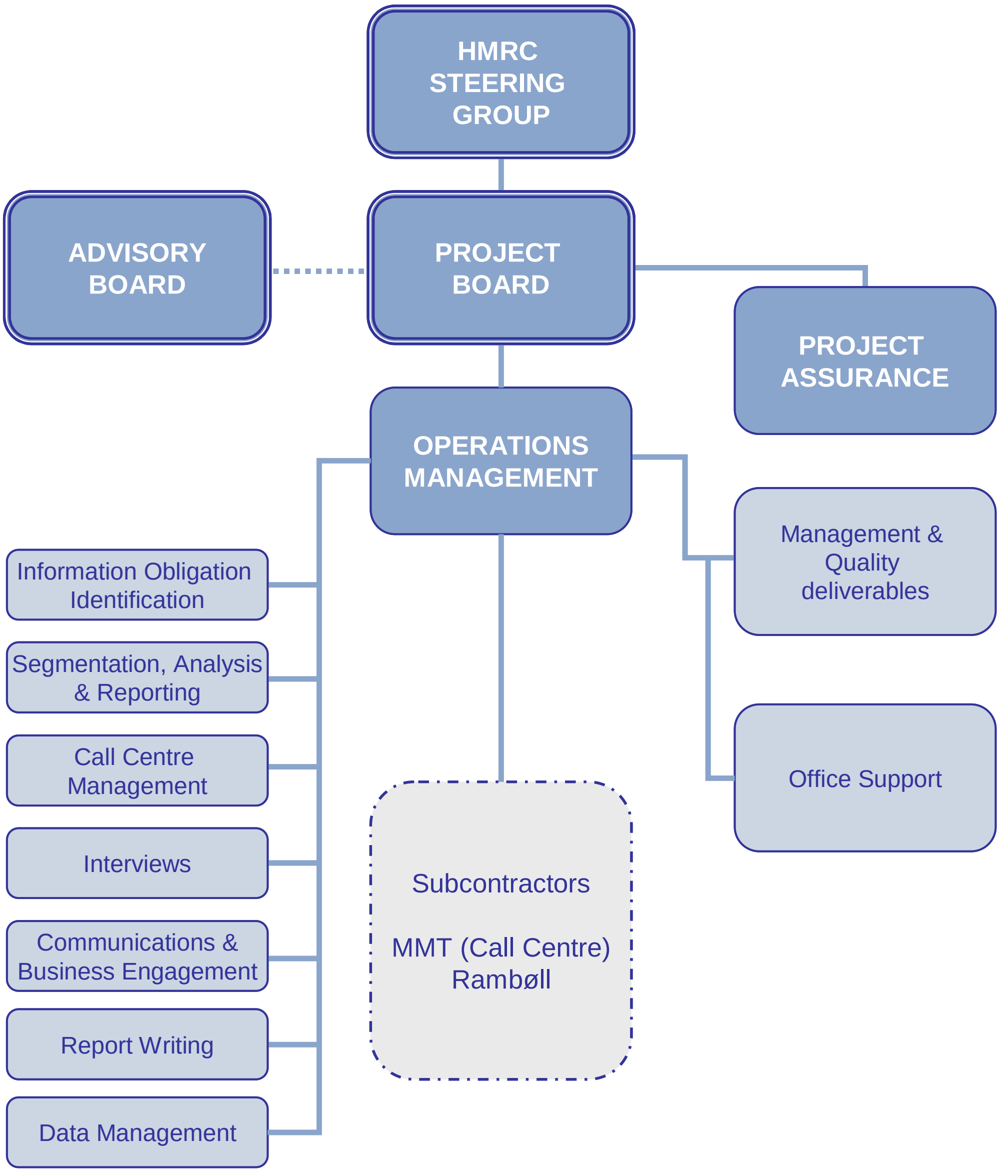
Preparation of statutory accounts for incorporated businesses is required by Companies House and so is clearly outside the scope of the project. However, the position for unincorporated businesses requires further consideration.

As for the previous examples, the starting point is the tax IO and the associated DRs. The Self Employed supplementary pages to the Income Tax return contain DRs such as the turnover and allowable deductions. The activity time measured at interview was for complying with the tax DRs only. At interview, the time captured was the time taken to extract data for the tax return, and not the time to record the underlying data. In practice, the accounts preparation and Income Tax return preparation are intertwined, so this required businesses to make a slightly artificial separation of the two processes.

Looking at what a normally efficient unincorporated business would do if there were no tax requirement, again there is no one answer. Although it might be considered to be good business practice to prepare some form of accounts, and banks would be likely to request accounts before making a business or personal loan, not all businesses would prepare accounts in the absence of the requirement to prepare a tax return.

Again here, we have only measured the burden of complying with the tax DRs. Arguably, this may be an under-measurement as the cost of preparing accounts may be viewed as an integral part of preparing the Income Tax return. However, the approach taken is consistent with all other DRs in only measuring the tax-specific DRs.

Appendix 2 - Structure Chart



Appendix 3 – HMRC 'high irritants'

In prioritising the allocation of IOs to the fieldwork exercise, HMRC asked us to ensure that most or all of the key things that irritated businesses were measured via interviews with business. The list of key irritants was supplied by HMRC and was drawn from a variety of sources such as recent consultations HMRC had conducted with business and Budget representations made by the key representative bodies.

Tax Credits

- payment via the employer

Payroll : PAYE/NICs

- benefits in kind generally, and specifically allowable expenses
- accounts basis for directors
- PAYE settlement agreements (PSAs) – particularly impact of Class1B NICs
- expenses dispensations
- Tax/NICs definition misalignments
- Class 2/4 NICs – different basis for calculation
- NICs deferment for directors – complexity
- periodic calculation for NICs – different rules for tax and NICs
- 1% NICs surcharge – difficulties where more than one employment or both employment and self employment
- compulsory e-filing for small employers
- Form 42 reporting
- P46 procedures
- IR 35 – status disputes

Construction Industry

- Construction Industry Scheme – presentation of documents

Income Tax

- capital allowances generally, and specifically expensive cars, leasing, definitions

Corporation Tax

- adjustments to commercial accounts to produce taxable profits
- R & D Tax credits
- de minimis level for bank interest received by non trading companies such as flat management companies
- need for regular review of business structure due to differing rules for IT and CT
- quarterly instalment payments
- transfer pricing
- group relief and group payment arrangements
- close company rules

VAT

- VAT registration by charities – complexity of process if a charity
- VAT registration – monitoring taxable supplies to ensure below VAT threshold
- VAT – Tour Operators Margin Scheme
- VAT – uncertainty regarding best scheme to choose e.g., FRS/annual accounting
- VAT – complexity around composite supplies
- determining the VAT liability of goods and services
- identifying non-recoverable VAT
- applying for changes to registration or changes to group registration
- quantifying the value for VAT of goods and services
- land and property issues – partial exemptions
- transfer of going concern
- business/non-business transactions

International Trade

- tariff classification
- the need to provide original documentation
- charges made for Customs Examinations
- scanning of Containers
- community Transit

Stamp Duty

- Stamp Duty Land Tax – change to self assessment

Capital Gains Tax

- capital gains – non-retrospective changes to taper relief mean complex time apportionment calculations. Difficulties of ascertaining 1982 values
- reporting of gains from life policies - cost to insurance industry disproportionate to tax raised

Miscellaneous

- pensions

Appendix 4 – Acquisition costs

Several different types of Acquisition Costs have been identified as being applicable to tax and an overview of each is set out below. These Acquisition Costs are included in the model as part of the cost of what business actually has to do to be compliant with the relevant part of the tax regulation.

Software costs

Software costs relate to any extra expense that a business incurs over and above its normal IT infrastructure purely in order to comply with tax.

Example: a business that deals with its corporation tax compliance work in house may license a specific type of software to assist with the preparation of the corporation tax computation and corporation tax return. The business will have acquired the software solely for this purpose. Therefore the software cost is recorded as a cost of complying with the obligation.

Software costs are measured as a per annum amount. The annual license fee, any annual maintenance costs and any up front costs depreciated over the life of the product will be included.

Storage costs

Storing hard copy documents and records by a business can require the use of archive or warehouse facilities. Where a business is required to maintain records solely for tax purposes and the cost associated with this is over and above the normal business costs of storage then the additional storage costs must be recorded. This cost is recorded on a per annum basis.

Example: A business that exports goods is required to retain documentary evidence that proves the goods have physically left the UK (such as a Customs endorsed Single Administrative Document, seaway bills, airway bills, bills of lading). A large exporter is likely to archive these records and will incur an expense for the warehousing facilities required to do this.

Postage and associated stationary costs

Business is often required to post something to HMRC or to a third party. Where this is the case a postage cost including a stamp, an envelope and paper is recorded. The postage element is recorded on a 'per incident' basis, i.e. a postage cost is recorded for each item posted to HMRC or to a third party.

Example: An employer with an approved occupational pension scheme must provide a notice of intention to elect to contract-out the scheme from the state second pension to various parties. This is usually done by post and thus a postage cost is incurred. Or, taking another example, a sub-contractor within the 'construction industry scheme' applies to

HMRC to obtain a certificate allowing them to be paid gross of tax and NIC by its contractors. The application will be sent to HMRC by post and a stamp will be required.

Labelling

Business may be required to carry out some form of labelling, to be tax compliant. The costs for labelling could include: bar coding, tobacco ’duty paid‘ stamps/labels and ink/paint for marking of large containers. A value is recorded in relation to these on a ‘per incident’ basis.

Example: Packets of cigarettes or other tobacco products must have a tax stamp applied to them in accordance with the UK agreed markings. A tobacco manufacturer/distributor therefore incurred the cost of this ‘labelling in its production line’ in part due to the tax regulation.

Appendix 5 – Advisory Board membership and terms of reference

Name	Organisation
Rachel Anderson	KPMG
Ian Barlow (Chair)	KPMG
Richard Baron	Institute of Directors
Tracey Chevannes	Institute of Payroll and Pensions Management
Pat Cobham	Forum of Private Business
Anna Coutts-Donald (Secretary)	KPMG
Ian Dewar	Institute of Chartered Accountants of Scotland
John Dunsmure	British Chamber of Commerce
Fiona Fry	KPMG
Frank Haskew	Institute of Chartered Accountants in England and Wales
Steve Hill	British Chambers of Commerce
Andrew Hubbard	Chartered Institute of Taxation
Martin Jones	Business Representative
Samantha Mann	Institute of Payroll and Pensions Management
Craig Richardson	HMRC
Suzanne Roberts	Business Representative
Marcus Sephton	KPMG
Simon Sweetman	Federation of Small Businesses
Mike Templeman	Institute of Directors; Confederation of British Industry
Karen Thomson	Institute of Payroll and Pensions Management
Steve Webster	HMRC
Sara Woollard	HMRC
Mervyn Woods	Confederation of British Industry

Terms of Reference

Remit

Advisory Board (AB) members have been drawn from the business community (in particular from HMRC's established Better Regulation Consultative Committee), and have experience of dealing with the tax system as either a business tax-payer or as an intermediary. It will be chaired by the KPMG Lead Partner and membership also includes relevant HMRC and KPMG representatives from the Project Board (PB).

The AB business members will act as external expert advisors, and will provide feedback, advice and guidance on the project. The key role will be to monitor the progress of the work, by comparing the emerging findings with their own experience of dealing with the tax system. AB business members may be asked to facilitate contacts between the contractors and businesses, and to provide assistance to the panels of experts, if required.

The AB will provide advice to the PB. Should the PB feel unable to take on board AB advice on important issues, this will be referred to the Steering Group, which is the

HMRC group overseeing the wider Simplification and Administrative Burdens Reduction project.

The AB will be bound by the same confidentiality constraints as the HMRC Better Regulation Consultative Committee. AB members may from time to time receive documents in addition to the board papers, for comment in a personal capacity, and should not be circulated. These documents will be clearly marked as such.

Process

The AB will meet approximately three times during the project life-span. These meetings will be timed to coincide with key decision points and emerging findings, as set out in the Standard Cost Model.

Meetings will focus on progress reports from the project team and contractors, through open discussion, questions and suggestions. Specifically, members will be asked to:

- consider and comment on reports on progress to date
- discuss proposals for the next stage of the project and provide input and insight as appropriate
- provide advice on specific issues raised by the Project Board relating to tax and business engagement

Papers will be sent prior to meetings; and members will be actively encouraged to comment via correspondence in between meetings. A note of each meeting will be distributed and action points followed up by the project team.

AB members may also be approached individually, according to their particular expertise or contacts, to comment on particular aspects of methodology or results.

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