

ADMINISTRATIVE BURDENS ADVISORY BOARD

David Gauke MP

Financial Secretary to the Treasury

HM Treasury

17 December 2014

Dear David,

IMPLEMENTATION OF REAL TIME INFORMATION (RTI)

I am writing to you in my capacity as Chair of ABAB to set out my Board's views on HMRC's finalisation of its estimation of the costs and benefits of the implementation of RTI. I do so now to coincide with HMRC's publication of a revised Taxes Information and Impact Note (TIIN), and the Department's welcome identification of lessons learnt (in Jim Harra's recent letter to me, attached).

As you know, ABAB has long supported RTI as a worthwhile modernisation of PAYE system, and has engaged with HMRC throughout its implementation. We believe that we have helped the Department to identify and address key issues, such as 'on or before'. Given today's publication of a revised TIIN, and Jim's letter, I wanted to register some key points with you.

First and foremost we very much welcome the terms of Jim's letter and its identification of significant lessons learnt (in terms of the approach to the estimation of impacts and benefits) and HMRC's commitment to act upon them. In particular we strongly endorse the approach to take a more rounded view of costs and benefits, and to doing more to check and test against the (often varied) experiences of businesses on the ground. Significantly earlier engagement with business and the tax profession to get their perspectives on how changes impact business in practice is essential and we strongly encourage the Government to support HMRC in the application of this improved way of working.

ABAB also very much welcomes the positive way that HMRC has engaged with us in re-examining the costs and benefits of RTI. The process is another good example of effective working with HMRC, with HMRC readily sharing data and analysis. Significantly, this has helped us get to a much clearer picture of the transitional costs associated with the implementation of RTI. We consider the revised figure (£292 million over a period of years) to be a much more realistic statement of those transitional costs.

As you will recall, ABAB has had significant concerns (as flagged in our Annual Report) about HMRC's estimation of ongoing benefits. A primary concern has been the estimation of benefits based solely on the use of HMRC's Standard Cost Model (SCM), and we therefore welcome HMRC's recognition that such an approach is too crude and fails to take sufficient account of the 'reality on the ground'. Some of the 'distortions' between the SCM and reality on the ground we've seen on RTI have been, for all sorts of reasons, particularly

acute for those small businesses moving to on or before reporting (from an annual basis), and for those employers already benefitting from payroll software.

So, we continue to be sceptical about the overall benefits figure as derived from the SCM (surprisingly, relatively unchanged in the light of the significant further work done). As a Board we have long been wary of the use of the SCM to arrive at aggregate totals and as a measure for targets, although we accept that there is a role within any cost/benefit measurement system for a standardised approach. While we accept that the SCM is as a model reasonably sound (in terms of how it captures obligations and costs them), in this particular instance we believe that there is a marked difference between the savings that the model identifies (based on its own logic) and the reality of savings experienced on the ground. Our sense is that the actual experience of savings of time/effort/cost amongst employers, agents and payroll bureau is nowhere near as great as the model says.

We recognise that HMRC and Government are committed to the use of the SCM for the estimation of business costs and benefits, as it provides an understood and consistent methodology, and it is unrealistic to imagine that there could be a switch to a completely different approach/model at this late stage in respect of RTI or more generally. So we recognise that HMRC is going to score the RTI-related benefits as per the SCM against HMRC's target.

That takes us back, however, to the lessons learnt and our conviction that in the future the approach adopted to benefits estimation must be a more rounded one, crucially drawing on a wider range of tests and measures. We think the lessons learnt, and HMRC's commitment to act upon them, are the real prize here and we are very encouraged to see that HMRC have readily accepted the OTS's recommendation to carry out a post-implementation review into RTI. The OTS recommendation specifically pointed to the need to look (in conjunction with the DWP) at whether full 'on or before' reporting is necessary in all circumstances and what further scope there is to extend/harmonise easements for small employers. My Board fully endorses this and looks forward to working with HMRC to develop and then support the application of those lessons, as part of our continued engagement and commitment to helping to make a real difference for small businesses.

Yours sincerely,

Teresa

[via email]

Teresa Graham CBE



Jim Harra

Business Tax

2E/07, 100 Parliament Street

London

SW1A 2BQ

Teresa Graham CBE

Chair, Administrative Burdens Advisory Board

Tel: 03000 586287

Email: Jim.harra@hmrc.gsi.gov.uk

15th December 2014

Dear Teresa

IMPLEMENTATION OF REAL TIME INFORMATION (RTI)

ABAB, in common with others in the business and professional community, has played a valuable part in the successful implementation of RTI and I want first and foremost to thank you and your Board colleagues for that contribution. I am writing to you now to outline how HMRC is approaching the finalisation of the work on costs and benefits (given ABAB's specific engagement with that), and to set out for you the important lessons we are drawing from this aspect of RTI implementation.

Reflecting on ABAB's overall engagement with RTI implementation it is clear to me that you have fulfilled a constructive and effective challenge function, helping us, for example, to identify a pragmatic way forward on the 'on or before' issue. On costs and benefits, you have helped us get a much better handle on transitional costs and tested us vigorously on benefits. Most importantly in all this your scrutiny has helped us to identify some important lessons which bear on how we (HMRC) can better approach the estimation of costs and benefits of major changes to the tax system, and the representation of them.

I want to focus on the lessons learnt because I know these matter a great deal to ABAB – just as they do to HMRC. I think it is only fair to say that our development and implementation of RTI has been powerfully informed by customer feedback and input – whether through detailed user testing of the service itself, via groups such as ABAB or RTI Customer User Group, or through engagement with payroll professionals and the payroll software industry. External research has also given us a representative view of employer experience, as well as the scope to explore issues of concern in more detail. On the specific issue of costs and benefits, however, it is equally clear that we were less

successful in bringing customer insight to bear as early and effectively as we could and should have done. The lessons we draw from this are:


- although we believe our Standard Cost Model (SCM) is a valid model, the estimation of benefits to business based solely on the use of the SCM is too crude an approach for large changes such as RTI;
- consequently it is essential to take a more rounded view of costs and benefits and to do more to check and test what the model says against experience on the ground – by engaging even more and earlier with business and the tax profession to get their perspectives (recognising that those are in turn likely to be diverse, as has proved the case with RTI); and
- our representation of costs and benefits needs then to reflect more transparently that more rounded view.

I can assure you that these lessons are clearly recognised by HMRC. We are committed to acting upon them. Indeed we already are with more effective and open consultation processes associated with significant changes to the tax system, and more rigorous internal challenge on customer impacts in our new change processes.

Given the detailed engagement process on costs and benefits has come to an end it is now appropriate to publish our final estimation of the costs and benefits of RTI. We will very shortly be publishing an updated Taxes Information and Impact Note (TIIN) on our website. That TIIN will feature the re-estimation of transitional costs (an increase to an estimated £292m over the period 2012/13 to 2014/15), and of ongoing benefits (a reduction to £292m). HMRC will continue to monitor the implementation and ongoing operation of RTI to make sure that it runs smoothly and efficiently for employers, and a post implementation process next year will include consideration of impacts on business.

In conclusion I would again like to thank ABAB for their constructive engagement with RTI implementation here, and more generally with our wider agenda to take tax easier, quicker and simpler for small business.

Yours sincerely



JIM HARRA

Director General, Business Tax