

ADMINISTRATIVE BURDENS ADVISORY BOARD

2015 ANNUAL REPORT

*Working with HMRC to make a noticeable
difference*

March 2015

REPORT SUMMARY

ABAB's overall assessment of HMRC

- Further good progress towards the goal of delivering material improvements in the experience of small business dealing with tax
- Welcome developments in the digital arena with new and enhanced services and significant improvements in the support and guidance offered to small business, together with promising plans for the future
- While recognising efforts to improve matters, we remain concerned that service levels, notably on phones, are too often still poor
- HMRC is taking positive steps to change its culture to embed a stronger focus on the taxpayer through its Building our Future programme and new performance measures framework

Key ABAB activities during 2014/15

- Driving out significant lessons learnt from the implementation of Real Time Information (RTI) and securing HMRC's commitment to act upon them
- Proactively engaging with DWP to raise our serious concerns about the impact on the self-employed of the introduction of Universal Credit
- Contributing to HMRC's refresh of its small business strategy, in particular to ensure that the strategy reflects the needs of the very smallest businesses and helps to address perceptions that small businesses are 'easier targets'
- Working closely with HMRC to redesign of a suite of VAT letters, helping to identify some common principles – directed at greater clarity and simplicity – which can be applied across a broader range of HMRC's letters

ABAB's top priorities for 2015/16

- Challenging HMRC to be bold in the delivery of its digital ambition, as a key means of making a noticeable difference
- Strengthening our awareness of the full span of new HMRC initiatives impacting small businesses to maximise ABAB's ability to influence such initiatives as early in the development process as possible
- Continuing to address the significant implications for the self-employed of the introduction of Universal Credit (and transition out of Tax Credits)
- Ensuring HMRC embeds the lessons learned from RTI in relation to assessing customer costs and benefits, so that such assessments better reflect day-to-day impact on small businesses
- Encouraging contributions to our agenda and work from business

INTRODUCTION

1. This is the **Administrative Burdens Advisory Board's (ABAB)¹ second Annual Report** since, in December 2012, David Gauke, Financial Secretary to the Treasury, strengthened the remit of the Board. The Report reviews the last 12 months and looks ahead to outline our priorities for the year ahead.
2. ABAB's **primary goal remains to 'make a noticeable difference'** for small business and our approach is to operate as an **independent 'critical friend' to HMRC, offering constructive challenge and support** where necessary. We remain firmly committed to the goal of a simpler and easier tax system for small business, and given our business experience we believe we are well placed to 'tell it like it is'.
3. Last year we noted that overall HMRC had continued to make good progress in its goal to deliver material improvements in the experience of small business dealing with tax, and that there were some welcome and significant improvements delivered or in train. We are **pleased to have seen this positive trajectory continue in 2014/15, particularly with developments in the digital arena with new and enhanced services and significant improvements in the support and guidance offered to small business**. At the same time, while recognising efforts to improve matters, we remain concerned that service levels, notably on phones, are too often still poor, and believe this demands continued attention.
4. We note and welcome the **positive steps HMRC is taking to change its culture** to embed a stronger focus on the taxpayer, through implementation of its Building our Future programme and the development of a new set of performance measures. We see both of these as powerful steps, and are keen to support HMRC in maximising their impact.
5. The Board has appreciated the **continued positive engagement with HMRC's Executive Committee members** and the candid debate with them about the direction HMRC is taking and the challenges the Department faces in doing so. We have also **valued the personal engagement of the Financial Secretary with the Board** (throughout this Parliament), both when he has been able to join our meetings and when he has responded positively to issues we have raised with him.

¹ To find out more about ABAB's role, responsibilities, members and activities, go to <https://www.gov.uk/government/groups/147>

6. **ABAB tracks and challenges HMRC's performance against its customer experience goals** (delivering improved services, reducing costs, addressed key areas of concern) via monthly reports we receive from the Department and at our quarterly meetings, where we test particular points or issues. In addition, ABAB plugs into **HMRC's internal Challenge Panel process**, with a seat at the table when HMRC Directors are tested on the contribution that they are making to improving tax administration for small businesses.
7. These Panels, chaired by Jim Harra (HMRC's Director-General, Business Tax) and with HM Treasury representation too, are a positive and worthwhile process. Sometimes they examine a tax regime (eg VAT) or an HMRC function (eg Local Compliance activities) or, lately, a theme (HMRC's contribution to the growth agenda). ABAB's Chair, or one of her Board colleagues, always participate actively – bringing the voice of the small business directly into the room and testing HMRC hard on the substance and pace of its delivery. We do feel, however, that HMRC could bring more bite to these Panels by sharpening their focus, holding Directors more expressly to account, and driving out more specific actions. In the shift to a new set of customer-related measures, HMRC has an ideal opportunity to strengthen its arrangements for such challenge. We hope ABAB can continue to play an active part in those arrangements.

PRIORITY ISSUES ADDRESSED DURING 2014/15

8. In last year's report we identified a number of key priorities. We have focussed much of our time and effort in the last 12 months on these key issues, including the implementation of Real Time Information, improvements to HMRC's communications and culture, the implications for the self-employed of the introduction of Universal Credit, and the refresh of HMRC's small business strategy. We comment in more detail on these major areas at paragraphs 11-20 below.
9. Our engagement on these issues has involved **debate with the relevant HMRC teams at our quarterly Board meetings, and close and active participation of Board members in relevant working groups**. Working in this way has enabled us to bring our influence to bear on both the overall direction of key initiatives and the equally important working-level detail.
10. Last year we urged HMRC to engage ABAB and other external stakeholders at as early a stage as possible. We are pleased that we have seen some improvements in this area. Such earlier involvement allows us better to bring our experience to bear, and make more of a positive contribution.

a) Real Time Information (RTI)

11. Having worked very closely over the past year on the implementation of RTI and the review of business benefits we very much welcome the way HMRC has engaged with us on this. This is a **model of collaborative working that we commend** and hope to see continue, with HMRC readily sharing data and analysis allowing for open and detailed debate. We were pleased that one tangible outcome of this more detailed work on benefits was that we identified that the persistence of the end-of-year checklist for employers was of limited value. We welcomed HMRC's agreement to remove this checklist and therefore deliver the associated reduction in the burden on business.

12. As our recent letter to the Financial Secretary² indicates, while we remain sceptical about the final published benefits figure, we very much **welcome the 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 taking a more rounded view of costs and benefits, and to doing more to check and test those costs and benefits against the often varied experiences of small businesses on the ground.

13. We were encouraged to note HMRC's acceptance of the **OTS recommendation to undertake a post-implementation review of RTI** and look forward to contributing to that process. We welcomed the RTI 'on-or-before' reporting easement for micro employers, but the current plan is to withdraw this in April 2016. The situation will need to be carefully monitored as withdrawal is likely to increase the administrative burden of RTI compliance for these smallest businesses.

14. The debate about the quantification of RTI benefits underscores the importance of HMRC engaging with the practical day-to-day experience of small businesses in order better to understand the real impact of changes it makes. The introduction of VAT Mini One Stop Shop (MOSS) is a recent example where it has been recognised that HMRC was not sufficiently aware of the broad range of customers impacted. At the same time, it is a concern to us as a Board that this significant change was not on our radar. **We wish to work more closely with the Department to strengthen our forward look on the**

² See our letter on implementation of real time information (RTI)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388136/141215_LETTER_FR_OM_TG_TO_FST_RE_RTI_Response_by_Jim_Harra_FINAL.pdf

breadth of initiatives materially impacting on small businesses, and so have made this a priority for the year ahead.

15. We support HMRC's plans for **strengthening both the application of the formal research it undertakes and the ability of teams in the Department to seek out and apply a deeper understanding of the customer/taxpayer.** Practical steps to this end could usefully include short-term secondments or visits to small businesses to see things first-hand, get a sense for the priorities for those businesses, and see much more directly the impacts of tax changes on their ability to run their businesses. ABAB will continue to monitor HMRC's progress in this important area.

b) Culture and Communications

16. We recognise HMRC's ambition to improve its relationship with the small business community combining the need to continue to improve the experience of small businesses with its efforts to reducing the tax gap. Much effort is being made, notably through **HMRC's Building Our Future programme** to ensure that HMRC designs and delivers with the customer at the forefront of everything it does. We are keen to contribute further to the development of **new performance measures**, which also demonstrate HMRC's determination to embed customer focus more effectively across the Department.

17. We are excited by the early developments in this space and will continue to engage in this process to help ensure that **HMRC adopts and uses a strong set of meaningful customer experience measures.** ABAB's primary aim here is to test HMRC that its stated aim of putting customers at the heart of everything it does is truly followed through in practice and is not de-prioritised in favour of other commitments to cut costs or increase yield.

18. We also believe there remains a significant challenge for HMRC to convince smaller businesses that it treats them fairly compared with large businesses. ABAB recognises the progress made with better targeting of compliance activities and increased help and support for smaller businesses. However, HMRC needs concerted effort to challenge the widely held perception that HMRC unduly focuses on 'easier targets' in the small business community.

c) Introduction of Universal Credit – implications for self-employed/small businesses

19. Whilst we recognise the policy intent and overall Government objectives of Universal Credit (UC), we see a significant risk that the introduction of UC will represent an

unacceptable burden on one part of the small business community (the self-employed). We have therefore proactively engaged with DWP to bring our concerns to their attention and are seeking stronger reassurance that these issues are being addressed. Particular areas for concern are definitions of both 'self-employment' and 'income', the reporting requirements (with associated burden), the Minimum Income Floor applied to self-employed businesses and how seasonal business income (surplus earnings and losses) affect UC self-employed claimants. We recognise that DWP has the policy lead on Universal Credit but wish to restate our continued concerns to Treasury Ministers via this Report. We will, of course, continue to pursue this challenging agenda in the year ahead working with DWP through HMRC.

d) Small Business Strategy refresh

20. We are pleased to have been invited to contribute to **HMRC's refresh of its small business strategy**. We are particularly keen to ensure that the strategy reflects the needs of the very smallest businesses. We have worked closely with HMRC on the high-level principles of its strategy, with which we largely concur. Key points which we have registered include: that *certainty* matters most to small businesses, that the *language* used needs to be meaningful (to a small business), and that the emphasis on *customer experience/service* must remain a priority. We look forward to working with HMRC on the strategy's implementation.

e) Other issues addressed in 2014/15

21. Our online facility - **Tell ABAB** - has proved a useful vehicle to hear directly from small business, in terms of what matters most to them and what they would like to see improved. This insight has reinforced ABAB's ability to put examples to HMRC of the strength of feeling among some of the business community and to test HMRC on how well its current initiatives/plans will deliver against the concerns of small businesses. Overall, we are satisfied that HMRC's strategic direction reflects, and is capable of responding to, the type of feedback we are receiving. It is clear to us that HMRC's digital plans have the capacity to deliver the simpler/easier and more tailored/personalised service that many small businesses say they want. We will continue to challenge HMRC to demonstrate action taken in response to the *Tell ABAB* feedback.

22. We have worked closely with HMRC on the **redesign of a suite of VAT letters**, helping to identify some common principles – directed at greater clarity and simplicity – which can be applied across a broader range of HMRC's letters. Whilst the changes being made are a big improvement to the existing suite, there is more that could be done by being less risk adverse on the need for legislative content to be included. This would

simplify these letters further and give small business the greater certainty that we know they want.

23. ABAB recognises the challenges that HMRC faces in promoting more positive stories about its work with and for small businesses. In that context, the updated publication of ***Supporting Small Business – Making tax easier, quicker and simpler***³ was a welcome statement, in a modern and accessible format, of all that is already available by way of support, advice and guidance. This publication delivers a strong story of what HMRC is delivering. We remain convinced that this story needs to be told more often to encourage greater use of the tools and services HMRC offers.
24. The parallel work of the Office Tax Simplification (OTS) has often usefully informed that of ABAB. In the past year, we have noted and welcomed the OTS recommendations in its **review of the competitiveness of UK tax administration**. We are pleased that HMRC is taking forward the vast majority of those recommendations, with many speaking directly to administrative simplification of features of the tax system.
25. Turning to the recently issued **discussion document on HMRC penalties**, we very much welcome the approach reflected in that document and endorse the case for a simpler approach, better targeted to risk. We are keen to work closely with HMRC as the process and thinking develops.

PRIORITIES FOR 2015/16

26. Our priorities for the coming year (in all instances in continued collaboration with HMRC) are:
 - a) Continuing to challenge HMRC to be ***bold in the delivery of its digital ambition***, as a key means of making a noticeable difference;
 - b) Strengthening our ***forward look*** to maximise ABAB's ability to influence initiatives impacting on small business as early in the development process as possible;
 - c) Continuing to support and maintain focus on ***the Small Business Strategy refresh***, combining this with a greater understanding of the implications for the agent community and their changing operating models;
 - d) Continuing to work with HMRC to ensure that the ***right culture and capability*** is embedded at all levels within the organisation;
 - e) Working with HMRC on the ***post implementation review of RTI***;

³ See Supporting Small Business – Making tax easier, quicker and simpler publication <https://www.gov.uk/government/publications/supporting-small-business-making-tax-easier-quicker-and-simpler>

- f) Ensuring HMRC ***embeds the lessons learned from RTI*** in addressing customer costs and benefits, so that they better reflect day-to-day impact on small businesses;
- g) Assuring HMRC's ***new performance measurement framework*** powerfully reflects customer experience/service issues;
- h) Continuing to address the implications for the self-employed of the ***introduction of Universal Credit (and transition out of Tax Credits)***;
- i) Supporting and challenging ***HMRCs contribution to the growth agenda, including measurement*** and initiatives to increase take-up of reliefs and allowances designed to support growth;
- j) Supporting ***greater use of behavioural insight work*** across HMRC to provide a more tailored service to small businesses; and
- k) Continuing to ***engage directly with small businesses via our 'Tell ABAB' facility*** to bring that additional insight to bear on our work with HMRC.

27. In submitting this second Annual Report we hope that it demonstrates that ABAB is continuing to fulfil the scrutiny and challenge function assigned to it, and to support HMRC in its delivery of a simpler and easier tax system for small business.

ABAB

March 2015