

# **ADMINISTRATIVE BURDENS ADVISORY BOARD**

## **2016 ANNUAL REPORT**

*Working with HMRC to make a noticeable  
difference*

April 2016

## Executive Summary

1. This is the **Administrative Burdens Advisory Board's (ABAB)<sup>1</sup> third Annual Report** and reviews the last 12 months as well as outlining our priorities for the year ahead.
2. ABAB's **primary goal remains to 'make a noticeable difference'** for small business; removing unnecessary burdens on them; and simplifying the tax system. Our approach remains to be an **independent 'critical friend' to HMRC, offering constructive challenge and support**. We remain firmly committed to the goal of a simpler and easier tax system for small business, and with our business experience we are well placed to embed our insight into HMRC and 'tell it like it is'.
3. We are pleased to have seen some positive developments from HMRC last year as they continue to strive towards delivering material improvements in the experience of small businesses dealing with their tax obligations. Most notably this progress is being made in the development of digital products and by providing tailored support products to those that require them. At the same time, **whilst we recognise and are supportive of the need to move to digital and the potential this brings, we are disappointed with the announcement to mandate digital record keeping and quarterly online reporting for even the smallest businesses as part of 'Making Tax Digital for Business'**. We were surprised and disappointed when this was announced at Autumn Statement, particularly that given our close engagement and relationship with HMRC we were not informed of the intentions earlier.
4. While recognising efforts to improve matters, we remain **concerned that service levels, notably on phones, continue to be poor, as evidenced by feedback received direct from small business through our TELL ABAB facility**. In our view the aim must be to eliminate the need for so many calls, through better systems, clearer guidance and enhanced access to HMRC records. This will take time so in the meantime HMRC must recognise that an efficient telephone service is a priority.
5. We note and **welcome government's priority on de-regulation** and were pleased that the Better Regulation Executive (BRE) were keen to engage with us and experience the way we work to support and challenge HMRC on their similar agenda. BRE's comments on our robust challenge were welcomed and we continue to engage with BRE and share lessons to improve both ABAB and BRE's offering.

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

6. The past year has also been a **transitional one within HMRC in terms of the development of new performance measures** to track their delivery across the board including against its customer experience goals. We have been working with HMRC on these to ensure that the customer is built into this framework and are encouraged by the developments and will continue to engage as these measures are embedded across HMRC.

## **PRIORITY ISSUES ADDRESSED DURING 2015/16**

7. In last year's report<sup>2</sup> we identified a number of key priorities and we have dedicated and focussed much of our time and effort in the last 12 months on them and we report back on some of our key engagement in these areas below. Our engagement has involved **debating with and challenging the relevant HMRC teams at our quarterly Board meetings, and close and active participation of Board members in relevant working groups** between meetings. 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.

### ***Tell ABAB***

8. We have engaged directly with small business, via our online facility 'Tell ABAB'<sup>3</sup>, to better understand the issues facing them in their interactions and engagement in administering tax. Using HMRC channels to promote this facility, demonstrating a willingness from both HMRC and ABAB to engage directly with small businesses, we have been **greatly encouraged by the response we have received, with over two thousand responses during this period**. We would like to thank all those businesses have contributed and hope you will continue to do so, to make Tell ABAB a really strong voice for business, speaking directly to HMRC.
9. Not surprisingly a large proportion of the feedback related to HMRC's channels of contact, most notably their phone lines. We have stated our position and recommendations on this area earlier in this report. Other areas of feedback highlighted that there is an appetite amongst small businesses to engage with HMRC in a digital

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<sup>2</sup> To view our Annual Report from 2014/15 please visit our website:  
<https://www.gov.uk/government/groups/147#view-from-abab>

<sup>3</sup> To view our Tell ABAB facility and associated reports please visit:  
<https://www.gov.uk/government/groups/147#seeking-your-ideas-tell-us-what-hmrc-can-do-differently>

way. **When we shared the feedback with HMRC they were able to demonstrate that current or future initiatives would address some of the ideas and concerns raised.**

10. Whilst this is a positive story to tell, it does demonstrate that HMRC need to make **better use of the channels available to raise awareness of these initiatives so that all customers are better informed, can benefit** from and take advantage of them, for example HMRC's support products, such as webinars, received positive feedback in some quarters yet awareness amongst others was poor.
11. We have been **encouraged by HMRC's willingness to engage with and utilise the feedback received through 'Tell ABAB'** and will look to enhance our approach during 2016/17 to improve this offering further. Our recently published report<sup>4</sup> goes into more detail around the specifics of the feedback and HMRC's response to the issues raised.

### ***Culture and Capability***

12. We recognise HMRC are continuing to embed their focus on the customer into the design and delivery of new services which will not only improve the product itself but also its relationship with small businesses.
13. We have seen first-hand HMRC's 'Once and Done' approach and how this will improve HMRC's relationship with and provide more certainty to their customers; and we are encouraged that small businesses will soon be able to benefit from this approach as the programme is introduced across all taxes. However with this approach, which gives **more autonomy to junior HMRC staff members, comes greater risk** of poorly written and constructed communications. We have received first hand several examples of poorly written and constructed letters from HMRC; this raises the need for greater support and training from HMRC to enable effective written communications with customers.
14. It is to be welcomed that ***HMRC's Next Generation Performance Measures framework*** is being developed to embed a customer capability culture across HMRC. We have engaged closely, bringing an external view into the development of these measures to ensure that HMRC's stated aim of putting customers at the heart of everything it does is truly followed through. **We welcome in particular the revision to the suite of customer experience measures** that combines both a wider, overall view of HMRC's relationship with small businesses via an Annual Survey; and an emphasis

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<sup>4</sup> To read the full Tell ABAB report go to [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/503690/Tell\\_ABAB\\_report\\_2015\\_to\\_2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503690/Tell_ABAB_report_2015_to_2016.pdf)

on small businesses' current feelings and issues via 'Real Time' measures. When combined they will demonstrate more effectively the totality of customer experience rather than individual measures in isolation; which helps to demonstrate HMRC's future direction.

15. We will continue to engage with these measures during 2016/17 as they are launched to understand and test how these are being **utilised and embedded within HMRC, drive appropriate behaviours and are applied to improve the experience for small businesses**. We are also keen to explore HMRC's contribution to and measurement of the Growth agenda.
  
16. **The announcement of a new target to reduce business customer costs by £400m**, linked to the wider government's deregulation commitment; also demonstrates HMRC's commitment to continually look to reduce the burden of tax administration. We welcome this new and stretching target and will continue as we have in the past to support and challenge HMRC on the progress against this target, specifically in relation to ensuring that the lessons learned identified from Real Time Information (RTI) are applied consistently. **But we will continue to argue that the key factor is not the specific target figure, but how businesses feel, have they genuinely made savings in time and money as a result of HMRC's efforts**. In this regard, we will also monitor whether costs savings for HMRC really do translate to overall savings or simply result in 'cost displacement' to businesses or their advisers. We will also continue to challenge HMRC on the best way to measure impacts for the smallest businesses, and to highlight that whilst there may be a cost saving overall to business of a certain measure, frequently additional costs are still suffered by the smallest businesses, which are outweighed by the savings made by the largest businesses.

### ***Bold delivery of digital ambition***

17. We remain very supportive of the move to digital and the potential this brings. We have seen first-hand how HMRC are embracing and utilising digital delivery to help support businesses and improve their experience of dealing with their tax obligations. The improvements that have been and continue to be made to the **Business Tax Accounts demonstrate HMRC's willingness to enhance and transform their service offering**.
  
18. Small businesses have informed us, via our Tell ABAB facility that they want to be able to do more online and to embrace new ways to be able to communicate digitally. We are **encouraged to see that future developments to the Business Tax Account and wider HMRC delivery align with this**. Secure messaging is one of these developments

that will be welcomed by small business and we will look to engage in this area to ensure that the opportunity to simplify and improve the tone of messages are taken.

19. Whilst the progress being made for small business to interact digitally is commendable we are alarmed to hear that there has been further delays to the reciprocal arrangements for agents. The great majority of small businesses interact and have a relationship with an agent for some or all of their tax affairs, and this delay will have a continued impact on them. **We feel there is an urgent need to identify a workable solution to allow agents to benefit from digital delivery; which in turn will have a positive effect and bring benefits to their clients.** We would stress that this is not simply a plea to help agents: this is needed to help businesses and HMRC. We commend HMRC for trying to simplify processes for businesses so they have less need to use an agent but HMRC need to accept and recognise that many – probably most – businesses will continue to use an agent to help with tax responsibilities.
20. We are pleased to see that the **scope of HMRC’s digital delivery has not been constrained to within the department.** We welcome the joined up approach with Companies House to develop a Streamlined Company Registration Service. We have engaged in the development of this and would encourage HMRC to continue to look for further options across government that will help streamline and simplify small businesses engagement with government; and thus demonstrating a more joined up government approach.
21. **This brings us on to ‘Making Tax Digital for Business’.** As stated previously we are **very supportive of the move to digital but have reservations** as to whether this will meet the needs for all small businesses, together with the level of support that will be available and the pace of change. Therefore compulsory digital record keeping and quarterly online updates is not an approach we can endorse. We are **concerned that the proposals for quarterly updates will be more burdensome** than they currently are with increased record keeping and compliance costs. This will have a big impact on the smallest of businesses. **The requirement that as part of the reforms all businesses will have to keep records digitally is a significant concern, given the timescales to educate businesses and provide the necessary tools for them.** We also have reservations around the current capability of software being able to deliver HMRC’s vision and the appetite amongst small businesses to utilise them, so we therefore urge HMRC to explore this further urgently.
22. We would also encourage HMRC to urgently **obtain a greater understanding with regard to the population of small businesses that do not have the required digital**

**capability to engage** and/or currently operate their business utilising manual (or partly manual) procedures; and develop the associated support required to enable them to engage digitally. We are pleased to see that HMRC have formed the Assisted Digital Group to explore such issues and we will work closely with them to ensure that our concerns are addressed and that this understanding is obtained to inform delivery. As part of this engagement, **we will be examining carefully the cost implications for businesses of conforming to MTD requirements.**

23. We do recognise the potential that moving to digital brings to both HMRC and businesses, and is fundamental to the future of tax administration. We see the move to digital as **a great opportunity, which must not be overlooked by HMRC, to simplify and improve the associated processes.** We therefore encourage HMRC to identify and grasp every opportunity to simplify the associated processes within this programme in order to help support our shared ambition of an easier, quicker and simpler tax system. The digital transformation must not just be digitising existing rules, systems and procedures but must include using digital to enable real change to what is required for tax compliance. We urge HMRC to engage and consult with key business representatives and in particular the Office of Tax Simplification (OTS) to help identify, inform and support simplification.

24. We will work closely with HMRC in 2016/17 and monitor the developments of the Making Tax Digital agenda.

### ***Real Time Information (RTI)***

25. Having been a key campaigner for the easement to allow smallest businesses more time to be able to comply with the 'On or Before' rules, we now recognise that this easement will not be extended beyond this financial year. **Whilst disappointing we welcomed HMRC's willingness to engage and respond to our concerns which led to the initial introduction of this easement.** We still have reservations that the true impact of these rules will not be fully understood until further down the line – either with the potential increase in employer burdens dealing with employee engagement issues relating to Universal Credit payments and/or when HMRC compliance interventions on small businesses are triggered.

26. We have however been working with HMRC to ensure that this announcement is communicated clearly amongst the small business population and to enhance the supporting guidance and scenarios to enable those still utilising the easement every opportunity to comply accordingly.

27. In relation to the lessons learned<sup>5</sup> that were identified by HMRC on the costs and benefits of RTI implementation, **we are disappointed that these are not being routinely applied across the full spectrum of change.** Tax Free Childcare is an area that seems to have absorbed these lessons well, which is leading to a well-designed and forward-looking system. But we remain concerned that, in particular, **‘Making Tax Digital for Business’ will follow the same direction of RTI and miss out on key costs, including one off and transitional costs,** that businesses will incur just to get them in a position to comply and how these will work in practise.
28. We would encourage HMRC to **reflect back on these lessons learned and apply them accordingly into the ‘Making Tax Digital for Business’ programme.** The one way we believe that HMRC can truly understand the associated impacts and demonstrate a more rounded view of them is by spending time engaging with and working alongside small businesses, to appreciate the effects this will have on their ability to operate within their day to day business delivery.

#### ***Other issues addressed in 2015/16***

29. Over the past year **we have appreciated HMRC’s efforts to strengthen our forward look** to ensure that we are able to, at the earliest opportunity, influence and bring a more informed and better contribution as the voice of small businesses. However one instance, **possibly the lowest point of our relationship with HMRC this past year, was the lack of engagement around the delivery of the Small Business Choice Research.** We, together with the OTS, have for several years identified the need for elements of choice to be removed from the tax system where that choice causes confusion and fear of getting their tax obligations wrong amongst the small business population. We and the OTS were therefore extremely disappointed to not have had the chance to engage and influence this research piece to help frame and design it around small businesses’ requirements until it was too late and the report findings were published. **Not HMRC’s finest hour.**
30. One positive outcome from this lack of engagement was **a more transparent approach to HMRC’s research programme and how ABAB can engage, influence and**

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<sup>5</sup> Click the following to view the lessons learned identified by HMRC following the reporting of RTI benefits and costs:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/388136/141215\\_LETTER\\_FR\\_0M\\_TG\\_TO\\_FST\\_RE\\_RTI\\_Response\\_by\\_Jim\\_Harra\\_FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388136/141215_LETTER_FR_0M_TG_TO_FST_RE_RTI_Response_by_Jim_Harra_FINAL.pdf)



**support delivery.** This is a step in the right direction whilst still needing refinement around timeframe for engagement. We will continue to support this programme during 20016/17.

31. Finally, whilst we recognise the wider government objects in relation to the introduction of Universal Credit we still have concerns that the impact on businesses, principally the self-employed, has not been considered. We have been **disappointed with the willingness from the Department for Work and Pensions (DWP) to engage with and listen to the concerns of the small business community** and whilst there is evidence that an impact assessment was made, we have challenged DWP on the lack of consideration of the small business impacts in this assessment. We remain surprised at this and would challenge government to perform a further review of the wider impacts Universal Credit has on small businesses.

## PRIORITIES FOR 2016/17

Our priorities for the coming year (in all instances in continued collaboration with HMRC) are:

- a) Continue to engage and support HMRC in the ***design and implementation of 'Making Tax Digital for Businesses'***; ensuring simplification is identified and implications on small business are fully understood and supported.
- b) Continuing to ***engage directly with small businesses via our 'Tell ABAB' facility and refine our approach*** to bring that additional insight to bear on our work with HMRC. As part of this, explore other channels for publicising 'Tell ABAB' to ensure its availability is well known.
- c) Use feedback from 'Tell ABAB' to develop specific areas on which to challenge/test HMRC.
- d) Support HMRC's **contribution to the wider governments de-regulation agenda** by:
  - a. **Scrutinising HMRC in the delivery of Customer Cost Reduction Target (£400M)**
    - i. Ensuring that lessons learned from RTI are embedded and applied consistently across change
    - ii. Continued refinement of the Standard Cost Model to ensure it reflects latest view of small businesses.
  - b. Continued **engagement with the Better Regulation Executive** to help demonstrate, support and promote HMRC's delivery
- e) Continue to challenge HMRC on the **implementation of and utilisation of the Next Generation Performance measures**, in particular the suite of Customer Experience Measures, to embed customer focus and drive behavioural change.
- f) Understand, support and challenging ***HMRCs contribution to the growth agenda, including measurement and how supporting and encouraging growth.***