

# **ADMINISTRATIVE BURDENS ADVISORY BOARD**

## **2017 ANNUAL REPORT**

*Better Tax for Better Business*

April 2017

# Introduction

1. This is the Administrative Burdens Advisory Board's (ABAB) fourth Annual Report; it reviews the last 12 months as well as outlining our priorities for the year ahead.
2. ABAB's primary goal is 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'. To mark our 10th year anniversary in providing challenge and advice to HMRC, we held a competition to refresh our strap-line. A majority decision was made in favour of 'Better Tax for Better Business'. We are committed to helping deliver that.
3. The Board appreciates the **positive engagement we receive with HMRC's Executive Committee members, including contributions from Chief Executive Jon Thompson at our recent board meeting in February 2017**. We welcomed the candid debate on the direction HMRC is taking and the challenges the Department faces in doing so. We hope this direct channel of communication with HMRC's senior leaders remains open. **However, we remain sceptical that all teams within HMRC truly understand our remit and offer. In our view this is dampening our ability to act as a 'critical friend'**. We have therefore called for a reset of our relationship and for our profile to be raised across the Department
4. 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 also note the additional costs it will bring to small businesses according to HMRC's own estimates; we remain particularly concerned about the burdens it will add to businesses especially during the period they will need to deal with the effects of Brexit. We will seek to ensure that HMRC appreciates the demands that 'Making Tax Digital for Business' (MTDfB) places on small**

<sup>1</sup>**businesses and strongly put the case forward that MTD should be delivered at a pace that is in-sync with the capabilities of small businesses.** We're pleased that the recent Budget announcement introduced a one-year deferral period from the planned April 2018 introduction for businesses below the VAT threshold. This will allow some of the smallest and hardest hit businesses more time to transition to MTDfB. HMRC should use this as an opportunity to do more in the area of communications, given there remains a large proportion of small businesses unaware of the existence, let alone the likely impacts, of MTDfB. At the same time HMRC needs to use this period well for further analysis on customer impacts and costs, to review the pilot period effectively and to prepare more resources to support the smallest businesses through transition and to consider how best to alleviate burdens. We would expect HMRC to share such findings with us so that we can carry out our challenge and support functions armed with real world data.

5. We commissioned our third 'Tell ABAB' survey in November 2016 with the aim of building further engagement with small businesses. **Through HMRC's outbound channels we reached out to thousands of businesses to get their views on HMRC's GOV.UK pages. Our findings demonstrated that the vast majority of businesses find it difficult to navigate GOV.UK and obtain the information they are looking for, which is very concerning.** We have therefore challenged HMRC to take appropriate and immediate action. HMRC senior leaders have agreed to work with the Government Digital Service to address the matter as a priority. We look forward to reviewing progress and may consider a further survey in the future to measure the impact of any of the much needed changes that are introduced in response.
  
6. We welcome the continued efforts made by HMRC to change its culture and embed a stronger focus on the taxpayer. Most importantly for us is the recognition that this is being driven from the very top and our engagement with Jon Thompson confirms his commitment to putting the taxpayer at the heart of HMRC's work. **This is an opportunity for HMRC to make a lasting change, but whilst we're encouraged by the vision in the 'Building our Future' programme, there are challenges inherent here that will need to be skilfully overcome and mitigated against.**

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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>

7. <sup>2</sup>Delivering MTDfB will remain a challenging objective for HMRC in the coming year, but **a greater challenge for HMRC presents itself in the climate of uncertainty that is the fallout of the EU referendum result.** HMRC is one of the Government departments that will be significantly affected because of a range of factors including the broad customs agreements that exist with the EU. We were pleased to have been given a briefing from HMRC recently on their 9 broad work-streams of action and how things could look post Brexit. As their work progresses we will have a keen interest in how this will impact on small businesses and more broadly on HMRC's customer cost reduction programme.

## PROLOGUE

### ***Real Time Information and Post Implementation Review***

8. Over the last couple of years we've examined with a very critical eye the work HMRC has done on Real Time Information (RTI) and its subsequent implementation. We remain sceptical of the view that RTI has created ongoing savings and continue to express concerns that more effort and investment is needed from HMRC to deliver some of the promised efficiency gains to employers who deserve recompense for the investment and effort they have put into RTI.
9. Nonetheless we're encouraged with HMRC's acceptance of a number of lessons learnt following on from the project and their subsequent engagement with us in their Post Implementation Review (PIR). **We commend HMRC for the candid and frank approach taken in the PIR, but are keen to see HMRC follow through with this. We would like HMRC to demonstrate that all of the lessons learnt have been adopted and, as we set out later on in this report, there is more to be done to ensure that these lessons are adopted in full when implementing MTDfB.**

## PRIORITY ISSUES ADDRESSED DURING 2016/17

10. In last year's report 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; we report back on some of our key engagement in these areas below. This engagement has involved **challenging the relevant HMRC teams at our quarterly Board meetings,**

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<sup>2</sup> To view our Annual Report from 2015/16 please visit our website: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/546228/Administrative\\_Burdens\\_Advisory\\_Board\\_Annual\\_Report\\_2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/546228/Administrative_Burdens_Advisory_Board_Annual_Report_2016.pdf)

**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.

11. **Our Customer Experience Working Group (CEWG) facilitates the finer and more detailed discussions with HMRC and takes our level of scrutiny to a deeper level.** The CEWG has made great strides since its inception in 2016, and its growing influence is best demonstrated in its recent success of encouraging HMRC to defer the introduction of the mandatory reporting of car data until April 2018 for employers who are payrolling 'Benefits in Kind'. Following our challenge, employers will be able to voluntarily report car data from April 2017 which will provide HMRC the opportunity to identify and resolve any issues with employers before the mandatory reporting requirements are introduced in April 2018. This approach will also allow more time for employers to update their payroll systems and understand the new process.

### ***Tell ABAB***

12. Our 'Tell ABAB' online facility allows us to engage directly with small businesses to understand the issues facing them in their interactions and engagement in administering tax. Over the years our surveys have been framed openly to allow small businesses to have their say on matters important to them. This has resulted in a wide range of feedback from online communications to HMRC's phone lines. This year we've taken a different approach, to focus on thematic issues, in particular on small businesses' experience of HMRC's GOV.UK webpages. We have been greatly encouraged by the responses we have received, with around two thousand responses during this period. **We want to continue building the 'Tell ABAB' function so that it represents a strong voice for the small business community, and are grateful to all those businesses who have contributed.** We hope that they will continue to do so in future surveys.

13. The bulk of the feedback we received around GOV.UK related to:

- the users' poor experience of navigating through the vast amount of information on the site
- inadequate content and search tools
- how much easier it is to simply google

- the site being aimed at the general reader looking for basic information; most of our contacts are seeking information beyond the basic.....
- .....leading to agents servicing the smaller businesses finding the site particularly frustrating, recalling how they more easily accessed specialist information in the past.

14. However, despite our focus on GOV.UK in this survey, a proportion of respondents felt the need to reinforce their concerns regarding HMRC's phone and tech support.

**Whilst HMRC have shown improvements in terms of phone handling and tech support it remains an important area for us to monitor.**

15. When we shared the feedback with HMRC, we were encouraged to learn that the concerns expressed tallied with research they had themselves carried out. HMRC's senior leaders have now rightly identified this as a top priority and have committed to work with the Government Digital Service (GDS) –the department responsible for the overall administration of GOV.UK - to make appropriate improvements. We hope that our feedback helps to strengthen HMRC's case in light of the strict guidelines that the GDS impose on the content of GOV.UK. **We will continue to monitor developments closely through the working group, with a view to engaging with the GDS to offer our perspective and see that effective change is made.**

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

16. ABAB is fully supportive of the principles of moving to an enhanced digital tax system. **We welcome the work being done to improve the security of the online Business Tax account through the two step verification solution (2SV) and the Business Identity Verification.** We were particularly pleased to see that HMRC have considered a number of customer journeys and have thought about the end users' experiences in designing the software. HMRC must continue to work on how best to make the software user friendly for the smallest of businesses. One point we would stress, as we do for Making Tax Digital, is that much depends on HMRC ensuring that there is effective communications about changes and requirements. We have offered to assist with communications, to ensure the messaging is right for business, and we hope that HMRC takes up our offer.

17. Moving on to 'Making Tax Digital for Business' (MTDfB), we welcome the engagement that we have had with HMRC through our Customer Experience Working Group (CEWG), particularly around understanding businesses' new digital

journey and the potential benefits and impacts that brings. We are encouraged by their bottom up approach in developing this work.

18. However, as we set out in our submissions to the Financial Secretary to the Treasury and the House of Lords Finance Bill sub-committee, there remains considerably more work to do to better understand this picture, and more specifically on how different business segments and sizes are impacted. **We remain of the view that the Standard Cost Model (SCM) should not be used as a standalone methodology to assess the impacts on businesses of MTDfB.** We have been clear that real life analysis of the impacts needs to supplement the analysis provided by using the SCM methodology. Indeed **we think it is time to revisit the SCM** as we are not convinced it properly reflects today's costs given its age. Whilst the bottom up approach in developing the new digital journeys has greatly improved the latest assessment of business impacts published in the Consultation Response Document, there is significantly more work required before finalising the impact assessment to test the underlying assumptions with real business experience and through research from the live Beta test.
19. The recent announcement at Spring Budget 2017, to defer the introduction of MTDfB from the planned 2018 introduction for those businesses under the VAT threshold, is both a sensible and welcome approach. We are encouraged that HMRC have committed to using this period to gain a better understanding of how MTDfB will impact businesses and provide that real life analysis in the refinement of their impact methodology. **We will make sure that the analysis from the deferral year brings forward that real life element and experience of small businesses.**
20. **We've expressed our concerns that the pace of MTDfB delivery has, in some cases, impacted our engagement with HMRC.** The Government's commitment to deliver MTDfB in 2018 has a profound effect on how the delivery team is able to respond to stakeholder comments. However, we're pleased that HMRC has accepted our concerns and put in place a forward look detailing their proposed engagement with us. The importance of reflection in successfully landing a large scale change project such as MTDfB is demonstrated in HMRC's recent review to allow businesses to use spreadsheets as a platform to keep digital records. We strongly welcome this change but are keen to understand the proposals of how this will interact with MTDfB software and the support that will be provided to businesses enabling them to adhere to their requirements.

21. We appreciate the transition for some to using digital records will be straightforward, but for many businesses it will be a daunting change. Smaller businesses not already operating computerised accounts have substantive concerns around security and trust in the use of software. For a number of businesses this will result in a level of duplication with businesses keeping both manual and computerised records until they learn to trust the software and their own capabilities. For others, who use accounting systems tailored to the specific needs of their businesses, moving to MTDfB compliant software may well be a step backwards. **At least initially, HMRC should consider allowing businesses to submit their quarterly data through an online system similar to the VAT return online system.**

22. We're encouraged to see that some lessons from the implementation of the RTI project have been addressed in the delivery of MTDfB, particularly on HMRC's engagement around the ongoing and transitional costs of MTDfB - though we're still keen to be shown the assumptions and analysis behind these costings. However, given the substantive list of lessons that HMRC accepted, there is still lots to do to ensure these are fully considered in delivering MTDfB. **We are wary that, given the pace of delivery, the lessons from RTI may not be fully appreciated, and ultimately it will be small businesses that bear the burden. We want to see HMRC demonstrating to ABAB that they have taken on board fully the lessons learnt.** Our concern is particularly in the communications around MTDfB - it is fair to say that to date MTDfB has not landed as well as it might have. HMRC needs to shift these more negative perceptions, and sell the benefits of working in a digital way. We feel that to some extent businesses have been forgotten in the process so far. It is vital that HMRC utilises the deferral period to embed business customer insight into the next stage of delivery.

23. In all of this, we emphasise that HMRC must develop their systems and requirements with the taxpayer (in our case small business) in mind rather than simply to fit with their own needs or systems. HMRC are rightly proud of the number of income tax self-assessment returns filed online. But as we pointed out, that is the culmination of years of investment and improvement, and developing systems that work for the taxpayer. We still hear regular complaints about iXBRL, which HMRC may say delivers them important additional information (we remain unconvinced) but has imposed additional and continuing burdens on companies as the information for



HMRC has to be generated by additional procedures rather than being a by-product of what the company is already doing.

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

24. Following on from HMRC's introduction of 'Once and Done' last year, which was well received by ABAB, HMRC has continued with a suite of measures to take their ambition of putting the taxpayer at the heart to new horizons. The 'Once and Done' is part of HMRC's Customer Service Improvement Programme that captures, among other things, a move to a 7 day a week service on their phone lines. We welcome HMRC's engagement on specific elements of the programme with our Customer Experience Working Group (CEWG), but remain cautious as to how these standards will be sustained given staff reductions and organisational changes.
25. Underpinning these measures is HMRC's redesign of the organisation. This includes the closure of a number of offices across the country with the development of larger regional sites. One aim of the redesign is to challenge teams to think about the customers' perspective from the very beginning. **ABAB welcomes the rationale, but are concerned about the potential impact on support and service to local businesses of closing offices.** We have highlighted the dangers of regionalisation, the concern over staff reduction as well the impact of large scale organisational changes alongside the rollout of the MTD programme. We feel there is a danger of increasing burdens to business through poor service.

### ***Other issues addressed in 2016/17***

26. We continue to engage with HMRC on their delivery of the customer cost reduction (CCR) target by £400m by 2020. HMRC presented their pipeline of change projects that underpin the CCR target to us, and we are encouraged by the level of detail they have put into it. Despite this, we remain vigilant to the actual burdens that are removed, because as we have always set out, the key factor is not the specific target figure, but how businesses feel, and whether they've made genuine savings in time and money as a result of HMRC's efforts. **There is also a need to take stock of the CCR programme in light of Brexit, and to assess what challenges and opportunities that will bring. We will challenge HMRC in this regard to ensure opportunities to reduce burdens and further simplification are maximised.**
27. A priority for us this year has been to support HMRC's contribution to the wider Government deregulation agenda, and so we set out to learn more about how

HMRC's performance is viewed in this regard, and what can be achieved in working together. It is clear that many businesses do not distinguish between tax administration and burdens imposed by other regulators. **We're pleased to learn that HMRC and BEIS's Better Regulation Executive have agreed to work more closely together, including the agreement to carry out joint communications in regards to deregulation across Government. Both departments are encouraged to do more to learn from each other and promote externally their complementary agendas.**

28. Last year we highlighted the positive efforts made by HMRC to strengthen our forward look and bring issues that could impact the business customer to us at the earliest possible time. We're grateful to HMRC for taking further steps to improve this by strengthening the Secretariat service. **However, as we note above, we remain sceptical that all teams within HMRC truly understand our remit and offer, and in our view this is dampening our ability to act as a 'critical friend'.** We have held conversations with senior leaders in HMRC to express this sentiment and have called for a reset of our relationship and for our profile to be raised across the Department.

29. We held a number of roadshows with SME representative bodies to increase awareness of our offer to small business in challenging HMRC, and to test their appetite on our current and future priorities. **The responses we received were generally positive, and we appreciated the feedback to continue our focus on customer service improvements, as well as suggestions to focus on understanding the impact of levies and sector specific areas.** We want to build on this engagement in 2017/18 to help us align our priorities with the representative bodies as much as possible. After all, the more collaborative we all are, the stronger the voice small businesses will have.

30. Finally, the hidden economy includes businesses who fail to register for tax and individuals who fail to declare a source of income. This is an area which is always a significant concern for HMRC and further work is due to commence including consultations, following announcement at Budget 2016. We are encouraged by the Hidden Economy team's early acknowledgement of the potential burdens that could be placed on compliant businesses. **We therefore challenge HMRC to come up with solutions that are flexible, targeted to the very riskiest of businesses and,**

**importantly, that a one size fits all approach is not pursued. We will be building on this in 2017/18.**

#### PRIORITIES FOR 2017/18

31. 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 for 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 Government's deregulation 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 the qualitative feedback from research undertaken and the views of small businesses.
    - b. Continued engagement with the Better Regulation Executive to promote a 'one government' approach to business burdens and regulation.
  - e) Understand, support and challenge HMRC's contribution to the growth agenda, including measurement.
  - f) Consider Brexit impacts: the risks of additional burdens and opportunities for simplification.
  - g) Keep close to the Hidden Economy work and compliance culture, understanding the knock on effect to legitimately operating businesses.

ABAB