

**ADMINISTRATIVE BURDENS
ADVISORY BOARD**

2018 ANNUAL REPORT

Better Tax for Better Business

April 2018

Introduction

1. This is the Administrative Burdens Advisory Board's (ABAB) fifth Annual Report; it reviews the last 12 months as well as outlining our priorities for the year ahead.
2. ABAB is a group of small and medium business operators and advisers who meet under the aegis of HM Revenue & Customs (HMRC) and report annually, as an independent body, to the Financial Secretary to the Treasury (FST). Our primary goal is to 'make a noticeable difference' for small and medium sized businesses (SMEs), particularly in relation to the administrative burdens imposed by the tax system. Our approach is to operate as 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 given our business experience, we believe we are well placed to 'tell it like it is'.
3. During the last year, we have recognised positive HMRC activities around enhancing the experience of small businesses dealing with their tax requirements. Progress has been demonstrated in part through our engagement on Making Tax Digital for Business (MTDfB). We have experienced first-hand, HMRC willingness to listen to and act upon the feedback from businesses and their representatives. Certainly, in relation to MTDfB, this is a vast improvement from this time last year. HMRC understand the benefits of engaging with us at the earliest opportunity. We want to see HMRC accepting the challenge alongside ABAB to encourage businesses to digitise because of the commercial benefits that should accrue: MTD cannot simply be about tax.
4. ABAB has set up a working group to consider the EU Exit impacts on small businesses. We recognise we are operating in a unique and politically sensitive environment, and the challenges that may bring. But uncertainty is the worst possible scenario for businesses. We need to alert them of changes on an ongoing basis with HMRC needing to understand that they are but one government department and the capacity of small businesses to absorb change is limited. Discussing the implications of the UK leaving the EU from the perspective of a small business will allow ABAB to provide insight, and test policy and operational thinking. We will be working with HMRC to develop timely and relevant communications for small businesses.

5. We challenged HMRC to take appropriate and immediate action following the results of our third 'Tell ABAB' survey in November 2016 which focussed on the gov.uk website. The survey was issued to thousands of businesses to get their views on HMRC's GOV.UK pages. Our findings demonstrated that businesses have found it virtually impossible to navigate GOV.UK and obtain the information they are looking for. The report was published on 13 April 2018 and highlighted that the key areas were: Navigation, Content and Search. HMRC have been supporting the findings and, so far, have improved over 7,000 pages of its content.
6. The Government Digital Service (GDS) are responsible for the GOV.UK website. They are currently undertaking a review to improve GOV.UK. We remain concerned that HMRC has no direct levers to influence change and we will continue to measure the impact of the changes that are being introduced. Additionally we cannot support an internal review of the kind currently in progress when our findings have been so significantly negative. In our view, an independent review should have been commissioned.
7. Our previous report emphasised that a resetting of our arrangement with HMRC was overdue. We operate independently, but we are a creation of HMRC. Since then, we have seen some improvement in the engagement from senior leaders, but further progress is still needed. We need to be accepted and recognised as a trusted but critical friend. HMRC staff can and should be encouraged to bring issues around SMEs to ABAB for comment, and they should know that ABAB's comment will be constructive and designed to help HMRC meet its objectives.

Priority Issues Addressed During 2017/18

8. We identified a number of key priorities for 2017/18 and have dedicated and focussed much of our time and effort in the last 12 months on them. In this report, we outline this engagement, involving challenging relevant HMRC teams at our quarterly Board meetings and direct and active participation of Board members in our working groups. Working in this way has enabled us to bring our influence to bear on both the overall direction of key initiatives and, equally importantly, to focus on the detail wherever we believe that a deeper dive is necessary.

Making Tax Digital for Business

9. ABAB generally, and our Customer Experience Working Group (CEWG) in particular, continues to hold regular discussions with HMRC on MTDfB and help businesses and agents prepare for mandation of VAT from April 2019.
10. ABAB continues to recognise, and is fully supportive of, HMRC's ambition for a modern, enhanced digital tax system. And, taking a lead from ABAB, HMRC should embrace the challenge of encouraging businesses to digitise because of commercial benefits, as MTD cannot only be about tax.
11. We welcome the engagement that we have had with HMRC on MTDfB. We have seen a greater willingness to listen to and embed customer feedback. This is most notable through our engagement on the development of the revised impact assessment. We have been critical of previous impact assessments that did not reflect the 'real world' impacts felt by small businesses. Clearly, HMRC has understood our concerns, learnt from our constructive feedback and shown a willingness to formalise and disseminate lessons learned across HMRC. Whilst MTD impact assessments suggest additional burdens to businesses, HMRC should be positively recognised for producing a realistic assessment of costs – in line with what we would expect for the businesses within scope.
12. We have discussed, tested and challenged their MTDfB segmentation approach, modelling, and assumptions about how businesses operate in the modern business environment. This engagement has led to HMRC applying a more robust methodology and detailed approach to its impact modelling. This complements the Standard Cost Model (SCM), rather than using SCM in isolation as a standalone methodology. ABAB has consistently encouraged this wider approach, as the SCM on its own provides limited outcomes. CEWG will continue to work with HMRC to embed MTDfB, as a blueprint and standard for future programmes.
13. Businesses of all sizes need time to implement new computer software, particularly if they have not used such software in the past. We have been very aware of the short timescale available for reviewing training needs, and implementing training for staff. Many businesses would be seeking to make those decisions imminently, but have been delayed by the lack of software available either as existing packages, or to link into their existing spreadsheets. We have worked with HMRC to produce a simplified version of

the Terms of Collaboration (ToC) for software developers. Developers need to 'sign-up' and adhere to the ToC in order to be recognised providers of MTDfB compatible software. We are encouraging HMRC to ensure that as many different products are available as soon as possible.

14. We are encouraged that HMRC will be publishing a list of MTDfB compatible products on gov.uk, but we remain concerned how businesses will access the list on gov.uk given businesses' difficulties with the gov.uk system. The list needs to be communicated well and be easily accessible. HMRC have been keen to get CEWG views and input into their 'software choices viewer' information product. We know that choice adds complexity for Small Businesses, so this list of providers needs to be sufficiently tailored to provide them with the information to easily make an informed decision. Early prototypes presented suggest this is the approach being taken, but we urge HMRC to publish a version as soon as products are available.

15. We remain concerned at the low-level awareness of MTDfB amongst the small business community, particularly those unrepresented by agents. This is in part due to the limited communications around MTDfB from HMRC, and the low volume of businesses that appear to have taken part in the pilots to date. The CEWG did begin work on an early communications plan with HMRC, but there urgently needs to be a greater drive and focus from HMRC to reach out and communicate to not only promote, but also sell the benefits of working in a digital way. We will continue to challenge and support HMRC on their communications agenda to ensure that small businesses are not placed at an unfair disadvantage in order to comply.

Tell ABAB

16. Our 'Tell ABAB' online facility allows us to engage directly with small businesses. It helps understand the issues faced during interactions and engagement in administering tax. The surveys allow small businesses to have their say on matters important to them. When we issue the fourth survey later this year, we plan to extend its reach to include a wider and more diverse range of businesses to help identify your concerns and what matters to you. To support this, the topic for the fourth survey will be "General Concerns" and we will look forward to hearing your views.

EU Exit

17. HMRC's EU Transitional Unit have engaged with ABAB over the last year to discuss the programme of activities they have been working on. HMRC and ABAB have set up an EU Exit Working Group to consider a range of issues facing small business. This group provides a forum for discussing implications of the UK leaving the EU, from the perspective of a small business. It is allowing ABAB to provide insight, HMRC to test policy and operational thinking, and to test communication plans to SME businesses and their agents.
18. By discussing the implications of the UK leaving the EU from the perspective of a small business, the EU Exit Working Group will focus on VAT, Customs and Border issues, and work with HMRC to develop a communications plan to support businesses.
19. We encourage HMRC to work across government to deliver a joined up campaign that supports small businesses.

Other issues addressed in 2017/18

Hidden Economy

20. HMRC continues to develop new approaches to tackling the hidden economy. Following an initial consultation in 2016, the government recently consulted on 'conditionality' proposals to make access to some licences needed to trade conditional on being properly registered for tax. ABAB have been involved in both consultation exercises and provided views to HMRC.
21. We welcome the government's efforts to tackle the hidden economy, and recognise the benefits to small businesses of a level playing field, where everyone pays their fair share of taxes. As such, we agree with the principle of conditionality and want to see an approach which makes it as easy as possible for businesses to register for, and pay taxes, whilst making it harder for people to hide their income from HMRC. Equally, we are clear that new initiatives in this area must not place undue burdens on compliant businesses, and our key challenge to HMRC is that any conditionality checks must be as simple as possible for businesses to understand and fulfil. ABAB await the

government's response to this latest consultation and will continue to work with HMRC to ensure that tax compliant businesses are not impacted by additional burdens.

Government deregulation Agenda

22. ABAB has continued to engage with the Better Regulation Executive (BRE) but acknowledge with the winding down of the £10bn business impact target, the political landscape has now shifted, as has much of the BRE work.

Real Time Information

23. We welcomed the publication of the Post Implementation Review on Real Time Information (RTI), noting that our concerns had been listened to and incorporated in the final report. Through our engagement on MTDfB, we can see that HMRC have come a long way to address the issues we had on RTI. However, we are disappointed that learning from the way RTI was delivered has yet to be embedded, and we would have already expected HMRC to create a blueprint. There are key lessons to be carried over into MTDfB such as ensuring a single view of data for HMRC, businesses and agents is designed in from the start.

Customer focus

24. We recognise HMRC has worked to improve its culture and capability by developing a customer focussed approach to its organisation, and HMRC have advised they are now engaging with process and policy development teams at an early stage. They have developed an external customer impact tool to review successes. Information from this is used to feed into the business impacts team in HMRC, who review costs. We support the practical application of the tool and embedding a culture where the customer is at the forefront of policy development.
25. HMRC acknowledge the Standard Cost Model can't be used as a stand-alone tool. We welcome work on it to refine and improve the model. One of the complementary tools HMRC have developed is using a range of customer journeys to provide a better understanding of experiences when engaging with HMRC. We welcome and support HMRC's desire to improve and change the focus from being process driven, to one where they design from a customer perspective. We look forward to working with HMRC to see the benefits this can bring.

26. We also welcome HMRC's report on small business perceptions of admin burdens. We have often stated that it is not about the numbers, but more about the narrative that accompanies them, so will look to see how lessons from this can be adopted by HMRC.

The Simplification Agenda

27. HMRC continues to take forward the recommendations of the Office of Tax Simplification (OTS) and to progress internal initiatives to reduce complexity in the tax system. Both HMRC and OTS are working on a broad range of simplification projects which ABAB supports. At the same time, we remain alert to any administrative burdens added to SMEs.

28. Over the last year, ABAB engaged with a number of professional bodies who were supportive of our direction of travel. They highlighted there could be more to do around simplification in light of the EU Exit. They felt this may become an issue, particularly around cash flow.

Priorities for 2018/19

29. As we move into 2018-19, we will look to focus on improvements to customer experience, and support HMRC to transform into a truly customer centric listening organisation. Key to this is HMRC working with customers to understand the impact of change and to engage early to get the right expert input at the right time. This is key to developing and maintaining a valuable constructive working relationship.

30. Continuing our priorities for the coming year (in collaboration with HMRC) are:

a) Customer Experience and Lessons Learned (including Tell ABAB report)
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. We will extend the reach of the survey and explore other channels for publicising 'Tell ABAB'. We will also look to review customer experience measures through the CEWG.

b) Culture and Capability for listening (including Digitisation / Technology)
ABAB will support HMRC to encourage small businesses to digitise, and embrace technology to meet their tax obligations, but with the emphatic focus on the commercial benefits digital technology can bring to business. ABAB will also

support *HMRC with the development of the new Organisational Listening function.*

c) Refreshing and building relationships

Our surveys allow small businesses to have their say on matters important to them. Later in 2018, we plan to extend the reach of the fourth survey to include a wider and more diverse range of businesses to help identify specific concerns.

d) Making Tax Digital and EU Exit

Continue to engage and support HMRC in the design and implementation of MTDfB, ensuring simplification is identified and implications for small business are fully understood and supported. This engagement supports ABAB's encouragement of MTDfB and not Tax in isolation. The EU Exit Working Group provides a forum for discussing implications of the UK leaving the EU, from the perspective of a small business. It will allow ABAB to provide an insight, and HMRC to test policy and operational thinking, and to test communication plans to SME businesses and their agents.