



**ADMINISTRATIVE BURDENS
ADVISORY BOARD**

2020 ANNUAL REPORT

Better tax for Better Business

October 2020



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October 2020

Foreword

The Admin Burdens Advisory Board is made up of members with a wide range of relevant and up to date business knowledge and expertise. We are independent, representing a cross section of businesses and professions. We offer constructive challenge and support to HM Revenue & Customs (HMRC) by championing the views and concerns impacting the small business community. Between the quarterly Board meetings, members regularly comment on topics or take part in more detailed discussions, including at internal HMRC meetings and events. In March 2020, ABAB were invited to speak at the public evidence session on the Finance Bill 2019-20, at the House of Lords.



Teresa Graham
ABAB Chair

It is vital that ABAB listens to and understands the challenges facing small business and their representative bodies. We can then have constructive discussions with HMRC, using our independent status to offer considered advice as a 'critical friend' to HMRC, helping them to successfully address these issues. We provide feedback and critically assess HMRC performance and our aim is to influence constructively any key HMRC initiatives that impact small businesses.

I wanted to pick out a few highlights of the areas where ABAB has either made progress or made a difference:

1. ABAB's responsiveness to HMRC requests for meetings to discuss the impact of Self-Employment Income Support Scheme on small businesses.
2. Making Tax Digital for Business (MTDB): HMRC listened and acted positively to ABAB's feedback on the introduction of MTD for VAT registered businesses.
3. The improving relationship and level of trust between ABAB and HMRC:
 - On Off-Payroll Working HMRC shared guidance pre- publication and asked for ABAB's help, recognising the value of early engagement.
 - The Customer Journey Team sharing emerging thoughts on various journeys and engaging with ABAB Board and Working groups.

¹The Finance Bill Sub-Committee, chaired by Lord Forsyth of Drumlean, is appointed annually by the Economic Affairs Committee. The Sub-Committee focuses on issues of tax administration, clarification and simplification rather than on rates or incidence of tax

- 4 GOV.UK website – the difference between past Tell ABAB survey results and this year's, where there has been a marked improvement in usage and perception by small business and their representatives.
- 5 How working with HMRC Futures Team has expanded that conversation into a wider arena through ABAB networks with very positive feedback.
- 6 How other Regulatory Bodies are seeking advice from ABAB on best practice.

Of course, there are always areas where progress is needed, or we need to catch up because of Covid-19 interference. These include:

1. Delivering more support for small business: the continuation and retention of easements unless there is a demonstrable reason why they should be abandoned.
2. Culture and Capability: HMRC is a hierarchical organisation and needs to do more to promote the value of external stakeholder engagement across the organisation.

I would also like to take this opportunity to offer ABAB's congratulations to our member Paul Morton who was appointed as an HM Revenue and Customs Non-Executive Director in September 2019.

As Chair of the Administrative Burdens Advisory Board (ABAB), I remain committed to, and passionate about, making a noticeable difference for small business by supporting HMRC to help make tax easier, quicker and simpler. If you would like to comment on this Report or help us with our work, please contact;

advisoryboard.adminburden@hmrc.gov.uk

Dame Teresa Graham DBE

Introduction

ABAB is a group of small and medium business operators and advisers who meet regularly with 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 businesses, 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 businesses.

Our Goals



This report covers our work from April 2019 to March 2020. This was always going to be a challenging year with two overriding issues: the uncertainty that overshadowed all businesses with the EU Exit/ Transition position; and the introduction of MTD for VAT registered businesses. Then on 6 November 2019, Parliament was dissolved ahead of the General Election on 12 December 2019, with the result that HMRC staff were bound by the Cabinet Office pre-election guidelines². Many planned meetings were cancelled or re-organised, though ABAB's November Board went ahead, conducted within these restrictions, and we have continued to keep HMRC focussed on how administrative burdens impact small businesses.

²Under Cabinet Office rules, during a pre-election period the responses from civil servants can only describe current policy and cannot provide further commentary or commit to any future policy changes. This is to ensure the impartiality of the civil service during the election campaign. HMRC staff are bound by pre-election guidelines and the Civil Service Code and not allowed to attend or discuss issues relating to government policy]

Since the Covid-19 pandemic (C19) ABAB have continued to work with HMRC Senior Leaders, holding regular teleconferences to address concerns and engage the ABAB Board on both the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS). ABAB have actively consulted with businesses and trade bodies including UK Finance, the Confederation of British Industry, Federation of Small Businesses and British Chambers of Commerce, feeding in the range of small business experience to aid the design of these schemes. ABAB were hugely impressed by the work HMRC did on the C19 JRS and SEISS schemes which have had a significant and positive impact on small businesses and the self-employed.

ABAB 2019-2020 Priorities

1. EU Exit/Transition
2. Making Tax Digital for Business (MTDB)
3. Tell ABAB Annual Survey
4. Customer Experience
5. Culture and Capability for Listening

1. EU Exit/Transition

ABAB has a sub-group to represent small business interests in discussions with HMRC around EU Exit /Transition issues. However, opportunities to engage in meaningful conversations have been limited (due to factors outside HMRC control) and we continue to live in an environment of increased uncertainty for businesses.

ABAB Board members have participated in several of HMRC's Customer Lab live research sessions which aim to improve customer experience and reduce administrative burdens. These involve real customers discussing specific topics and the problems they have encountered. In February 2020, a workshop with several stakeholders discussed the pain points small businesses may encounter with the import and export process once the EU Transition period is completed, considering this from the perspective of those looking to complete the process themselves, along with those appointing intermediaries. The insights gained from this workshop, along with research conducted directly with small businesses, provided greater awareness of where and when small businesses will struggle the most which then allows ABAB to encourage HMRC to smooth and refine. From ABAB's perspective this was enlightening and as we highlighted at the time *"it would very much appear that there is a chronic lack of awareness within small businesses of what is really coming along the track."*



Crowd of People

Communications by HMRC can only achieve so much so trade organisations and advisors have a key role to play as do existing road hauliers who may not offer customs clearance services or possess expertise of Customs & Excise at the moment but are likely to be the first point of contact for a small business (who use their services currently to deliver/collect goods to/from the EU).'

We are seeing small business borrow, often for the first time, to survive. This has been the result of economic challenges and particularly a result of C19. It is extremely troubling from comments we have heard that small business may view the approach of the EU Transition December deadline with increased apathy.

2. Making Tax Digital for Business (MTDB)

ABAB have continued to engage in a very positive, collaborative way with the HMRC MTDB team.

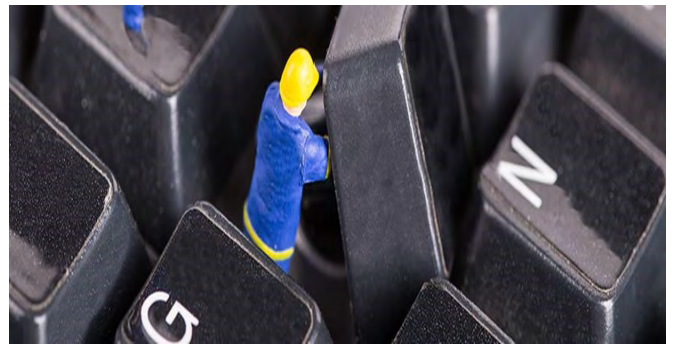
ABAB's advice and suggestions, including a light-touch approach to penalties, were adopted and proved to be the right direction. ABAB Board members have highlighted the mood change from businesses asking, 'why do we have to do this' to 'what do we need to do' or 'help us do it'. ABAB support HMRC's improved emphasis on communication and the continued pragmatic approaches to the application of penalties. ABAB's view remains that a modern enhanced digital tax system will support small business growth if implemented in the right way and at the right time and speed.



Image representing Digital Map

HMRC's MTD review published on GOV.UK on 19 March provided an evaluation of the introduction of the Making Tax Digital programme so far:

<https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital#review-and-research>.



Plastic Figure raising Keyboard Keys

The report suggests that MTD for VAT is working as intended; however there have been some teething troubles which ABAB have highlighted and HMRC have acknowledged and improved. The research shows that some businesses are starting to benefit from the improved working practices with monitoring continuing against customer costs e.g. software and training incurred.

Although outside the period of this report and due to the later than usual publication of this report we want to draw attention to ABAB Board member Paul Aplin's OBE published articles in Tax Journal, the first in May 2020: 'Making tax digital- taking stock' [<https://www.taxjournal.com/articles/making-tax-digital-taking-stock>]

in which he '

welcome(d) HMRC's commitment to continue its engagement with the professional and trade representative bodies. To capitalise on the opportunities digital technology offers, to maximise the benefits and minimise the burdens, we have to work in partnership.'

And a further article in July 2020: '*HMRC's broad and bold ambition* [<https://www.taxjournal.com/articles/hmrc-s-broad-and-bold-ambition>]

ABAB will continue to focus on the cost, administrative burden and efficiency savings that were the key drivers for MTD. This is still work in progress and while it's too early to comment in this year's report on MTD benefits, we are at the early stages of discussing HMRC's bold ambition and this will be a focus in the coming year.



Life ring lying on Keyboard

3. Tell ABAB Survey & Report

The 'Tell ABAB' online facility allows ABAB to engage directly with small businesses. It helps us understand the issues small businesses face during interactions and engagement in administering tax. The survey allows small businesses to have their say on matters important to them. This year's survey was issued in February 2020 (later than usual, a consequence of the Purdah period) and attracted 5,725 respondents (2019 – 3,436 and 2018 – 1,946). Of the 5,725 respondents 1,864 were both VAT registered and utilising Making Tax Digital (MTD) for their digital returns.

The key highlights from the report were:

- 80% responded positively to the sign-up and submission process for MTD.
- There was an increase in those who sought support and advice on MTD for VAT accounts from the GOV.UK website and from their agents/accountants. There were various comments regarding the increased cost to small business which echo those previously highlighted to HMRC by ABAB. Small busi-

nesses are increasingly looking for support and answers across a range of topics from GOV.UK, publications and their advisers.

- In terms of the EU Transition, most respondents have looked to accountants, publications and GOV.UK for support and guidance.



Woman reading a computer pad.

- Engagement and customer experience of HMRC services including webchat, YouTube and SMS messaging have increased with ratings at 70% for either good, very good or excellent with a lower rate of approval for Skype.
- Skype is the least favourable way for customers to interact with HMRC overall with far more interest in webchat and the helpline.
- Significantly more people (64%) think that the legislative burden in regards tax compliance for small businesses has increased (slightly increased or much increased). There has been a consistent increase year on year over the last three annual surveys, pointing to the complexity felt by small business which needs to be addressed. This year we broke responses down into age brackets which indicated that those in the older demographic range feeling the admin burden was greater. We will continue to monitor this in future surveys.



Image of 5 figures and a survey.

As in previous years, we have held a lengthy session with HMRC to go through the findings and encouraged them to develop actions to address the issues.

4. Customer Experience

Customer Experience Working Group (CEWG)

Beyond quarterly Board meetings, ABAB engage with HMRC through our Customer Experience Working Group. CEWG is involved in more detailed examination of and engagement over the 'big ticket' issues that most interest or concern the ABAB Board and businesses. Working in this way has enabled ABAB to bring their 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. Here we highlight some topics where CEWG has been working with a range of HMRC teams.

HMRC Futures Team

HMRC's Futures Team looks at the external trends and drivers impacting HMRC in terms of the risk to tax revenues, the organisation and its customers. The team works with public and private sector partners across the world and in the UK, building insights through data, information and conversation, and looking at the influence of things such as automation, tax concentration, corruption and new technology. In May 2019 the Futures team presented their work to the CEWG; that led to the team meeting the full ABAB Board to expand on their work, so members could input to the Team's assessment of the impact on small businesses.

The Futures Team’s purpose is to build organisational capability integrating Futures Thinking into HMRC strategy making, and in doing so “future proof HMRC”. This mean looking out towards 2030 like a “forward listening post”, presenting clear potential tax, tax base or operational impacts to reflect HMRC’s stakeholders’ interests. Their work covers the key trends impacting HMRC around globalisation, technological change, demographics, social and environmental change, and explore the risks and opportunities they present. ABAB members participated in a timeline exercise to illustrate how fast change is happening and then looked at technological convergence and the potential uses for robotics and Artificial Intelligence. They also looked at the main areas of relevance to tax risk: gig economy, E-vehicles, tax loss and the change in retail, and flow of money, reflecting on. Generation Z buying

Small Business future ambition

CEWG is particularly interested in HMRC’s Insight on small businesses and welcomes the early engagement by the Small and Mid-Sized Businesses Strategy Team. HMRC’s recently published ‘Measuring Tax Gaps: 2020 edition’ report confirms that the small business gap has remained at around 40% of the overall gap for at least 10 years. Forecasts suggest the small business tax gap will rise, even before the impact of C19 is known.



Engineer reading a meter in front of a wall of IT equipment.

preferences meaning renting rather than owning.

Following this, the ABAB Chair extended an invitation for the Futures Team to present at the UK Finance SME Advisory Group.



child with virtual reality glasses

CEWG’s view is that HMRC need to be on the front foot technologically to make it easier for small businesses to comply. MTDB is part of this; the strategy needs to appreciate the diversity of the small business population (in terms of size, taxes paid and structure) and work to help provide opportunities to support small businesses. The strategy must address the array of choice and complexity within the current tax system in order to deliver a healthier tax administration system. C19 has pushed many small businesses in the direction of “cashless” and “paperless”. We can assume this will impact quite significantly on tax, and software providers will play an important role in this move to cashless business. CEWG will provide an update on this work in next year’s report.

5. Culture and Capability for Listening

Master Customer Journey

ABAB maintain their enthusiasm and support for HMRC Customer Journey work, which is HMRC's approach to looking at how their customers experience dealing with HMRC over a life or business event. This work involves talking to customers, listening to their perspective, mapping these experiences and interactions with HMRC and other government departments (OGDs), determining how the pinch points in those interactions can be smoothed out.

In November ABAB were involved in working through the multiple jobs customer journey and were impressed by the amount of work and understanding of complex issues that had been identified and the innovative solutions being explored.

Payrolling Benefits in Kind (PBiK)

ABAB reported on this work in last year's Annual Report 2019 and have continued to keep a watching brief on progress. Following ABAB feedback, HMRC identified changes to the guidance and processes that allow employers to begin payrolling during the tax year. The circumstances are limited to ensure that an employee is not taxed twice on their benefit through an incorrect tax code change.



ABAB continues to press HMRC to give sufficient resources to expand the number of customer journeys that impact small business so that we can ramp up the good work being done in this area.



Partially open Tube doors.

The guidance published on GOV.UK provides step by step advice on how employers can use the registration tool and sets out employers' obligations when they start payrolling benefits.

ABAB are receptive to what HMRC are trying to do but suggested that employers would be more confident if examples could be included in the guidance, which is being explored.

Board members highlighted different and confusing treatments of car benefits which seemed to indicate that the existing system was not running exactly as it should be and required further review.

Calculator and printed tape.

Off-Payroll Working Programme (OPWP)

ABAB fully supported the concept of the OPWP but remained sceptical that businesses were ready for it or understood how the change would impact them. ABAB stressed that it would be difficult for business to adopt these new measures, especially as there have been constant delays (as noted above) which have resulted in subsequent delays to the new guidance. This wasn't a reflection on HMRC, but simply the reality that businesses needed a clear period to prepare for the introduction of OPWP.

ABAB worked with HMRC, often at short notice with tight deadlines, to check the guidance before publication to ensure it was fit for purpose. We are, though disappointed that we simply ran out of time to ensure we were involved in all aspects of the guidance. We were instrumental in challenging and driving changes to the 'Check Employment Status for Tax' (CEST) tool, ensuring it provided the highest level of accuracy and certainty for businesses

who will rely on its output. Board members provided real life case studies and conducted testing with clients, which highlighted improvements that needed to be incorporated into the tool, right up until its release in November 2019.

ABAB acknowledge that CEST is not perfect and cannot cover every possible situation but it is a useful practical tool. HMRC should 'take real credit for that' but ABAB had to work very hard and argued strongly for the enhancements that were needed.



Group of woman with their arms raised.

6. What's Planned for 2021?

ABAB will continue to prioritise and address the key administrative issues impacting small businesses including C19, particularly the:

- impact of C19
- winding down of C19 schemes
- how the exit from C19 schemes is managed.

Our other key priorities for 2020/21 will include:

- EU Transition
- Making Tax Digital for Business
- Tell ABAB survey
- Customer Experience
- Culture and Capability for Listening

Board Members



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Rebecca Benneyworth



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Violetta Parylo



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John Whiting CBE



Bill Dodwell



Karen Thomson



Grainne Warner



Roger Southam



Graham Rogers