

Statistical Note – Revision and Updating of the Administrative Burdens Baseline

Summary

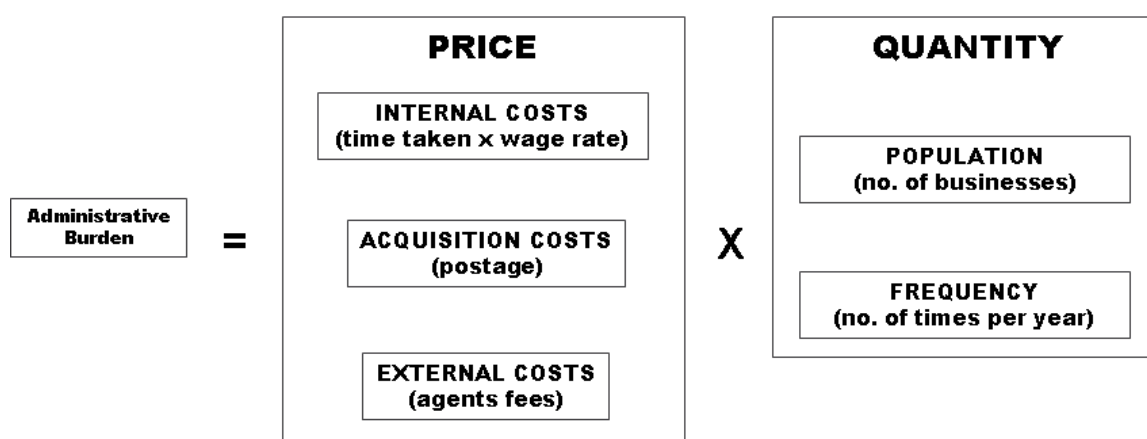
The new baseline for administrative burdens is measured at **£6.35bn**. The changes are broken down thus:

- i. The original 2005 baseline was **£5.1bn**, revised to **£5.3bn** after fully incorporating data from the Administrative Burdens Toolkit database.
- ii. Policy and operational changes amounted to savings of **£584m** by 2011, so the total administrative burden was **£4.7bn** at the end of 2010-11.
- iii. Expressed in 2010 prices, this is **£5.39bn**.
- iv. Business population changes add a further £963m, taking the 2011 total to **£6.35bn**.

Figures were produced using the Administrative Burdens Toolkit (ABT) which is based on the internationally-recognised Standard Cost Model (SCM) methodology. SCM figures are indicative to allow comparisons of the costs resulting from policy or operational change.

ABT and the SCM Methodology

The Administrative Burdens Toolkit (ABT) is based on Standard Cost Model (SCM) principles, produced using a relatively simple framework shown in the schematic below:



We calculate the total annual compliance cost by first determining the costs associated with:

- a. The resource cost (**internal cost**) per business of complying with tax obligations. This is best thought of as the number of hours' work required to comply with these obligations at the price of labour in that year;
- b. Additional **external costs** if a business elects to employ an agent to assist them in complying with tax obligations; and

- c. Other **acquisition costs** associated with complying with a tax obligation such as postage, labels, storage, and annual software costs.

These costs are then multiplied by two elements determining quantity which allows HMRC to calculate the total compliance costs to the business population:

- a. The **population**, which refers to the number of businesses affected by a tax obligation; and
- b. The **frequency**, which refers to how often a business has to file a return every year. For example, a monthly return would mean the frequency would be 12.

Cause of Baseline Changes

To distinguish between baseline changes as a direct consequence of the project to update the SCM populations, it is useful to separate this from the baseline changes resulting from the changes in wage and price inflation. Table 1, below, shows ABT as of 31st March 2011, before population changes were applied.

Tax Area	2005 Prices (£m)	2010 Prices (£m)
Aggregates Levy	£1	£1
Air Passenger Duty	£1	£2
Capital Allowances	£114	£129
Capital Gains Tax	£9	£10
Climate Change Levy	£3	£4
Construction Industry Scheme	£101	£111
Corporation Tax	£568	£641
Customs	£741	£857
Double Tax Treaties	£2	£2
EC Sales List	£7	£7
Employer Taxes	£800	£901
Excise Duties	£45	£50
Gaming Duties	£4	£5
Income Tax for Businesses	£942	£1,072
Inheritance Tax	£0	£0
Insurance Premium Tax	£10	£12
Intrastat	£16	£17
Landfill Tax	£4	£5
Pensions	£260	£297
Petroleum Revenue Tax	£8	£9
Stamp Duty	£35	£40
Stamp Duty Land Tax	£28	£31
Stamp Duty Reserve Tax	£1	£1
Tax Management Provisions	£66	£72
Tonnage Tax	£1	£1
Value Added Tax	£930	£1,106
Withholding Tax	£2	£2
Totals	£4,699	£5,387

Table 1

ANNEX B

These changes apply as a result of the amendments made across the entire database to take account of inflation since the database was built in 2005-6.

In detail, these changes were sourced as follows:

- Wage rates: updated using the 2010 Annual Survey of Hours and Earnings (ONS)
- External costs: inflated using general CPI data (series D7BT) to January 2011 (ONS)
- Acquisition costs: inflated using general CPI data (series D7BT) to January 2011 (ONS)
- Postage costs: inflated using postage-specific CPI data (series D7CR) to January 2011 (ONS).

The changes resulting from the updating the populations in the SCM are presented in Table 2, below

Tax Area	End of last period (£m)	2011 Baseline (£m)
Aggregates Levy	£1	£0
Air Passenger Duty	£2	£2
Capital Allowances	£129	£147
Capital Gains Tax	£10	£12
Climate Change Levy	£4	£4
Construction Industry Scheme	£111	£72
Corporation Tax	£641	£845
Customs	£857	£1,486
Double Tax Treaties	£2	£2
EC Sales List	£7	£5
Employer Taxes	£901	£957
Excise Duties	£50	£62
Gaming Duties	£5	£2
Income Tax for Businesses	£1,072	£1,184
Inheritance Tax	£0	£0
Insurance Premium Tax	£12	£15
Intrastat	£17	£16
Landfill Tax	£5	£2
Pensions	£297	£303
Petroleum Revenue Tax	£9	£9
Stamp Duty	£40	£11
Stamp Duty Land Tax	£31	£29
Stamp Duty Reserve Tax	£1	£1
Tax Management Provisions	£72	£72
Tonnage Tax	£1	£1
Value Added Tax	£1,106	£1,111
Withholding Tax	£2	£2
Totals	£5,387	£6,350

Table 2

This presents the total baseline as £6,350m.

Baseline Revisions

ABT was first constructed in 2005 by KPMG. It was used to generate a target of reducing compliance costs, sometime referred to as administrative burdens. Budget 2006 announced two specific administrative burden reduction targets for HMRC to achieve by 2010-11:

- To reduce the administrative burden on businesses of dealing with HMRC's forms and returns by at least 10 per cent; and
- To reduce the administrative burden on compliant businesses of dealing with HMRC's audits and inspections by 15 per cent.

In 2009 HMRC extended this commitment to a reduction in the overall administrative burden on UK businesses by at least 10 per cent. HMRC achieved this target by making an overall reduction in administrative burdens of £584m.

However, revisions were made after the baseline of £5.1bn was first published, after fully incorporating all the information from the ABT database. As a result of these revisions, the new baseline was estimated to be around £5.3bn. With savings of £584m, HMRC still met its commitment to deliver a 10% reduction of the baseline.

Conclusions

Table 3 summarises the admin burdens discussed in this paper. The first two columns present the published and the revised baseline for the previous target period as £5,100m and £5,306m respectively, both in 2005 prices. At the end of the target period, it was measured that £584m of admin burden savings were made. This resulted in a new total admin burden baseline of £4,699m¹ in 2005 prices.

By converting the £4,699m measured at the end of the target period using 2010 prices and volumes, the baseline for the new measurement period is £6,350m. This cannot be compared against the 2005 baseline due to differences in prices and populations. However, a broad estimate of the 2005 revised baseline in 2010 prices and volumes can be made. This shows the revised 2005 baseline using 2010 prices and volumes to be £6,959m.²

¹ Total, audited, savings made between 2005-2011 have been measured as £584m. The difference between £5,306m and £4,699m does not equal £584m due to rounding and measurement conventions used in the ABT system.

² This was calculated from applying the new price and volume measures to the aggregate compliance cost for each tax area. A fully comparable number would mean also applying the new volume measures to the individual elements of aggregate cost, but

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Tax Area	(2005 prices)			(2010 prices)	
	2005 Baseline (£m)	2005 Baseline (Revised) (£m)	End of 2005 target period (reported) (£m)	2005 Revised Baseline (2010 prices and volumes) (£m)	2011 Baseline (2010 prices and volumes) (£m)
Aggregates Levy	£0	£0	£1	£0	£0
Air Passenger Duty	£1	£1	£1	£2	£2
Capital Allowances	£151	£151	£114	£195	£147
Capital Gains Tax	£7	£7	£9	£9	£12
Climate Change Levy	£13	£5	£3	£7	£4
Construction Industry Scheme	£321	£321	£101	£229	£72
Corporation Tax	£608	£589	£568	£876	£845
Customs	£793	£739	£741	£1,482	£1,486
Double Tax Treaties	£1	£2	£2	£2	£2
EC Sales List	£2	£3	£7	£2	£5
Employer Taxes	£759	£856	£800	£1,024	£957
Excise Duties	£49	£54	£45	£74	£62
Gaming Duties	£4	£4	£4	£2	£2
Income Tax for Businesses	£857	£1,065	£942	£1,339	£1,184
Inheritance Tax	£0	£0	£0	£0	£0
Insurance Premium Tax	£10	£10	£10	£15	£15
Intrastat	£18	£18	£16	£18	£16
Landfill Tax	£4	£4	£4	£2	£2
Pensions	£294	£330	£260	£385	£303
Petroleum Revenue Tax	£8	£8	£8	£9	£9
Stamp Duty	£49	£49	£35	£15	£11
Stamp Duty Land Tax	£45	£45	£28	£47	£29
Stamp Duty Reserve Tax	£1	£1	£1	£1	£1
Tax Credits	£12	£12	-	-	-
Tax Management Provisions	£66	£66	£66	£72	£72
Tonnage Tax	£1	£1	£1	£1	£1
Value Added Tax	£1,020	£962	£930	£1,149	£1,111
Withholding Tax	£2	£2	£2	£2	£2
Totals	£5,100	£5,306	£4,699	£6,959	£6,350

Table 3

this was not possible. The approach taken here, however, provides a broad estimate of the compliance costs using 2010 prices and volumes.

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