Re-scope of the Bank Levy– 2021

Consultation document
Publication date: 9 December 2015
Closing date for comments: 4 March 2016

Subject of this consultation:	Changing the scope of the bank levy from 1 January 2021.
Scope of this consultation:	This consultation outlines the proposed changes in the scope of the bank levy from a global balance sheet basis to a UK balance sheet basis, and seeks views on the implementation of those changes.
Who should read this:	The UK banking and building society sectors, their representatives and advisors.
Duration:	9 December 2015 to 4 March 2016
Lead official:	Charlotte Hopwood, HMRC Policy and Technical Adviser (Financial Products and Services Team) CTISA.
How to respond or enquire about this consultation:	Responses can be sent by email to: charlotte.hopwood@hmrc.gsi.gov.uk, or by post to: Charlotte Hopwood HM Revenue & Customs Room 3C/06 100 Parliament Street London SW1A 2BQ Enquiries can be made via email as above or please telephone; Charlotte Hopwood on 03000 585 950.
Additional ways to be involved:	HM Treasury and HMRC welcome discussions with interested parties, and will be seeking to establish working groups as a forum for dialogue.
After the consultation:	The proposals will be reviewed in light of the responses. The government will publish its summary of responses to the consultation along with the draft legislation that will be proposed for inclusion in a future Finance Bill.
Getting to this stage:	The bank levy was introduced by Schedule 19 of the Finance Act 2011, with effect from 1 January 2011.
Previous engagement:	Prior to introduction of the bank levy, the government carried out a consultation about the design and implementation of the levy in summer 2010 and published a consultation response in October 2010. In July 2013, the government undertook a review of the design of the levy to ensure that it was operating efficiently and published a consultation response in December 2013. At Summer Budget 2015, the government announced that the scope of the bank levy would be changed to UK operations from 1 January 2021.

Contents

On request this document can be produced in Welsh and alternate formats including large print, audio and Braille formats

Introduction

Background

1.1 The bank levy ("the levy") is a tax on the balance sheet equity and liabilities of banks and banking groups. It took effect from 1 January 2011, with the legislation included in Schedule 19 Finance Act 2011[1].

1.2 The purpose of the levy is to ensure that banks make a fair contribution, reflecting the risks they pose to the financial system and the wider UK economy. It is also designed to create appropriate incentives to contain systemic risk and encourage banks to move away from riskier funding models.

1.3 The levy is designed to reflect these two objectives with the charge applying to:

- the global consolidated balance sheets of UK headquartered banking groups and building societies;
- the aggregated UK subsidiary and branch balance sheets of foreign banks and banking groups operating in the UK and their subsidiaries; and
- the balance sheets of UK banks and UK branches of foreign banks in non-banking groups.

1.4 The scope of the levy brings into charge the balance sheet liabilities of a wider range of entities than are considered for corporation tax, including non-UK entities that do not undertake activities in the UK.

1.5 This approach is considered to provide an appropriate representation of the risk that different banking groups pose to the UK economy, thereby supporting the bank levy's underlying policy objectives.

[1] The bank levy applies to building society groups and entities in the same way as it applies to banking groups and entities. For ease of reference this document refers simply to banking groups and entities.

Announced changes

1.6 Since the bank levy's introduction in 2011, there have been significant developments in international regulation and resolution planning, developments which prompt consideration of the appropriateness of the scope of the bank levy in capturing banking groups' risk to the UK economy.

1.7 The risk of failure of UK banks' overseas subsidiaries is being reduced by higher loss absorbency requirements and more effective host-state supervision.

1.8 The impact of such failures is also being reduced through the implementation of internationally co-ordinated resolution planning, simplification in the legal and operational structures of banking groups and, in the UK, the planned ring-fencing of banks' core financial services.

1.9 The government believes that once these wider reforms have been fully implemented, it will be appropriate to revise the scope of the levy. It therefore announced at Summer Budget 2015 that banking groups will be levied solely on their UK balance sheet equity and liabilities from 1 January 2021.

Timing

1.10 The government has committed to legislating for this change within the current Parliament. It is acting now on that commitment in order to provide the banking sector with certainty over the future of the bank levy, and allow the implications of the reform to be considered as part of banks' structural reform plans.

1.11 This consultation sets out the government's objectives for the change and a proposal for delivering these objectives in legislation, highlighting the key issues that need to be addressed in order to achieve this.

1.12 This consultation will run until **4 March 2016,** with the consequential changes to the legislation being proposed for Finance Bill 2017.

1.13 This consultation also covers proposed amendments to the definition of High Quality Liquid Assets following the introduction of the new EU liquidity coverage ratio requirements. Changes in this area will be made to an earlier timescale and will be brought in by secondary legislation in 2016.

2. Determination of UK balance sheets

2.1 As set out in Chapter 1, the government has announced a change in the scope of the levy, meaning that, from 1 January 2021, banks will be levied solely on their UK balance sheet equity and liabilities.

2.2 The meaning of "UK balance sheet equity and liabilities" is fundamental to the reform and something which the government invites views on as part of this consultation. This chapter sets out the government's intentions in this area, and a proposal for delivering them in legislation.

Proposed UK balance sheet outcome

2.3 The bank levy is currently charged on the global consolidated balance sheets of UK banking groups and building societies, and on the aggregated UK subsidiary and branch balance sheets of foreign banks and banking groups operating in the UK (including their subsidiaries).

2.4 The proposal is that, from 2021, all banking groups will instead be levied on the balance sheet liabilities of UK based entities and on the balance sheets of any branches which operate in the UK. This would lead to the following outcomes:

- **All UK resident companies within banking groups and sub-groups will remain in scope of the charge, including their overseas branches.** The government believes that all UK resident companies within a banking group or sub-group should remain in scope of the charge, irrespective of their activities and irrespective of whether these activities are undertaken in the UK or by an overseas branch.

- **Non-UK resident subsidiaries of a UK banking group or sub-group will be excluded from the bank levy's scope.** This will reduce the tax base for both (a) UK headquartered banks with overseas subsidiary networks and (b) foreign banking groups that have non-UK resident subsidiaries held by a UK parent company.

- **The liabilities of a non-UK resident banking company that relate to the funding of a UK branch will remain within scope of the bank levy.** Foreign banking groups are currently charged on the liabilities of the bank that relate to the funding of the UK branch, with this relationship approximated based on the ratio of branch assets to overall company assets. The government believes that this treatment needs to extend to all banking groups from 2021[2].

[2] It may be rare for a UK headquartered bank to branch into the UK from a non-UK resident company, but is possible for either historic reasons or for banking groups that operate with different brands and activities between jurisdictions.

- **Entities within the scope of the charge will be taxed on their liabilities to third-parties, and also on their liabilities to group members outside of the scope of the charge.** The government believes that UK resident companies should be charged on liabilities to group members that fall outside of the bank levy's scope, as well as their liabilities to third parties. This will align with the existing treatment for foreign banking groups.

2.5 The remainder of this chapter sets out a proposed framework for delivering these outcomes in legislation.

Existing calculation method for foreign banking groups

2.6 The existing bank levy legislation contains provisions to calculate the levy base for foreign banking groups which operate in the UK through subsidiaries and/or branches, which may or may not be in a consolidated UK sub-group.

2.7 This is achieved by identifying four different categories of equity and liabilities.

Type A: Equity and liabilities of "relevant[3]" UK sub-groups (consolidated UK banking sub-groups).

Type B: Equity and liabilities of any UK resident entity in a banking group (unless already included in a relevant UK sub-group), regardless of their trade or activities.

Type C: Equity and liabilities of any non-UK resident entity that is held by a UK resident entity (unless already included in a relevant UK sub-group), regardless of their trade or activities.

Type D: UK allocated equity and liabilities of a non-UK resident bank (that is not a member of a UK sub-group) with a UK permanent establishment.

2.8 The bank levy is then charged on the sum of Type A to D liabilities, with relevant exclusions, deductions and eliminations for intra-group liabilities and legally enforceable netting agreements.

[3] Broadly, a relevant group consists of a UK parent entity and all entities that are consolidated into its financial statements at the end of a chargeable period.

Proposed calculation method for all banking groups

2.9 The government believes that adjustments to the calculation method for foreign banking groups will make it an appropriate framework for delivering the outcomes in paragraph 2.4 for all banking groups from 2021, including UK headquartered groups and the relevant entities within non-banking groups.

2.10 The first adjustment needed is the exclusion of non-UK resident entities from the bank levy scope, including those held by a UK resident parent. This can be achieved through amending the definition of Type A liabilities, and eliminating all Type C liabilities for banking groups[4].

2.11 Secondly, the definition of Type D liabilities would need to be amended to ensure that UK branches of all non-UK resident banking entities are brought within scope of the charge, whether or not the entity is a member of a UK banking group or sub-group. This can be achieved through a change to the definition of Type D liabilities.

2.12 Amending the calculation method in this way this will give the following result:

Adjusted Type A: Equity and liabilities of relevant UK sub-groups, excluding non-UK resident entities.

Type B: Equity and liabilities of UK resident entities of a banking group (unless already included in a relevant UK sub-group).

Adjusted Type D: UK allocated equity and liabilities of a non-UK resident bank with a UK permanent establishment, even if the bank is a member of a UK banking group or sub-group.

2.13 The bank levy would then be charged on the sum of Type B and adjusted Type A and D liabilities, with relevant exclusions, deductions and eliminations for intra-group liabilities and legally enforceable netting agreements.

2.14 Under the current legislation, a bank can only calculate their chargeable equity and liabilities as Type B if they do not prepare consolidated audited accounts.

2.15 Following the re-scope, it is possible that in some cases undertaking the necessary adjustment to Type A liabilities may be more onerous than simply considering all liabilities of UK entities on the basis of their solo balance sheets as Type B liabilities.

2.16 To address this, the government will consider whether UK banking groups and sub-groups which prepare consolidated accounts should be able to elect to calculate their chargeable equities and liabilities on a Type B rather than Type A basis and invites views on this.

[4] Note: It is possible that Type C liabilities may need to be retained for the purposes of calculating the chargeable equity and liabilities of UK banking sub-groups of non-banking groups, but with non-UK resident entities then excluded.

Questions

Q2.1 To what extent do you agree with the government's intended outcomes from the move to a UK balance sheet base?

Q2.2 To what extent do you think these outcomes can be delivered by modifying the existing treatment of foreign banking groups as proposed above?

Q2.3 Are there any particular issues that are not addressed by the method proposed above?

Q2.4 What other methods could be used here?

Q2.5 Should banks which prepare consolidated accounts be allowed to elect to calculate their chargeable liabilities on a Type B, rather than Type A basis?

3. Further design issues

Subsidiary funding

3.1 Under the proposed approach, all equity and liabilities of UK entities that relate to a third party (or a group member outside the scope of the levy) would remain within scope of the levy. This would include liabilities of a UK banking entity that relate to the funding of their overseas subsidiaries.

3.2 The government believes that this is consistent with the bank levy's policy rationale. While there may be commercial reasons for a banking group to fund an overseas subsidiary from a UK entity, this will increase the risk that the UK entity is exposed to.

3.3 However, the government does recognise that banking groups may be required to issue certain forms of capital at the level of a UK bank or parent entity, as opposed to the level of an overseas subsidiary, e.g. to facilitate a single point of entry resolution strategy. It also understands that the forms of capital in question are often likely to be the most loss absorbent and least likely to expose a UK bank to additional funding risk.

3.4 For that reason the government will consider the case for excluding high quality forms of capital that a UK entity may issue to fund its overseas subsidiaries, to the extent that the associated liabilities are not already covered by the reliefs and exemptions within the existing legislation.

3.5 In some cases, such as for pre-positioned bail-in-able debt, capital issued by a UK entity may be directly traceable to the investments that it makes in an overseas subsidiary. However, any exclusion would also need to consider the fact that funding is fungible and that:

a) capital issued in the UK may be pushed down to subsidiaries in a different form, making tracing difficult;
b) capital issued in the UK may be pushed down to subsidiaries through instruments with much shorter maturities, meaning that the extent to which capital is deployed (and the subsidiaries to which it is deployed) could vary significantly throughout the year; and
c) not all subsidiaries will be wholly-owned by the UK parent.

3.6 The government welcomes suggestions for how an exclusion could be designed, dealing with the points above while remaining fair, administrable and robust against abuse.

Questions

Q3.1 To what extent could UK banks be charged on equity and liabilities that relate to the funding of overseas subsidiaries?

Q3.2 Do you agree that funding an overseas subsidiary from a UK bank or parent entity has the potential to expose the UK entity to greater risk?

Q3.3 What classes of equity and liabilities should be considered for any exclusion?

Q3.4 How could any exclusion be designed and targeted in a way that recognises the fungibility of bank funding?

Treatment of Tier 1 capital

3.7 The bank levy legislation currently excludes Tier 1 capital from the bank levy charge to in order to reflect the stability and loss absorbency of this form of funding.

3.8 This exclusion is currently based on the definition of Tier 1 capital in Article 25 of Regulation No 575/2013, the Capital Requirements Regulation, after the application of various deductions set out in Article 36.

3.9 This includes a deduction for the applicable amount of direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities.

3.10 The government would like to explore whether using the definition of Tier 1 capital post-deduction for investments in subsidiaries remains appropriate upon the move to a UK balance sheet tax base.

3.11 Applying this definition on a solo balance sheet rather than a consolidated balance sheet basis could have the effect of limiting the Tier 1 exclusion for a UK bank to its own Tier 1 capital minus the Tier 1 investments that it holds in its overseas subsidiaries.

3.12 This would result in the UK bank being charged on Tier 1 capital that relates to the funding of overseas subsidiaries, giving rise to similar concerns as those raised in paragraph 3.3.

3.13 It may be that this can be dealt with as part of the wider issues around subsidiary funding. However, the government would also like to explore whether this specific issue could instead be addressed through an amendment to the definition of Tier 1 capital, e.g. excluding Tier 1 prior to deductions for an institution’s investments in its subsidiaries.

Questions

Q3.5 Are there any specific considerations around the treatment of Tier 1 that differ from those that arise from other forms of subsidiary funding?

Netting

3.14 The current bank levy rules include provisions which allow certain liabilities to be excluded from the bank levy charge when they are subject to a legally enforceable netting agreement.

3.15 For foreign banking groups, the provisions are restricted to entities that fall within the bank levy's scope. For example, the liabilities of a UK banking entity cannot be netted against the assets of non-UK resident banking entity, unless this entity falls within a UK sub-group.

3.16 The government proposes that netting provisions for all banks' groups should be aligned with this treatment from 2021. The government welcomes views on this proposal, but wants to avoid potentially complex changes to what is an established area of the legislation.

Questions

Q3.6 Do you agree with the government's proposed approach for netting?

4. Alternative definitions for UK balance sheets

Branch treatment

4.1 The policy rationale for the re-scope of the levy is set out in Chapter 1. It is based on the reduction in the risks posed to the UK economy by independently capitalised and host state supervised overseas entities that do not operate in the UK market.

4.2 The government does not believe that the same rationale applies in respect of overseas branches of UK banks. In the case of a branch operating outside the UK, risks such as credit and funding risks cannot be readily divorced from the risks faced by the overall entity, hence their inclusion within the Bank of England's supervisory remit.

4.3 The government does not therefore envisage an exclusion for the liabilities of a UK bank that relate to the funding of its overseas branches.

4.4 The government recognises that this will lead to differential treatment of banks operating overseas through branches as opposed to subsidiaries. However, it believes that, in this instance, differential treatment is justified in terms of how the failure of these overseas operations would transmit back to the UK.

4.5 It also believes that an exclusion would introduce considerable further complexity in requiring a UK bank's liabilities to be apportioned to its overseas branches. This could be achieved by reversing the existing branch allocation methodology, but with the potential for the numerator in this calculation to then encompass multiple branches across multiple jurisdictions.

Banking company application

4.6 A number of alternative approaches have been put forward for defining UK balance sheet equity and liabilities during initial discussions with the sector. One of these approaches would be to move towards an entity level basis for taxation, confining the bank levy charge to the balance sheets of companies/branches that are classified as banks for the purposes of the surcharge on banking companies.

4.7 This would go further than the approach outlined in Chapter 2, in excluding both non-UK resident companies and UK resident companies that are not classified as banking companies (nor held directly or indirectly by those that are).

4.8 The government has significant reservations about this approach.

a) It would represent a departure from a policy rationale based on funding and liquidity risk, which is generally managed and assessed at a group-level.
b) It would have a much greater impact on the size of the tax base, reducing yield from domestic banking groups as well as international banking groups with non-UK resident companies held from the UK.
c) It would introduce additional complexity and risk banks being affected differently depending on where their non-banking companies are located within the group e.g. whether they are held by a banking company or held directly from a non-banking holding company.
d) It could create undesirable incentives for banks to relocate both external funding and capital intensive activities outside of regulated banking companies.

4.9 Overall, the government believes that this approach is less justifiable from a policy perspective, as well as resulting in a narrower tax base.

Questions

Q4.1 To what extent to you think there are alternative approaches to defining UK balance sheet equity and liabilities that address the government's concerns in this Chapter?

5. High Quality Liquid Assets

Background

5.1 In calculating chargeable equities and liabilities for bank levy purposes, banks are entitled to relief for the high quality liquid assets ("HQLA") they hold on their balance sheets. Broadly, these are assets which the regulator mandates banks to hold for liquidity purposes.

5.2 This relief is designed to recognise the low-margins that banks derive on assets held for liquidity purposes, and to ensure that the imposition of a bank levy charge does not make these holdings uneconomic.

5.3 The current definition of HQLA within the bank levy legislation is linked to assets eligible for inclusion within a firm's liquid asset buffer, as determined by the Prudential Regulation Authority ("PRA") and as defined in section 12.7 of the Prudential sourcebook for Banks, Building Societies and Investment Firms. This is known as the BIPRU 12 definition.

Regulatory changes

5.4 The BIPRU 12 definition referenced in the bank levy legislation has been superseded and no longer reflects the regulatory standards that apply to banks.

5.5 From 1 October 2015, the PRA withdrew BIPRU 12 and moved to new liquidity requirements as set out in European law under EU Regulation 575/2013, as supplemented by Commission Regulation 2015/61, known as the CRD IV Liquidity Coverage Ratio.

5.6 This regime is still designed to ensure that banks have sufficient buffers of liquid assets in order to manage expected outflows in periods of stress. However, there are some fundamental differences in how it operates.

- Some banks have noted that the level of assets that they are required to hold, for a given balance sheet size and liability structure, will be higher under CRD IV.
- The CRD IV liquidity buffer may be met, to a certain extent, through multiple categories of asset (Level 1, 2a or 2b). This compares to the BIPRU 12 liquidity buffer which specifies a single category of eligible assets.
- The range of assets eligible for inclusion under the CRD IV regime is significantly wider than under BIPRU 12. Even the Level 1 category within the CRD IV regime, reserved for the highest quality assets, is broader than the entire BIPRU 12 standard.
- Under the CRD IV regime, the qualification of some assets is contingent on the exposure they are being held to manage. This is different from the BIPRU regime which simply defined a set of un-contingent high quality liquid assets.[5]

[5] This is with the exception of specific cases where the PRA granted a waiver for non-eligible assets to qualify.

5.7 This means that applying a simple definitional change to reflect the new regulations would result in a significant increase in HQLA relief, despite the lack of any material change in the level and quality of banks' liquid asset holdings.

5.8 It also means that there are practical issues in looking to make relief available for all assets eligible to be included in a bank's liquid asset buffer, when eligibility is in fact dependent on an institution's particular circumstances and particular exposures.

Possible amendments

5.9 The government wants to deliver a legislative response which is consistent with regulation and upholds the policy objective for providing HQLA relief. However, the government also wants to minimise costs to the Exchequer from what is a change in regulatory definitions.

5.10 These objectives are reflected in the options below, and in the assessment of these options.

Limiting relief to certain categories of Level 1 assets

5.11 One approach could be to limit relief to certain classes of asset within Level 1 of the new CRD IV liquidity buffer i.e. those that would previously have qualified for inclusion under the BIPRU 12 equivalent.

5.12 In previous discussions, some banks have raised concerns about the administrative burdens associated with this approach, in requiring them to break down existing regulatory information. They have also noted that this would mean denying relief for assets that they are mandated to include in their liquid asset buffers, thereby diluting the policy rationale. The government accepts these concerns and is therefore inclined to focus on options 1 and 2 below.

Option 1: Limiting relief to Level 1 assets, subject to a possible restriction

5.13 Of the new categories of asset eligible for the CRD IV liquidity buffer, Level 1 is the most similar to the previous BIPRU standard. It is also the only mandatory category, with banks required to meet at least 60 percent of their buffer through Level 1 eligible assets (with some banks expected to operate at much higher percentages).[6]

5.14 The government therefore considers that the policy behind HQLA relief could be maintained by limiting relief to assets within the Level 1 category.

5.15 This would still increase the cost of the legislative change, with Level 1 covering a broader category of assets than the previous BIPRU 12 standard, for example coins and banknotes, certain high quality covered bonds and sovereign debt of lower credit quality countries held in respect of stressed net liquidity outflows denominated in the same currency.

[6] Although a bank may hold level 2a or 2b assets within their liquidity buffer the holding of these particular assets is not mandatory.

5.16 The government would therefore consider ways to reduce the cost of this option. The simplest approach would be to apply a haircut to relief and only allow a deduction, for example, for 80 percent of a bank's Level 1 assets.

Option 2: Allowing relief for a bank's minimum CRD IV liquidity buffer requirement

5.17 Under this approach, a bank would be able to claim a deduction for all categories of asset within the CRD IV liquidity buffer, but only up to their minimum regulatory requirement.

5.18 This would be a departure from the current system, which allows a deduction for all eligible assets irrespective of whether a bank has surplus liquidity relative to its regulatory requirement.

5.19 However, this proposal could reduce the cost of the change in a way which:

a) remains consistent with the policy objective outlined in paragraph 52; and
b) helps to reflect the fact that eligibility under the CRD IV regime can be contingent on the exposures that an asset is held to cover, as well as the quality of that asset in isolation.

5.20 The government recognises that banks may face regulatory and commercial pressures to operate with a surplus above their minimum liquidity requirements and will consider how this could be best be taken into account.

Questions

Q5.1 The government welcomes views on the options for updating the definition of high quality liquid assets.

The government also specifically invites input on the following areas.

Q5.2 How each of these options will apply for the UK branches of non EEA banks?

Q5.3 How each of these options will apply for the non-EEA subsidiaries of UK headquartered banking groups?

Both of these types of entity currently undertake BIPRU 12 based HQLA calculations specifically for bank levy calculations.

Q5.4 Is the impact of the work needed to be undertaken by non-EEA based banking entities expected to change significantly with a move to CRD IV calculations?

Q5.5 Is this impact expected to differ significantly between the options outlined above?

6. Summary of Consultation Questions

Determination of UK balance sheets

Q2.1 To what extent do you agree with the government's intended outcomes from the move to a UK balance sheet base?

Q2.2 To what extent do you think these outcomes can be delivered by modifying the existing treatment of foreign banking groups as proposed above?

Q2.3 Are there any particular issues that are not addressed by the method proposed above?

Q2.4 What other methods could be used here?

Q2.5 Should banks which prepare consolidated accounts be allowed to elect to calculate their chargeable liabilities on a Type B, rather than Type A basis?

Further design issues:

Subsidiary funding

Q3.1 To what extent could UK banks be charged on equity and liabilities that relate to the funding of overseas subsidiaries?

Q3.2 Do you agree that funding an overseas subsidiary from a UK bank or parent entity has the potential to expose the UK entity to greater risk?

Q3.3 What classes of equity and liabilities should be considered for any exclusion?

Q3.4 How could any exclusion be designed and targeted in a way that recognises the fungibility of bank funding?

Treatment of Tier 1 capital

Q3.5 Are there any specific considerations around the treatment of Tier 1 that differ from those that arise from other forms of subsidiary funding?

Netting

Q3.6 Do you agree with the government's proposed approach for netting?

Alternative definitions for UK balance sheets

Q4.1 To what extent to you think there are alternative approaches to defining UK balance sheet equity and liabilities that address the government's concerns in this Chapter?

High Quality Liquid Assets

Q5.1 The government welcomes views on the options for updating the definition of high quality liquid assets.

The government also specifically invites input on the following areas.

Q5.2 How each of these options will apply for the UK branches of non EEA banks?

Q5.3 How each of these options will apply for the non-EEA subsidiaries of UK headquartered banking groups?

Both of these types of entity currently undertake BIPRU 12 based HQLA calculations specifically for bank levy calculations.

Q5.4 Is the impact of the work needed to be undertaken by non-EEA based banking entities expected to change significantly with a move to CRD IV calculations?

Q5.5 Is this impact expected to differ significantly between the options outlined above?

7. The Consultation Process: How to respond

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

Stage 1 Setting out objectives and identifying options.

Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.

Stage 3 Drafting legislation to effect the proposed change.

Stage 4 Implementing and monitoring the change.

Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

How to respond

A summary of the questions in this consultation is included at chapter 11.

Responses should be sent by 4 March 2016, by e-mail to charlotte.hopwood@hmrc.gsi.gov.uk or by post to:

Charlotte Hopwood
HM Revenue & Customs
Room 3C/06
100 Parliament Street
London
SW1A 2BQ

Telephone enquiries 03000 585 950

Please do not send consultation responses to the Consultation Coordinator.

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from HMRC's GOV.UK pages. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentially can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

This consultation is being run in accordance with the Government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website: http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance

If you have any comments or complaints about the consultation process please contact:

John Pay, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

Please do not send responses to the consultation to this address.