# Technical Newsdesk: October 2023

**Welcomes**



18 September 2023

If the answer is the cost of a jar of sliced beetroot, what is the question? Surprisingly, it is: ‘What is the average additional annual cost of compliance for companies affected by the changes to R&D relief for SMEs?’ If you don’t believe me, take a look at the Summary of Impacts in HMRC’s policy paper (tinyurl.com/yc47bsjr ), as well as the websites of major grocery retailers. When I did an internet search for ‘What costs 57p?’, this policy paper was one of the first results!

As you probably know, most tax policy changes are accompanied by a Tax Information and Impact Note (TIIN). These are published when the policy is final or near final, and typically at a fiscal event. If you have not looked at one before, take a look at the TIINs collection page on GOV.UK (tinyurl.com/4xy4x2a6). TIINs generally follow a standard layout, setting out who is likely to be affected, a general description of the measure, the policy objective, the background to the measure, details of the proposal (effective date, legislative changes, etc.), a summary of impacts, and how the measure will be monitored and evaluated.

We review TIINs as part of our work scrutinising policy changes, paying particular attention to the summary of impacts. This considers the measure's impact on the Exchequer (will it bring in more or less tax revenue?), the economy, individuals, households and families, equalities, businesses and civil society organisations, as well as the operational impact for HMRC.

While we are concerned with all of these factors, it is generally the numbers that we are most drawn to, which takes us back to the jar of beetroot. This may be an average figure across tens of thousands of businesses, but the idea that anything to do with tax can cost just 57p a year seems incredible, never mind something as complicated as R&D. Other proposals also raise an eyebrow. From April 2025, it is proposed that employers will have to provide HMRC with more detailed information on employee hours worked via Real Time Information PAYE reporting. The regulations specifying the precise requirements are yet to be published (so it is unclear how to calculate any reliable estimate of compliance costs), but HMRC have calculated the average transitional costs to business as just £18.42, with 'negligible' ongoing costs.

To HMRC's credit, when challenged on these figures, changes can result. Some rather ambitious costings for Making Tax Digital were initially published by HMRC which, after significant engagement, are now a little more realistic ( tinyurl.com/b939dv72). But even if changes to impacts and expected costings are achieved, the policy may be well on its way towards implementation with little appetite to re-evaluate the pros and cons.

When calculating these impacts, HMRC uses what is known as the Standard Cost Model (SCM) to apply a standard set of principles for estimating administrative burdens across all TIINs. There is little published information on HMRC's use of the SCM, and we are in contact with them to seek a greater understanding. As with many methodologies, the computer acronym GIGO (garbage in, garbage out) may be appropriate, so we are keen to understand what goes into the model: to ensure that what comes out is credible. There may be an eagerness to minimise the negative impacts of new measures, but costings like those above seem to illustrate a worrying disconnect between HMRC's understanding of the impacts, and what others feel is more likely. Again, something for us to discuss with HMRC.