

TAXREP 18/04

Merger of Customs & Excise and the Inland Revenue

**Submission to the Treasury Sub-committee of the House of Commons in
response to a request for written evidence on the merger of Customs & Excise
and the Inland Revenue**

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INTRODUCTION

1. We write in response to the Press Release issued on 31 March 2004 by the Treasury Sub-committee of the House of Commons. This invites written evidence on the merger of Customs & Excise and the Inland Revenue, prior to the oral evidence session on 28 April which Mr Gus O'Donnell is to attend.
2. In October 2003 we submitted a paper to the Treasury, containing detailed comments and suggestions for the Review of Inland Revenue and HM Customs & Excise. We attach a copy of this paper – **TAXREP 39/03**. The majority of the comments in it are still relevant in the context of the proposals in HM Treasury's March 2004 report ***Financing Britain's Future: Review of the Revenue Departments*** (which we will refer to as 'the O'Donnell Report').
3. The intention of this memorandum is to update our October 2003 representations and draw out some key points of relevance to the proposals to merge and reorganise the revenue departments. For the present purpose, we are not aiming to provide a comprehensive analysis of the O'Donnell Report.
4. The ICAEW would be pleased to take part in any future consultations on this issue.

WHO WE ARE

5. The Institute of Chartered Accountants in England & Wales is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.
6. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry (DTI) through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).
7. The Tax Faculty is the focus for tax within the Institute. It is responsible for technical tax submissions on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter **TAXline** to more than 11,000 members who pay an additional subscription.

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THE TAX FACULTY'S OCTOBER 2003 REPRESENTATIONS

8. In the representations we made to the Treasury in October (TAXREP 39/03) we said (at paragraph 8) that we did not necessarily believe that a structural reform, integrating tax policy formulation within the Treasury, would overcome the weaknesses we had identified in the area of tax policy making. These weaknesses chiefly stemmed from inadequate communication and a failure to give proper consideration to operational issues at an early stage. We are concerned that the restructuring of the departments, proposed by the O'Donnell Report, should be done in a way which tackles these weaknesses – and which does not make the situation worse. We comment on this further below under 'Key Issues for the Merger of the Revenue Departments'.
9. Since we prepared our paper in October, there have been developments in a number of the areas we highlighted. Updates on these are set out below:
 - In paragraph 14 we discussed Regulatory Impact Assessments. We are aware that the Regulatory Impact Unit of the Inland Revenue is aiming to do more monitoring and follow-up of policies post-implementation, and to form links with their colleagues on the operations side such as the Working Together team. We applaud this and hope that adequate resources will be allocated to it, both now and in the merged department.
 - In paragraph 24, we refer to the Code of Practice on Consultations, the new version of which has now been published. Although we welcome this, there are still instances where informal consultations offer inadequate turnaround time for us to formulate our comments or for the Revenue to implement suggestions.
 - The Inland Revenue's website (see paragraph 29) has now been re-launched in a new format. Although better in some respects it has not been an unqualified success - a common reaction from users is that it is often harder to find things on the new site compared with the old. And the important point we made about the accessibility and updating of manuals and reference material is still valid.
 - In paragraphs 39 and 40 we commented on some customer service aspects of self assessment. The Revenue now has a short tax return for those with simpler affairs, and has changed the criteria so that higher rate taxpayers with otherwise straightforward tax affairs need not remain in the self assessment system.
 - Paragraph 41 discusses payment methods and that taxpayers should be able to pay in a way that suits them. The recent NAO review *The Recovery of Debt by the Inland Revenue* (to which the ICAEW contributed) contains relevant findings and recommendations in this area.

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10. Subject to the comments above, the evidence and views contained in our October 2003 paper remain valid for current consultations on the merger of the departments.

KEY ISSUES FOR THE MERGER OF THE REVENUE DEPARTMENTS

11. This section highlights some key issues to be considered in the proposed merger of the revenue departments. It builds on our October paper and comments on particular aspects of the O'Donnell Report.

The consultation process and policy making

12. One of our key concerns is how consultation will take place when policy is formulated – both consultation between the Treasury and the new Revenue Department, and consultation with outside stakeholders. We are encouraged by the recommendation (page 11 of the O'Donnell Report) that there should be 'greater contact between officials and external stakeholders'. We are also pleased to note (paragraphs 6.45 et seq) the emphasis on the importance of the Treasury and the new department maintaining good links. But we would wish to know more, as the consultation progresses, about how these things will be achieved in practice
13. The O'Donnell Report proposes that the Treasury will be responsible for tax policy making and that the new merged Revenue Department will deal with policy implementation. Whilst we can see that this should lead to a wider strategic overview and to more joined-up tax policy making, which has been another of our concerns, there is a danger that this will widen the gulf which undoubtedly already exists between policy and operational issues.
14. We said in our October report that 'those with the requisite experience and knowledge of taxation matters and the practical issues that are likely to arise need to be nearer to the centre of policy formulation'. But with operational/delivery matters handled by the new Revenue Department and policy making at the Treasury, it looks as though these experts may be further from, not nearer to, the centre of policy making. Our experience has shown the drawbacks of this. A case in point would be the consultation on the new tax credits, where the consultation process takes place under the umbrella of the Revenue's policy division, but it was clear from the start that the policy and delivery/operational aspects of delivering it could not really be separated and both needed to be considered from the start. It is crucial that this point is addressed when developing the structure for liaison between the departments.
15. As a professional body, we would like to understand how we ourselves will take part in consultations under the new departmental structure. An important part of our role is to represent our members in consultation work on all aspects of the tax system. Our staff and volunteers already devote considerable time to this. When making representations, we do not distinguish between policy and operational matters in the way that the revenue departments do at present. Our preference is generally to look at both aspects together in the context of a particular tax issue,

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and bring both our technical expertise and practical experience to bear as part of the same consultation.

16. Although the O'Donnell report mentions the importance of outward-facing policy making and liaison with external stakeholders, it does not say a great deal about how in practice this might be implemented. We are keen to ensure that future consultation arrangements prove to be effective for both professional bodies and the government. The questions which occur to us as a professional body are:

- Under the new departmental structure, are we to consult with the Treasury on policy matters and the new Revenue Department on operational ones?
- How will any operational points we make to the Revenue Department be referred to the Treasury, and vice versa on policy points?
- Will we need to consult with both bodies on the same topic, thus leading to duplication of effort and putting a strain on our finite resources?

These may seem obvious points but we flag them now so that they can be addressed at an early stage in considering how the O'Donnell representations will be taken forward.

Customer service issues

17. The O'Donnell Report identifies the importance of customer service, and improving this is one of the stated aims of the proposals. However, we can see a risk that despite best intentions, as the reorganisation progresses, the focus on improved customer service will be lost, or at least overshadowed by more pressing priorities. The new department appears to be focusing on businesses, risk-management and improved compliance, and is also facing a significant reduction in staff.
18. We are pleased to note the frequent references throughout the O'Donnell report to the needs of small businesses and trust that this theme will continue as the recommendations are implemented. However, we are concerned that the needs of the Revenue's non-business customers must be catered for in a new and larger department and that taxpayers see real improvements in the current service.
19. The Revenue already has champions for certain customer groups – notably pensioners and students. We would recommend that wider use should be made of the champion idea, to ensure that a consistent standard of service is maintained to all customer groups during the reorganisation.
20. As agents for our clients, we too are customers of the Inland Revenue, and are concerned that current projects to improve services to agents (such as the Working Together initiative) should continue to have the support they need within the new department and during the transitional process.

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The transitional process

21. The O'Donnell Report recognises the risks of disruption to ongoing services while a major reorganisation is underway. We are encouraged to note (from page 8 of the Report) that international experience shows that the risk is manageable. However, at this stage we would simply comment that this is clearly a key aspect of implementing the proposals which will affect the day to day lives of our members and their clients, so we would hope to be involved in future consultation on the topic.
22. It is crucial that the revenue departments communicate effectively with their customers while reorganisation is underway, so that they can understand what is happening and always know whom to contact, at the Revenue or at Customs & Excise, regarding their tax affairs. We would point here to the experience of the Revenue's reorganisation into Area Management and a call centre structure, from which we feel there are lessons to be learned. Many practitioners and taxpayers have felt completely at sea as this process has gone on, because they did not understand what the Revenue was trying to achieve and because the old structure for contacting tax offices was superseded but the new structure was not being clearly presented or communicated. Even now, our members are experiencing frustration in getting through to Revenue call centres. Better and fuller publicity, at an early stage, and better access to information, would have helped.

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