Chapter 5

Measuring impacts on the taxpayer's perception of administrative burdens

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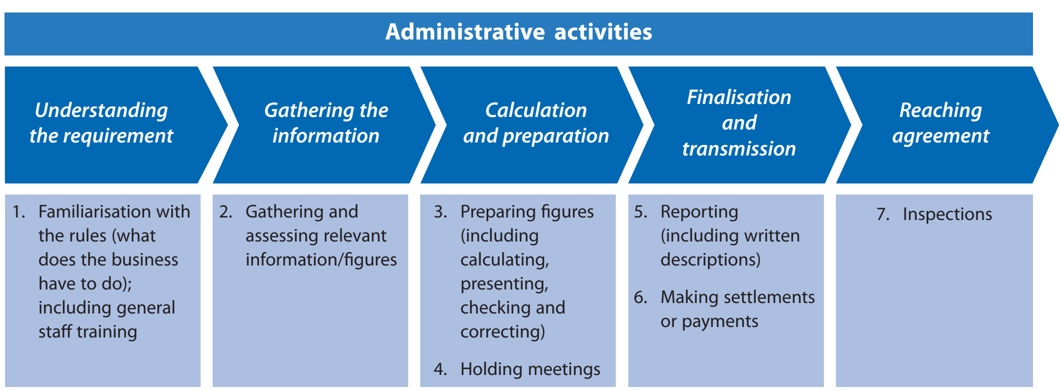
This chapter considers the value of complementing existing quantitative measurement of compliance burdens with the measures aimed at understanding taxpayers' perception of burdens. The aim is to give a more holistic view of the overall impact of burdens on economic activity and taxpayers' views of tax administration. In doing so, it reports the results of a survey of Forum of Tax Administration members undertaken by HMRC in 2018 and the subsequent development of a Compliance Burdens maturity model, a self-assessment tool to help administrations understand their relative maturity and options for possible improvements in approaches.

1.1. Introduction

The United Kingdom's tax authority, Her Majesty's Revenue and Customs (HMRC), is committed to reducing the ongoing administrative costs to compliant businesses in meeting their tax obligations and of dealing with HMRC. This is represented by HMRC's Customer Cost Reduction target to reduce burden by GBP 400 million per annum by March 2020. HMRC defines an administrative burden as "the cost to businesses of disclosing information to HMRC or to third parties in order to comply with their tax administration obligations". Burdens are currently measured using the Standard Cost Model (SCM). The Standard Cost Model (SCM) is used in combination with an internal tool, the Total Cost to Serve (TCTS) which assesses customer journeys as well as internal expertise and research, to provide a full picture of customer costs. Developed in 2003, the SCM methodology determines the administrative burdens imposed by regulation. It is a quantitative methodology that can be applied at multiple levels, measuring burden in existing legislation or simplification proposals as well as the administrative consequences of a new legislative proposal.

The SCM looks at five key stages of the administrative burden journey (see Figure 5.1).

Figure 5.1. **Administrative activities journey**



Source: HMRC (2018), internal guidance.

GBP 400 million is an ambitious target and HMRC sought new and innovative ways to introduce further reductions. The focus initially was on the biggest baseline causes of burden. However, this approach raised some topical questions. Stakeholders had often felt quantitative scoring of burdens did not always identify or reflect the reality of burden experienced by those they represented, for example small businesses. Quantitative methodologies were blind to certain complexities, inconvenience and emotional consequences of burdens and did not take into account customer capability. In an era where improving the customer (taxpayer) experience increasingly features as a primary strategic objective, HMRC wished to find ways of reducing the burden while simultaneously increasing customer satisfaction, i.e. going beyond the numbers to find opportunities to reduce burdens in ways that customers could feel.

To do this, HMRC undertook a two pronged approach by commissioning qualitative research on the perception of burdens amongst customers and researched best practices and tried and tested innovations in reducing burdens amongst the international tax authority community. Existing qualitative research was scarce and dated. HMRC already carries out quantitative experience surveys of small, medium and large business customers. Table 5.1 shows the responses to questions focusing on administrative burdens.

Table 5.1. **Responses to questions on administrative burdens by UK business customers**

Question	Year	Responses	
		Large businesses who agree	
Overall admin burden is acceptable	2015	48%	
	2016	46%	
	2017	41%	
		Medium businesses who agree	Small businesses who agree
HMRC minimised the cost, time and effort it took to deal with my business tax affairs	2015	37%	59%
	2016	40%	60%
	2017	47%	58%

Source: HMRC (2015-17) "Individuals, small business and agents customer survey", "Mid-sized business customer survey", "Large Business Survey".

While the results demonstrated room for improvement, they did not indicate why customers felt this way or suggest what improvements might be made that had the greatest chance of increasing the scores. This motivated the need to undertake further qualitative research to get behind what was driving these scores.

1.2. Customer Perceptions of Administrative Burdens

HMRC carries out regular engagement with customers and their representatives. These qualitative studies of customers have resulted in a range of "deep truths" that inform strategies and improvements to HMRC's service. Using small business customers as an example, an amalgamation of findings over time illustrates that most customers want to meet their tax obligations and pay the correct amount of tax. However, often they find tax complicated and state they do not always understand what they have to do, or even recognise they have particular obligations. Some experience difficulty in accessing the right information and support. Customers seek certainty and assurance in their tax obligations and fear the consequences of getting things wrong. This can create cognitive overload when administering their tax affairs resulting in emotional burdens and excessive processes for ensuring they get their tax right. Rather than considering and calculating the cost of administrative burdens in monetary terms, customers tend to view burdens in terms of the difficulty of trying to get things right.

Cognitive overload and emotional burdens, compounded with fear of punitive measures could actually contribute towards a risk of poor compliance with tax obligations through error and failure to take reasonable care. In addition, demands upon the customer service functions of the tax administration could increase, especially amongst customers who are not represented by an agent. Overall, the success in terms of compliance from any new tax policy could be undermined. This motivated HMRC to think about how impact assessments of changes to the tax system could be measured from a qualitative value.

1.3. Survey to identify international best practice in reducing administrative burdens

HMRC surveyed the OECD Forum on Tax Administration (FTA) international community for examples of their experiences in considering, measuring and reducing burden. Existing literature and research on this theme was scarce although in 2007 the United Kingdom National Audit Office published a consultancy report titled *"Best Practice" in Tax Administration* by John Hasseldine (Hasseldine, 2007[1]). This included contributions from eight other countries. The report helped establish the structure for HMRC's survey and focus the areas of enquiry.

The survey, titled "International Best Practice in Reducing the Administrative Burdens for Business Customers", was structured around five topics:

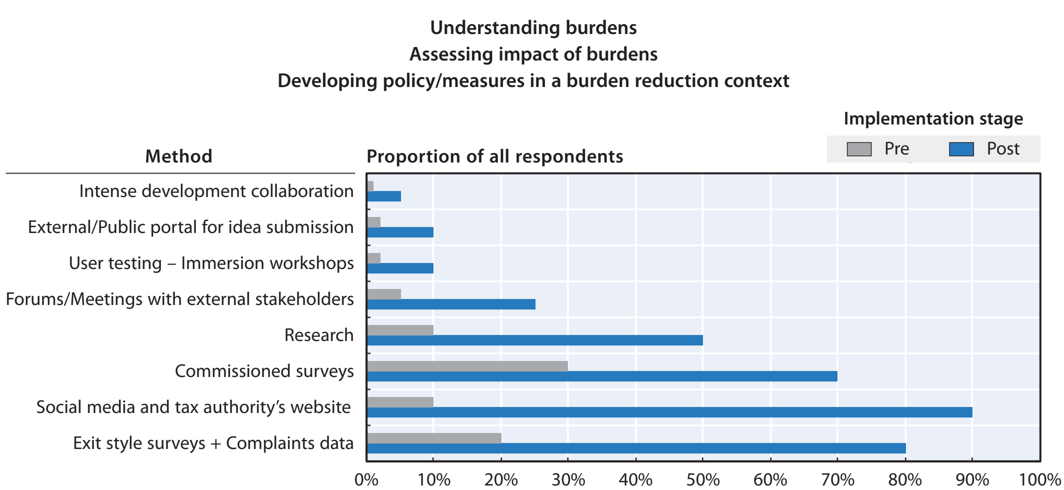
- How administrative burdens are considered and measured in policy, project and product development
- What methods are used to measure administrative burdens
- How taxpayer insight and experience plays a role in understanding burdens
- The extent to which burden reduction forms part of the business plans and strategic objectives of tax authorities
- What initiatives and programmes have been, or plan to be implemented to reduce the burdens on businesses.

Twenty responses were received from FTA members and analysis of the findings found some distinct similarities in the maturity of how tax authorities approach administrative burdens.

While many governments have commitments to reduce the burden of general regulation, not all included tax. Most often, those that were not subject to the scrutiny and validation of any assessment of general regulation burdens did not have any other independent alternative. For many jurisdictions, tax is the preserve of their ministry of finance or equivalent.

Typically, taxpayers are awarded the opportunity to appraise and influence policy design through public consultations. Rarely are taxpayers or stakeholders actively involved in the rationale or objective setting stages of policy development. There was evidence of external stakeholders, in the form of professional expert forums and boards, being able to provide new ideas for consideration at the rationale stage and providing advice and opinion during objective setting.

Figure 5.2. **International trends in understanding and measuring customer perceptions of burdens from tax policy**



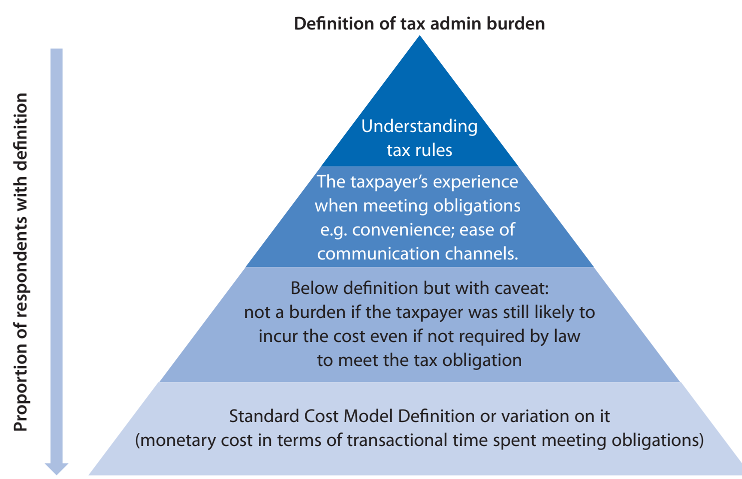
StatLink http://dx.doi.org/10.1787/888933984592

Source: HMRC (2018), "International Best Practice in Reducing the Administrative Burdens for Business Customers".

Some authorities actively engaged with stakeholders to understand, at least anecdotally, how existing administrative burdens impact taxpayers and reported being open to acting on feedback or considering suggestions for change. Most authorities also actively captured the general customer experience of their services. However, there was little evidence of respondents attempting to capture or understand specific insight on perceptions of administrative burdens. Figure 5.2 illustrates how the majority of activity to understand the perception of burdens was undertaken retrospectively on existing tax policy and products.

The SCM, or a similar time/cost based in-house methodology was the most popular way of measuring the potential burden. Unsurprisingly therefore, any definition of burden was based on time/cost. Some tax authorities either relied exclusively on expert opinion to assess any impact, or supplemented time/cost quantitative measuring of burden with qualitative assumptions from expert representatives. Figure 5.3 illustrates how the majority of respondents held a quantitative definition of burden, while a minority also considered the customers' perception.

Figure 5.3. **Common definitions of tax admin burdens by proportion of survey respondents**

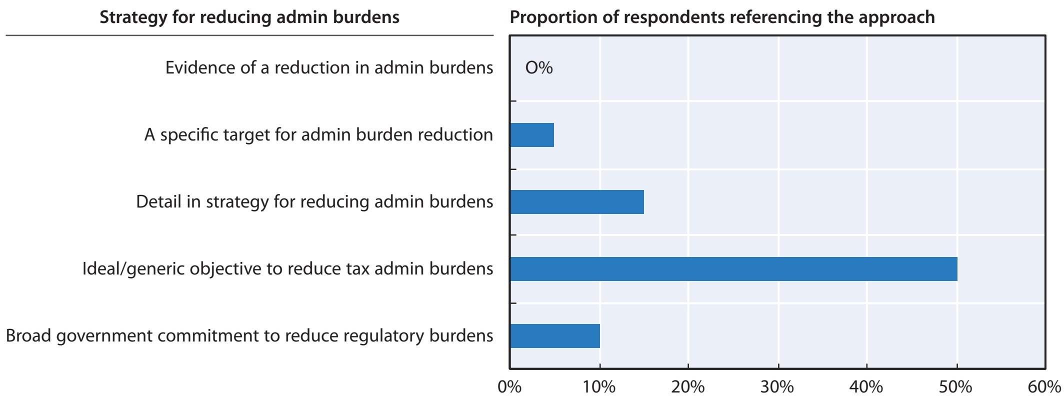


Source: HMRC (2018), "International Best Practice in Reducing the Administrative Burdens for Business Customers".

A focus on reducing administrative burdens featured in nearly all the corporate strategies of the respondents. Overall most offered a generic commitment to reducing burdens, although some went further and could provide specific detail. Most did not appear to have an independent target for either improving the time/cost or perception of administrative burdens. This is illustrated in Figure 5.4.

Across the five stages of the administrative activity journey, the vast majority of past and present burden reduction initiatives were focused on reporting and paying tax. The vast majority of these were from providing access to e-services. This was similar for future initiatives but with a greater aspiration towards digital automation. More ambition could be found towards supporting the administrative stages prior to reporting and paying.

Figure 5.4. **Distribution of strategic commitments to reducing admin burdens across survey respondents**



StatLink http://dx.doi.org/10.1787/888933984611

Source: HMRC (2018), "International Best Practice in Reducing the Administrative Burdens for Business Customers".

1.4. Qualitative Impacting Methodology

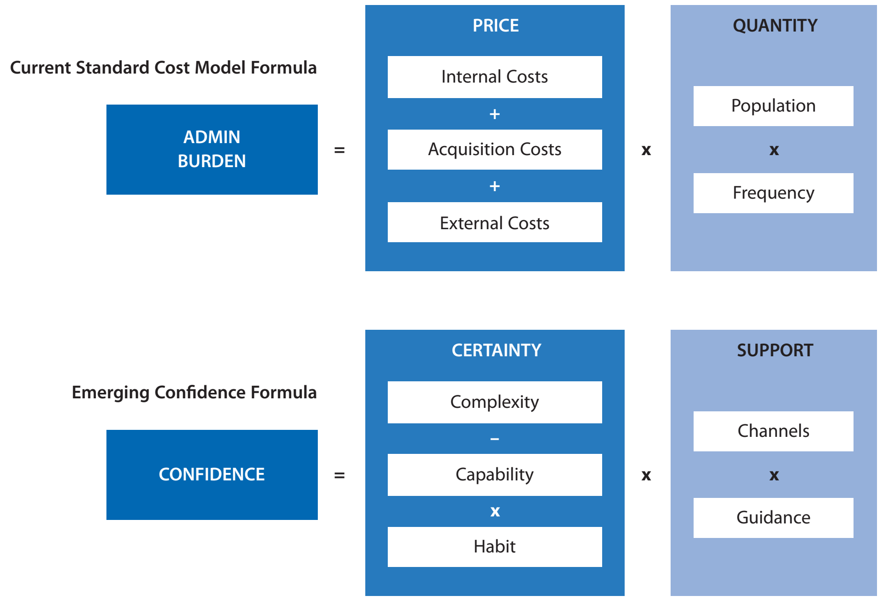
The SCM is an important burden measuring tool and reducing the quantitative burden of compliance remains an important ambition. However, experience has shown that it has limitations in measuring the impacts on the perception of burden and customer experience of tax administration. It also does not take into account variables such as the capability of the customer. If tax administrations are to consider evolving towards adopting qualitative targets to improve the experience of burden, then this ambition will need to be supported by a qualitative methodology.

HMRC has been working to develop just such a methodology that incorporates key principles of the Office for Tax Simplifications (OTS) Complexity Index (OTS, 2017[2]). Launched in 2010, the OTS is an independent body that provides independent advice to the government on simplifying the United Kingdom tax system. The Complexity Index was developed as a tool to measure complexity in the existing system in order to help prioritise simplification projects.

HMRC has looked at developing a methodology that can measure assumed burden from pre-implemented policy. The OTS Complexity Index is made up of two sets of factors that seek to diagnose the underlying complexity (and if this is necessary or unnecessary) and the impact of the complexity. In terms of impact, the Complexity Index recognises the influence of the capability of the customer.

Consideration might also be given to taking a different slant from the Complexity Index by measuring the underlying perceived complexity and burden within new policy proposals. For example, if the complexity in a proposed policy could be perceived as necessarily high and the capability of the customer segments obliged by the policy is low, the tax authority may want to consider what support provisions need to be implemented to reduce risk to compliance and increased demand on its resources. In addition to the SCM, a qualitative methodology will measure the impact on the customers' need for certainty and assurance. Figure 5.5 below illustrates how the principles of a qualitative methodology might compare to those of the current SCM.

Figure 5.5. **Comparison of quantitative and qualitative admin burden methodology**



Source: HMRC (2018), internal material.

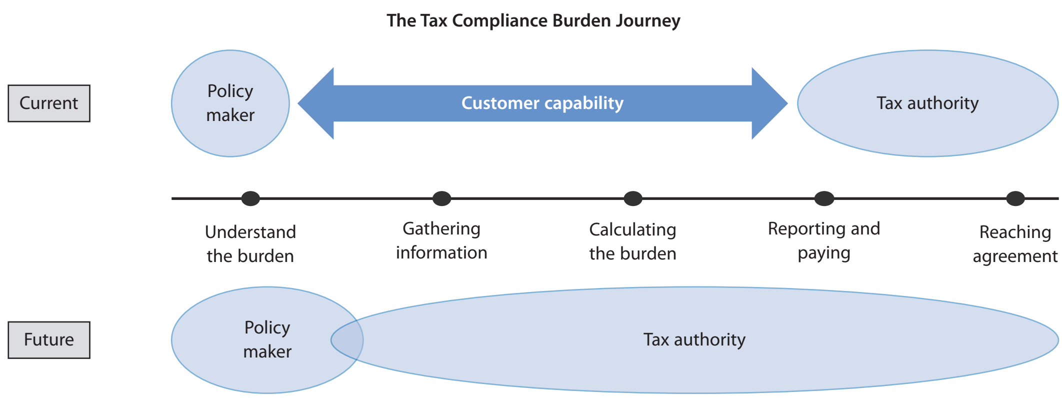
1.5. Compliance Burdens Maturity Model

The survey to identify International best practice in reducing administrative burdens promoted confidence within the OECD on the possibility of featuring minimisation of compliance burdens as a discrete function within their new maturity model initiative. Maturity models are a tool which, combined with other inputs such as the IMF's Tax Administration Diagnostic Assessment Tool,[1] can help to assess the relative maturity of a tax administration against meaningful and clear criteria and in an objective manner. The FTA has already developed a maturity model which has been used to assess digital maturity in the two areas of natural systems/portals and big data. The digital maturity model was introduced in the OECD report *Technologies for Better Tax Administration* (OECD, 2016[3]). (More background on the use of maturity models can be found in the OECD publication *Successful Tax Management: Measuring Maturity and Supporting Change* (OECD, 2019[4]).)

HMRC led the work on the development of a compliance burden maturity model with support from the Austrian, Finnish, Hungarian, Dutch, Singaporean and Spanish tax authorities. The Compliance Burden Maturity Model, which has been developed and piloted by over 20 tax administrations, covers three aspects of the compliance burden journey. These are: the tax administration's culture; understanding burdens and strategy; and interactions with tax policy makers.

The obligation to ensure compliance with tax rests with those subject to the regulation. Therefore the stages prior to reporting and paying tax often attract considerable burden that is off-set by the capability of the customer. That is why the model seeks to measure how a tax authority considers burdens. The progression of maturity will progress with the increasing level of conscious awareness of compliance burdens and demonstrable illustration of tangible commitments to reduce it.

Figure 5.6. **Comparison of current and future support from tax authority across admin burden activity journey**



Source: HMRC (2018), internal material.

How compliance burdens are measured is also a key element of the model. Whether burdens are measured pro-actively during policy development or retrospectively after implementation, if at all, are key indicators of maturity. In addition to measuring the maturity in evaluation of burden assumptions, maturity will progress from relying on expert opinion for assumed burdens, employing more sophisticated quantitative methodologies through to measuring the qualitative impact on taxpayer's perception of burden including improving certainty and assurance.

Finally, the increased breadth of coverage across the compliance burden journey for activity to reduce burdens will constitute the higher levels of maturity for tax authorities working to reduce burdens beyond the reporting and paying stage.

The model is included in Annex 5.A1.

Note

1. See TADAT (2019), "Overview", website, www.tadat.org/overview#overview (accessed 18 June 2019).

Annex 5.A1

The compliance burdens maturity model

Explanation and use of the maturity model

The intention of the compliance burden maturity model is:

- To allow tax administrations to self-assess through internal discussions as to where they see themselves as regards maturity in the area of compliance burdens. There is no judgement as to what the optimal level is for a particular tax administration. This will depend on their own circumstances, wider objectives and priorities.
- They can provide involved tax administration staff as well senior leadership of the tax administration with a good oversight of the level of maturity based on input from stakeholders across the organisation. This can help in deciding strategy and identifying areas for further improvement, including where that needs to be supported by the actions of other parts of the tax administration. A number of administrations have reported that cross-organisational conversations when self-assessing can itself prove useful in joining-up different areas of business, helping people to see the scope for synergies and for mutual support.
- To allow tax administrations to compare where they sit compared to their peers. The results of the model will be sent to the Secretariat on an anonymous basis. A "heat map" will then be produced showing where different administrations are, on an anonymous basis. An administration will, of course, know its own level, so can compare itself to other tax administrations. It is also possible for tax administrations to reach out, through the Secretariat, to other tax administrations at different levels of maturity for peer-to-peer learning purposes.

Maturity levels

The model sets out five levels of maturity. These are:

1. ***Emerging***: this level is intended to represent tax administrations which have already developed to a certain extent but which, at least in the area of compliance burden management, have significant further progress they could make.
2. ***Progressing***: this level is intended to represent tax administrations which have made or are undertaking reforms in compliance burden management as part of progressing to the status of advanced tax administrations.
3. ***Established***: this level is intended to represent where most advanced tax administrations, such as FTA members, might cluster.
4. ***Leading***: this level is intended to represent the cutting edge of what is generally possible at the present time.

5. ***Aspirational***: the intention of this level is to look forward at what might be possible in the medium term as the use of new technology tools develops and to help to inform strategies. Few tax administrations are expected to be consistently at this level currently although some may be in some aspects.

How to use the maturity model

The model sets out a set of ***descriptors*** for each maturity level. These descriptors are necessarily in summary form. Looked at by themselves the descriptors may not lead to a considered understanding of why a tax administration is at a particular level of maturity. Nor would it provide much guidance as to how to move between maturity levels.

To assist in the understanding of what a given level of maturity means, a set of ***indicative attributes*** is also contained under each maturity level. As shown by the term itself, these are indicative attributes and not determinative. Not all of the indicative attributes under a particular maturity level will be present in a particular tax administration. A tax administration may well not fit the full description of a particular attribute. There is no one-size-fits-all that can work. The attributes are therefore intended to help guide discussions rather than determine them. In using the model, tax administrations are asked to consider the ***best fit for them***, taking account of both the descriptors and indicators.

A tax administration may find it broadly meets some ***Progressing*** indicators and some ***Established*** indicators. It will then need to determine, based on its discussions of the weight it attaches to particular indicators, as to which maturity level it best fits. Hopefully, the information that it may not fit all of the indicators may also provide food for thought about possible areas it may wish to consider further.

In some cases the indicative attributes may be additive across the maturity model and this should hopefully be clear from the context. They will not, though, generally be repeated across maturity levels in order to avoid repetition. Where a tax administration meets a number of indicative attributes within the same row, then its level of maturity within that row will be the highest of the indicative attributes which are met. (For example if ***Progressing***, ***Established*** and ***Leading*** in one row are all met, then the level of maturity for that row would be leading.)

In general, though, the indicative indicators are intended to reflect what might be expected, in general form, to be in place at a particular maturity level which will differ from the level below (for example be of a different nature, or more demanding).

Compliance Burden Maturity Model

Minimising compliance burdens

This section measures how a tax authority considers the impact of compliance burdens on the taxpayer and their reduction. This broad theme includes acknowledgement and definition of a burden, the culture as regards compliance burdens, how stakeholders and taxpayers are involved in defining and reducing burdens and interactions with policy makers. Maturity in this model is characterised by a move from a largely internal focus on the tax administration's cost, to increasing consideration of compliance burdens on a reactive basis to a more proactive approach to understanding and reducing burdens, including at the aspirational end through the increasing use of advanced technology tools.

	Internal focus	Reactive and generic		Proactive and committed	
Maturity levels	**Emerging**	**Progressing**	**Established**	**Leading**	**Aspirational**
Descriptor / **Indicative attributes**	Consideration of costs is mainly focused on the tax administration's own costs and changes in compliance burdens are generally a side-product of changes made for the benefit of the tax administration. General guidance is made available although it is fairly static in form.	The tax administration considers compliance burdens in a generally reactive manner with the main focus on increasing e-services and on relationship building with large business. Guidance is updated regularly with close co-operation with tax professionals.	There is a general commitment to reduce burdens with public consultation on proposed measures and options for simplifications. There is increased engagement with tax policy makers on reducing burdens. Customer services are increasingly considered from the taxpayers' perspective.	There is a defined and targeted strategic commitment to reduce the overall costs of compliance burdens with active participation of stakeholders in design and scrutiny of proposed measures. There is growing use of different tools and strategies to reduce compliance burden, and to design processes from the taxpayers' perspectives.	Reducing compliance burdens is a core objective of the tax administration and a core part of the administrations' culture. Increasing consideration is given to supporting compliance-by-design processes and working with taxpayers' natural systems. Advanced technology tools are increasingly used to identify and measure burdens, as well as to suggest improvements.
Culture	While the tax administration may have a high-level aim to reduce compliance burdens, there are no explicit objectives concerning consideration of burdens.	The importance of considering and minimising compliance burdens is recognised in general terms in tax administration delivery plans and there may be a general policy to consider burdens when implementing new policies and in compliance choices.	There is an explicit commitment to reduce administrative burdens but no explicit targets. There are no consequences for failure to meet these commitments (which are on a "best endeavours" basis.)	There is a defined target to minimise compliance burdens for taxpayers (which may be set internally or by government). This is reflected in the objectives of senior management and outcomes are reported publicly.	There is an explicit objective to minimise compliance burdens through changes to the way tax is administered, accompanied by appropriate strategies and commitments. There are ambitious and measurable medium term targets.
	While individual teams may consider ways to reduce compliance burdens, there is no shared culture within the tax administration of minimising compliance burdens and it is not actively promoted by senior management.	There is a general appreciation of the burdens tax administration can impose although consideration of compliance, yield and operating costs are generally seen to take priority over taxpayer compliance burdens.	Reduction of compliance burdens is promoted actively by senior management. Primary responsibility for identifying and reducing burdens is placed within a single unit (for example customer services) rather than built into individual teams' objectives.	Processes to minimise compliance burdens are supported by senior management with measurable objectives assigned to individual teams and projects.	There is an organisation wide culture on the importance of understanding and minimising compliance burdens. Responsibility for minimising burdens is shared by all tax administration functions and features in delivery plans and subject to regular reporting.
Understanding burdens and strategy	Stakeholder engagement on burdens is limited to specific high-profile issues which have a political impact. In general the impact of tax policy is measured in terms of the impact on the operating costs of the tax authority.	Understanding of high-level quantitative burdens is captured through occasional ad-hoc informal consultation with external professional and expert stakeholders and some large businesses.	Quantitative impacts of tax policy changes on compliance burdens are published for public consultation. Generic customer service surveys provide information on perceptions of compliance burdens among different taxpayer segments.	Methodologies and processes are put in place to ensure comprehensive understanding of compliance burdens and perceptions among different taxpayer segments, considering their differing needs and capabilities.	Advanced analytics tools are used to measure quantitative burdens using a wide source of data, including from taxpayers' natural systems. Taxpayer perceptions are measured through a published methodology which looks at variables across sectors, age of business and general assumed capability.

Maturity levels	Emerging	Progressing	Established	Leading	Aspirational
Understanding burdens and strategy *(continued)*	Changes to tax administration systems are generally made to minimise the costs or increase the efficiency of the tax administration in securing tax revenue. This may change compliance burdens in a positive or negative way.	In general, assumptions are made about mechanisms to ease burdens on taxpayers as a whole, for example the introduction of e-services in some areas, without significant consultation with different types of taxpayers on concerns and priorities beyond those of large business.	There is are established groups of external stakeholders to engage specifically on the theme of administrative burdens and to identify significant issues, supported by experienced tax administration staff with a good understanding of compliance burdens.	Taxpayers, through focus groups and wider consultation, are directly involved in identifying ways to minimise burdens, both new and existing. This is supported by tax administration staff with expert knowledge in how to measure and reduce burdens. Recommendations are generally made public.	The tax administration supplements the engagement process with data and advanced technology tools to more effectively identify significant issues and derive insights to minimise burdens, both new and existing. There is early engagement of taxpayers to identify issues and co-create solutions.
	Systems and processes are designed primarily with the needs of the tax administration in mind.	There are ad-hoc initiatives to improve service delivery and reduce the compliance burdens of taxpayers (e.g. digitalisation of certain processes), primarily in response to taxpayer feedback.	The tax administration proactively reviews the design of systems and processes to reduce the compliance burdens of taxpayers and to increase options for self-service.	The tax administration regularly reviews the design of its systems and processes to make them more taxpayer-centric. A range of strategies and tools are used to minimise compliance burdens for taxpayers (e.g. pre-filling of returns using third party information, deployment of mobile applications etc.).	There is a clearly articulated strategy for making systems and processes more taxpayer-centric, accompanied by ambitious targets and concrete plans. There is extensive use of advanced strategies and tools to reduce burden for taxpayers and integrate tax into taxpayers' natural systems (e.g. initiatives to make submission of information quick and seamless, use of behavioural insights and design thinking).
Interactions with tax policy makers	There is some discussion by policymakers with the tax administration on the development of new tax policy. Compliance issues are taken into account although tax compliance burdens are not routinely considered.	The tax administration is consulted at a late stage in the development of tax policy and broad assessments of compliance impacts are provided to policy makers.	There is close co-operation with tax policy makers to obtain a common understanding of the implications of new policy for ongoing compliance burdens and alternative options to achieve policy aims.	Compliance burdens are fully considered during the development of tax policy, including for various taxpayer population segments. There is a process for internal and external scrutiny and challenge of excessive compliance burdens pre-implementation of policy.	The tax administration proactively seeks, identifies and recommends improvements to policy that can reduce burdens, supported by the use of advanced analytics and wide engagement with taxpayers.

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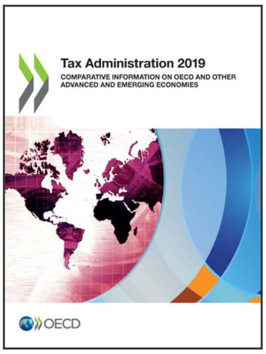

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