



HM Revenue
& Customs

Compliance Perceptions Survey

Small and Medium Sized Enterprises and Individuals 2012

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HM Revenue and Customs Research Report 290

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Glossary

For the purposes of this research report the following definitions have been used:

Corporation tax	A tax that must be paid by a corporation based on the amount of profit generated.
Employee	A person who is hired to work for another in return for payment. The employer is responsible for deducting and paying tax and National Insurance contributions on behalf of employees.
Income tax	A charge levied on income, subject to certain deductions, at a rate usually determined by the size of the income.
Individuals	Employees, self-employed and economically inactive persons.
Self-employed	Any individual who runs their own business and takes responsibility for its success or failure. Self employed individuals are responsible for their own tax and National Insurance contributions.
SMEs	Small and Medium-sized enterprises. A business or company with less than 250 employees and a turnover equal to or less than €50million or a balance sheet total equal to or less than €43million.
Tax evasion	Illegally avoiding paying taxes, failing to report, or reporting inaccurately. Tax evasion is different from tax avoidance, which involves manipulating tax law to gain an advantage that parliament did not intend.
VAT	Value Added Tax. A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale.

Executive Summary

1. Introduction

The Compliance Perceptions Survey (CPS) is an annual survey undertaken on behalf of Her Majesty's Revenue & Customs (HMRC) to measure perceptions of, and attitudes towards, tax compliance. The CPS consists of two separate surveys covering small and medium-sized employers (SMEs), and individuals. This report is the third in the series and presents results for SMEs and individuals for 2012. Previous reports covering 2008-10 and 2011 were published in 2011 and 2012 respectively.

The CPS asks SMEs and individuals about the fairness and burden of compliance, the prevalence and acceptability of evasion and the consequences where evasion is detected. The survey is used by HMRC to inform the design of customer strategy and is part of the evidence base to assess performance of activities established following the 2010 Spending Review.

Previous waves of the CPS have tested assumptions derived from existing research suggesting links between compliance and economic deterrents, social norms, and the perceived fairness of the tax system and administration. The 2012 report focuses on how attitudes to compliance have changed since 2011. It also revisits the analysis in the 2011 report concerning social norms, and investigates the link between perceptions of the firmness of HMRC's compliance efforts and other aspects of tax evasion.

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2. Methodology

The survey questions were initially cognitively tested by the Personal Finance Research Centre (PFRC) at the University of Bristol. Further testing of questions added to the 2011 and 2012 surveys was carried out by TNS-BMRB after they were commissioned to carry out the 2011 SME survey. The survey questions are presented in **Appendix A**. The survey with individuals was carried out by the Office of National Statistics (ONS). Both surveys use a random probability design.

SME respondents were asked about the behaviour of other small businesses in relation to income and corporation tax, and VAT. Respondents on the Individuals survey were asked about the behaviour of other individuals with regards to income tax.

Fieldwork for the CPS was undertaken throughout the 2012/13 financial year but is referred to as the 2012 survey in this report.

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3. Fairness and the burden of complying

These questions allow HMRC to monitor the perceived fairness of the administration of the tax system.

- Most **SMEs** and **individuals** said that HMRC treats them fairly in their dealings with them, with respectively 82 per cent and 60 per cent of respondents holding this opinion.
- The majority of both **SMEs** (70 per cent) and **individuals** (63 per cent) felt that the burden of complying with tax obligations was reasonable. The proportion of **SMEs** holding this opinion has increased since 2011.

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4. Attitudes towards compliance

This section describes respondents' perceptions of the acceptability of tax evasion, and tests the associations between taxpayers' views of their own behaviour, and their perception of the behaviour of others.

- The vast majority of **SMEs** (96 per cent) and **individuals** (89 per cent) considered tax evasion unacceptable.
- There is an association between the perceived behaviour of others and respondents' personal views on the acceptability of tax evasion. **SMEs** and **individuals** that thought a lot of other businesses/individuals consider it okay not to declare all tax owed, were themselves more likely to state that under-declaration of revenue to avoid paying tax is okay.
- **Individuals** were more likely than **SMEs** to consider tax evasion to be very widespread (32 per cent and 5 per cent respectively), and a major problem (45 per cent and 9 per cent respectively).
- At 45 per cent, the proportion of **individuals** who considered tax evasion to be a major problem has increased by five percentage points since 2008, but is unchanged since 2010.
- For the first time, **individuals** reported legal tax avoidance activities as an unacceptable reason for tax evasion.¹ There has also been a substantial increase in the proportion of **individuals** specifically commenting that 'fraud / deceit' is an unacceptable reason for tax evasion (2011: 2 per cent; 2012: 14 per cent).

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5. Perceived chances of detection

Individuals and **SMEs** were asked how likely they thought it was that individuals and businesses regularly evading tax would be caught. **Individuals** were also asked about the likelihood of detection for regularly not declaring cash in hand work.

- Two thirds of **SMEs** (68 per cent) thought it was likely other businesses would be caught for regular income or corporation tax evasion. Four fifths of **SMEs** (82 per

¹ By definition, tax evasion is illegal. This question asks respondents to state acceptable and unacceptable justifications for evading tax.

cent) thought it was likely that other businesses would be caught if they regularly evaded paying VAT.

- Approximately half of **individuals** (52 per cent) felt it was unlikely a person would be caught for regular income tax evasion. This has increased from 46 per cent in 2011.
- At 39 per cent, a minority of **individuals** thought it was likely they would be caught for non-payment of tax on cash in hand earnings. This proportion has decreased 6 percentage points since 2011.

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6. Attitudes towards HMRC sanctions

These questions were asked to gauge **SMEs** and **individuals** views on the range and efficacy of HMRC's compliance activities.

HMRC effort

- Approximately a third of **SMEs** (34 per cent) and **individuals** (33 per cent) stated that HMRC was dealing more firmly now with taxpayers who did not pay the correct amount of tax than it did a few years ago. While this represents a year-on-year increase for SMEs, for individuals it is a decrease.
- For both **SMEs** and **individuals**, those who thought HMRC deals more firmly with those not paying the correct amount of tax now than it used to, were more likely to think regular tax evaders would be caught. For **individuals**, this group were also more likely to think the chances of prosecution were enough to deter them from regularly evading tax.
- Over half of **SMEs** (54 per cent) and a quarter of **individuals** (26 per cent) said that HMRC is putting about the right amount of effort into reducing tax evasion.

Prosecutions

- The vast majority of **SMEs** (95 per cent) and **individuals** (90 per cent) were aware that tax evasion is a criminal offence that could lead to a criminal record or a prison sentence.
- In 2012, 35 per cent of both **SMEs** and **individuals** were aware of a prosecution for tax evasion. For both groups, this figure marks a substantial increase since 2011.
- Seventy four per cent of SME respondents considered it likely that SMEs that regularly evade tax would be prosecuted. Fewer individuals felt this way (54 per cent). In both cases these figures mark statistically significant decreases since 2011.
- Approximately three quarters of **SMEs** (73 per cent) and just under a third of **individuals** (30 per cent) said that the chances of prosecution were sufficient to deter businesses/individuals from regularly evading tax. For **individuals**, this figure marks a 6 percentage point decrease from 2011.

Consequences

- For both **individuals** and **SMEs**, a financial penalty was the most commonly cited consequence for a business or individual caught evading income or corporation tax.

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1. Introduction

The Compliance Perceptions Survey (CPS) measures perceptions of tax compliance among small and medium sized enterprises (SMEs) in the United Kingdom (including Northern Ireland) and individuals in Great Britain. The use of surveys of this nature as part of a package of research into tax non-compliance is recognised as good practice by the Organisation for Economic Co-operation and Development (OECD).² This report presents the key findings for the financial year 2012/13 (the survey is referred to as the 2012 survey throughout the report).

The Compliance Perceptions Survey

Her Majesty's Revenue and Customs (HMRC) plays an important role in UK society as the tax administration and collection body. The Department safeguards the collection of revenue for the Exchequer to help reduce the deficit, fund public services and help families and individuals with targeted financial support through the distribution of tax credits. HMRC's overall strategy is to maximise tax revenues at the lowest overall cost to customers and the Department, while stabilising and improving the experience that customers have when dealing with HMRC.³

The Compliance Perceptions Survey asks respondents for their views on the perceived fairness and burden of compliance, the perceived prevalence and acceptability of evasion, the possible consequences where evasion is detected, and the effect of social norms on perceptions towards tax compliance. The aim of the survey is to:

- Further HMRC's understanding of the drivers of compliance behaviour and whether perceptions about economic deterrents, social norms and the fairness of the tax system influence attitudes to evasion;
- Understand SMEs' and individuals' attitudes towards, beliefs about, and perceptions of compliant and non-compliant behaviour;
- Ascertain the perceived scale of non-compliance amongst taxpayers, and levels of acceptability;
- Identify what taxpayers consider to be the consequences of engaging in non-compliant behaviour, including the likelihood of being caught, investigated, and/or prosecuted;
- Understand the perceived consequences of detection, such as financial penalties;
- Provide information on attitudes and beliefs which can be used to inform the development of future activities;
- Track changes in attitudes over time.

The survey is also used by HMRC to inform the design of customer strategy, and as part of the evidence base to assess performance against targets set following the 2010 Spending Review settlement.

² For an overview of different methods of measuring tax non-compliance from an international (i.e. non-UK) perspective, see "Compliance Measurement – Practice Note", OECD Committee of Fiscal Affairs Forum on Strategic Management (updated 2001), <http://www.oecd.org/tax/administration/1908448.pdf>

³ HMRC Business Plan 2012-15, 'Delivering Our Vision', p.8

Hypothesis testing

In addition to monitoring public attitudes over time, HMRC uses the CPS to test hypotheses about tax compliance developed from the academic literature.⁴ A set of hypotheses was developed and tested in both the 2008-10 and 2011 reports.

The 2012 CPS revisits the hypotheses concerning social norms and tax compliance first discussed in the 2011 report.⁵ HMRC is interested in establishing if personal views towards tax evasion are influenced by other people's views of tax evasion. This hypothesis and results are discussed from page 28.

The 2012 report also investigates associations between perceptions of how firmly HMRC deals with non-compliance, and other elements of tax compliance. HMRC has developed the following hypotheses:

- Respondents who think HMRC is dealing more firmly with businesses/individuals that do not pay the correct amount of tax now than it used to would be **more likely** to think tax evaders would be caught.
- Respondents who think HMRC is dealing more firmly with businesses/individuals that do not pay the correct amount of tax now than it used to, would be **more likely** to think that the chances of being prosecuted for tax evasion are sufficient to deter people from regularly evading tax.
- Respondents who think HMRC is dealing more firmly with businesses/individuals that do not pay the correct amount of tax now than it used to would be **less likely** to think tax evasion was widespread.

These hypotheses are discussed from page 42.

⁴ This is discussed in the 2008-10 CPS reports, available here:

<http://www.hmrc.gov.uk/research/report156-ind-sme.htm> (p.6).

⁵ See 2011 report, p.27: <http://www.hmrc.gov.uk/research/report195.pdf>

2. Methodology

This section provides an overview of the methodology used for the SME and individuals surveys.

2.1 Survey design and sample

SME

HMRC commissioned the research agency TNS-BMRB to collect survey data from SMEs. Data were collected from a random probability sample of businesses in Great Britain. Businesses were selected at the enterprise level so that the same business was not included more than once in the sample. The 2012 data cannot be compared with the data collected prior to 2011 due to a change in the sample design in that year.

SMEs were included in the survey if they satisfied the European Commission's definition of a small and medium sized enterprise. These are businesses with turnover which is less than or equal to €50 million per annum, or a balance sheet which is less than or equal to €43 million. The total number of employees cannot exceed 250.

The sample of businesses was selected from HMRC's self assessment database and the Inter-Departmental Business Register (IDBR) maintained by the Office for National Statistics (ONS). Businesses from the IDBR were selected on the basis of enterprise size, region and industry. SMEs with a turnover of less than £15,000 per annum were not included. Tax agents were also excluded as HMRC has alternative research projects designed to gather their views.

SMEs were not asked if they had ever had contact with HMRC and were thus not excluded from the survey on account of having little or no experience with paying tax. The survey findings may therefore include responses from some SMEs which have had little or no interaction with HMRC. These respondents are included in the survey in order to measure attitudes across all SMEs, as this may provide information about social norms within this population group.

Respondents were interviewed by telephone. If the respondent indicated that key business decisions were theirs alone, mainly theirs or shared equally with someone else, then they were asked to provide answers to the survey questions on behalf of their business. Respondents may still have different levels of decision-making responsibilities. This is likely to influence the extent to which their responses reflect the business perspective as opposed to their personal views.

Responses were passed to HMRC at the aggregate level only to avoid any possibility that HMRC could identify the respondent from the answers given. The achieved response rate for the 2012 CPS of SME was 37 per cent.

Individuals

HMRC commissioned the ONS to collect data from individuals using the Opinions and Lifestyle Survey.⁶ Interviews were carried out face to face. The individuals included in the survey were drawn at random from the general population and included employees, self-employed and those that were economically inactive. This is consistent with the approach used since 2008, making it possible to detect statistically significant changes between any two years of the survey.

The main fieldwork period, where data was collected from individuals in all employment categories, took place in September 2012. In order to achieve a larger number of self-employed respondents to facilitate sub-group analysis, additional booster samples of self-employed individuals were procured by HMRC. The boosters were run on a monthly basis from May 2012 to March 2013 inclusive.

The fieldwork period for the Individuals CPS has varied throughout the time series. **Table 2.1** shows the fieldwork timetable since 2008.

Table 2.1: Data Collection for the Individuals Survey

Year	Fieldwork period by respondent type (with sample size)	
	Individuals	Self-employed booster samples
2008	July and August (2,172)	September to November (340)
2009	July and August (2,058)	September to November (322)
2010	August and September (2,093)	October to December (327)
2011	September and October (2,180)	November to March (530)
2012	September (974)	May to March (1,033)

The 2012 survey includes a much larger proportion of self-employed respondents. The decision to change the proportion of interviews undertaken with each employment category was taken following analysis of the results from 2008 to 2011. For 2012, a sample size of 974 interviews provides a confidence interval of just over 3 per cent around each response (at a 95 per cent confidence level), an increase from 2 per cent in 2011. This is in line with research industry standards. The increase in sample size for the self-employed in 2012 has reduced the confidence interval around each response (at a 95 per cent) from almost 4.5 per cent to just over 3 per cent.⁷ Again, this brings the self-employed data into line with industry standards, and improves the quality of the data for sub-group analysis.

The sampling frame used was the Royal Mail's Postcode Address File. Each month 67 postal sectors were selected, with the probability of selection proportionate to size. Within each sector 30 addresses were then chosen at random, giving an initial sample of 2,010 addresses each month. Only households which received fewer than 50 items of mail per day were included in the survey. This could include small businesses, so in order to achieve a sample of private individuals only, the ONS screened out enterprises during interviews. One person aged 16 or over was selected at random per household and asked to provide response to the survey

⁶ Further information about the Opinions and Lifestyle Survey can be found at <http://www.ons.gov.uk/ons/about-ons/who-we-are/services/opinions-and-lifestyle-survey/opinions-and-lifestyle-survey--opn-.html>

⁷ The exact confidence intervals vary for each question based on the size of population being investigated and the number of non-responses. Based on the full sample size in the CPS and a default response of 50%, indicative confidence intervals are as follows (per cent). 2011 CPS: individuals +/- 2.1; self-employed +/- 4.3. 2012 CPS: individuals +/- 3.1; self-employed +/- 3.1.

questions, based on their personal views alone. The data was collected from a representative sample of individuals from across Great Britain.⁸

In 2012, the achieved sample of respondents comprised 1,930 individuals. The 974 completed interviews for the 'full' individuals wave represents a response rate for that wave of 55%. As the research only gathered employment status for those respondents who completed the interview it is not possible to calculate a response rate for the self-employed booster sample.

Individuals were not asked if they had ever had contact with HMRC and were therefore not excluded from the survey if they had little or no experience with paying tax. The survey findings therefore include responses from a significant proportion of individuals who may have limited personal experience of the tax system and little or no interaction with HMRC. These respondents are included in the survey in order to measure attitudes across society and which may give information about social norms.

Individuals who were in employment and who paid income tax are included in the survey alongside economically inactive and unemployed individuals. The composition of the sample achieved in each year is shown in **Table 2.2** below. The changes in proportions seen in 2012 are a result of the greater proportion of self-employed respondents in the overall sample.

Table 2.2: Sample composition (all respondents) – Employment Status

Year	Employment Status (International Labour Organisation Definition) %			Total (n)
	In Employment	Unemployed	Economically Inactive and Unpaid Family Workers	
2008	56	3	40	2,512
2009	56	4	39	2,380
2010	54	5	41	2,420
2011	54	5	41	2,710
2012 ⁹	69	3	28	1,930 ¹⁰

No analysis is undertaken using the full dataset of 1,930 cases, therefore the ILO employment status breakdown is that of the 'full' fieldwork wave only. **Table 2.3** below provides this breakdown for all years of the survey:

Table 2.3: Sample composition (excluding boosters) – Employment Status

Year	Employment Status (International Labour Organisation Definition) % ¹¹			Total (n)
	In Employment	Unemployed	Economically Inactive and Unpaid Family Workers	
2008	54	3	43	2,172
2009	54	5	41	2,058

⁸ Excluding the Isles of Scilly and the Scottish Highlands and Islands

⁹ This compares to the employment status breakdown for the whole UK in September 2012: in employment, 71%; unemployed, 6%; economically inactive, 22% (Source: ONS Labour Market Statistics, <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/september-2012/index.html>).

¹⁰ The figure of 1,930 excludes 77 self-employed respondents in the September wave counted as both 'individuals' and 'self-employed booster' respondents.

¹¹ Rounded to the nearest whole number

2010	52	5	43	2,093
2011	53	5	43	2,180
2012	54	4	42	974

The employment status breakdown for the ‘full’ individuals wave of the 2012 CPS is therefore consistent with that seen in previous years.

2.2 Question design

The Personal Finance Research Centre (PFRC) at Bristol University worked with HMRC on question design and testing to assess and improve the survey questions during the development stages of the survey. New questions added for the 2011 and 2012 survey were cognitively tested by TNS-BMRB.

2.3 Weighting and reporting

SME

The reported SME results use weighted data, adjusted for survey design and non-response. As the 2011 SME survey was the first to be undertaken using a random probability sample method, data collected prior to 2011 cannot be tested for statistical significance.

Unweighted base sizes are provided with each table or figure where the data are presented. Percentages are rounded to the nearest whole per cent. As a result, numbers shown in tables may not sum to 100 per cent.

Respondents who refused to answer questions are excluded from the analysis.

Individuals

When data in this report refers to ‘individuals’, this is data collected during the full September wave of fieldwork. The respondents in this wave consist of employees, self employed, unemployed and economically inactive individuals. The analysis of individuals data in this report begins by reporting the results of these individuals respondents for each question for the 2012 data. Comparisons are then drawn with the data from previous years to look for statistically significant changes, starting with 2011 and going back to 2008 if significant changes are apparent.

The 2012 data and any significant changes over time are then analysed by employment sub-group, namely employees and the self-employed. We have hypothesised in our analysis that the level of contact and interaction that a respondent has with HMRC was a major determinant of their perceptions of HMRC’s fairness and compliance performance. We have also assumed that there was a relationship between the level of contact that a respondent has with HMRC, and their employment status. For example, employees – particularly those who pay income tax via PAYE – are likely to have limited contact with HMRC. Similarly, economically inactive respondents and unemployed respondents not in receipt of working or child tax credits might also be expected to have limited contact with HMRC. On the other hand, SMEs and self-employed individuals are more likely to have regular interaction with HMRC, particularly if they do not use a tax agent. Again, this analysis is reported

if a statistically significant difference between the responses of the sub-groups is found.

The self-employed data consists of responses from the self-employed individuals across all 11 waves (the 'full' September wave and the 10 self-employed boosters). The employees' data consists only of responses from the 'full' September wave of fieldwork.

As with SMEs, percentages are calculated using weights that adjust for survey design and non-response, ensuring the sample is representative of the population based on age, sex and region. The ONS supplied HMRC with separate weights for the individuals and self-employed booster samples.

Data for the self-employed were collected from the booster waves of self-employed respondents undertaken throughout the financial year. Differences between the self-employed and employees may therefore potentially result from variation in the timing of the fieldwork, as well as differences in attitudes. In common with other findings, variation may be due to factors which have not been controlled for as well as to any direct association between employment status and attitudes.

Differences over time and between groups of taxpayers are considered to exist only if they are statistically significant. Where these differences are found to be significant, we can be 95 per cent confident that the apparent dissimilarity is due to real change and difference rather than chance.¹²

Unweighted base sizes are provided with each table or figure where the data are presented. Percentages are rounded to the nearest whole per cent. As a result numbers shown in tables may not sum to 100 per cent due to rounding.

Respondents who refused to answer questions are excluded from the analysis.

Open questions

Up to five questions on the CPS (depending on questionnaire routing) are open questions where respondents volunteer an answer rather than choose from a series of available options. These questions use 'pre-codes' where interviewers classify participants' statements into a predefined list of codes or categories. If respondents' answers did not fit into one of these 'pre-codes', their full responses to the questions were recorded.

Hypothesis testing

The hypotheses developed by HMRC when analysing the results of the CPS were tested using cross tabulations in SPSS. The results of this analysis have been presented in the report where they offer further insight into the results of the basic descriptive statistics.

¹² Tests for statistical significance and association were produced by data analysis software SPSS. Confidence intervals around proportions, both for comparisons across years and between the self-employed and employees, were manually calculated. These were initially calculated with a standard error of 1 to explore the data. Where statistically significant differences were found at this stage, confidence intervals were re-calculated to incorporate standard errors supplied by ONS. Using the correct standard errors increased the width of the confidence intervals, allowing for a more accurate test for statistical significance. This approach is in line with ONS guidance.

For the SME survey, tests for statistical significance and association were carried out using weighted data as the weighted base is set to be the same as the unweighted base. Weighted data is reported. For the individuals survey, weighted data are reported but tests for statistical significance and association are calculated using unweighted data. Because of the complexity of the individuals' survey sample design, it was considered impractical to use weighted data to test for statistical significance.

In addition to refusals, 'don't know' responses are excluded from the hypothesis testing.

3. Fairness and the burden of complying

- The majority of SMEs and individuals considered HMRC to treat them fairly in their dealings with them.
- Both groups considered the burden of complying with tax obligations to be reasonable, with the proportion of SMEs holding this opinion increasing since 2011.

This section reports on questions from the CPS focusing on SMEs' and Individuals' perceptions of the tax regime and HMRC. Academic literature suggests the perceived 'fairness' of the tax system may influence levels of compliance, with aspects of fairness including a trustworthy government, fair tax enforcement mechanisms, and perceived fairness in Government spending.¹³

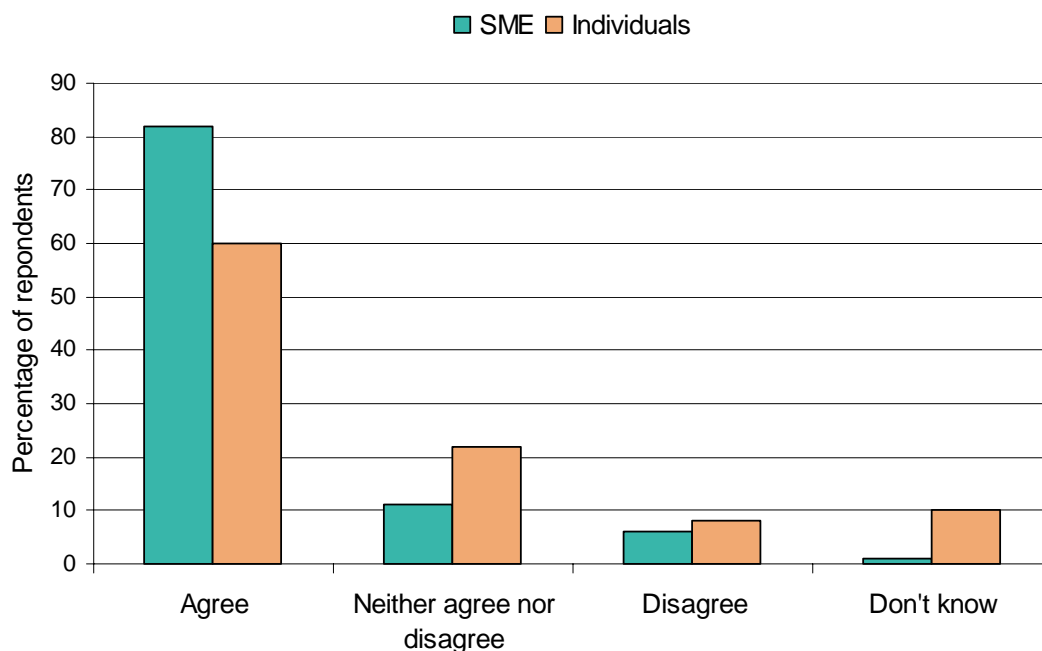
3.1 Fair treatment by HMRC

SMEs and Individuals

In 2012, 4 out of every 5 **SMEs** (82 per cent) agreed that HMRC treated their business fairly in its dealings with them, 6 per cent disagreed, and 11 per cent neither agreed nor disagreed (**Figure 3.1**).

Compared to SMEs, a smaller proportion of **individuals** (60 per cent, or 3 out of every 5) agreed with this statement. Eight per cent of individuals disagreed, while a further 22 per cent neither agreed nor disagreed (**Figure 3.1**).

Figure 3.1: Whether respondents agree HMRC treats them fairly, 2012 (SME vs. Individuals)



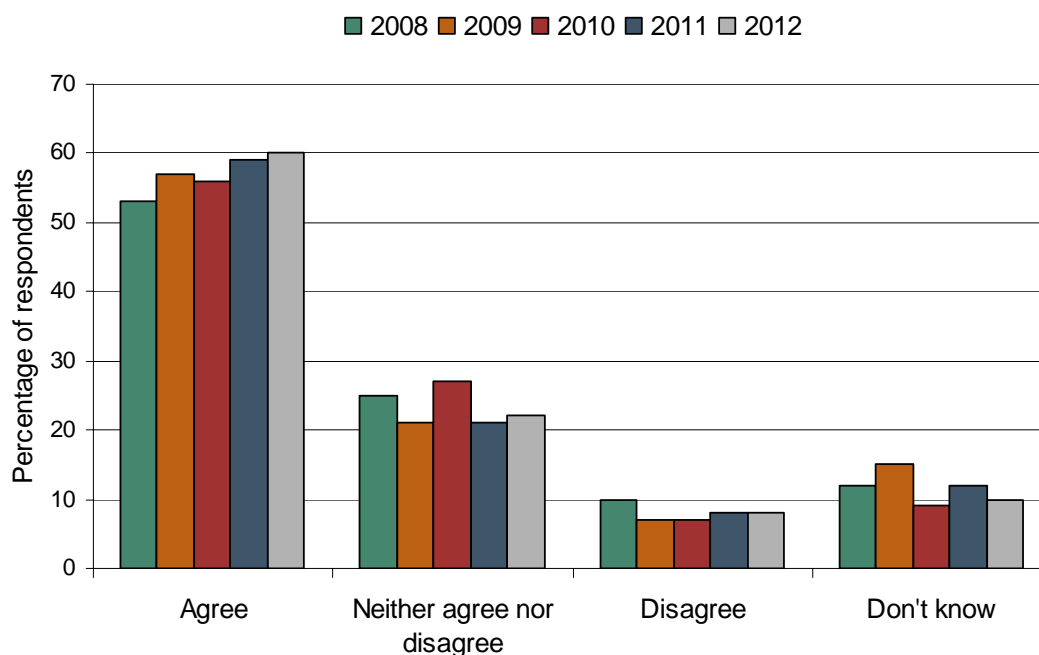
Unweighted base: 960 individuals; 960 SMEs

¹³ Cummings, R. et al, 'Effects of Tax Morale on Tax Compliance: Experimental and Survey Evidence', Berkeley Program in Law and Economics Working Paper Series, 2006.

Individuals: change over time and employment status

At 60 per cent, the proportion of individuals who agreed that HMRC treats them fairly has increased 7 percentage points since 2008. In contrast, 8 per cent of individuals disagreed with this statement, down from 10 per cent in 2008 (**Figure 3.2**).

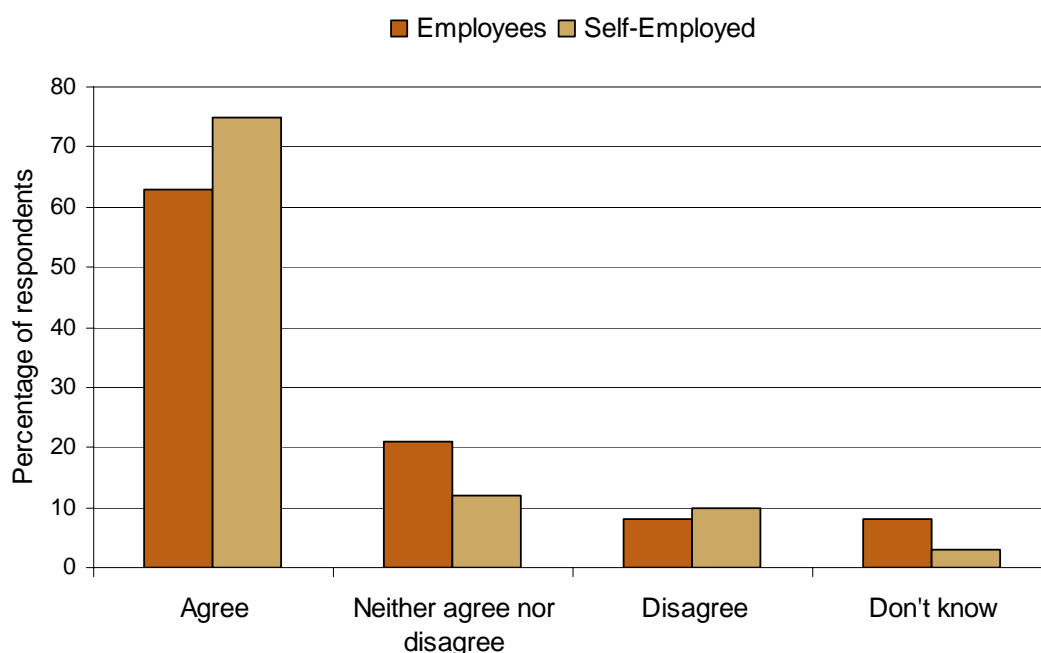
Figure 3.2: Whether Individuals agree that HMRC treats them fairly, 2008-2012



Unweighted base: 2,166 in 2008; 2,055 in 2009; 2,072 in 2010; 2,149 in 2011; 960 in 2012

Opinions of how fairly HMRC treats people varied greatly by employment status. Sixty-three per cent of employees responded that HMRC treats them fairly, compared to 75 per cent of self-employed individuals. In contrast, 51 per cent of those not in employment agreed with this statement. These differences may reflect the varying amounts of contact that each employment group is likely to have with HMRC (**Figure 3.3**).

Figure 3.3: Whether respondent agrees HMRC treats them fairly, 2012 (Self employed vs. employees)



Unweighted base: 614 employees; 1026 self-employed

Both employees and the self employed have seen increases in the proportions thinking HMRC treats them fairly since 2008. The proportion of self-employed respondents who agreed with this statement has risen from 69 per cent to 75 per cent since 2008, while for employees this proportion has increased from 52 per cent to 63 per cent over the same period.

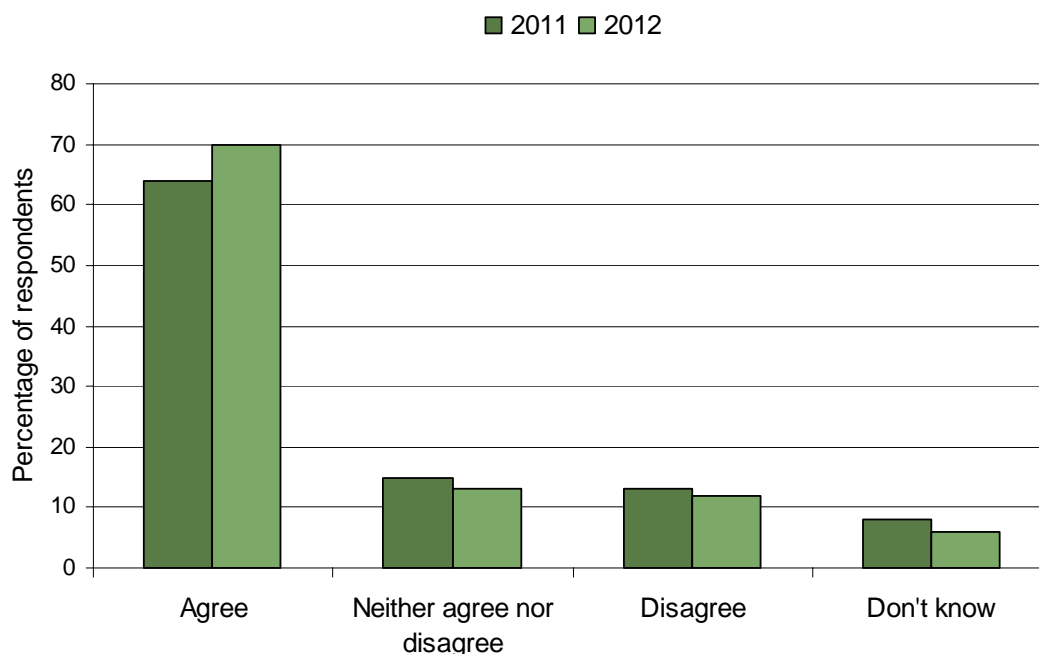
3.2 Burden of complying

SMEs

Of SME respondents, 70 per cent felt that the amount of time and effort their business spends completing its business tax return was reasonable. Twelve per cent said unreasonable, 13 per cent responded neither reasonable nor unreasonable, and 6 per cent did not know (**Figure 3.4**).

At 70 per cent, the proportion of SMEs who felt that the time and effort was reasonable has increased 6 percentage points since 2011 (**Figure 3.4**).

Figure 3.4: Whether time spent completing business tax return was reasonable, 2011-2012 (SMEs)



Unweighted base: 1004 in 2011; 961 in 2012

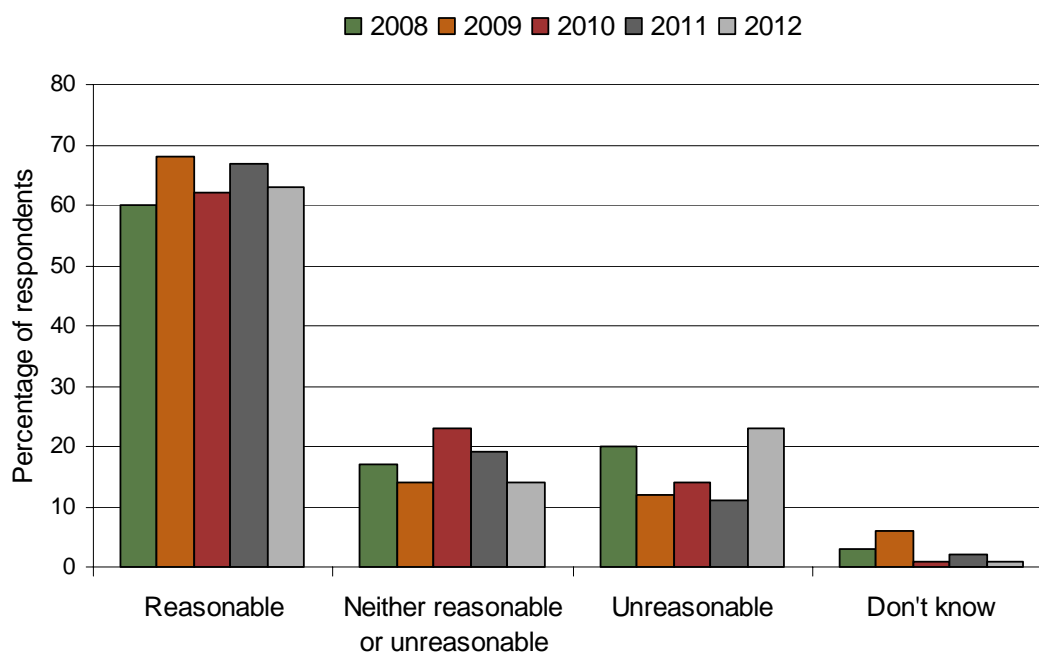
The two-thirds of SMEs (63 per cent) who were registered for VAT were also asked if they felt the time and effort spent completing their VAT returns was reasonable. Seventy-one per cent said that it was reasonable, 11 per cent that it was neither reasonable nor unreasonable, 16 per cent found it unreasonable, and 2 per cent did not know.

Individuals

One in five individuals (20 per cent) stated that they were responsible for submitting a Self Assessment (SA) form. Over half of these submitted it themselves, with the majority of the remainder having it submitted by an agent on their behalf. Less than one per cent of individuals stated they should have submitted a form, but did not do so.

The majority of individuals who submitted their own SA form felt that the amount of time and effort they personally spent completing their return was reasonable (63 per cent), while 13 per cent stated it was neither reasonable nor unreasonable (**Figure 3.5**).

Figure 3.5: Whether time spent completing income tax or self-assessment form was reasonable, 2008-2012 (Individuals who submitted their tax return themselves).

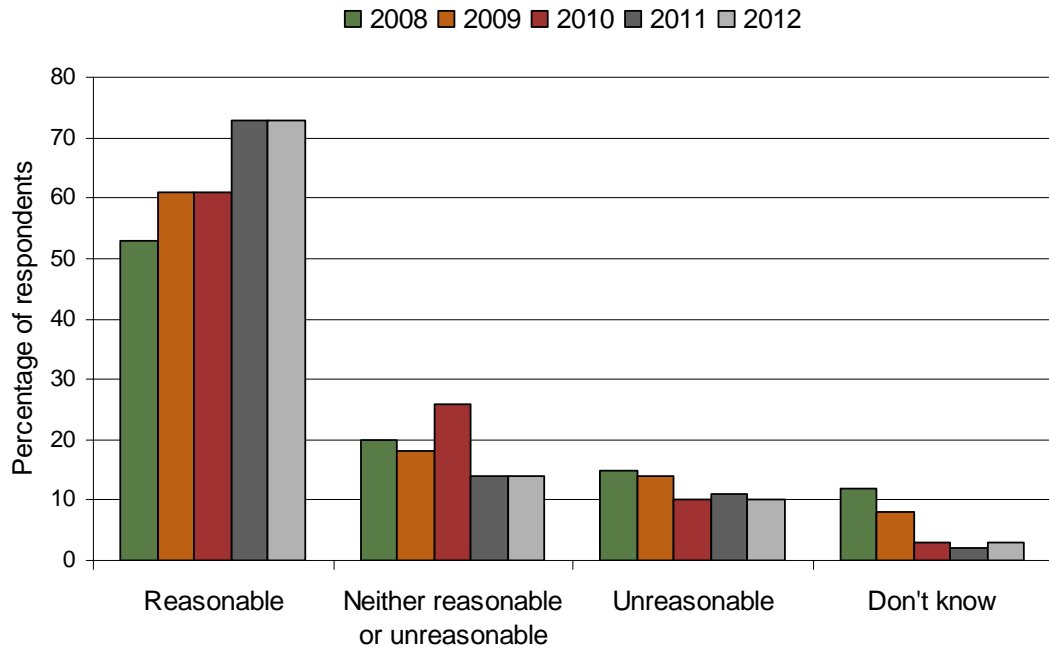


Unweighted base: 217 in 2008; 230 in 2009; 201 in 2010; 248 in 2011; 102 in 2012.

In contrast, self-employed respondents reported a decline in those thinking the amount of time spent completing their income tax or self-assessment form was unreasonable. Just under three quarters of self-employed respondents – 73 per cent – considered the time they spent completing their returns to be reasonable. Ten per cent considered it unreasonable, while 14 per cent considered it neither.

Since 2008 there has been a significant increase in the proportion who thought the amount of time spent was reasonable, up 20 percentage points from 53 per cent. All other responses have declined, with a five percentage point decline for those who said the time spent was unreasonable (from 15 per cent).

Figure 3.6: Whether time spent completing income tax or self-assessment form was reasonable, 2008-2012 (Self-employed individuals who submitted their tax return themselves).



Unweighted base: 217 in 2008; 230 in 2009; 201 in 2010; 248 in 2011; 102 in 2012.

4. Attitudes towards Compliance

- Individuals were more likely than SMEs to consider tax evasion to be both widespread, and a major problem.
- The vast majority of SMEs and individuals considered tax evasion to be unacceptable.
- SMEs and individuals that thought a lot of other businesses/individuals consider it okay not to declare all tax owed, were themselves more likely to state that it is okay not to declare all revenue so as to avoid tax.
- For the first time, individuals recorded “legal tax avoidance” activities as an unacceptable reason for tax evasion. There has also been a substantial increase in the proportion of individuals who specifically commented that ‘fraud / deceit’ was an unacceptable reason for tax evasion.

This section details respondents’ attitudes towards compliance and evasion in terms of prevalence and acceptability. It also discusses circumstances in which tax evasion is seen to be acceptable or unacceptable.

4.1 Perceived prevalence of income and corporation tax evasion

Two questions in the CPS address the perceived scale of income and corporation tax evasion: firstly, how widespread do respondents perceive tax evasion to be; secondly, how large a problem respondents perceive tax evasion to be.

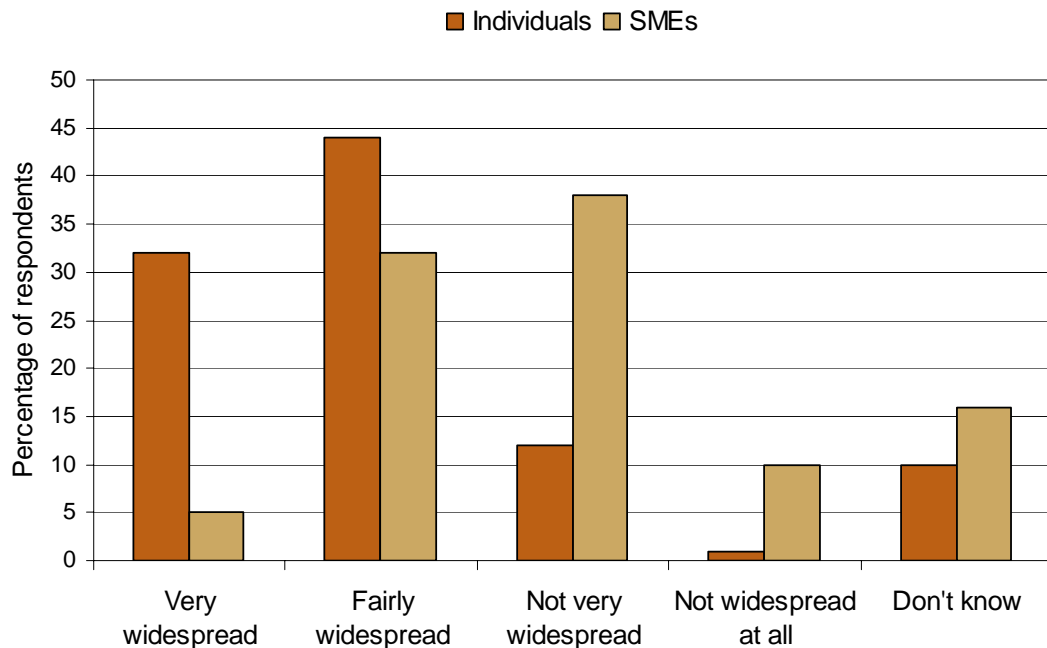
SMEs and Individuals

SMEs and **Individuals** were asked whether they considered tax evasion to be very widespread, fairly widespread, not very widespread or not widespread at all.

A small minority of **SMEs** (5 per cent) considered tax evasion to be very widespread. Thirty-two per cent considered it to be fairly widespread, 38 per cent not very widespread, 10 per cent not widespread at all, and 16 per cent did not know (**Figure 4.1**).

In comparison **individuals** were substantially more likely than SMEs to consider income tax evasion to be very widespread; 32 per cent gave this response. A further 44 per cent of Individuals considered tax evasion to be fairly widespread. In contrast, 12 per cent of individuals stated that tax evasion was not very widespread, 1 per cent that it was not widespread at all, and 10 per cent did not know (**Figure 4.1**). It is possible this is related to the level of contact the respondents had with HMRC as discussed on page 13.

Figure 4.1: Perceptions of how widespread tax evasion is, 2012 (Individuals vs. SMEs)



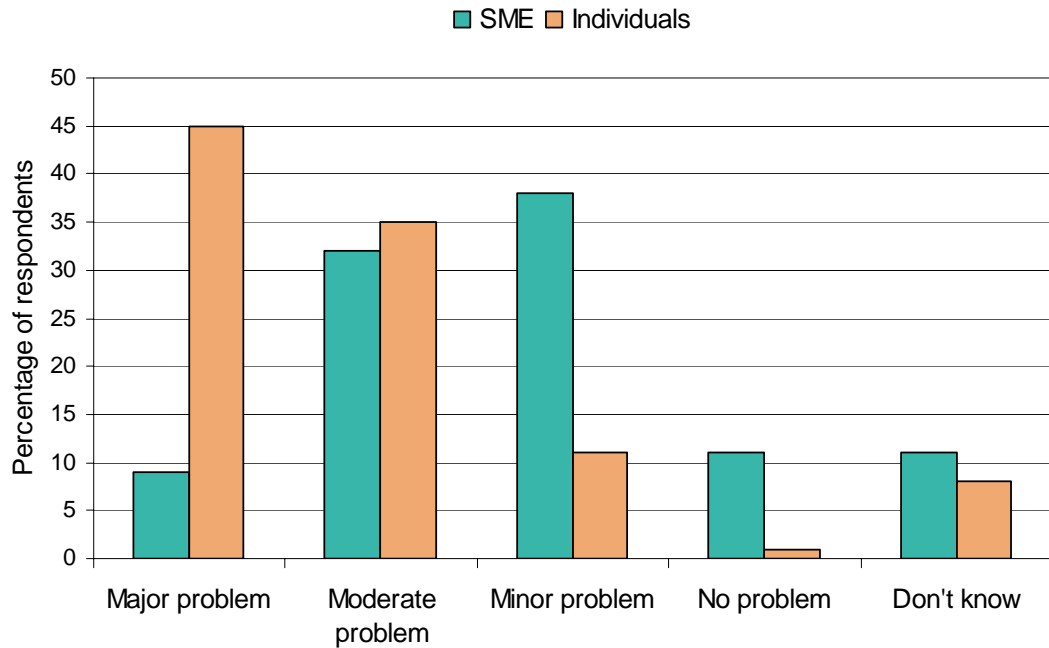
Unweighted base: 971 individuals; 959 SMEs

SMEs and **individuals** were also asked whether they considered tax evasion to be a major problem, a moderate problem, a minor problem, or not a problem at all.

Nine per cent of **SMEs** considered income or corporation tax evasion to be a major problem, 32 per cent a moderate problem, and 38 per cent a minor problem. Eleven per cent didn't consider tax evasion to be a problem at all, while the same proportion did not know (**Figure 4.2**).

Almost half of **Individuals** (45 per cent) considered income tax evasion to be a major problem, and a further 35 per cent felt it was a moderate problem. Eleven per cent considered it a minor problem, 1 per cent that it was not a problem, and 8 per cent did not know (**Figure 4.2**).

Figure 4.2: Whether income/corporation tax evasion is perceived to be a problem, 2012 (SMEs vs. Individuals)

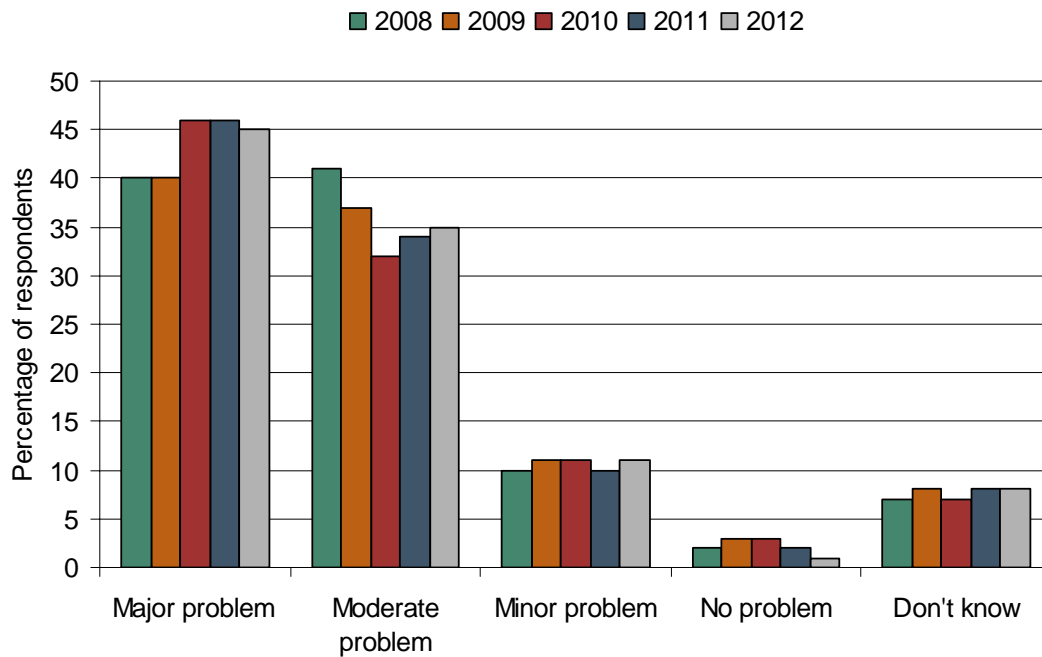


Unweighted base: 960 individuals; 960 SMEs

Individuals: change over time and employment status

At 45 per cent, the proportion of **individuals** who considered tax evasion to be a major problem has increased since 2009 (by 5 percentage points). Fewer individuals than in 2008 felt that it was a moderate problem (2008, 41 per cent; 2012, 35 per cent) (**Figure 4.3**).

Figure 4.3: Whether individuals perceive income tax evasion to be a problem, 2008-2012



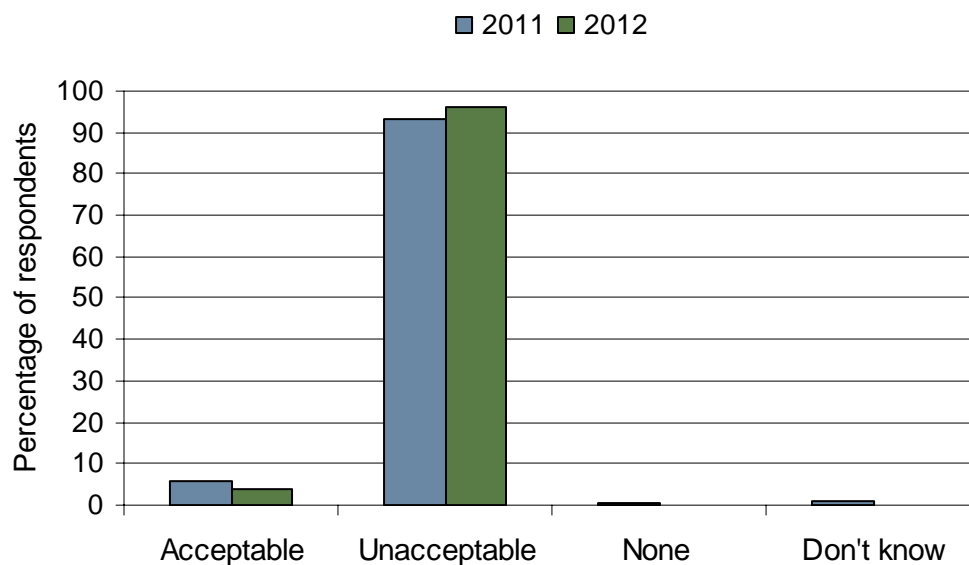
Base sizes: 2167 in 2008; 2054 in 2009; 2076 in 2010; 2149 in 2011; 960 in 2012

4.2 Acceptability of income and corporation tax evasion

SMEs

The proportion of **SMEs** who considered income or corporation tax evasion to be unacceptable was 96 per cent, an increase from the previous year of 3 percentage points. The proportion who considered it to be acceptable was 4 per cent, down from 6 per cent in 2011 (**Figure 4.4**).

Figure 4.4: Perceived acceptability of income tax evasion, 2011-2012 (SMEs)



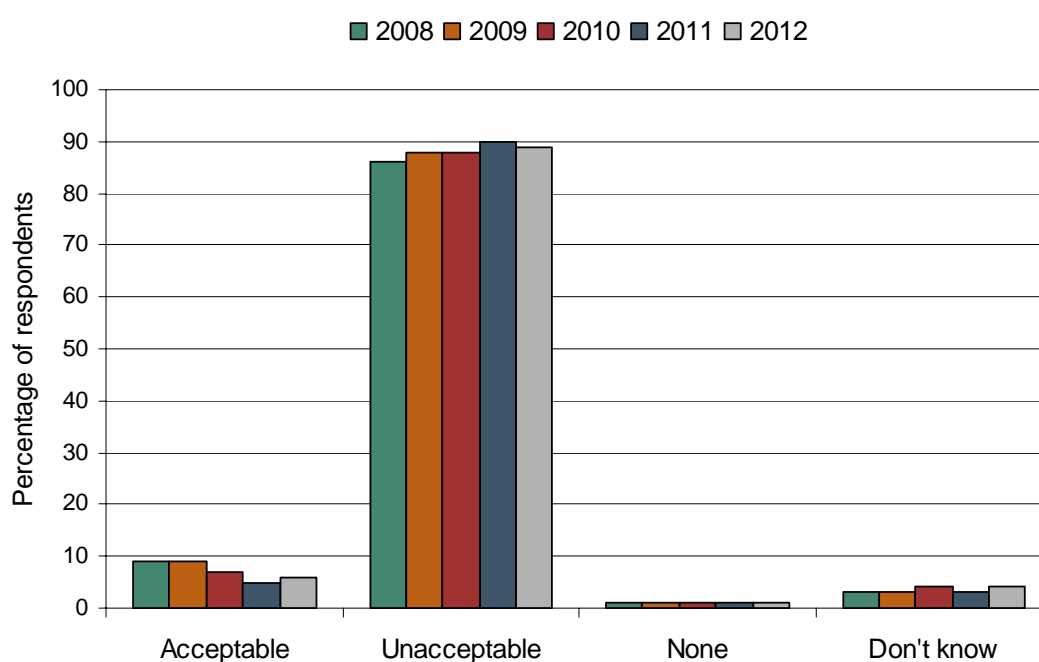
Unweighted base: 1005 in 2011; 961 in 2012

Between 2011 and 2012 there was no notable change in the proportion of SME respondents who regarded income or corporation tax to be 'always' or 'mostly' acceptable, or 'always' or 'mostly' unacceptable.

Individuals

As with SMEs, the overwhelming majority of **individuals** considered income tax evasion to be unacceptable, with 89 per cent holding this opinion. This has increased from 86 per cent in 2008. Six per cent of individuals considered income tax evasion to be acceptable, a decrease of 3 percentage points over the same period (**Figure 4.5**).

Figure 4.5: Perceived acceptability of income tax evasion, 2008-2012 (Individuals)

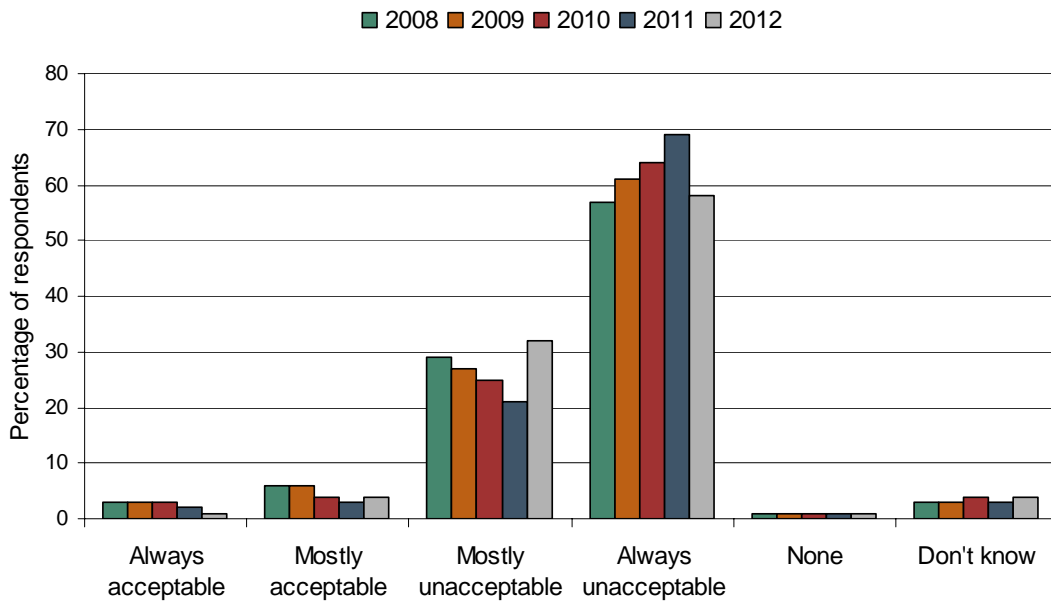


Unweighted base: 2,163 in 2008; 2,056 in 2009; 2,069 in 2010; 2,149 in 2011; 960 in 2012.

When answering the question about their views on the acceptability of tax evasion, respondents were asked whether they consider tax evasion to be 'always' or 'mostly' acceptable, and 'always' or 'mostly' unacceptable. Rounding to the nearest whole number, one per cent of individuals considered tax evasion to be always acceptable, while 4 per cent stated that it was mostly acceptable depending on the circumstances. Of the remainder, 58 per cent of individuals considered tax evasion to be always unacceptable, while 32 per cent considered it to be mostly unacceptable depending on the circumstances (**Figure 4.6**).

Since 2011, there has been a notable change in the breakdown of responses for those who regarded tax evasion to be unacceptable. There has been an eleven percentage point decrease in the proportion of those considering tax evasion to be 'always' unacceptable, with this proportion now considering it to be 'mostly' unacceptable (**Figure 4.6**).

Figure 4.6: Perceived acceptability of income tax evasion split by 'mostly' and 'always' responses 2008-2012 (Individuals)

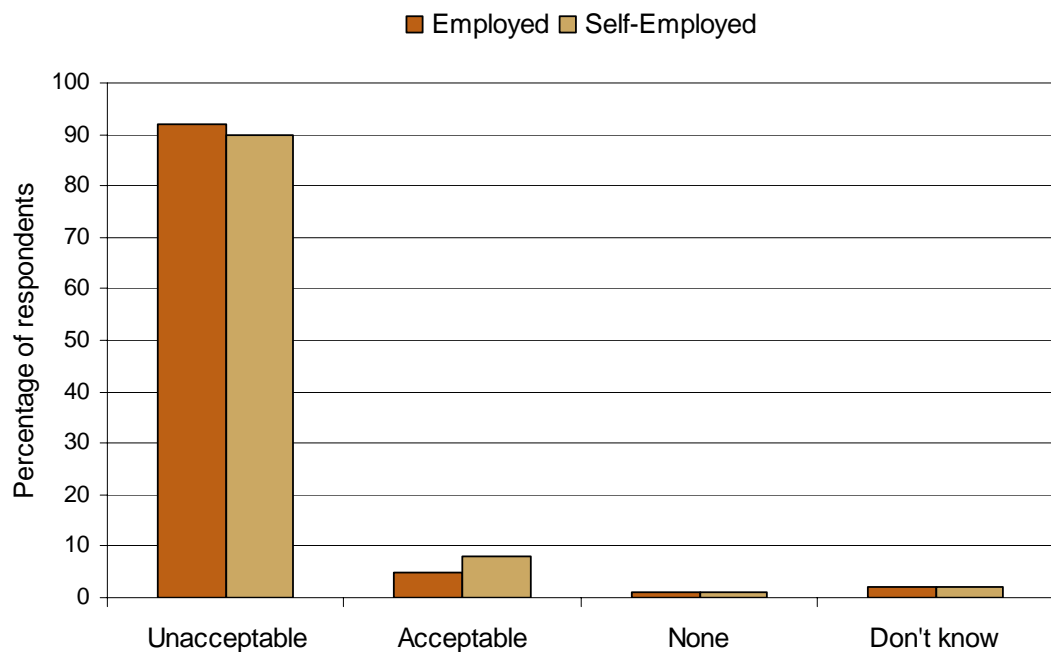


Unweighted base: 2,163 in 2008; 2,056 in 2009; 2,069 in 2010; 2,149 in 2011; 960 in 2012.

Acceptability of tax evasion and employment status

Ninety-two per cent of employees stated that tax evasion was unacceptable, compared to 90 per cent of self-employed respondents. Eight per cent of self-employed respondents considered tax evasion to be acceptable, compared to 5 per cent of employees (Figure 4.7).

Figure 4.7: Perceived acceptability of income tax evasion, 2012 (employees vs. self employed)



Unweighted base: 614 employees; 1025 self employed.

4.3 The role of social norms in shaping taxpayer attitudes

The academic literature suggests that taxpayer behaviour may be influenced by the perceived views of peers and society. Taxpayers who believe that others are compliant and do not perceive evasion to be acceptable may be more inclined to comply than those who believe that evasion is socially acceptable.¹⁴ HMRC is interested in exploring this social norms aspect of tax compliance by testing if personal views towards tax evasion are influenced by other people's views of tax evasion.

To test this hypothesis, **SMEs** were asked whether *a lot of small and medium businesses* think it is okay to under-declare their revenue in order to avoid paying taxes. They were also asked whether *they* think it is ok to do this. **Individuals** were asked whether *a lot of people they know* think it is okay not to pay tax on cash earnings. They were also asked whether *they* think it is okay to do this.

Analysis of these results found that:

- **SMEs** who stated that a lot of small and medium businesses think it is okay to under-declare their revenue in order to avoid paying taxes were more likely to think it is okay for small and medium sized businesses to do this.
- **Individuals** who said that they know a lot of people who thought it was okay not to pay tax on cash earnings were more likely to state that being paid in cash and not declaring it is okay.

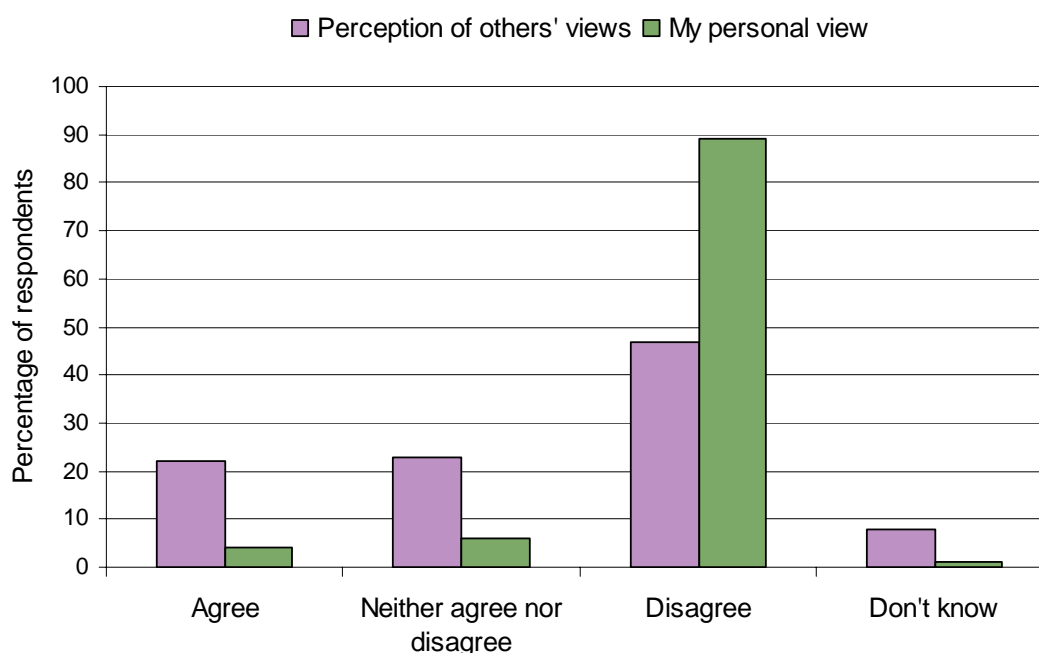
SMEs

For SMEs, over 1 in 5 (22 per cent) agreed that a lot of small and medium businesses think it is okay to under-declare their revenue in order to avoid paying taxes. Almost half of respondents (47 per cent) disagreed with this statement, while 23 per cent neither agreed nor disagreed and 8 per cent did not know (**Figure 4.8**).

In comparison, 4 per cent of SMEs agreed that they think it is okay for small and medium businesses to under-declare their revenue in order to avoid paying taxes. The vast majority – 89 per cent – disagreed with this statement, while 6 per cent neither agreed nor disagreed while less than 1 per cent did not know (**Figure 4.8**).

¹⁴ M. Wenzel, 'Misperceptions of Social Norms about Tax Compliance: From Theory to Intervention', *Journal of Economic Psychology* 26 (2005), pp. 862-883.

Figure 4.8: Perceived acceptability of SMEs under-declaring their income to avoid paying tax, 2012 (Other businesses vs. my business)



Unweighted base: both 961

SMEs who stated that *a lot of small and medium businesses* think it is okay to under-declare their revenue in order to avoid paying taxes were more likely to agree that *they* think it is okay for small and medium businesses to do this. This is compared to those who *did not* know a lot of businesses who thought under declaring revenue was ok (**Table 4.1**).

Table 4.1: Acceptability of under-declaring revenue to avoid paying taxes, 2012 (SMEs)¹⁵

% SMEs	A lot of businesses think it's okay to under-declare revenue	A lot of businesses don't think it's okay to under-declare revenue	Neither	Total
I think it's okay to avoid taxes	11	2	3	4
I don't think it's okay to avoid taxes	86	96	81	90
Neither	4	2	16	6
Total	100	100	100	100

Unweighted base: 215 SMEs agree that a lot of businesses think it's okay to under-declare revenue; 447 SMEs disagree; 220 SMEs did not express an opinion.

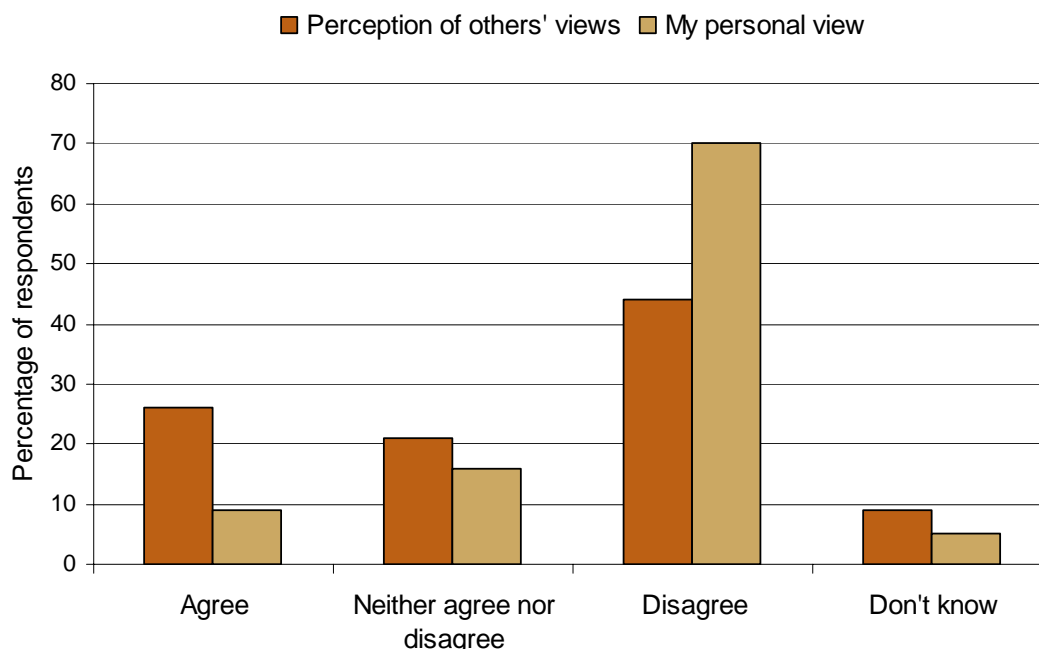
Individuals

For Individuals, over a quarter (26 per cent) claimed that a lot of people they know think it is ok not to pay tax on cash earnings. Forty-four per cent said this was not the case, with 21 per cent of individuals not giving an opinion (**Figure 4.9**).

¹⁵ Chi-square = 85.846 (p<0.001); Phi = 0.312

Only 9 per cent stated that they personally thought it was ok to receive cash payment for a job and then not declare it on their tax return. Seventy per cent disagreed with this statement, while 16 per cent said neither agree nor disagree (**Figure 4.9**).

Figure 4.9: Perceived acceptability of evading tax on cash income by Individuals, 2012 (Other people vs. myself)



Unweighted base: 958 on other people; 957 on self

Individuals stating *they knew a lot of people* who thought it was okay not to pay tax on cash earnings were more likely to state that *they thought* being paid in cash and not declaring it was okay. This was compared to those who said they *did not* know a lot of people who thought evading tax on cash earnings was okay (**Table 4.2**).

Table 4.2: Acceptability of under-declaring revenue to avoid paying taxes, 2012 (Individuals)¹⁶

% Individuals	A lot of people I know think it's okay to avoid taxes	A lot of people I know don't think it's okay to avoid taxes	Neither	Total
I think it's okay to avoid taxes	22	4	7	10
I don't think it's okay to avoid taxes	60	88	62	74
Neither	19	8	31	16
Total	100	100	100	100

Unweighted base: 257 individuals agree that a lot of businesses think it's okay to under-declare revenue; 399 individuals disagree; 201 did not express an opinion.

¹⁶ Chi-square = 119.759 (p<0.001); Phi = 0.374

4.4 Circumstances when evasion is acceptable

Businesses and individuals stating tax evasion was mostly acceptable or mostly unacceptable were asked to provide examples of when these would be the case.

SMEs

Among the SME respondents who stated tax evasion was mostly unacceptable but depended on the circumstances, the most common response for when evasion is unacceptable was when the company can afford to pay the tax. Circumstances in which tax evasion would be unacceptable are presented in **Table 4.3**.

Table 4.3: Circumstances under which tax evasion would be unacceptable, 2012 (SME)¹⁷

Circumstance	Per cent of SME
The company is successful/can afford to pay tax	16
Fraud/deceit	14
It is always unacceptable	13
When a company cannot afford to pay [i.e. respondents stated this is not an acceptable excuse for non-payment of tax]	10
The amount of money is large	9
Large corporate companies	6
When using offshore / legal loopholes	6
Doing it for personal gain	4
Other	20

Unweighted base: 140 SMEs

All of the respondents answering this question had stated earlier in the interview that they considered evasion to be 'mostly unacceptable'. In 2011, a third of these respondents went on to say when prompted that evasion was 'always' unacceptable. In 2012 this proportion decreased to 13 per cent, or approximately 1 in 8.¹⁸

The proportion of SMEs who, without prompting, recorded 'fraud / deceit' as a circumstance in which tax evasion would be unacceptable increased 12 percentage points to 14 per cent from 2011 to 2012. Furthermore, this was the first year in which there was any reference to the use of offshore or legal tax avoidance strategies as 'unacceptable'. This finding is in line with the responses given by SMEs in the 2011 qualitative research project which found that there was widespread rejection of the legal distinction between tax evasion and tax avoidance. For some, the perceived immorality of tax avoidance rendered the fact that it was lawful irrelevant.¹⁹ One in 5 of respondents gave a response that did not fall within the main classifications (they may have given another response that did fall within the classifications). This suggests a diverse range of views recorded, or the potential for uncertainty amongst respondents as to the meaning of the question.

¹⁷ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering 'don't know,' 'can't think of any' and invalid responses such as 'if deliberate or done in error'.

¹⁸ This variation from 2011 to 2012 could not be explained by any changes in respondent seniority, company size or industry type.

¹⁹ See 'Compliance Perceptions Survey: Qualitative follow up research with Small and Medium Enterprises' (2012): <http://www.hmrc.gov.uk/research/report196.pdf>

We saw on page 25 that only 4 per cent of SMEs said that tax evasion was either ‘always’ or ‘mostly’ acceptable. As a result, very few respondents were asked to provide extra detail on what circumstances they considered would meet the criteria for acceptability. The data was therefore deemed not reliable enough to report.²⁰

Individuals

For individuals, the most frequently stated circumstances in which tax evasion would be *acceptable* were when a person could not afford to pay tax or was facing financial hardship, and when small amounts of money were involved. The full list of circumstances in which individuals stated tax evasion would be unacceptable are listed in **Table 4.4**.

Table 4.4: Circumstances under which tax evasion would be acceptable, 2012 (Individuals).²¹

Circumstance	Percent of individuals
A person cannot afford to pay tax/financial hardship	47
Small amounts of money involved	38
Taxes are unfair or unreasonable	21
A person is disadvantaged or vulnerable	19
Evasion activity is short term/a one off	14
Depends on a person's occupation	11
Other	13

Unweighted base: 32 individuals²²

In 2012, the most common circumstances suggested by individuals are the same as those given in 2011 (i.e. those listed in **Table 4.4**). However, with the exception of ‘A person cannot afford to pay / financial hardship’, the proportion of respondents suggesting each circumstance has increased dramatically. For example, the proportion suggesting ‘Small amounts of money involved’ as a potentially acceptable circumstance has more than doubled from 21 per cent in 2011 to 47 per cent in 2012. The proportion suggesting ‘A person is disadvantaged or vulnerable’ as a potentially acceptable circumstance for tax evasion has increased six-fold, from 3 per cent to 19 per cent. In contrast, the proportion stating ‘Other’ has substantially declined from 31 per cent to 13 per cent.

One explanation for this is that amongst those who considered tax evasion to be mainly acceptable, there was an increased consensus as to which circumstances would justify it. A broader consensus may reflect the wider discussion of tax issues in the UK, and may be evidence of spreading social norms regarding attitudes to tax evasion. However, compared to 2011 there has been an increase in respondents providing more than one circumstance, making it difficult to identify the underlying causes with any certainty.

Similar changes are evident in individuals’ views on those circumstances when tax evasion would be *unacceptable*. In 2012, the range of circumstances suggested by

²⁰ Only 19 SMEs gave an acceptable circumstance, of which the most common response was classed under ‘Other’.

²¹ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don’t know, can’t think of any and refusals.

²² Note low base size. The base size of 32 is lower than the 69 individuals who gave a response in 2011, and reflects the reduced number of individuals completing the CPS in 2012 (see **Table 2.1**, p.11).

individuals are the same as given in 2011 (listed in **Table 4.5**), but all circumstances have been suggested by a higher proportion of individuals. For example, the proportion suggesting ‘A person can afford to pay tax/is wealthy’ has increased by 24 percentage points to 61 per cent. The proportion suggesting ‘Large amounts of money’ are involved has increased 20 percentage points to 39 per cent.

As with those describing acceptable circumstances, the proportion stating ‘other’ has substantially declined from 37 per cent to 14 per cent. While this may suggest a greater tendency for respondents to offer specific circumstances, it is also clear that there was a greater willingness in 2012 for respondents to offer more than one unacceptable circumstance.

Table 4.5: Circumstances under which tax evasion would be unacceptable, 2011 (Individuals).²³

Circumstance	Percent of individuals
A person can afford to pay tax/is wealthy	61
Large amounts of money involved	39
Evasion activity is long term/regular	32
Depends on the type of evasion	19
Depends on a person's occupation	16
Other	14

Unweighted base: 281 individuals

²³ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know, can't think of any, and refusals.

5. Perceived chances of detection

- Two thirds of SMEs felt that it was likely other SMEs would be caught for income or corporation tax evasion. This has not changed since 2011.
- Approximately half of individuals thought it was unlikely a person would be caught for regular income tax evasion.
- Less than half of individuals stated that it was likely they would be caught for not declaring cash in hand earnings. This proportion has decreased since 2011.

This section describes individuals' perceptions of the likelihood that people who regularly evade paying income tax would be caught. It also describes SMEs' perceptions of the likelihood that small and medium sized businesses that regularly evade paying income and corporation tax, or making VAT declarations, will be caught.

5.1 Income and corporation tax

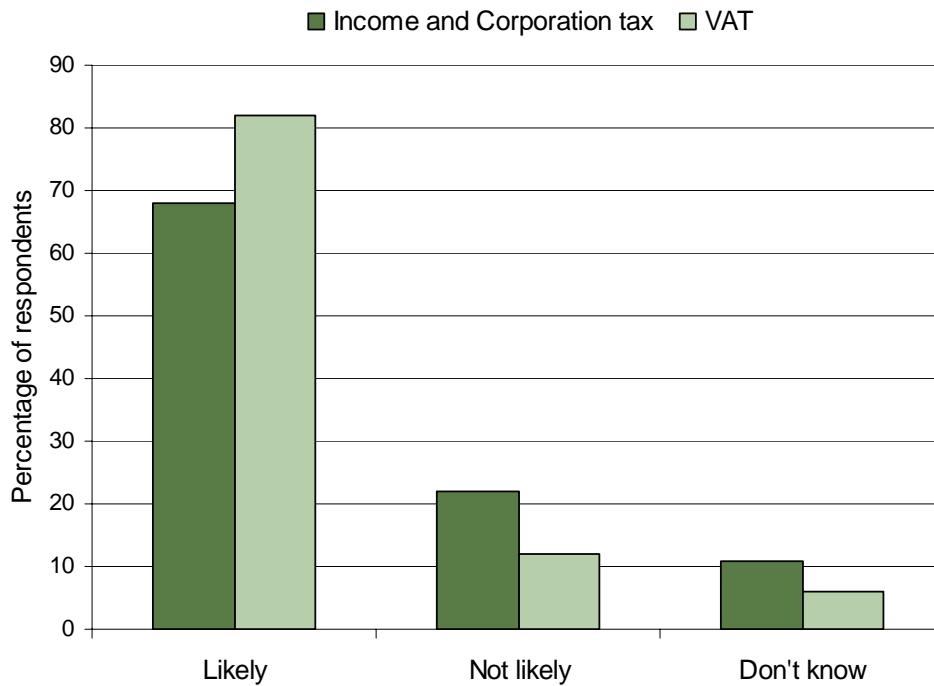
SMEs

When asked how likely it was that *other businesses* who regularly evade income or corporation tax would be caught, over two-thirds of **SMEs** – 68 per cent – considered this to be likely. Twenty-two per cent considered this to be unlikely and 11 per cent did not know (**Figure 5.1**).

A higher proportion of VAT-registered respondents considered it likely that *other businesses* would be caught if it regularly evaded paying tax, with 82 per cent holding this opinion. Twelve per cent considered this to be unlikely and 6 per cent did not know (**Figure 5.1**). There were no statistically significant changes since 2011 in the responses given for either of these questions.

Respondents were asked if they consider the chances of being caught to be 'very likely', 'quite likely', 'not likely', or 'not at all likely'. There were no significant changes between 2011 and 2012 for any of these responses.

Figure 5.1: Perceived chances of detection if another SME regularly evaded IT/CT or VAT, 2012 (all SMEs vs. those registered for VAT)



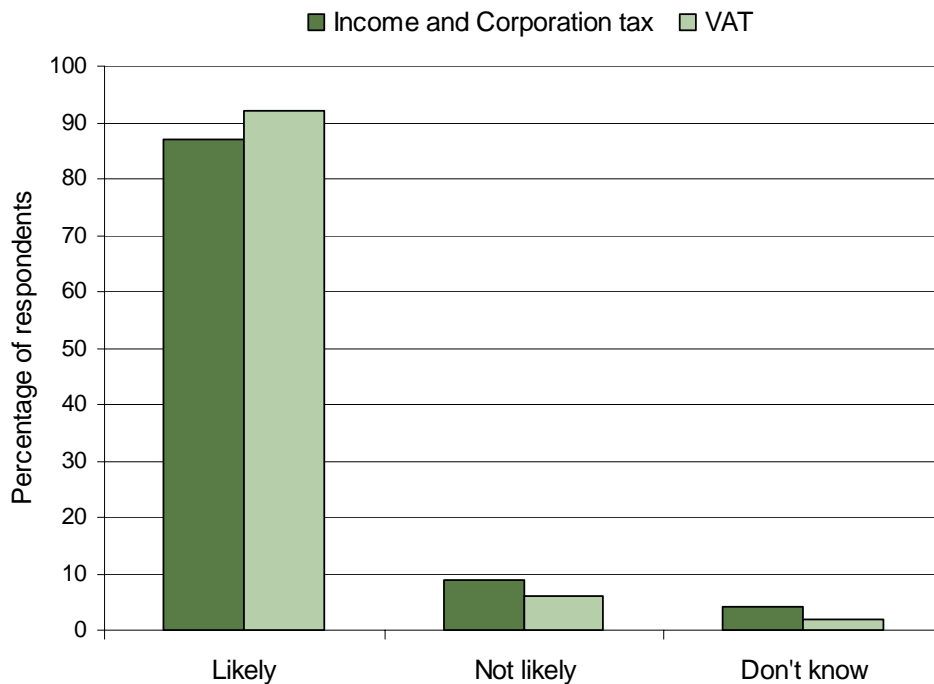
Unweighted base: 960 all SMEs; 673 SMEs registered for VAT

A greater proportion of SMEs considered it likely that *they* would be caught if they regularly under-declared their income or tax liability. Eighty-seven per cent considered this likely, nine per cent unlikely, and four per cent did not know (**Figure 5.2**).

VAT respondents thought it was more likely than IT and CT respondents that *they* would be caught for regularly evading VAT, with 92 per cent giving this response (**Figure 5.2**).

As with the previous question, respondents were asked if they consider the chances of being caught to be 'very likely', 'quite likely', 'not likely', or 'not at all likely'. Again, there were no significant changes between 2011 and 2012 for any of these responses.

Figure 5.2: Perceived chances of detection if the respondent regularly evaded IT/CT or VAT, 2012 (SMEs)



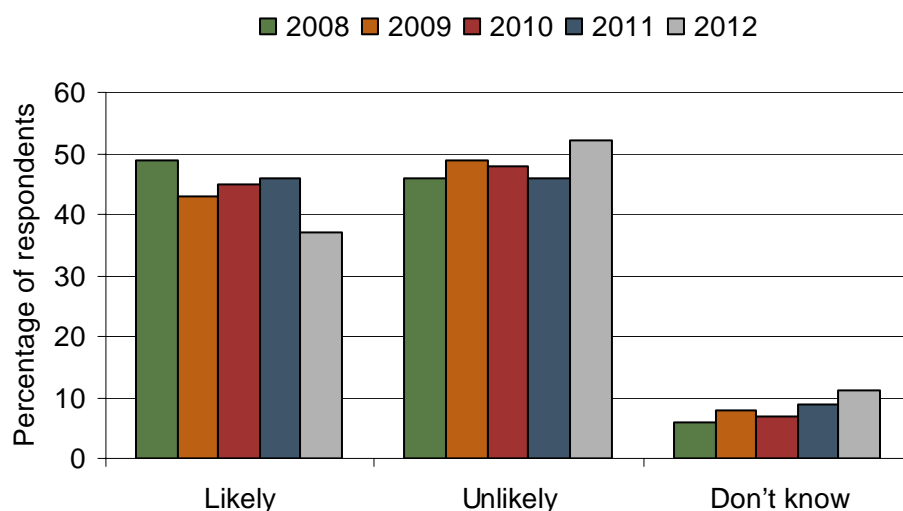
Unweighted base: 959 all SMEs; 672 SMEs registered for VAT

Individuals

A greater number of **individuals** considered it unlikely (52 per cent) than likely (37 per cent) that people who regularly evade income tax would be caught (**Figure 5.3**).

There have been statistically significant changes since 2011 in both of these responses. The proportion of individuals who felt that it was unlikely that regular evaders would be caught has increased six percentage points from 46 per cent in 2011 to 52 per cent, while the proportion that stated it likely has decreased to 37 per cent from 46 per cent (**Figure 5.3**).

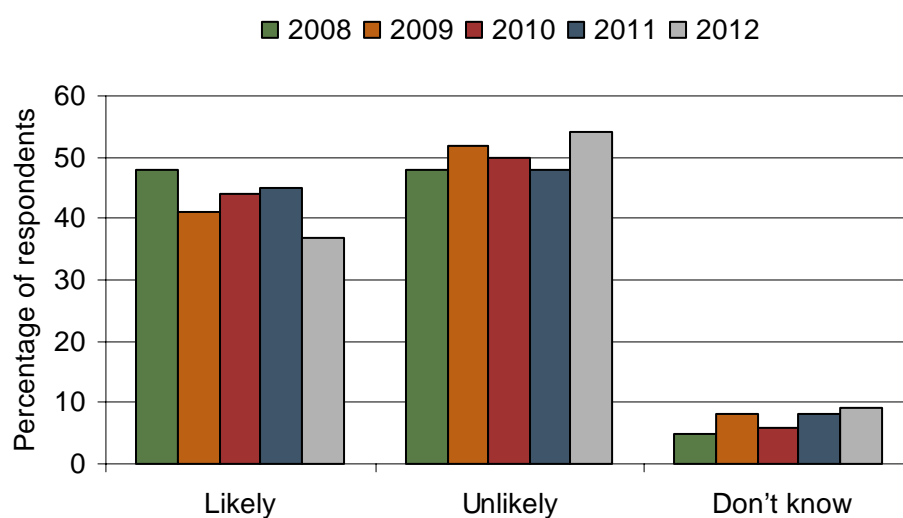
Figure 5.3: Perceived chances of detection for people regularly evading income tax, 2012 (Individuals)



Unweighted base: 2167 in 2008; 2053 in 2009; 2076 in 2010; 2149 in 2011; 960 in 2012

There is evidence of these trends in the responses of both employees and the self-employed. The proportion of employees who thought being caught is *likely* has decreased from 45 per cent to 37 per cent, with the proportion who considered being caught to be *unlikely* increasing from 48 per cent to 54 per cent (**Figure 5.4**).

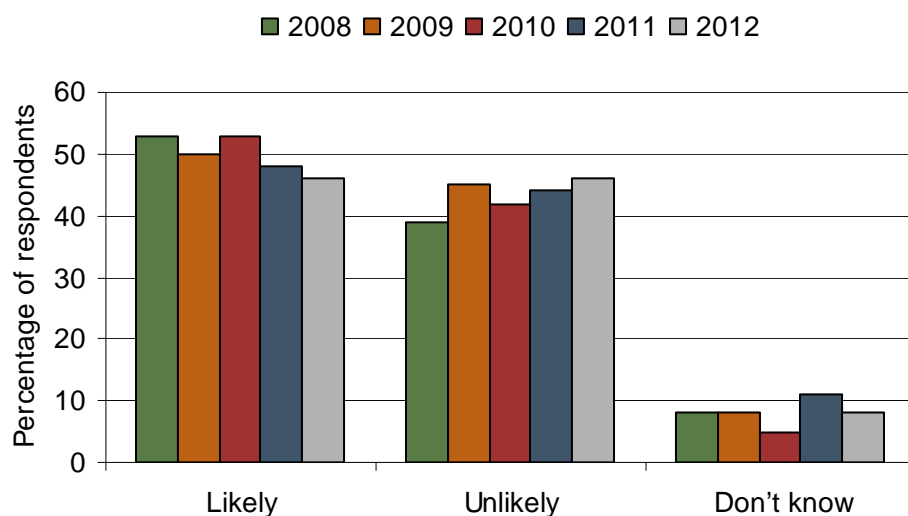
Figure 5.4: Perceived chances of detection for people regularly evading income tax, 2012 (Employees)



Unweighted base: 1770 in 2008; 1745 in 2009; 1691 in 2010; 1806 in 2011; 614 in 2012

A higher proportion of self-employed, than employees and individuals, felt it was likely that regular tax evaders would be caught. Forty-six per cent thought this was likely, with the same proportion thinking it was unlikely and eight per cent not knowing either way. This may reflect self-employed individuals' greater interaction with HMRC, as discussed on page 13 (**Figure 5.5**).

Figure 5.5: Perceived chances of detection for people regularly evading income tax, 2012 (self-employed)



Unweighted base: 574 in 2008; 529 in 2009; 605 in 2010; 758 in 2011; 1025 in 2012

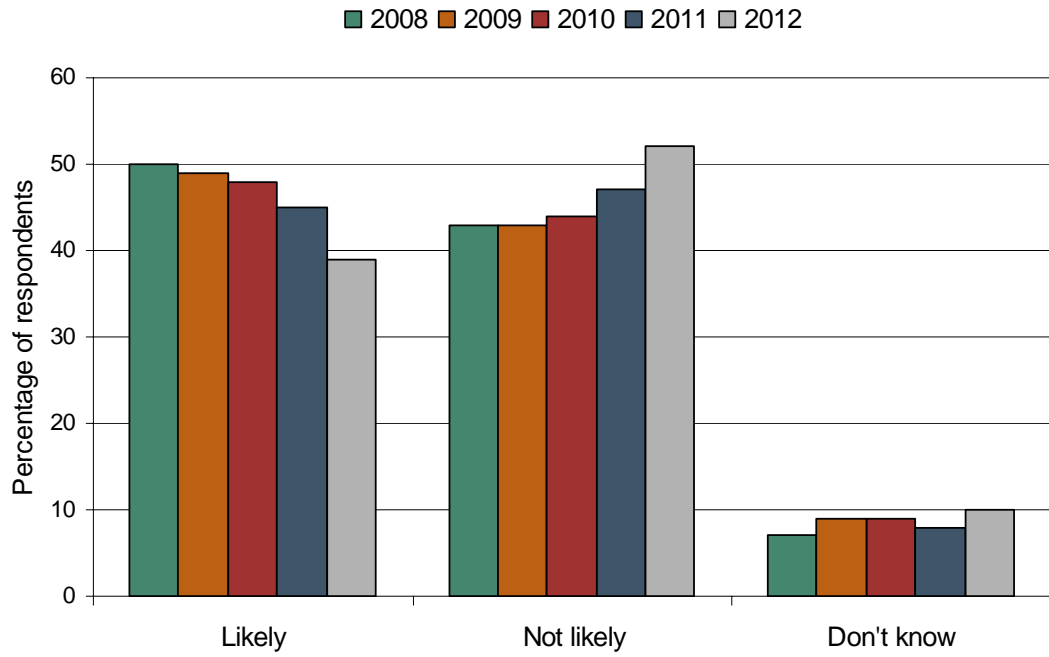
5.2 Chances of detection for working cash in hand

Individuals

Individuals were asked how likely it was that HMRC would find out if they regularly undertook some cash-in-hand work without declaring this money for tax purposes.

The proportion of individuals who said that they consider it *likely* that they would be caught was 39 per cent, down from 45 per cent in 2011. The proportion who thought it *unlikely* they would be caught was 52 per cent, an increase from 47 per cent in 2011 (**Figure 5.6**).

Figure 5.6: Perceived likelihood of being caught for non-declaration of tax on cash, 2008-2012 (Individuals)



Unweighted base: 2167 in 2008; 2054 in 2009; 2076 in 2010; 2149 in 2011; 960 in 2012

6. Attitudes towards HMRC sanctions

- Approximately a third of SMEs and individuals thought HMRC was now dealing more firmly with taxpayers who do not pay the correct amount of tax than it did a few years ago.
- Compared to 2011, this represents a decrease in the proportion of individuals who hold this opinion.
- Half of SMEs and a quarter of individuals considered HMRC to be putting about the right amount of effort into reducing tax evasion.
- While awareness of prosecutions has increased, the proportions of SMEs and individuals who stated that it was likely that regular evaders would be prosecuted have decreased.

This section discusses attitudes towards HMRC sanctions for income and corporation tax evasion, which were asked of all the sampled businesses and individuals. For the 674 VAT registered enterprises, additional questions were asked to gauge attitudes towards sanctions for VAT evasion.

6.1 Firmness of HMRC activity

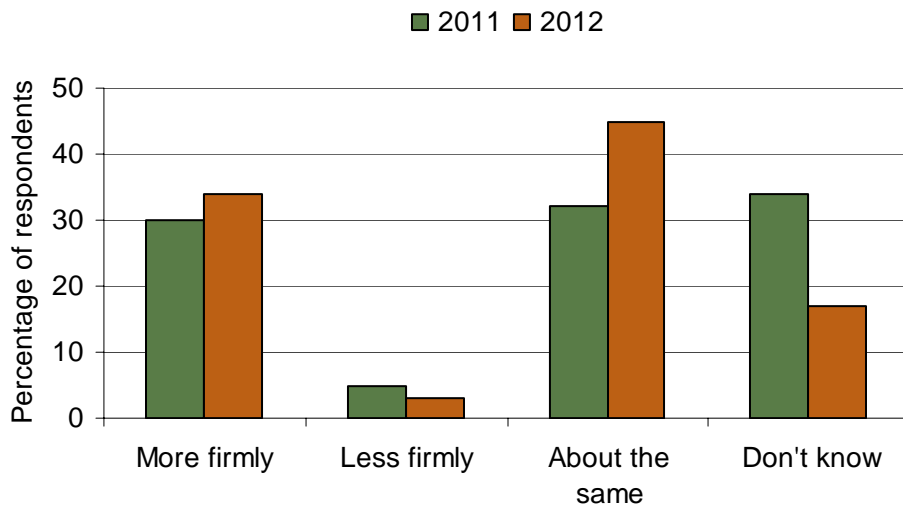
SMEs and individuals were asked whether they felt HMRC deals more firmly or less firmly now with businesses/individuals that do not pay the correct amount of tax than it did a few years ago.

SMEs

In 2012, 34 per cent of **SMEs** stated they felt HMRC was dealing more firmly with SMEs that do not pay the correct amount of tax than it did a few years ago. Three per cent felt that HMRC deals less firmly. Forty-five per cent of SMEs think HMRC deals 'about the same' as it did a few years ago, while 17 per cent do not know.

The proportion of respondents who said that HMRC deals 'about the same' with SMEs that do not pay the correct amount of tax as it did a few years ago represents a significant increase of 13 percentage points, from 32 per cent since 2011. The proportion who said they did not know has seen a significant decrease, halving from 34 per cent to 17 per cent. The increase in the proportion of SMEs who considered HMRC to be dealing more firmly now, from 30 per cent to 34 per cent, is notable without being statistically significant (**Figure 6.1**).

Figure 6.1: Whether HMRC deals more firmly or less firmly with SMEs that don't pay the correct amount of tax than it did a few years ago, 2011-2012 (SMEs)



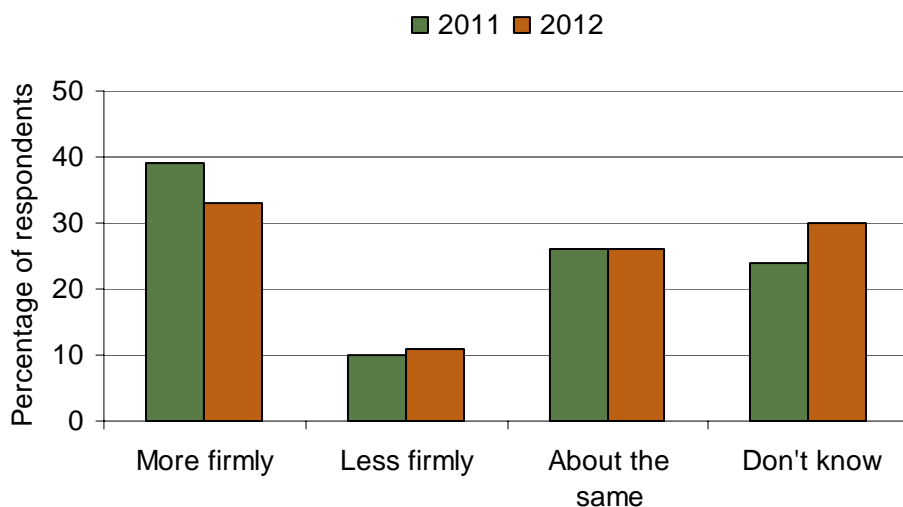
Unweighted base: 1004 in 2011; 960 in 2012

Individuals

Thirty-three per cent of **individuals** stated that they think HMRC was dealing more firmly now with taxpayers that do not pay the correct amount of tax than it did a few years ago. Eleven per cent thought HMRC was dealing less firmly, 26 per cent responded about the same, and almost 1 in 3 (30 per cent) did not know (**Figure 6.2**).

The changes in those who felt HMRC deals more firmly than a few years ago, and those who did not know, are statistically significant, seeing a decrease of 6 per cent and an increase of 6 per cent respectively (**Figure 6.2**).

Figure 6.2: Whether HMRC deals more firmly or less firmly with individuals that don't pay the correct amount of tax than it did a few years ago, 2011-2012 (Individuals)



Unweighted base: 1048 in 2011; 960 in 2012

Associations

Hypothesis 1 – likelihood of being caught

We hypothesised that those who thought HMRC was dealing more firmly with businesses/individuals that did not pay the correct amount of tax now than it used to would be **more likely** to think that businesses/individuals who regularly evaded income tax would be caught.

There is evidence to support this hypothesis for both **SMEs (Table 6.1)** and **Individuals (Table 6.2)**.

Table 6.1: Likelihood of being caught for regular tax evasion, 2012 (SMEs)²⁴

% SMEs	HMRC deals more firmly	HMRC deals less firmly	HMRC deals about the same	Total
Likely that regular evaders would be caught	81	53	76	77
Unlikely that regular evaders would be caught	19	47	24	23
Total	100	100	100	100

Unweighted base: 328 SMEs think HMRC is dealing more firmly; 36 SMEs think HMRC deals less firmly; 398 SMEs think HMRC deals about the same.

Table 6.2: Likelihood of being caught for regular tax evasion, 2012 (Individuals)

% Individuals	HMRC deals more firmly	HMRC deals less firmly	HMRC deals about the same	Total
Likely that regular evaders would be caught	47	22	42	41
Unlikely that regular evaders would be caught	53	78	58	59
Total	100	100	100	100

Unweighted base: 287 Individuals think HMRC is dealing more firmly; 118 Individuals think HMRC deals less firmly; 236 Individuals think HMRC deals about the same.

Hypothesis 2 – likelihood of being prosecuted

We hypothesised that those who thought HMRC is dealing more firmly with businesses/individuals that did not pay the correct amount of tax now than it used to, would be **more likely** to agree with the statement ‘the chances of being prosecuted for tax evasion are sufficient to deter people from regularly evading tax’.

For **SMEs**, the data available did not allow us to say whether there was an association between the two questions or not.²⁵ For **individuals**, there was evidence to support the hypothesis (**Table 6.3**).

²⁴ Chi-square = 12.771 (p<0.002); Phi = 0.131

²⁵ Results of the chi-squared analysis found that more than 20% of cells had an expected count of less than 5.

Table 6.3: The chances of being prosecuted are sufficient to deter people from regular tax evasion, 2012 (Individuals)²⁶

% Individuals	HMRC deals more firmly	HMRC deals less firmly	HMRC deals about the same	Total
Chances of prosecution is enough to deter	43	14	36	34
Chances of prosecution is not enough to deter	35	73	42	47
Neither	23	13	22	19
Total	100	100	100	100

Unweighted base: 284 Individuals think HMRC is dealing more firmly; 112 Individuals think HMRC deals less firmly; 228 Individuals think HMRC deals about the same.

Hypothesis 3 – prevalence of tax evasion

We hypothesised that those who think HMRC was dealing more firmly with businesses/individuals that did not pay the correct amount of tax now than it used to would be **less likely** to think tax evasion was widespread.

For **SMEs**, there was no evidence of an association between these two questions. For **individuals**, the data available did not allow us to say whether there was an association between responses to the two questions or not.²⁷

6.2 HMRC effort

SMEs and individuals were asked whether they think HMRC is putting too much, too little, or about the right amount of effort into reducing income and corporation tax evasion.

SMEs

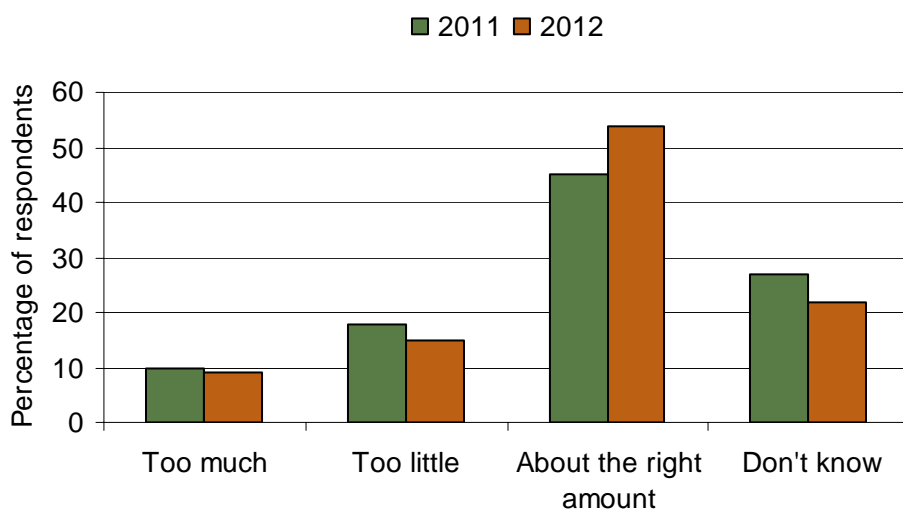
Just over half of **SMEs** – 54 per cent – thought that HMRC was putting about the right amount of effort into reducing income and corporation tax evasion among small and medium sized businesses. Nine per cent felt it was putting in too much effort, 15 per cent think too little, while 1 in 5 SMEs (22 per cent) did not know (**Figure 6.3**).

Since 2011, there have been statistically significant changes in the proportions of SMEs responding that HMRC is putting in the right amount of effort, and in the proportion holding an opinion. The proportion who thought that HMRC was putting in about the right amount increased 9 percentage points from 45 per cent, while those who did not know decreased 5 percentage points from 27 per cent (**Figure 6.3**).

²⁶ Chi-square = 49.176 (p<0.001); Phi = 0.281

²⁷ More than 20% of cells had an expected count of less than 5.

Figure 6.3: How much effort HMRC is putting into reducing income / tax evasion, 2011-2012 (SMEs)

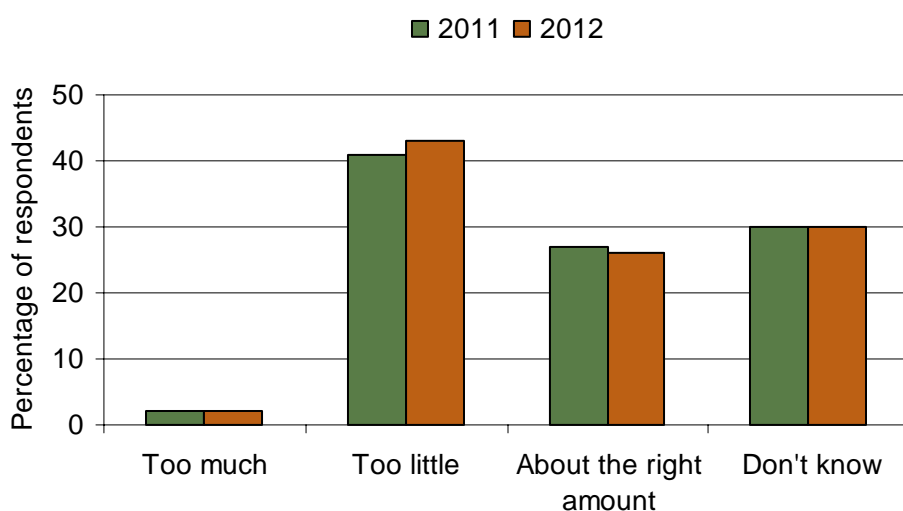


Unweighted base: 1001 in 2011; 959 in 2012

Individuals

Opinion amongst **individuals** was more divided than that of SMEs on whether HMRC was putting the right amount of effort into reducing income tax evasion. While 43 per cent thought that HMRC was putting in too little effort, 26 per cent felt HMRC was putting in about the right amount of effort, and a further 30 per cent did not know. Only one per cent of individuals thought HMRC was putting in too much effort. The large proportion of respondents who did not express an opinion could reflect the lower level of interaction that some individuals have with the tax system (**Figure 6.4**).

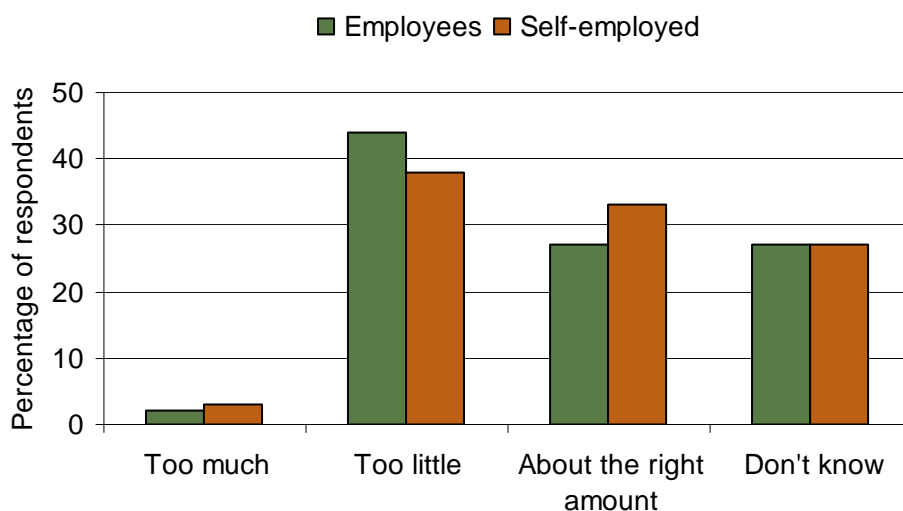
Figure 6.4: How much effort HMRC is putting into reducing income / tax evasion, 2011-2012 (Individuals)



Unweighted base: 1048 in 2011; 960 in 2012

Self-employed individuals were more likely than employees to think HMRC is putting the right amount of effort into reducing income tax evasion. A third of self-employed respondents held this opinion, compared to 27 per cent of employees (**Figure 6.5**).

Figure 6.5: How much effort HMRC is putting into reducing income / tax evasion, 2012 (employees vs. self-employed)



Unweighted base: 614 employees; 1025 self-employed

6.3 Awareness that tax evasion is a crime

SMEs and individuals were asked if they were aware that tax evasion is a criminal offence that could result in a criminal record or going to prison.

SMEs

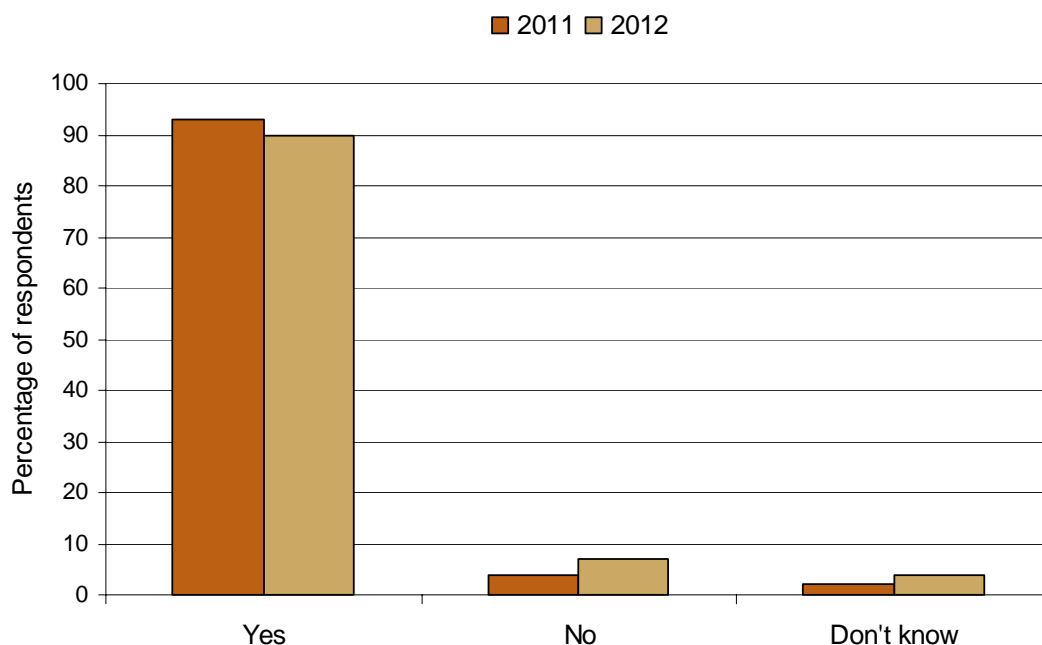
This question was asked of **SMEs** for the first time in 2012. Ninety-five per cent of SMEs were aware that tax evasion is a criminal offence. Five per cent were not aware.

Individuals

Ninety per cent of **individuals** were aware that tax evasion is a crime. Seven per cent were not aware, and 4 per cent did not know (allowing for rounding) (**Figure 6.6**).

The increase in those who were not aware from 4 per cent in 2011 is statistically significant, as is the increase from 2 per cent in those who did not know (**Figure 6.6**).

Figure 6.6: Whether tax evasion is a criminal offence which could result in a criminal record or going to prison, 2011-2012 (Individuals)



Unweighted base: 1054 in 2011; 971 in 2012.

6.4 Financial penalties for tax evasion

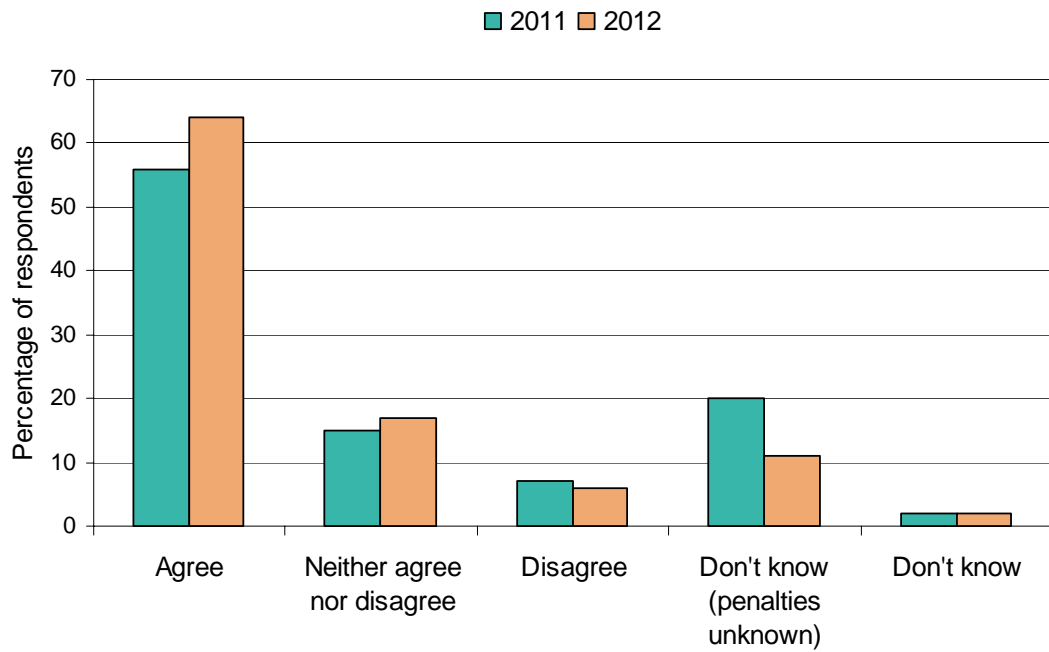
SMEs and individuals were asked whether they consider the financial penalties HMRC can impose were sufficient to deter other individuals/businesses from regularly evading income or corporation tax.

SMEs

Almost two thirds (64 per cent) of **SMEs** agreed that the financial penalties HMRC can impose are sufficient to deter other businesses from regularly evading income or corporation tax. Six per cent of SMEs disagreed with this statement. Eleven per cent stated they did not know because they didn't know what the penalties were, 2 per cent didn't know for another reason, while 17 per cent neither agreed nor disagreed (**Figure 6.7**).

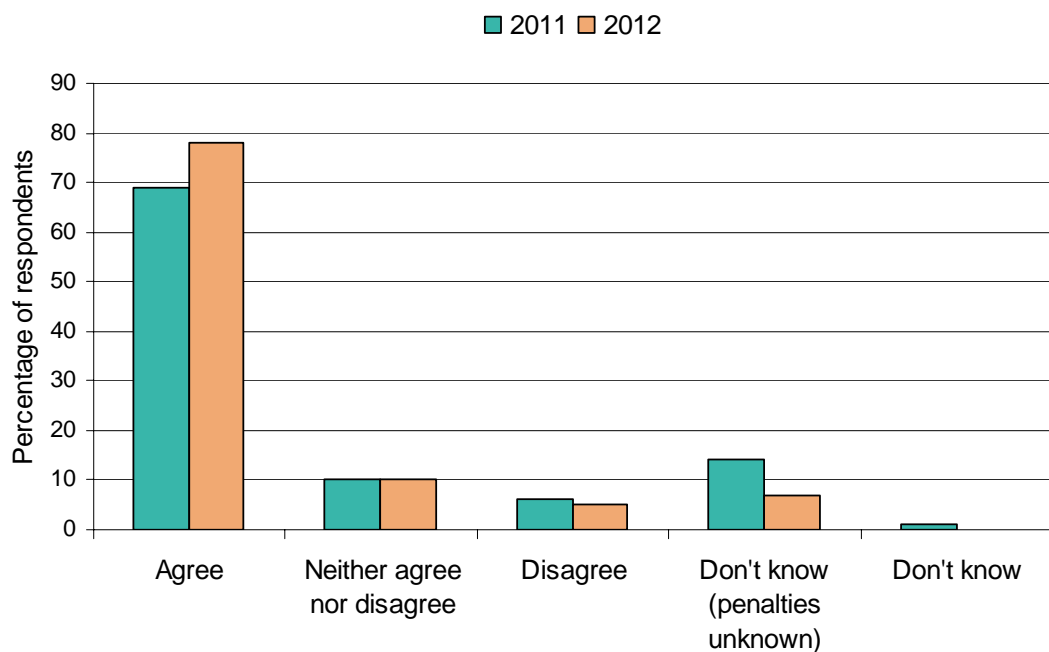
Compared to the opinions of the SME population as a whole regarding income and corporation tax, a greater proportion of VAT registered businesses agreed that the financial penalties HMRC can impose are sufficient to deter other businesses from regularly evading VAT. Seventy six per cent agreed with this statement. Five per cent disagreed, 10 per cent neither agreed nor disagreed and 7 per cent did not know (for any reason) (**Figure 6.8**). The differences in results between the VAT-registered and non-VAT-registered SMEs may be a result of the greater interaction with the tax system that VAT-registered businesses are likely to have.

Figure 6.7: Whether SMEs perceive the financial penalties as sufficient to deter businesses from regular corporation or income tax evasion, 2011-2012



Unweighted base: 1005 in 2011; 961 in 2012

Figure 6.8: Whether SMEs perceive the financial penalties as sufficient to deter businesses from regular VAT evasion, 2011-2012



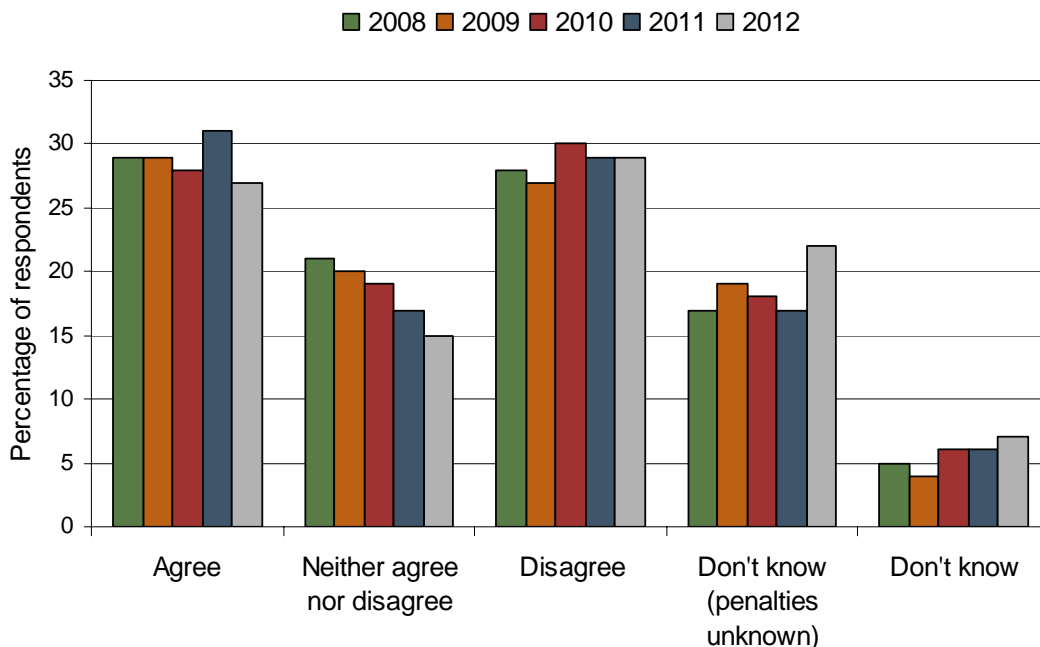
Unweighted base: 648 in 2011; 674 in 2012

Individuals

Opinion amongst **individuals** regarding the deterrent impact of financial penalties is divided. Twenty-seven per cent agreed that the financial penalties HMRC can impose are sufficient to deter people from regularly evading income tax. A similar amount – 29 per cent – disagreed with this statement, while a further 29 per cent did not know (for any reason). Fifteen per cent neither agreed nor disagreed (**Figure 6.9**).

While the proportion of individuals agreeing with this statement has decreased 4 percentage points from 31 per cent in 2011, there has not been an equivalent increase in the proportion of individuals *disagreeing* with this statement. The figure disagreeing has remained between 27 per cent and 30 per cent since the question was first asked in 2008. Instead, there has been an increase in respondents who said they did not know (either due to not knowing what the penalties are or another reason), with this proportion rising from 22 per cent in 2008 to 29 per cent in 2012 (**Figure 6.9**).

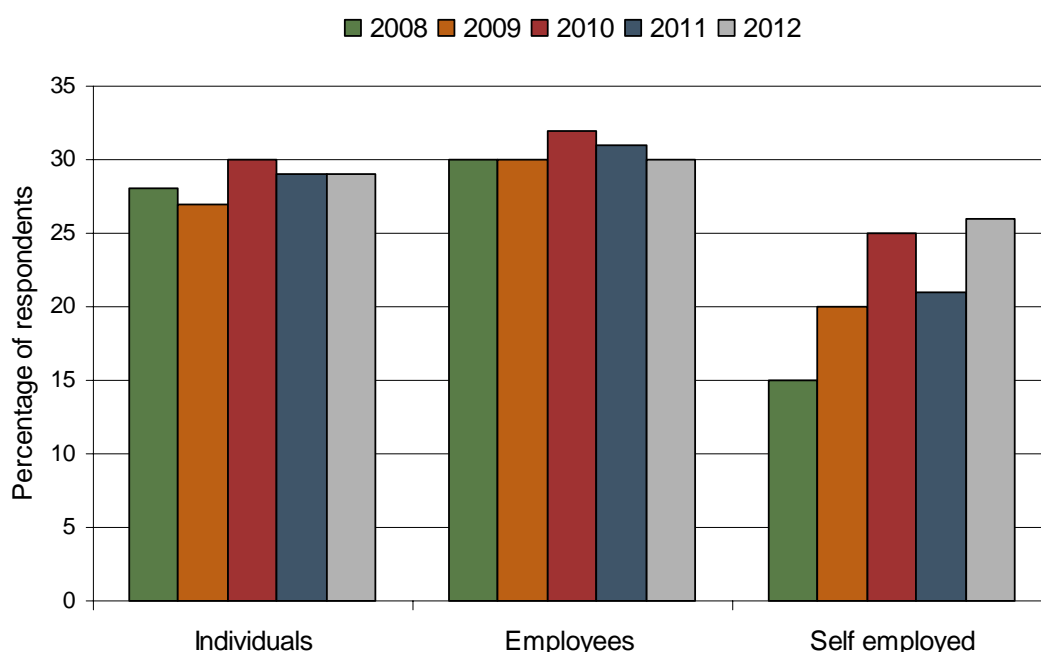
Figure 6.9: Whether individuals perceive the financial penalties are sufficient to deter tax evasion, 2008-2012



Unweighted base: 2167 in 2008; 2056 in 2009; 2071 in 2010; 2149 in 2011; 960 in 2012

The proportion of self-employed respondents who **disagreed** that the financial penalties are sufficient to deter regular tax evasion has increased from 15 per cent in 2008 to 26 per cent in 2012. In contrast, the proportion of employees, and indeed of individuals as a whole, holding this opinion has not changed significantly since 2008 (**Figure 6.10**).

Figure 6.10: Proportion of individual sub-groups who **disagree** that financial penalties are sufficient to deter regular tax evasion, 2008-2012 (All individuals vs. employees vs. self employed).



Unweighted base sizes:

Individuals: 2167 in 2008; 2056 in 2009; 2071 in 2010; 2149 in 2011; 960 in 2012

Employees: 1770 in 2008; 1749 in 2009; 1688 in 2010; 1806 in 2011; 614 in 2012

Self employed: 575 in 2008; 530 in 2009; 604 in 2010; 758 in 2011; 1025 in 2012

6.5 Prosecutions

- The proportion of both individuals and SMEs who claimed they were aware of prosecutions for tax evasion has increased since 2011.
- The proportion of both individuals and SMEs who thought it was likely they would be prosecuted for tax evasion has decreased over the same period.
- Three quarters of SMEs, and under a third of individuals, agreed that the chances of being prosecuted by HMRC are enough to deter people/businesses from regular tax evasion.

6.51 Awareness of prosecutions

SMEs and **Individuals** were asked respectively if they had heard of any business, or anyone, being prosecuted by HMRC for evading tax.

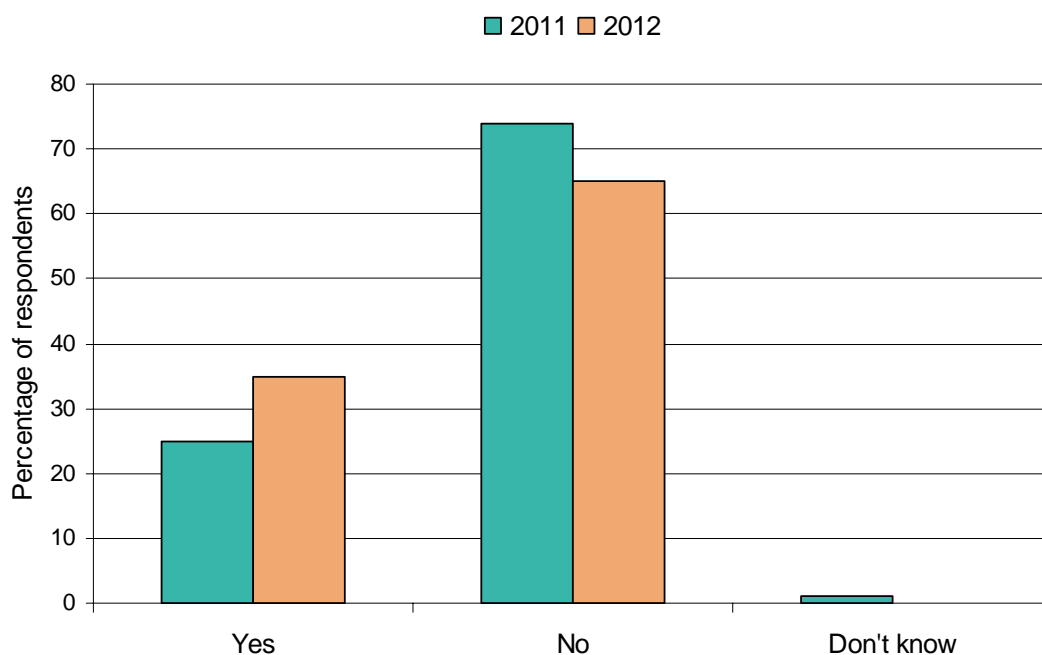
SMEs

Just over a third of SMEs – 35 per cent – responded that they had heard of a business being prosecuted by HMRC for evading tax. The remaining two thirds of

respondents had not heard of any business being prosecuted for evading tax, with less than 1 per cent not knowing either way (**Figure 6.11**).

Between 2011 and 2012 the proportion of **SMEs** that had heard of any businesses that have been prosecuted for tax evasion increased by 10 percentage points from 25 per cent (**Figure 6.11**).

Figure 6.11: Awareness of prosecutions, 2011-2012 (SMEs)



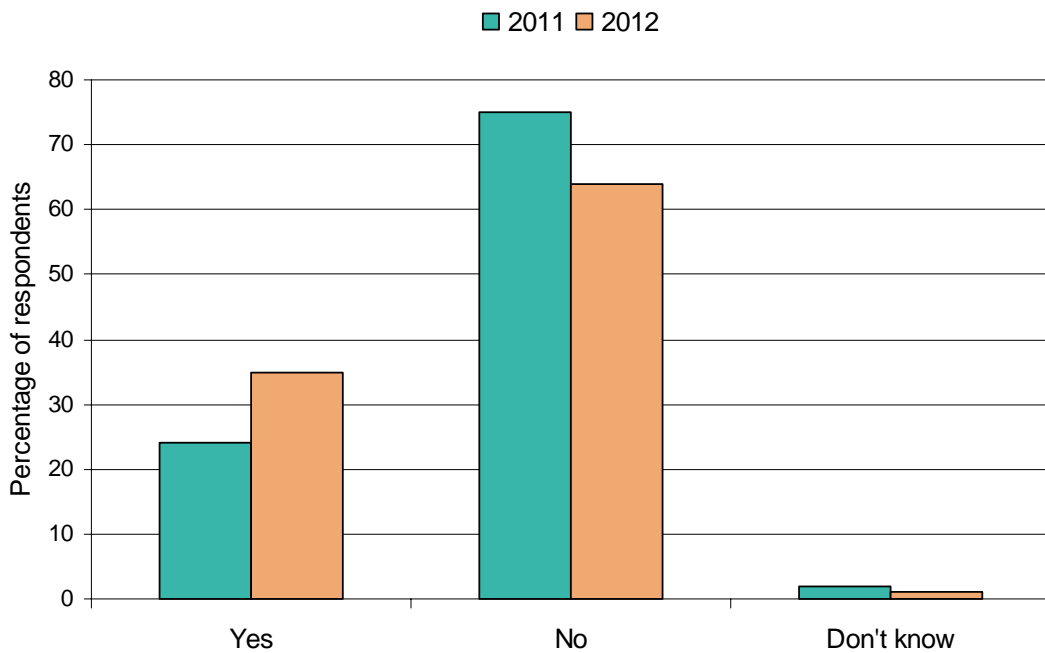
Unweighted base: 1005 in 2011; 961 in 2012

Individuals

In 2012 the proportion of **individuals** that had heard of anyone who had been prosecuted for evading tax increased is 35 per cent. The proportion who had not heard is 64 per cent (**Figure 6.12**).

The proportion of individuals that said they had heard of someone being prosecuted for tax evasion increased 11 percentage points from 2011 (**Figure 6.12**).

Figure 6.12: Awareness of prosecutions, 2011-2012 (individuals)



Unweighted base: 1054 in 2011; 971 in 2012

6.52 Sources of awareness of prosecutions

For both **SMEs** and **individuals**, the main source for hearing about prosecutions was television or newspapers (65 and 84 per cent, respectively) followed by family, friends or word of mouth (22 and 15 per cent). Five per cent of SMEs and 6 per cent of individuals stated they had known someone personally who had been prosecuted (**Table 6.4**).

Since 2011, there has been an increase in the proportion of **individuals** who heard of prosecutions through the mainstream media. The proportion of individuals who gave TV/papers as a source of awareness increased 17 percentage points from 67 per cent in 2011. All other responses decreased: those hearing from family/friends/word of mouth decreased 3 percentage points from 18 per cent, those hearing through their work/job decreased 6 percentage points from 14 per cent, and those personally knowing someone who had been prosecuted decreased 4 percentage points from 10 per cent (**Table 6.4**). However, the decreases in these results should be seen in the context of significantly higher awareness of prosecutions in 2012 that we saw in **Figure 6.12**.

From 2011 to 2012, there has also been an increase in the proportion of individuals who have heard of prosecutions from more than one source, from 4 per cent in 2011 to 16 per cent in 2012 (**Table 6.4**).

This was the first year that this question was asked of **SMEs**. Compared to individuals, fewer SMEs claimed to have heard via mainstream media, i.e. TV and newspapers (**Table 6.4**).

Table 6.4: Sources for hearing about prosecutions, 2012 (SMEs and individuals)²⁸

Source	Percent of SMEs	Percent of individuals
TV/papers	65	84
Family/friends/word-of-mouth	22	15
Through work/job	10	8
Know someone personally	5	6
Internet	2	0
Aware people can be prosecuted, can't think of a specific case	*	1
Social networking sites	*	*
Others	3	*

Unweighted Base: SMEs 333, Individuals 335

6.53 Perceived likelihood of being prosecuted for regular tax evasion

SMEs and **individuals** were asked how likely they think it is that those who regularly evade paying income (and corporation) tax will be prosecuted.

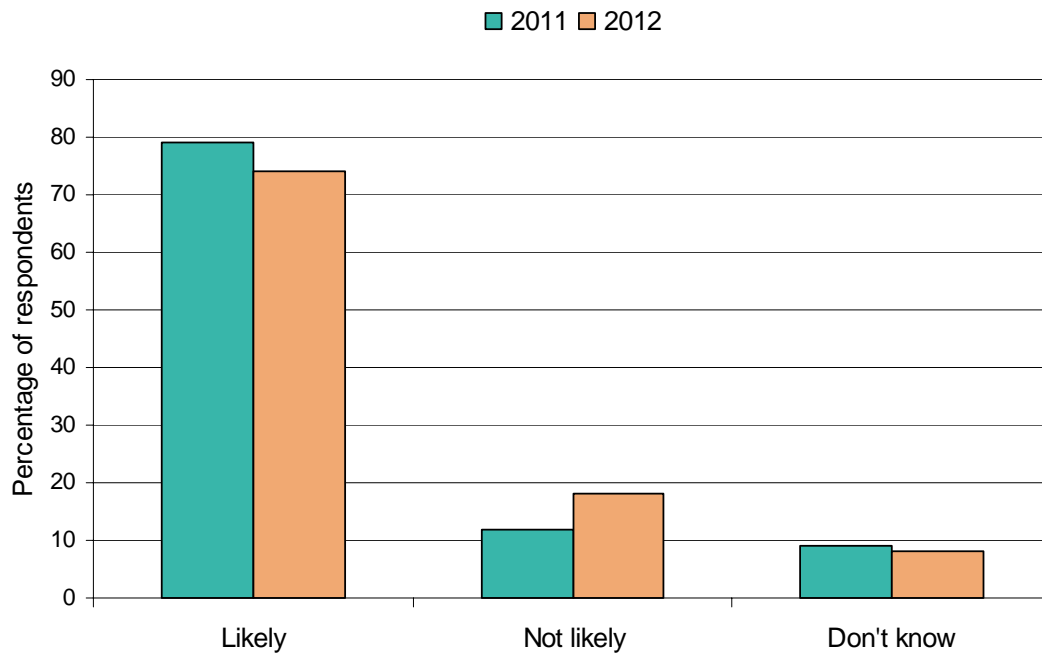
SMEs

Seventy-four per cent of **SMEs** felt it was likely, and 18 per cent unlikely, that a small and medium sized business that regularly evaded paying income or corporation tax would be prosecuted (**Figure 6.13**).

The proportion of SMEs who said that it was likely fell from 79 per cent in 2011, while the proportion who said that it was unlikely increased from 12 per cent over the same period (**Figure 6.13**).

²⁸ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know, can't think of any, and refusals. An * denotes less than 1% of respondents gave this reply.

Figure 6.13: the perceived likelihood of being prosecuted for regularly evading income or corporation tax, 2011-2012 (SMEs)



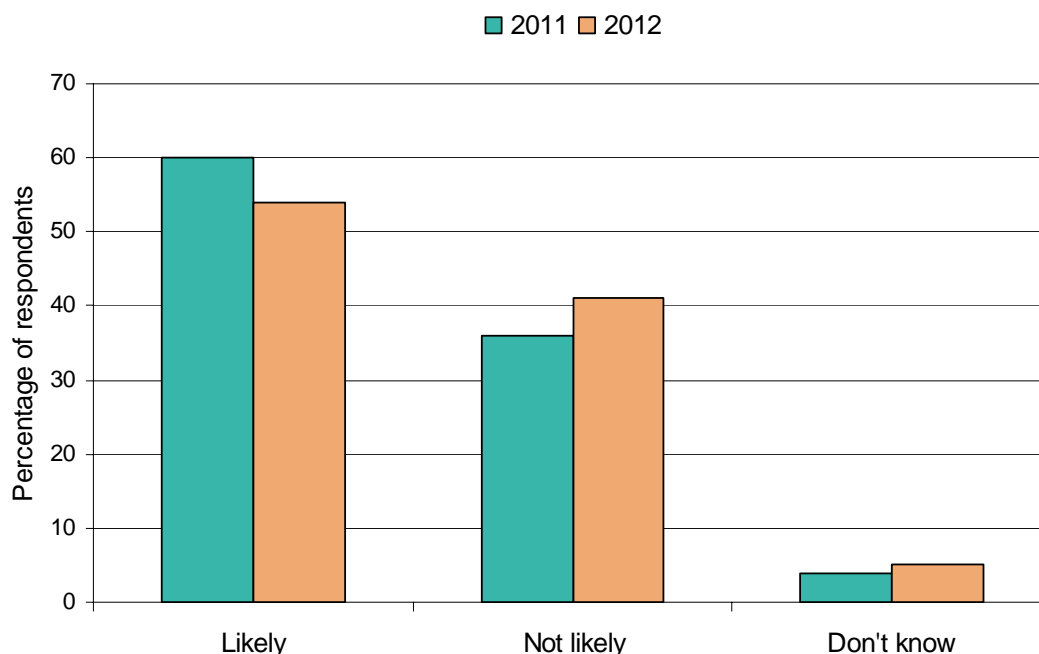
Unweighted base: 1005 in 2011; 907 in 2012

Individuals

About half of individuals (54 per cent) thought it was likely that people who regularly evaded paying income tax would be prosecuted. Forty one per cent thought it was unlikely (**Figure 6.14**).

This represents a decrease since 2011 in the proportion of individuals who felt that being prosecuted was likely (54 per cent vs. 60 per cent) (**Figure 6.14**).

Figure 6.14: the perceived likelihood of being prosecuted for regularly evading income tax, 2011-2012 (Individuals)



Unweighted base: 975 in 2011; 850 in 2012

6.54 Deterrence effect of prosecutions for tax evasion

Finally, respondents were asked whether the chances of being prosecuted by HMRC are sufficient to deter people/businesses from regularly evading tax.

SMEs

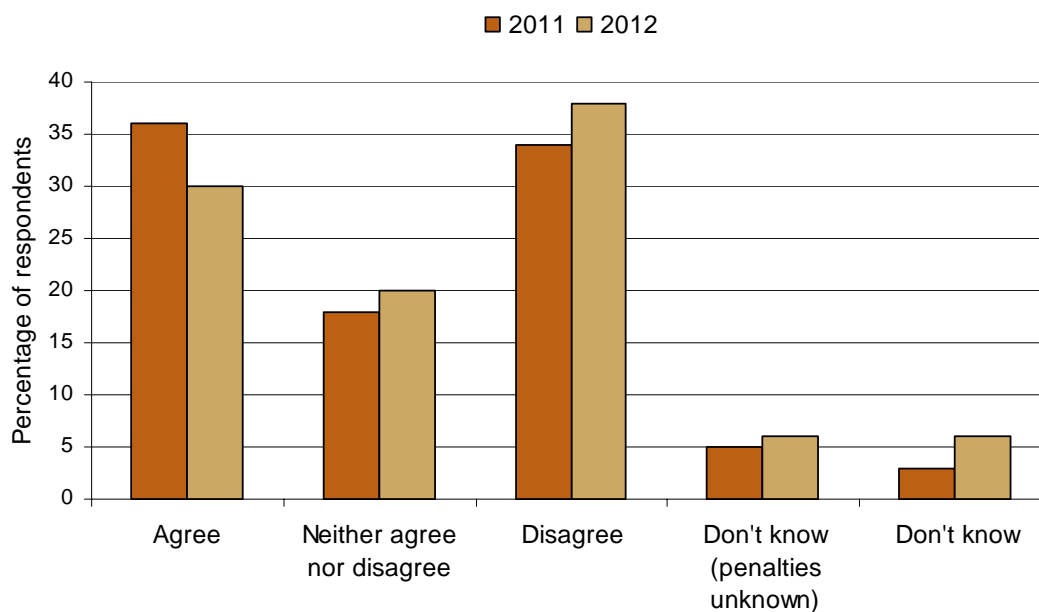
This was the first year that this question was asked of **SMEs**. Seventy-three per cent of SMEs agreed that the chances of being prosecuted were sufficient to deter businesses from evading tax. Thirteen per cent disagreed with this statement, 10 per cent neither agreed nor disagreed, and the remainder did not know.

Individuals

The proportion of **individuals** who agreed that the chances of being prosecuted by HMRC were sufficient to deter people from regularly evading tax is 30 per cent. The proportion disagreeing with this statement is 38 per cent (**Figure 6.15**).

The proportion who agreed with the statement decreased by six percentage points from 36 per cent in 2011, while those who disagreed increased by 4 percentage points from 34 per cent in 2011 (**Figure 6.15**).

Figure 6.15: the perceived chances of prosecution are sufficient to deter tax evasion, 2011-2012 (Individuals)



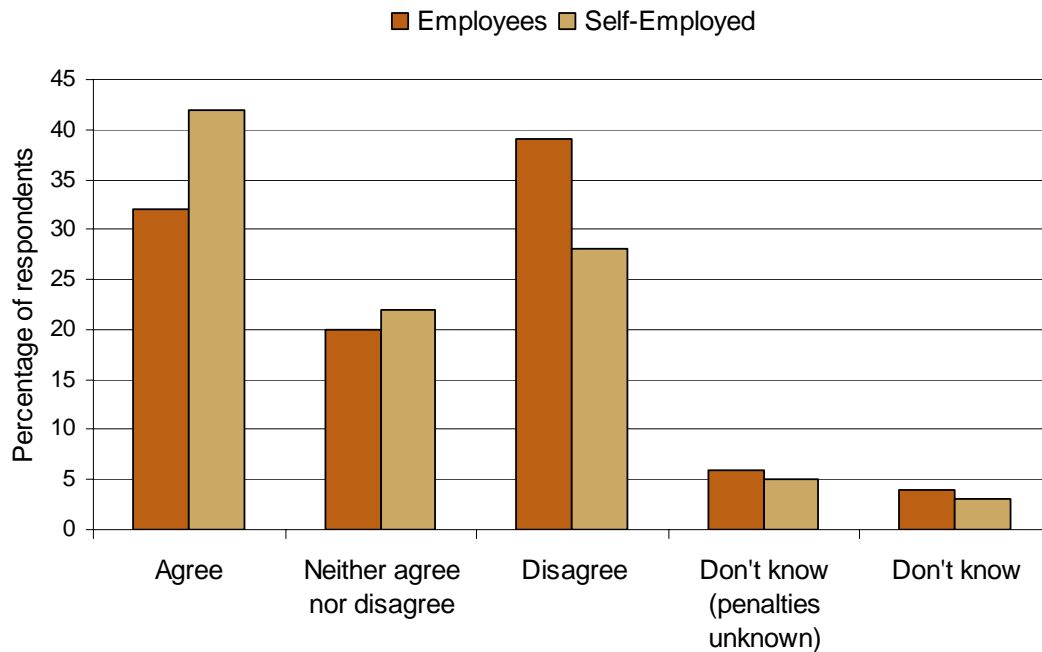
Unweighted base: 1048 in 2011; 960 in 2012

The self-employed were more likely than employees to have agreed that the chances of being prosecuted by HMRC were sufficient to deter people from regularly evading tax.

Forty-two per cent of self-employed respondents agreed with the statement, while 28 per cent disagreed and 22 per cent did neither. In comparison, 32 per cent of employees agreed with the statement, while 39 per cent disagreed and 20 per cent neither agreed nor disagreed (**Figure 6.16**).

The proportion of both employees and self-employed respondents who agreed with the statement declined between 2011 and 2012, decreasing by 4 percentage points and 6 percentage points respectively. Self-employed respondents saw an increase in the proportion who neither agreed nor disagreed of 6 percentage points from 16 per cent in 2011. Employed respondents saw an increase in the proportion who did not know the penalties, doubling from 3 per cent to 6 per cent (**Figure 6.16**).

Figure 6.16: the perceived chances of detection are sufficient to deter tax evasion, 2012 (employees vs. self-employed)



Unweighted base: 614 employees; 1025 self employed

6.6 Consequences of tax evasion

SMEs and **individuals** were asked what consequences could result if they were caught evading income or corporation tax. This question was asked to gauge awareness of different HMRC sanctions, as well as factors outside of HMRC's control that influence taxpayer decision making. Respondents could give more than one answer to this question.

SMEs

As in 2011, the vast majority of **SMEs** (83 per cent) could name a consequence for evading tax. A further 17 per cent were unable to think of any consequences, with less than one per cent of respondents saying there were no consequences.

Approximately two thirds of the SMEs that named a consequence for evading tax suggested receiving a financial penalty as a potential consequence. This is also very similar to the finding from 2011 (**Table 6.5**).

Table 6.5: Consequences for income/corporation tax evasion, 2012 (SME)

Consequence	Percent of SMEs ²⁹
Financial penalties	67
Prison sentence	37
Loss of reputation among customers, suppliers and other businesses	20
Would go out of business/cease to trade	19
Bad publicity	10
Criminal prosecution	4
Others ³⁰	4
Loss of income	2
Closure of company	2
Negative impact on ability to expand business or start up another business	2
Directors struck off / removed	1
Negative impact on credit record	1
Kept under scrutiny	1

Base: 792 SMEs

Individuals

Financial penalties were the most commonly cited consequence of tax evasion by **individual** respondents as well (**Table 6.6**).

Table 6.6: Consequences for income/corporation tax evasion, 2012 (Individuals)

Consequence	Percent of individuals ³¹
Financial penalties	65
Prison sentence	60
Criminal record	32
Social stigma	20
Embarrassment	15
Financial problems	12
Negative impact on job prospects	8
Negative impact on credit record	6
Negative impact on ability to start up in business	4
Others ³²	9

Base: 769 individuals

²⁹ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know, can't think of any, no consequences, and refusals.

³⁰ 'Others' includes all responses which were mentioned by less than 1 per cent of the sample

³¹ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know, can't think of any, no consequences and refusals.

³² 'Others' includes all responses which were mentioned by less than 1 per cent of the sample.

6.7 Reasons for complying with tax obligations

SMEs and **individuals** were asked the main reason they would not evade income or corporation tax. As in 2011, the most commonly cited reason for SMEs was the penalties or consequences that could be faced, whereas for individuals it was because evading tax is illegal (**Table 6.7**).

Table 6.7: Reasons why you would not evade income/corporation tax, 2012 (SME and individuals)

Consequence	Percentage of SMEs	Percentage of Individuals
Because of the penalties or consequences I could face	20	8
Because it is immoral	10	8
Because it is illegal	14	32
The probability or likelihood of being caught	11	8
Because it is unfair to other taxpayers	15	13
Honesty/ an ethical organisation	10	12
No reason why I wouldn't regularly evade tax	2	2
No opportunity to/cannot evade tax	3	11
Paying tax benefits everyone/ the whole economy	3	-
Others ³³	11	7

Base: SMEs 945; Individuals 903.

³³ 'Others' includes all responses which were mentioned by less than 2 per cent of the sample.

Appendix A: Survey Questions 2012

A.1 Introduction

This appendix presents the main CPS questions for 2012 for individuals and SMEs. Not all questions were asked in both surveys. There are also some question wording differences between the individuals and SME survey.

Some question wording was changed for both surveys compared to previous years, along with the addition of new questions. Where question wording has changed from previous years, this has been indicated in bold.

The data collected are presented in Appendix B.

Open questions

Five CPS questions are open questions where respondents volunteer an answer rather than choose from a series of available options. These questions use 'pre-codes' where interviewers classify participants' statements into a predefined list of codes or categories rather than record verbatim what has been said. If respondents' answers did not fit into one of these 'pre-codes', their full responses to the questions were recorded.

These questions asked:

- What consequences individuals / businesses who are caught for income (or corporation) tax evasion may face;
- Why the respondent does not evade income (or corporation) tax;
- In which circumstances would tax evasion be acceptable;
- In which circumstances would tax evasion be unacceptable;
- Where the respondent heard about prosecutions for tax evasion.

For these questions, the open responses were checked. Where answers could appropriately be classified into one of the predefined lists of categories, this correction was made.

A.2 Survey Format and Questions – Individuals

Introduction 1

The next set of questions is about tax compliance. The questions are being asked on behalf of HM Revenue and Customs.

I would like to remind you that all of your responses will be treated as confidential and not attributed to you.

Question 1 (MBQ_8)

As you may know, HM Revenue and Customs (formed by the merger of the Inland Revenue and HM Customs and Excise) is the government agency that is responsible for collecting taxes. Please tell me whether you agree or disagree with the following statement:

HM Revenue and Customs treats me fairly in my dealings with them.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 2 (MBQ_9)

Can I check, did you submit a self assessment tax return (an income tax return) in the last year?

Please prompt.

- (1) Yes, I submitted a tax return myself
- (2) Yes, but an accountant/adviser/agent submitted it on my behalf
- (3) No, I did not submit a tax return, but I should have
- (4) No, I did not submit a tax return as I didn't need to

Question 3 (MBQ_10) – asked if respondent answered (1) to Question 2

Thinking about the amount of time and effort you personally spent completing your income tax return or self assessment form, would you say this was...

Running prompt

- (1) reasonable,
- (2) neither reasonable nor unreasonable,
- (3) or unreasonable?
- (4) Don't know (Spontaneous only)

Question 4 (MBQ_11) – asked if respondent answered (2) to Question 2

Thinking about the amount of time and effort you personally spent providing the information required by the person who completed your income tax return or self assessment form, would you say this was...

Running prompt

- (1) reasonable,
- (2) neither reasonable nor unreasonable,
- (3) or unreasonable?
- (4) Don't know (Spontaneous only)

Introduction 2

The next questions are about income tax evasion. By income tax evasion, we mean deliberately not declaring all the income that should be declared for tax purposes. For example, if someone works cash-in-hand and does not declare this money for tax purposes.

Question 5 (MBQ_12)

In your view, do you think that income tax evasion is...

Running prompt

- (1) a major problem,
- (2) a moderate problem,
- (3) a minor problem,
- (4) or not a problem at all?
- (5) Don't know (Spontaneous only)

Question 6 (MBQ_21)

In your view, how widespread do you think income tax evasion is...

Running prompt

- (1) **Very widespread,**
- (2) **Fairly widespread,**
- (3) **Not very widespread,**
- (4) **Not widespread at all?**
- (5) **Don't know (Spontaneous only)**
- (6) **Refused (Spontaneous only)**

Question 7 (MBQ_N1)

In your view, do you think HM Revenue and Customs is currently putting too much, too little or about the right amount of effort into reducing income tax evasion?

Running prompt

- (1) Too much
- (2) Too little
- (3) About the right amount
- (4) Don't know (Spontaneous only)

Question 8 (MBQ_13)

How likely would you say it is for people who regularly evade paying income tax to get caught?

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (Spontaneous only)

Question 9 (MBQ_14)

Suppose you regularly did some cash-in-hand work and did not declare this money for tax purposes. How likely do you think it is that HM Revenue and Customs would find out about this?

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (Spontaneous only)

Question 10 (MBQ_N2)

Please tell me to what extent you agree or disagree with the following statement.

A lot of people I know think its okay not to pay tax on cash earnings

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 11 (MBQ_N3)

Please tell me to what extent you agree or disagree with the following statement.

I think it's okay being paid in cash for a job and then not declaring all of it on you tax return

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 12 (MBQ_N4)

Do you think that HM revenue and Customs deals more firmly **or less firmly** now with taxpayers who do not pay the correct amount of tax than it did **a few years ago**?

- (1) More firmly
- (2) Less firmly
- (3) About the same
- (4) Don't know (Spontaneous only)

Question 13 (MBQ_16)

I'm going to read out a statement and I would like you to tell me whether you agree or disagree with it.

The financial penalties HM Revenue and Customs can impose are sufficient to deter people from regularly evading income tax?

If the respondent just states that they do not know, clarify whether they do not know because they don't know the penalties or do not know for any other reason and then code the right option.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know - other reason (Spontaneous only)
- (7) Don't know because don't know penalties (Spontaneous only)

Question 14 (MBQ_17M)

What are the possible consequences for people caught evading income tax, especially where it becomes public knowledge?

Do not prompt on response options. Record spontaneous answers against response options.

Code all that apply

- (1) Social stigma
- (2) Embarrassment
- (3) Negative impact on job prospects
- (4) Negative impact on credit record
- (5) Negative impact on ability to start up in business
- (6) Financial penalties
- (7) Financial problems
- (8) Criminal record
- (9) Prison sentence
- (10) No consequences
- (11) Other (Please Specify)
- (12) Don't know/ Can't think of any

Question 15 Specify (MBQ_Spec1)

Please specify other consequence(s) for people caught evading income tax

Please write in all other responses.
Collected as text data.

Question 16 (MBQ_19)

Please tell me which of the four statements comes closest to your own views about income tax evasion.

Please record respondent's own view rather than what they think the society believes.

- (1) It is always acceptable
- (2) It is mostly acceptable (but depends on the circumstances)
- (3) It is mostly unacceptable (but depends on the circumstances)
- (4) It is always unacceptable
- (5) None of these (**Spontaneous only**)
- (6) Don't know (Spontaneous only)

Question 17 (MBQ_19bM)

Can you tell me about the circumstances when you think income tax evasion would be acceptable? – asked if respondent answers (2) to Question 16

Please note tax evasion is defined by HMRC as a deliberate activity; therefore it cannot be coded as accidental.

Do not prompt on response options. Record spontaneous answers against response options.

Code all that apply

- (1) When a person cannot afford to pay tax/financial hardship
- (2) When small amounts of money are involved
- (3) When the evasion activity is short term/a one off
- (4) Depends on a person's occupation
- (5) When a person is disadvantaged or vulnerable (e.g. elderly or disabled)
- (6) When taxes are unfair or unreasonable
- (7) Other (please specify)

Question 18 (MBQ_19cM)

Can you tell me about the circumstances when you think income tax evasion would be unacceptable? – asked if respondent answers (3) to Question 16

Please note tax evasion is defined by HMRC as a deliberate activity; therefore it cannot be coded as accidental.

Do not prompt on response options. Record spontaneous answers against response options.

Code all that apply

- (1) When a person can afford to pay tax/is wealthy
- (2) When the amount of money is large
- (3) When the evasion activity is long term/regular
- (4) Depends on a person's occupation
- (5) Depends on the type of evasion
- (6) Other (please specify)

Question 19 Specify (MBQ_19Spec)

Can you tell me about the other circumstances when you think income tax evasion would be acceptable? – asked if respondent answers (2) to Question 16

OR

Can you tell me about the other circumstances when you think income tax evasion would be unacceptable? – asked if respondent answers (3) to Question 16

Collected as text data

Question 20 (MBQ_20)

And can you tell me the main reason why you wouldn't regularly evade income tax?

Do not read out but prompt for one main reason if necessary.

- (1) Because it's illegal
- (2) Because of the penalties/consequences I could face
- (3) Because it is unfair to other taxpayers
- (4) Because it is immoral
- (5) The probability/likelihood of being caught
- (6) Because I'm honest**
- (7) There is no reason why I wouldn't regularly evade tax**
- (8) Other (Please specify)
- (9) Don't know

Question 21 Specify (MBQ_Spec2) – asked if respondent answered (8) to Question 20

Please specify other reason(s) why you wouldn't regularly evade income tax
Collected as text data.

Introduction 3

The next questions are about penalties for tax evasion.

Question 22 (MBQc_1)

Are you aware that people who evade paying tax are committing a criminal offence, and could get a criminal record or go to prison?

A criminal offence is defined as breaking UK law.

Tax relates to the tax paid to HMRC, such as income tax, corporation tax and VAT.

Not council tax or car tax.

- (1) Yes
- (2) No
- (3) Don't know
- (4) Refusal

Question 23 (MBQc_2b) – asked if respondent answered (1) to Question 22

How likely would you say it is for people who regularly evade paying income tax to be prosecuted.

- (1) Very likely
- (2) Quite likely
- (3) Not very likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Question 24 (MBQc_3)

How far do you agree with the following statement 'the chances of being prosecuted by HM Revenue and Customs are sufficient to deter people from regularly evading tax'?

If the respondent just states that they do not know, clarify whether they do not know because they don't know what the criminal penalties are or they do not know for any other reason.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree or disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know because I don't know the criminal penalties (spontaneous only)
- (7) Don't know, for any other reason (spontaneous only)

Question 25 (MBQc_4a)

Have you heard of anyone who has been prosecuted by HM Revenue and Customs for evading tax?

- (1) Yes
- (2) No
- (3) Don't know
- (4) Refusal

Question 26 (MBQc_4b) - asked if respondent answered (1) to Question 25

Where did you hear about people being prosecuted for evading tax?

Sources can be all forms of communication, whether media or friend/family. Do not prompt on response options. Record spontaneous answers against response options.
Code all that apply.

- (1) On TV/papers
- (2) Social networking sites
- (3) I know them personally
- (4) From family/friends/word-of-mouth
- (5) Through work/job
- (6) I am aware that people can be prosecuted for tax evasion but do not know about a specific case
- (7) Other (please specify)
- (8) Don't know/can't remember
- (9) Refuse

Question 27 (MBQc_4bSpec) - asked if respondent answered (1) to Question 25 and (7) to question 26.

Please specify where you heard about people being prosecuted for evading tax.

A.3 Survey Format and Questions – SMEs

Introduction 1

I would now like to ask you about your views on taxation. I would like to stress once more that all of your responses will be treated as confidential and not attributed to you.

Question 1 (FAIR1)

As you may know, HM Revenue and Customs is the government agency that is responsible for collecting taxes. Please tell me whether and to what extent you agree or disagree that HM Revenue and Customs treats your business fairly in your dealings with them.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)
- (7) Refused

Question 2 (FAIR3)

Thinking about the amount of time and effort your business spends completing its business tax return, would you say this was...

If asked, a business tax return could be a corporation tax return, partnership return or the self-employed pages of an income tax return.

Running prompt

- (1) reasonable,
- (2) neither reasonable nor unreasonable,
- (3) or unreasonable?
- (4) Don't know (Spontaneous only)
- (5) Refused (Spontaneous only)

Introduction 2

The next questions are about your views on tax evasion. By tax evasion, we mean deliberately not declaring all the business income tax that should be declared for tax purposes or deliberately overstating costs for income or corporation tax.

Please keep in mind we are interested in your opinions and there are no right or wrong answers. Please also remember that your responses will be kept in the strictest confidence and it will not be possible to identify you or your business in the results that we report to HM revenue and Customs.

Question 3 (CTEV1)

In your view, do you think that income or corporation tax evasion among small and medium sized businesses is...

Running prompt

- (1) a major problem,
- (2) a moderate problem,
- (3) a minor problem,
- (4) or not a problem at all?
- (5) Don't know (Spontaneous only)

Question 4 (CTEV1b)

In your view, how widespread do you think income or corporation tax evasion is among small and medium sized businesses? Is that...

Running prompt

- (1) Very widespread
- (2) Fairly widespread
- (3) Not very widespread
- (4) Not widespread at all
- (5) Don't know (Spontaneous only)

Question 5 (CTEV2)

Do you think HM Revenue and Customs is currently putting too much, too little or about the right amount of effort into reducing income and corporation tax evasion among the small and medium sized businesses?

Running prompt

- (1) Too much
- (2) Too little
- (3) About the right amount
- (4) Don't know (Spontaneous only)

Question 6 (CTEV3)

How likely would you say it is for small and medium sized businesses that regularly evade paying income or corporation tax to get caught? Would you say it is...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (Spontaneous only)

Question 7 (CTEV4)

Suppose your business regularly under-declared its income or corporation tax liability. How likely do you think it is that HM Revenue and Customs would find out about this? Would you say it was...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (Spontaneous only)

Question 8 (CTEV10)

Do you think that HM revenue and Customs deals more firmly or less firmly now with small and medium businesses that do not pay the correct amount of tax than it did a few years ago? Is that...

Running prompt

- (1) More firmly
- (2) Less firmly
- (3) About the same
- (4) Don't know (Spontaneous only)

Question 9 (CTEV6a)

I'm going to read out a statement and I would like you to tell me whether you agree or disagree with it.

The financial penalties HM Revenue and Customs can impose are sufficient to deter small and medium sized businesses from regularly evading income or corporation tax? Do you...

Running prompt

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know - other reason (Spontaneous only)
- (7) Don't know because don't know penalties (Spontaneous only)

Question 10 (CTEV6b)

What are the possible consequences for businesses caught evading income or corporation tax, especially where it becomes public knowledge?

Do not read out. Probe fully.

Code all that apply

- (1) Difficult to find suppliers
- (2) Bad publicity
- (3) Loss of reputation among customers, suppliers, other businesses
- (4) Negative impact on credit record
- (5) Negative impact on ability to expand business start up another business
- (6) Financial penalties
- (7) Kept under scrutiny by HMRC
- (9) Prison sentence
- (10) Would go out of business/cease to trade
- (11) No consequences
- (12) Can't think of any
- (10) Other (Please Specify)
- (11) Don't know

Question 11 (CTEV7)

I am going to read out four statements. Please tell me which of them comes closest to your own views about income or corporation tax evasion.

Running prompt

- (1) It is always acceptable
- (2) It is mostly acceptable (but depends on the circumstances)
- (3) It is mostly unacceptable (but depends on the circumstances)
- (4) It is always unacceptable
- (5) None of these
- (6) Don't know (Spontaneous only)

Question 12 (CTEV8a) – asked if respondent answers (2) to Question 11

Can you tell me about the circumstances when you think income tax evasion would be acceptable?

Probe fully

- (1) Fully open ended
- (2) Don't know

Question 13 (CTEV8b) – asked if respondent answers (3) to Question 11

Can you tell me about the circumstances when you think income tax evasion would be unacceptable?

Probe fully

- (1) Fully open ended
- (2) Don't know

Question 14 (CTEV9)

And can you tell me the main reason why you wouldn't regularly evade income or corporation tax?

If say it's because it's wrong probe for clarity: In what way is it wrong?

- (1) Because it's illegal
- (2) Because of the penalties/consequences I could face
- (3) Because it is unfair to other taxpayers
- (4) Because it is immoral
- (5) The probability/likelihood of being caught
- (6) Because I'm honest
- (7) There is no reason why I wouldn't regularly evade tax
- (8) Other (specify)
- (9) Don't know

Question 15 (MBQ_N2)

Please tell me to what extent you agree or disagree with the following statement.

A lot of small and medium businesses think it is okay to under-declare their revenue in order to avoid paying taxes. Do you ...

Running prompt

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 16 (MBQ_N3)

Please tell me to what extent you agree or disagree with the following statement.

I think it is okay for small and medium businesses to under-declare their revenue in order to avoid paying taxes. Do you ...

Running prompt

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 17 (CTEV13)

Are you aware that businesses who evade paying tax are committing a criminal offence, and could get a criminal record or go to prison?

- (1) Yes
- (2) No
- (3) Don't know
- (4) Refusal

Question 18 (CTEV11) asked if respondent answered (1) to Question 17

How likely would you say it is for small and medium sized businesses that regularly evade paying income tax **or corporation tax** to be prosecuted?

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not very likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Question 19 (CTEV14)

How far do you agree with the following statement 'The chances of being prosecuted by HM Revenue and Customs are sufficient to deter businesses from regularly evading tax'?

If the respondent just states that they do not know, clarify whether they do not know because they don't know what the criminal penalties are or they do not know for any other reason.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree or disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know because I don't know the criminal penalties (Spontaneous only)
- (7) Don't know, for any other reason (Spontaneous only)

Question 20 (CTEV12)

Have you heard of any businesses that have been prosecuted by HM Revenue and Customs for evading tax?

- (1) Yes
- (2) No
- (3) Don't know

Question 21 (CTEV15) – ask if respondent answered (1) to Question 20

Where did you hear about businesses being prosecuted for evading tax?

Sources can be all forms of communication, whether media or friend/family. Do not prompt on response options. Record spontaneous answers against response options. Code all that apply.

- (1) On TV/ papers

- (2) Social networking sites
- (3) I know them personally
- (4) From a family/ friends/ word-of-mouth
- (5) Through work/ job
- (6) I am aware that businesses can be prosecuted for tax evasion but do not know about a specific case
- (7) Other (Please specify)
- (8) Don't know/can't remember
- (9) Refuse

Question 22 (VAT1)

Can I check, is your business registered for VAT?

- (1) Yes
- (2) No
- (3) Don't know

Question 23 (VAT2) – asked if respondent answers (1) to Question 22

Thinking about the amount of time and effort your business spends completing its VAT returns, would you say this was...

Running prompt

- (1) Reasonable
- (2) Neither reasonable nor unreasonable
- (3) Unreasonable
- (4) Don't know (spontaneous only)

Question 24 (VAT3) – asked if respondent answers (1) to Question 22

How likely would you say it is for small and medium sized businesses that regularly evade paying VAT to get caught? Would you say it is...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not very likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Question 25 (VAT4) – asked if respondent answers (1) to Question 22

Suppose your business regularly under-declared its VAT liability. How likely do you think it is that HM Revenue and Customs would find out about this? Would you say it was...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Question 26 (VAT6) – asked if respondent answers (1) to Question 22

I'm going to read out a statement and I would like you to tell me whether you agree or disagree with it.

The financial penalties HM Revenue and Customs can impose are sufficient to deter small and medium sized businesses from regularly evading paying VAT? Do you...

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know because don't know penalties (Spontaneous only)
- (7) Don't know - other reason (Spontaneous only)

Question 27 (VAT7) – asked if respondent answers (1) to Question 22

How likely would you say it is for small and medium sized businesses that regularly evade paying VAT to be prosecuted? Is that...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Appendix B: Survey Data 2012

B.1 Introduction

This appendix presents responses to the main CPS questions asked in 2012 for the SME and individuals survey. Responses from 2008-11 are also presented where appropriate. A complete set of responses for 2008-11 can be found in the previous 2008-10 and 2011 reports³⁴.

Percentages are based on weighted data to correct for sample design and non-response. Respondents who refused to answer the question are excluded from the analyses. Information about the unweighted number of respondents who refused to answer each question is given in each table.

Data from the 2012 individuals survey has been presented for individuals, employees and the self-employed.

Weighted bases are rounded to the nearest 10,000. Weighted percentages are rounded to the nearest whole per cent. Numbers may sum to 99 or 101 per cent due to rounding.

B.2 Survey Output - Individuals

Table B.1: Whether agree HMRC treat me fairly in their dealings with me (Question 1)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
Strongly agree	5	6	10	8	13
Agree	48	50	45	51	47
Neither agree nor disagree	25	21	27	21	22
Disagree	7	6	5	6	6
Strongly disagree	3	2	2	2	2
Don't know (spontaneous)	12	15	9	12	10
Weighted base (millions)	47.64	48.11	47.76	48.03	47.95
Unweighted base	2,166	2,055	2,072	2,149	960
Number of refusals	6	3	21	31	14

³⁴ <http://www.hmrc.gov.uk/research/cps-sme-report156.pdf>;
<http://www.hmrc.gov.uk/research/cps-ind-report156.pdf>;
<http://www.hmrc.gov.uk/research/report195.pdf>;

Response	Percentage	
	Employees 2012	Self Employed 2012
Strongly agree	12	15
Agree	51	60
Neither agree nor disagree	21	12
Disagree	6	7
Strongly disagree	2	3
Don't know (spontaneous)	8	3
Weighted base (millions)	32.96	4.59
Unweighted base	614	1026
Number of refusals	4	7

Table B.2: Completed self assessment tax return (Question 2)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
I submitted a tax return myself	10	12	11	11	10
An accountant/adviser/agent submitted it on my behalf	9	9	10	9	8
I did not submit a tax return, but I should have	1	1	1	1	1
I did not submit a tax return as I didn't need to	79	77	78	79	81
Weighted base (millions)	47.47	48.06	48.36	48.57	48.92
Unweighted base	2,162	2,052	2,085	2,165	974
Number of refusals/don't knows	10	6	8	15	4

Response	Percentage	
	Employees 2012	Self Employed 2012
I submitted a tax return myself	8	36
An accountant/adviser/agent submitted it on my behalf	6	44
I did not submit a tax return, but I should have	1	2
I did not submit a tax return as I didn't need to	85	19
Weighted base (millions)	33.14	4.64
Unweighted base	616	1030
Number of refusals/don't knows	2	3

Table B.3: Whether effort spent completing own self assessment return was reasonable (Question 3)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
Reasonable	60	68	62	67	63
Neither reasonable nor unreasonable	17	14	23	19	13
Unreasonable	20	12	14	11	23
Don't know (spontaneous)	3	6	1	2	1
Weighted base (millions)	4.75	5.80	4.89	5.55	4.85
Unweighted base	217	230	201	248	102
Number of refusals	0	0	3	1	0

Response	Percentage	
	Employees 2012	Self Employed 2012
Reasonable	58	73
Neither reasonable nor unreasonable	17	14
Unreasonable	25	10
Don't know (spontaneous)	0	3
Weighted base (millions)	2.77	1.65
Unweighted base	55	365
Number of refusals	0	0

Table B.4: Whether effort providing agent with information for self assessment return was reasonable (Question 4)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
Reasonable	68	71	72	68	70
Neither reasonable nor unreasonable	19	14	15	19	14
Unreasonable	9	9	9	8	15
Don't know (spontaneous)	4	5	4	5	1
Weighted base (millions)	4.37	4.44	4.76	4.18	4.10
Unweighted base	202	176	200	185	83
Number of refusals	0	0	3	2	1

Response	Percentage	
	Employees 2012	Self Employed 2012
Reasonable	63	75
Neither reasonable nor unreasonable	14	13
Unreasonable	23	10
Don't know (spontaneous)	0	2
Weighted base (millions)	2.77	2.02
Unweighted base	37	444
Number of refusals	0	5

Table B.5: Perceived prevalence of income tax evasion (Question 5)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
A major problem	40	40	46	46	45
A moderate problem	41	37	32	34	35
A minor problem	10	11	11	10	11
Not a problem at all	2	3	3	2	1
Don't know (spontaneous)	7	8	7	8	7
Weighted base (millions)	47.65	48.09	47.90	48.03	47.95
Unweighted base	2,167	2,054	2,076	2,149	960
Number of refusals	5	4	17	31	14

Response	Percentage	
	Employees 2012	Self Employed 2012
A major problem	45	46
A moderate problem	36	36
A minor problem	13	12
Not a problem at all	1	2
Don't know (spontaneous)	5	4
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.6: Perception of how widespread tax evasion is among individuals (Question 6)

Response	Percentage		
	Individuals 2012	Employees 2012	Self Employed 2012
Very widespread	32	33	31
Fairly widespread	44	45	46
Not very widespread	12	14	14
Not widespread at all	1	1	2
Don't know	10	7	8
Weighted base (millions)	48.80	33.16	4.65
Unweighted base	971	617	1031
Number of refusals	3	1	1

Table B.7: Perceived effort HMRC puts into reducing income tax evasion (Question 7)

Response	Percentage of Individuals	
	2011	2012
Too much	2	2
Too little	41	43
About the right amount	27	26
Don't know (spontaneous)	30	30
Weighted base (millions)	48.15	47.95
Unweighted base	1,048	960
Number of refusals	15	14

Response	Percentage	
	Employees 2012	Self Employed 2012
Too much	3	4
Too little	44	38
About the right amount	28	32
Don't know (spontaneous)	30	27
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.8: Perceived likelihood of being caught for regular income tax evasion (Question 8)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
Very likely	10	9	10	10	6
Quite likely	39	34	35	36	31
Not likely	39	41	39	37	43
Not likely at all	7	8	8	8	9
Don't know (spontaneous)	6	8	7	9	11
Weighted base (millions)	47.65	48.08	47.90	48.03	47.95
Unweighted base	2,167	2,053	2,076	2,149	960
Number of refusals	5	5	17	31	14

Response	Percentage	
	Employees 2012	Self Employed 2012
Very likely	7	9
Quite likely	30	36
Not likely	45	38
Not likely at all	9	8
Don't know (spontaneous)	9	8
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.9: Perceived likelihood I would be caught for not declaring cash-in-hand work (Question 9)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
Very likely	21	22	19	15	15
Quite likely	29	26	29	30	24
Not likely	33	33	32	33	37
Not likely at all	11	10	12	14	15
Don't know (spontaneous)	7	9	9	8	10
Weighted base (millions)	47.65	48.11	47.90	48.03	47.95
Unweighted base	2,167	2,054	2,076	2,149	960
Number of refusals	5	4	17	31	14

Response	Percentage	
	Employees 2012	Self Employed 2012
Very likely	15	15
Quite likely	25	28
Not likely	39	35
Not likely at all	14	13
Don't know (spontaneous)	7	8
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.10: A lot of people I know think it's okay not to pay tax on cash earnings (Question 10)

Response	Percentage of Individuals	
	2011	2012
Strongly agree	3	4
Agree	20	22
Neither agree nor disagree	21	21
Disagree	34	33
Strongly disagree	12	12
Don't know (spontaneous)	10	9
Weighted base (millions)	48.15	47.95
Unweighted base	1,048	960
Number of refusals	15	14

Response	Percentage	
	Employees 2012	Self Employed 2012
Strongly agree	3	6
Agree	24	23
Neither agree nor disagree	20	21
Disagree	34	36
Strongly disagree	12	9
Don't know (spontaneous)	6	6
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.11: I think it's okay being paid in cash for a job then not declaring all of it on my tax return (Question 11)

Response	Percentage of Individuals	
	2011	2012
Strongly agree	1	1
Agree	7	9
Neither agree nor disagree	14	16
Disagree	52	47
Strongly disagree	22	23
Don't know (spontaneous)	4	5
Weighted base (millions)	48.15	47.95
Unweighted base	1,048	960
Number of refusals	15	14

Response	Percentage	
	Employees 2012	Self Employed 2012
Strongly agree	1	1
Agree	9	8
Neither agree nor disagree	15	16
Disagree	52	50
Strongly disagree	21	22
Don't know (spontaneous)	3	3
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.12: Perception of how firmly HMRC deals with taxpayers who evade compared to the past (Question 12)

Response	Percentage of Individuals	
	2011	2012
More firmly	39	33
Less firmly	10	11
About the same	26	26
Don't know (spontaneous)	24	30
Weighted base (millions)	48.15	47.95
Unweighted base	1,048	960
Number of refusals	15	14

Response	Percentage	
	Employees 2012	Self Employed 2012
More firmly	36	39
Less firmly	10	11
About the same	27	24
Don't know (spontaneous)	27	26
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.13: Whether agree the financial penalties are sufficient to deter regular evasion (Question 13)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
Strongly agree	5	6	6	4	3
Agree	24	24	22	26	24
Neither agree nor disagree	21	20	19	17	15
Disagree	21	21	22	23	23
Strongly disagree	7	6	8	6	6
Don't know because I don't know the penalties (spontaneous)	17	19	18	17	7
Don't know – other reason (spontaneous)	5	4	6	6	22
Weighted base (millions)	47.65	48.13	47.74	48.03	47.95
Unweighted base	2,167	2,056	2,071	2,149	960
Number of refusals	5	2	22	31	14

Response	Percentage	
	Employees 2012	Self Employed 2012
Strongly agree	3	8
Agree	25	32
Neither agree nor disagree	15	15
Disagree	23	20
Strongly disagree	7	6
Don't know because I don't know the penalties (spontaneous)	7	5
Don't know – other reason (spontaneous)	20	15
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.14: What are the possible consequences for being caught for tax evasion (Question 14)

Response	Percentage of Individuals	
	2011	2012
Social stigma	15	16
Embarrassment	14	12
Negative impact on job prospects	9	6
Negative impact on credit record	6	5
Negative impact on ability to start up business	5	3
Financial penalties	49	53
Financial problems	9	10
Criminal record	25	26
Prison sentence	49	49
Other – please specify	7	8
Don't know/can't think of any (spontaneous)	17	17
No consequences	1	2
Weighted base (millions)	48.15	48.06
Unweighted base	1,048	962
Number of refusals	15	12

Table B.15: Perceived acceptability of tax evasion (Question 16)

Response	Percentage of Individuals				
	2008	2009	2010	2011	2012
It is always acceptable	3	2	3	2	1
It is mostly acceptable (but depends on the circumstances)	6	6	4	3	4
It is mostly unacceptable (but depends on the circumstances)	29	27	25	21	32
It is always unacceptable	57	61	64	69	58
None of these	1	1	1	1	1
Don't know (spontaneous)	3	3	4	3	4
Weighted base (millions)	47.58	48.13	47.63	48.03	47.95
Unweighted base	2,163	2,056	2,069	2,149	960
Number of refusals	9	2	24	31	14

Response	Percentage	
	Employees 2012	Self Employed 2012
It is always acceptable	1	2
It is mostly acceptable (but depends on the circumstances)	4	5
It is mostly unacceptable (but depends on the circumstances)	35	31
It is always unacceptable	58	59
None of these	1	1
Don't know (spontaneous)	2	2
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.16 Main reason for not evading income tax (Question 20)

Response	Percentage of Individuals	
	2012	
Because it is illegal	31	
Because of the penalties/consequences I could face	8	
Because it is unfair to other taxpayers	12	
Because it is immoral	7	
The probability/likelihood of being caught	8	
Because I am honest	11	
Because I do not have the opportunity to/cannot evade tax	4	
I cannot because I am PAYE or tax is taken at source	6	
There is no reason why I wouldn't regularly evade tax	2	
Other (please specify)	6	
Don't know (spontaneous)	5	
Weighted base (millions)	47.95	
Unweighted base	960	
Number of refusals	14	

Table B.17: Are you aware evading tax is a criminal offence for which you can get a criminal record or go to prison (Question 22)

Response	Percentage of Individuals	
	2011	2012
Yes	93	90
No	4	7
Don't know (spontaneous)	2	4
Weighted base (millions)	48.50	48.78
Unweighted base	1,054	971
Number of refusals	9	3

Response	Percentage	
	Employees 2012	Self Employed 2012
Yes	91	92
No	6	5
Don't know (spontaneous)	3	3
Weighted base (millions)	33.21	4.64
Unweighted base	618	1030
Number of refusals	0	2

Table B.18: Perceived likelihood of being prosecuted for regular income tax evasion (Question 23)

Response	Percentage of Individuals	
	2011	2012
Very likely	18	15
Quite likely	42	39
Not likely	32	36
Not likely at all	4	4
Don't know (spontaneous)	4	5
Weighted base (millions)	44.75	42.96
Unweighted base	975	850
Number of refusals	7	9

Response	Percentage	
	Employees 2012	Self Employed 2012
Very likely	14	19
Quite likely	41	37
Not likely	37	33
Not likely at all	3	5
Don't know (spontaneous)	5	7
Weighted base (millions)	30.13	4.22
Unweighted base	562	944
Number of refusals	2	7

Table B.19: Whether agree the chances of being prosecuted are sufficient to deter regular evasion (Question 24)

Response	Percentage of Individuals	
	2011	2012
Strongly agree	6	4
Agree	30	26
Neither agree nor disagree	18	20
Disagree	32	30
Strongly disagree	5	8
Don't know because I don't know the criminal penalties (spontaneous)	5	6
Don't know – other reason (spontaneous)	3	6
Weighted base (millions)	48.15	47.95
Unweighted base	1,048	960
Number of refusals	15	14

Response	Percentage	
	Employees 2012	Self Employed 2012
Strongly agree	4	8
Agree	28	34
Neither agree nor disagree	20	22
Disagree	31	25
Strongly disagree	8	3
Don't know because I don't know the criminal penalties (spontaneous)	6	5
Don't know – other reason (spontaneous)	4	3
Weighted base (millions)	32.96	4.59
Unweighted base	614	1025
Number of refusals	4	7

Table B.20: Have you heard of anyone who has been prosecuted by HMRC for evading tax (Question 25)

Response	Percentage of Individuals	
	2011	2012
Yes	24	35
No	75	64
Don't know (spontaneous)	2	1
Weighted base (millions)	48.50	48.81
Unweighted base	1,054	971
Number of refusals	9	3

Response	Percentage	
	Employees 2012	Self Employed 2012
Yes	35	34
No	64	64
Don't know (spontaneous)	1	2
Weighted base (millions)	32.96	4.65
Unweighted base	617	1031
Number of refusals	1	1

Table B.21: Where did you hear about these prosecutions (Question 26)

Response	Percentage of Individuals	
	2011	2012
On TV/papers	67	84
Social networking sites	1	1
I know them personally	10	6
From family/friends/word-of-mouth	17	15
Through work/job	14	8
Aware that people can be, but don't know of a specific case	3	1
Other (please specify)	1	1
Weighted base (millions)	11.49	17.11
Unweighted base	230	380
Number of refusals	0	0

B.3 Survey Output - SME

Table B.22: Whether agree HMRC treats the business fairly, (Question 1)

Response	Percentage of SMEs	
	2011	2012
Strongly Agree	16	13
Agree	63	68
Neither Agree nor Disagree	13	11
Disagree	4	5
Strongly Disagree	2	1
Don't Know	1	1
Unweighted base	1,005	960
Number of refusals	0	1

Table B.23: Effort SME spends completing corporation tax return, (Question 2)

Response	Percentage of SMEs	
	2011	2012
Reasonable	64	70
Neither Reasonable Nor Unreasonable	15	13
Unreasonable	13	12
Don't Know	8	6
Unweighted base	1,003	961
Number of refusals	2	0

Table B.24: Perceived prevalence of corporation tax evasion, (Question 3)

Response	Percentage of SMEs	
	2011	2012
A Major Problem	10	9
A Moderate Problem	28	32
A Minor Problem	36	38
Not a Problem at all	10	11
Don't Know	16	11
Unweighted base	1,003	960
Number of refusals	2	1

Table B.25: Perception of how widespread income/corporation tax evasion is among SME, (Question 4)

Response	Percentage of SMEs	
	2011	2012
Very widespread	4	5
Fairly widespread	29	31
Not very widespread	37	38
Not widespread at all	10	10
Don't know	19	16
Unweighted base	1,005	959
Number of refusals	0	2

Table B.26: Perceived effort HMRC puts into reducing income/corporation tax evasion, (Question 5)

Response	Percentage of SMEs	
	2011	2012
Too much	10	9
Too little	18	15
About the right amount	45	54
Don't know	27	22
Unweighted base	1,001	959
Number of refusals	4	2

Table B.27: Perceived likelihood of detection for regular corporation/income tax evasion, (Question 6)

Response	Percentage of SMEs	
	2011	2012
Very Likely	19	22
Quite Likely	49	46
Not Likely	20	18
Not Likely at all	2	3
Don't Know	10	11
Unweighted base	1,005	960
Number of refusals	0	1

Table B.28: Whether it is likely HMRC will detect if your business regularly under-declared it's income or corporation tax liability, (Question 7)

Response	Percentage of SMEs	
	2011	2012
Very Likely	41	43
Quite Likely	46	44
Not Likely	7	7
Not Likely at all	1	2
Don't Know	4	4
Unweighted base	1,004	959
Number of refusals	1	2

Table B.29: Does HMRC deal more or less firmly with evaders than a few years ago. (Question 8)

Response	Percentage of SMEs	
	2011	2012
More firmly	29	34
Less firmly	5	3
About the same	32	45
Don't Know	34	17
Unweighted base	1,004	960
Number of refusals	1	1

Table B.30: Whether agree the financial penalties are sufficient to deter corporation/income tax evasion, (Question 9)

Response	Percentage of SMEs	
	2011	2012
Strongly Agree	11	16
Agree	45	48
Neither Agree nor Disagree	15	17
Disagree	5	5
Strongly Disagree	2	1
Don't know because I don't know the penalties	20	11
Don't know	2	2
Unweighted base	1,005	961
Number of refusals	0	0

Table B.31: Possible consequences when income/corporation tax evasion is detected, (Question 10)

Consequence	Percentage of SMEs	
	2011	2012
Bad publicity	11	8
Loss of reputation among customers, suppliers and other businesses	19	16
Negative impact on credit record	1	1
Negative impact on ability to expand business or start up another business	7	1
Financial penalties	55	55
Kept under scrutiny by HMRC	2	1
Prison sentence	32	30
Would go out of business/cease to trade	17	16
Criminal prosecution	1	3
Closure of company, liquidation or bankruptcy	*	2
Loss of income / business	*	2
Having to repay taxes	*	1
(Public) embarrassment	*	1
No consequences	1	*
Can't think of any	3	5
Other	3	1
Don't know	12	13
Unweighted base	1,002	960
Number of refusals	3	1

Table B.32: Perceived acceptability of corporation tax evasion, (Question 11)

Response	Percentage of SMEs	
	2011	2012
It is always acceptable	2	1
It is mostly acceptable (but depends on the circumstances)	4	3
It is mostly unacceptable (but depends on the circumstances)	22	22
It is always unacceptable	71	74
None of these	*	0
Don't know	1	1
Unweighted base	1,005	961
Number of refusals	0	0

Table B.33: Reasons why evasion may be acceptable, (Question 12)

Circumstance	Percentage of SMEs
	2012
Companies who have financial problems	22
When the evasion is short term / a one off	8
When can't afford to pay	7
Others	40
Don't know	36
Unweighted base	29
Number of refusals	0

Table B.34: Reasons why evasion may be unacceptable, (Question 13)

Circumstance	Percentage of SMEs	
	2011	2012
It is always unacceptable	22	9
Large corporate companies	5	4
If the company is successful/can afford to pay tax	12	10
When don't put work/earnings through	*	1
The amount of money is large	8	6
When paid in cash and not declared	1	1
If the company is going through financial difficulties	10	7
Doing it for personal gain	3	3
Fraud/deceit	1	10
Deliberate/done in error	18	3
When evasion activity is long term/regular	0	1
When using offshore/legal loopholes	0	4
When others would suffer to pay it	0	1
Others	13	14
Don't know	18	29
None/never	3	1
No answer	>1	1
Unweighted base	218	206
Number of refusals	0	0

Table B.35: Reasons business would not evade corporation/income tax, (Question 14)

Consequence	Percentage of SMEs	
	2011	2012
Because it is illegal	16	14
Because of the penalties or consequences I could face	23	20
Because it is unfair to other taxpayers	8	15
Because it is immoral	13	10
The probability or likelihood of being caught	11	11
Because I'm honest	13	10
No reason why I wouldn't regularly evade	4	2
Possible loss of reputation or respect	1	1
Have to pay, duty or just wouldn't evade taxes	1	3
No need to/not worth the trouble	2	1
Paying tax benefits everyone or the whole economy	*	3
Everything is documented/invoiced/on record	*	1
Would be on my conscience/would feel guilty	*	1
Others	5	4
Don't know	2	1
Unweighted base	1,004	957
Number of refusals	1	4

Table B.36: Whether agree that a lot of SME think it is okay to under-declare revenue in order to avoid paying taxes, (Question 15)

Response	Percentage of SMEs
	2012
Strongly Agree	3
Agree	19
Neither Agree nor Disagree	23
Disagree	32
Strongly Disagree	14
Don't know	8
Unweighted base	961
Number of refusals	0

Table B.37: Whether agree that it is okay for SME to under-declare revenue in order to avoid paying taxes, (Question 16)

Response	Percentage of SMEs
	2012
Strongly Agree	1
Agree	3
Neither Agree nor Disagree	6
Disagree	42
Strongly Disagree	47
Don't know	1
Unweighted base	961
Number of refusals	0

Table B.38: Are you aware evading tax is a criminal offence for which you can get a criminal record or go to prison (Question 17)

Response	Percentage of SMEs	
	2012	
Yes	95	
No	5	
Don't know (spontaneous)	*	
Unweighted base	961	
Number of refusals	0	

Table B.39: Likelihood SME evading tax would be prosecuted, (Question 18)

Response	Percentage of SMEs	
	2011	2012
Very Likely	32	31
Quite Likely	47	43
Not Likely	11	16
Not Likely at all	1	2
Don't Know	9	8
Unweighted base	1,005	907
Number of refusals	0	2

Table B.40: Chances of prosecution are sufficient to deter businesses from tax evasion, (Question 19)

Response	Percentage of SMEs	
	2011	2012
Strongly Agree	-	20
Agree	-	53
Neither Agree nor Disagree	-	10
Disagree	-	11
Strongly Disagree	-	3
Don't know because I don't know the penalties	-	2
Don't know	-	3
Unweighted base	-	961
Number of refusals	-	0

Table B.41: Heard of any businesses prosecuted by HMRC, (Question 20)

Response	Percentage of SMEs	
	2011	2012
Yes	25	35
No	74	65
Don't Know	1	*
Unweighted base	991	961
Number of refusals	14	0

Table B.42: Where did you hear about these prosecutions (Question 21)

Response	Percentage of SMEs	
	2011	2012
On TV/papers	-	65
Social networking sites	-	1
I know them personally	-	5
From family/friends/word-of-mouth	-	22
Through work/job	-	10
Aware that people can be, but don't know of a specific case	-	0
Internet	-	2
Other (please specify)	-	3
Unweighted base	-	364
Number of refusals	-	0

Table B.43: Business is VAT registered, (Question 22)

Response	Percentage of SMEs	
	2011	2012
Yes	64	63
No	36	36
Don't know	0	1
Unweighted base	1,005	961
Number of refusals	0	0

Table B.44: Effort spent completing VAT returns, (Question 23)

Response	Percentage of SMEs	
	2011	2012
Reasonable	69	71
Neither reasonable nor unreasonable	12	11
Unreasonable	17	16
Don't know	3	2
Unweighted base	677	674
Number of refusals	0	0

Table B.45: Perceived likelihood of detection for SMEs evading VAT, (Question 24)

Response	Percentage of SMEs	
	2011	2012
Very Likely	38	39
Quite Likely	45	43
Not Likely	11	9
Not Likely at all	1	3
Don't Know	5	6
Unweighted base	677	674
Number of refusals	0	0

Table B.46: Perceived likelihood of detection if your business regularly evaded VAT, (Question 25)

Response	Percentage of SMEs	
	2011	2012
Very Likely	52	56
Quite Likely	39	36
Not Likely	5	6
Not Likely at all	0	*
Don't Know	4	2
Unweighted base	677	674
Number of refusals	0	0

Table B.47: Whether agree financial penalties are sufficient to deter VAT evasion, (Question 26)

Response	Percentage of SMEs	
	2011	2012
Strongly Agree	19	26
Agree	50	51
Neither Agree nor Disagree	10	10
Disagree	5	4
Strongly Disagree	1	1
Don't know because I don't know the penalties	14	7
Don't know	1	*
Unweighted base	677	674
Number of refusals	0	0

Table B.48: Perceived likelihood SME evading VAT will be prosecuted, (Question 27)

Response	Percentage of SMEs	
	2011	2012
Very Likely	35	34
Quite Likely	46	49
Not Likely	10	11
Not Likely at all	2	2
Don't Know	6	5
Unweighted base	677	673
Number of refusals	0	1

Appendix C: SME sample breakdown 2012

The following tables summarise the (unweighted) profile of the SMEs interviewed as part of the research.

Table C.1. Respondent decision-making

Key Decision Responsibility	Percentage of SMEs	
	2011	2012
Respondent's alone	50	45
Mainly the respondent's	16	17
Shared equally between the respondent and someone else/others	34	38
Unweighted base	1,005	961

Table C.2. Size of the Business (number of employees)

Business Size	Percentage of SMEs	
	2011	2012
1	37	34
2-4	35	31
5-9	11	12
10-19	7	9
20-24	1	2
25-49	4	4
50-99	3	4
100-199	2	3
200-249	*	1
Unweighted base	1,005	961

Table C.3. Region in which Business Situated

Region	Percentage of SMEs	
	2011	2012
North East	4	4
Yorkshire	7	8
North West	9	9
East Midlands	7	7
West Midlands	7	8
East Anglia	5	7
Greater London	9	10
South East	20	20
South West	13	11
Wales	6	4
Scotland	8	7
Northern Island	4	5
Don't know	*	*
Unweighted base	1,005	961

Table C.4. Business Sector

Sector	Percentage of SMEs	
	2011	2012
Manufacturing/Production	9	11
Retail/Wholesale/Distribution	14	15
Professional/Business Services	26	23
Catering/Leisure	7	10
Motor Trades/Transport	5	7
Construction	20	14
Agriculture/farming	7	4
Other	11	14
Don't know	*	*
Unweighted base	1,005	961

Table C.5. Business Turnover

Turnover	Percentage of SMEs	
	2011	2012
£15,000 or more but under £50,000	35	29
£50,000 or more but under £68,000	10	9
£68,000 or more but under £100,000	12	9
£100,000 or more but under £250,000	16	16
£250,00 or more but under £500,000	8	11
£500,000 or more but under £1 million	5	6
£1 million or more but under £10 million	10	14
£10 million or more but under £42 million	2	3
Don't know/refused	2	3
Unweighted base	1,005	961

Table C.6. Actual UK Business sector, October 2013³⁵

Sector	Percentage of SMEs
	2011
Manufacturing/Production	12
Retail/Wholesale/Distribution	15
Professional/Business Services	24
Catering/Leisure	10
Motor Trades/Transport	6
Construction	12
Agriculture/farming	7
Other	14
Don't know	*

³⁵ Source: ONS. Retrieved 1/11/13. <http://www.ons.gov.uk/ons/rel/bus-register/uk-business/2013/stb---uk-business--activity--size-and-location---2013.html#tab-Business-counts-by-broad-industry>