



*Research report*

# Publishing the names of serious defaulters

Understanding the customer

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**Publishing the names of serious defaulters*****About the Individuals Customer Directorate (ICD)***

ICD is part of the Personal Tax Group in HMRC, which has responsibility for personal tax policy and operations as well as some work streams with personal and business customers.

Our role is to work with Directorates across the Department to design and deliver customer focused operating services to individual customers to make it as easy as possible for them to get their tax affairs right. We also manage HMRC cross-cutting areas that affect our customers such as the complaints strategy.

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## Publishing the names of serious defaulters

### **Research requirement**

The Government has introduced legislation in the Finance Act 2009 (section 94) enabling HMRC to publish names and details of individuals and companies who are penalised for deliberate defaults leading to a loss of tax of more than £25,000. Names of those who make a full unprompted disclosure or a full prompted disclosure within the required time will not be published. We carried out this research to see how publishing details of deliberate defaulters can best be targeted to deter deliberate tax evasion.

### **Who did the work (research agency)**

The study was undertaken by Promise Corporation ([www.promisecorp.com](http://www.promisecorp.com)) by a research team consisting of Roy Langmaid, Nick Coates, Arunima Kapoor and Konstantin Pinaev. The study was commissioned to address the following key areas:

1. **Impact:** will it improve compliance?
2. **Mechanism:** what is the nature of the deterrent?
3. **Reputation:** how will the policy affect views of HMRC?
4. **Risks:** what unexpected outcomes might there be?
5. **Communication:** how should the policy be presented?
6. **Acceptability:** how do taxpayers feel about this policy?
7. **Support:** will media and accountants get behind it?

### **When the research took place**

The research was conducted between October 2009 and January 2010.

### **Method, Data and Tools used, Sample**

This was a comprehensive study including desk research, expert, customer and staff consultation.

1. **Literature review & expert consultation** [2 interviews & literature review.] *What's known about naming?*
2. **Media consultation** [4 interviews, including senior people from PR, national tabloid press and local press] *How will press & media respond?*
3. **Accountancy Perspective** [1 expert interview] *How will intermediaries respond?*
4. **Qualitative Research Study** [54 participants] *How will taxpayers respond?*
5. **Internal Mirror Workshop** [18 staff] *What does HMRC need to worry about?*

The sample used HMRC's customer segmentation to recruit a cross section of compliant and non-compliant customers for the research. The study was also designed to be flexible; the qualitative research included a mix of depths, groups and smaller groups of 3 people (triads) to suit the segment being interviewed.

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## Publishing the names of serious defaulters

### *Main Findings*

Publishing the names of serious defaulters is a bold policy. Qualitative research with customers and the media shows that if communicated and implemented in the right way, it will be well received by both the general public and the media. It is also a policy that will reflect well on HMRC, as a majority of customers feel that punishing evaders is taking up the cause on everyone's behalf. Finally, despite some limitations, the net effect on compliance will be positive.

This study found that:

1. **Naming is powerful:** it provokes arousal, hence attention, and works through a range of deterrent levers from fear of losing the business to shame and letting the family and friends down. Rational fears include loss of business, difficulty finding another job, bad credit rating, disillusioned staff, failure to attract new staff, etc. Besides these, there are also potent psychological mechanisms: shame, guilt and loss of face / reputation that have an impact. This is exacerbated if the 'named' feels responsible for others (family, friends, employees, business partners) who rely on him/her. Informal deterrence is more effective than formal deterrence because reputation among family, friends and neighbours is what people value most.
2. **Naming will work:** previous experience shows a high chance of success in a tax compliance context and many taxpayers believe it will influence them. Naming leads to high emotional arousal and often a state of fear. Shaming is most effective in communitarian societies – this is argued as a 'proximity' factor, the closer the 'shaming' is to the 'real life' of the person named, the more effective it is. The policy will be most effective where local/ proximal /familial /communitarian factors are high.
3. **Naming raises the stakes:** the deterrent effect is in addition to and depends on, the investigation process – it only affects the severity of punishment, not the chance of being caught. However, the threat of naming will make evaders, if caught, come clean voluntarily and quicker. It will encourage more cooperation. The following factors affect the impact of being named:
  - **Profession and moral consensus:** people feel that the stigma of naming was more pronounced for certain professions, e.g. law, anyone in public service/office, doctors etc. On the other hand, people in some professions (e.g. music industry, all cash-in-hand professions, corner shops etc.) were almost expected to be named.
  - **Employees/business partners/clients:** people feel that those who were accountable to others in business were likely to feel the impact more. More likely: directors and co-directors of companies, those who are client facing, suppliers to companies etc. Less likely: designers, plumbers etc., people who work alone.
  - **Norms in society:** there was a mixed response to norms in society regarding tax evasion. Some felt tax evaders are criminals, others felt they are applauded. The majority thought being named for tax evasion would be shaming.

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- **Assessment of risk:** people assess the risk, their chances of being caught, the severity of punishment and consequences, before evading tax. If the risks are seen as too high, tax evasion is deterred.
4. **Naming needs teeth:** for the policy to take effect, HMRC is dependent on the support and intermediation of the media and the accountancy profession. For the policy to work it will require the media to pick up on the stories and report them in ways that are relevant to their readership. The research revealed, that the closer the source of news was to the 'named', the greater the impact. Local press, for this reason, instigated the most passionate response, as people worry about losing facing in their immediate community: amongst their neighbours, friends and family. The second most impactful was the trade press, for the reasons above, and because it would directly impact the business as well as professional reputation
  5. **Naming will provoke:** the internal impact of the external reactions on all sides will have to be worked through. HMRC will need to:
    - Have clear communications and points of view on the policy internally. Ensuring that the language used is consistent and appropriate to the stand taken
    - Be ready for counter naming and shaming and develop media strategies for different mediums
    - Train staff to deal with potential fall outs of the policy, especially for those who are customer facing.
  6. **Naming could help build the morality of tax:** this moment gives HMRC the chance to talk about the morality of tax evasion and reinforce a firm persona. Shaming works best when the moral dimension is evoked, rather than through the threat of punishment. Law-abiding taxpayers are in favour of tightening the noose and the chance of redemption, mitigates the fear of bullying. The policy offers reassurance that ordinary taxpayers are not losing out at the expense of dodgers and cheats. Above all, the policy is seen as 'fair' by the majority. People are tired of the cheats in society and wanted to see them punished. Making tax evasion a moral dilemma was seen as important because currently this is not seen as a crime in the same way as other criminal offences.

Overall, the research shows that HMRC is on the right track with this policy. However there are certain things HMRC must do in order to for it to be successful. The most important are:

- Informing the public that the policy exists, why it exists, and how/when it will be implemented. (*Making the case for naming*)
- Preparing the ground for the policy by addressing the (im) morality of tax evasion. Why this policy and why now? (*Making the case for tax*)
- Communicating HMRC's compliance strategy and the consequences of tax evasion (*Branding HMRC*)

There is every reason to believe that the policy will work well as a deterrent and encourage compliance. If implemented properly, its impact on HMRC's reputation should also be positive.