

July 2014

The drivers of behaviour change among SMEs following HMRC compliance checks

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HM Revenue and Customs Research Report 335

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Published by HM Revenue and Customs, September 2014

www.hmrc.gov.uk

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Glossary of terms

Additional liability: Additional tax liability to be paid by the taxpayer (the taxpayer will receive a bill for this). Feeds into the Cash Collected figure reported in HMRC's annual report.

Large additional liability cases: high level of additional tax liability to be paid by the taxpayer.

Penalties: Penalty to be paid by the taxpayer (taxpayer will receive a bill for this) over and above the additional liability due. Penalties may be charged if there is evidence that the customer has submitted an inaccurate return deliberately or through carelessness.

Future Revenue Benefit (FRB): FRB is the estimated monetary amount that will accrue to the Department as a direct result of the compliance intervention. FRB is a component of the Revenue Protected figures published in HMRC's annual report.

No additional liability: no additional tax liability is to be paid by the taxpayer. For this report the term no additional liability will also mean that no FRB was claim by HMRC in these cases.

ITSA/CTSA: An Income Tax Self Assessment (ITSA) and Corporation Tax Self Assessment (CTSA) check that can be solely correspondence based or include a face-to-face meeting.

Assurance checks: A face-to-face check about VAT and PAYE in the business, which may include some correspondence by letter or telephone.

Light-touch checks: Purely correspondence based check. The business may receive a telephone call or a letter from a Compliance Centre to enquire about a specific tax risk, for example an unusual entry or outstanding tax return. All light-touch checks in this report relate to VAT.

Executive Summary

About this research

This report contains findings from qualitative research conducted with a sample of 48 small and medium sized enterprises (SMEs) which received a tax compliance check from HMRC within the past three years. The research was undertaken by Ipsos MORI Social Research Institute, on behalf of HMRC.

The principal aim of the research was to explore the perceptions of SMEs, to better understand whether and how HMRC compliance checks influence, or drive changes in, customer behaviour. The primary research question was to identify the short- and medium-term behavioural impact (if any) of receiving a compliance check from HMRC.

Context

HMRC undertakes three types of tax compliance checks on SMEs:

- 1 ITSA/CTSA checks: A check of single or multiple risks which can be solely correspondence based (exchange of letters) or include a face-to-face meeting with or without examination of records on site. These checks are used for Income Tax Self Assessment (ITSA) and Corporation Tax Self Assessment (CTSA).
- 2 Assurance checks: Records are typically examined on premises and the customer interviewed about their business and records. Correspondence by letter or telephone may also be included in these checks. Assurance checks investigate VAT and PAYE.
- 3 Light-touch checks: Telephone call or letter from a Compliance Centre to enquire about a specific tax risk, for example an unusual entry or outstanding tax return.

The checks listed above were the only compliance checks included in the sample; no customs or excise checks were included.

If the check reveals an error which has resulted in a customer under-declaring their tax liability then the customer is required to pay the shortfall (recorded as additional liability). In cases where HMRC believe that the customer would have continued to make that error without the compliance intervention, HMRC may count this as 'Future Revenue Benefit' (FRB): the future monetary amount that will accrue to the department as a result of the correction identified by the compliance check, for up to two further years. This is included in the Revenue Protected figures in the HMRC annual report.

Future Revenue Benefit is not typically claimed against light-touch checks unless there is robust evidence to support the claim.

Compliance checks can also result in HMRC imposing a penalty on participants if there is evidence that they have submitted an inaccurate return deliberately or through carelessness.

Methodology

Ipsos MORI conducted 48 face-to-face depth interviews with SME participants who had received a compliance check which closed between April 2011 and December 2013. The interviews were conducted with the person within the business who was responsible for handling the check. In sole traderships and other micro¹ businesses this was usually the business owner, whereas in small and medium-sized businesses² this tended to be the person in charge of financial management within the business.

Interviews were divided between the three types of check; by whether or not HMRC had recorded the check as resulting in additional liability; and, if so, whether that had been assessed as including FRB or not. The three compliance-related outcomes in the sample were therefore: additional liability (in respect of the amount under-declared) and FRB; additional liability without FRB; and no additional liability (where the compliance check did not identify any errors). For the purposes of this report no additional liability also means that no FRB is claimed.

It is important to note that the sample focused on SMEs found to be breaching their tax obligations as a result of genuine error or lack of due care, rather than any deliberate tax evasion.

A qualitative face-to-face approach was adopted to allow interviewers to build a good rapport with the SMEs to encourage them to respond openly to questions about their tax and record keeping behaviour. Interviews were undertaken between January and March 2014.

What are the behavioural impacts of receiving a HMRC compliance check?

Behavioural outcomes and their drivers

Where a compliance intervention found an error, some degree of behavioural change resulted, although the depth of this change varied. The exception was when the SME believed that the error detected was either not worth making changes for, or where the SME believed responsibility for the error lay with a third party (such as an agent or accountant). The research identified five main types of behavioural outcome following a HMRC compliance check, including two types of 'no change'.

The main factor influencing the depth of the behaviour change was whether the check prompted the business to address the underlying reasons for non-compliance, or just their symptoms (the specific error(s) they had made).

Cases which were felt to hold the most potential for longer-term change have been classified as 'Change of approach' outcomes. Such change in behaviour was often driven by tailored support and signposting (not just focusing on the error but on the business' wider capability); the financial impact of the error (having to repay a large amount relative for the business); and receiving a penalty which had to be paid or being threatened with a penalty that was then mitigated.

'Addressing mistakes' and 'increasing attention' were shorter-term behavioural outcomes. The difference between them lay in the nature of the error(s) made and the extent to which they were

¹ Micro businesses are categorised as employing fewer than 10 staff, with a turnover of less than £1.7m.

² Small and medium businesses are categorised as employing between 10 and 249 staff or having a turnover of greater than £1.7m.

operating an organised 'system' to maintain compliance. In the former, drivers of behaviour change were getting specific information to correct the mistake while in the latter the main driver was linked to having to pay a penalty. In both cases, just getting a check addressed the common belief that HMRC was unlikely to check very small businesses.

In cases of 'no action taken' where errors had been found, the common characteristic was deferring responsibility for the mistake to a third party such as an external accountant or consultant who had advised the business on tax issues (usually when it first started trading).

No additional liability cases where no error was found ('no action needed') generally did not make changes in response to being checked, as they did not need to. They were often larger SMEs who had been checked in the past and these checks may have had a cumulative impact on their current behaviour.

Are particular compliance checks associated with particular changes in behaviour?

Although receiving a compliance check had motivated behaviour change in three of the five outcomes we identified, there was no evidence to suggest that the nature and extent of this behaviour change was directly linked with the type of check the SME received. Rather, the extent of behaviour change was related to a combination of:

- Business related factors, which included; the size of the business and the use of an accountant for advice.
- Check related factors, which included; whether or not the SME had previous experience of compliance checks and the perceived depth and duration of the check.
- Error related factors, which included; whether errors were identified during the check, the amount the SME needed to repay and whether it was likely to be a recurrent error (which would make it liable for FRB).

The interplay between these factors influenced the behavioural determinants of tax compliance within the SME, specifically the level of skills, knowledge and resources which an SME could draw on to maintain tax compliance, as well as its motivation to do so.

In cases where FRB had been claimed, SMEs did make changes although the depth of the change varied. Most of the cases where FRB had been claimed in our sample were in the 'change of approach' or 'addressing mistakes' outcomes. In the former, the underlying issues within the business had been addressed by the check and the changes that occurred were therefore likely to be sustainable (although it should be noted that we have no way of knowing this for certain given that the research did not take a longitudinal approach). In the latter, the error itself was corrected, although not necessarily all of the behaviours which caused it, suggesting that maintaining compliance could be at risk if rates and regulations change in future. The extent to which the underlying behaviour was addressed depended on the extent to which the compliance check focused on the error or went beyond this, to address broader capability issues within the business. In such cases, there is no evidence to suggest that claiming FRB is not valid, but the behaviour change identified was less deep-seated than 'change of approach' cases and there is a risk that non-compliance could re-occur in the longer-term.

Do compliance checks have any wider impacts?

Before the actual compliance check took place, businesses didn't tend to talk about compliance checks which meant that messages in networks mainly involved hearsay from other small businesses and the occasional media story. Therefore before the compliance check, networks had only a limited influence on compliance behaviour.

Awareness of publicity around compliance activity was restricted to a few SMEs in certain sectors. Similar to network effects, these tended to generate a mood of general concern rather than to stimulate specific action, as participants believed their businesses were already compliant.

After the compliance check took place, the amount businesses talked about their check varied by the type of business. Accountants working in medium-sized enterprises, who had more knowledge about tax issues to begin with and were more accustomed to being checked tended to talk to each other about compliance checks. In certain close-knit industries where there was more camaraderie and social interaction had a greater likelihood of talking about their check. However, many micro businesses and sole traders preferred to keep news of receiving a check to themselves, viewing it as a personal matter. This was particularly the case for ITSA/CTSA checks.

Spillover effects to other areas of tax duty were inherently limited by the way that many SMEs managed their tax affairs, splitting responsibility for VAT and ITSA/CTSA between themselves and an external accountant. The cases with the most potential for spillover effects were those where the participant was handling more than one area of tax, and in particular where the compliance check addressed fundamental issues around knowledge and capability which were transferable to other tax areas. When this happened, a 'change in approach' outcome was often achieved. When the intervention focused on the error rather than the underlying behaviour, or when the error identified related to a specific type of tax, impacts were generally restricted to that particular tax. This often led to the intervention achieving one of the other behavioural outcomes.

Customer perspectives on how compliance checks could be improved

Participants preferred to get advance notice of the check so that they could prepare for it. This was especially true of micro businesses and sole traders. Some used the time they had to better organise their paperwork and conduct their own internal audits, which could lead to errors being identified before the check.

Participants were keen to complete the check as soon as possible. To this end, once the check started they preferred more direct forms of communication, rather than exchanging letters, which was felt to 'drag things out' longer than needed. In particular, participants who had a light-touch check or ITSA/CTSA check often spoke of how open-ended this felt, and wanted to have a clearer outline of the process with more regular progress updates.

Participants appreciated what they viewed to be a more supportive attitude among compliance officers. This approach could help to allay their worries about being checked in future as well as encouraging them to seek more information or advice from HMRC, which could potentially prevent further cases of non-compliance.

Conclusions and implications for HMRC

The impact of HMRC compliance checks on SME behaviour extends from short-term impacts (addressing errors, and increasing attention) to more deep-seated change of approach. In cases with the most sustained impact (change of approach), the check addressed the underlying reasons for non-compliance rather than just correcting errors. This level of change was driven by a combination of effective signposting (especially to advice and training) and emphasising the penalties for getting things wrong. Thus supporting capability as well as addressing belief in consequences drove the most deep-seated change. In 'addressing errors' and 'increasing attention' cases, impacts are likely to be more transient because the reasons underlying the non-compliance have not been fully addressed.

Our findings suggest that impacts are determined more by the characteristics of the business receiving the check, and the result of the check, than to the type of check itself. The behavioural impacts of compliance checks are mediated by a number of other factors linked with: business size (and associated levels of capability, motivation and resources to spend on compliance); whether it is the business' first compliance check or not; the scale of the error and the relative scale of the repayment (or penalty) incurred; and whether or not the SME used an external accountant or adviser when they initially established their financial system.

These findings have implications for HMRC in a number of ways:

- A key factor in driving change is whether the check addressed the underlying reasons for non-compliance. This means it is important for compliance officers to 'get to know' the business.
- For businesses motivated mainly by the threat of penalties, light-touch checks can impact on behaviour as much as face-to-face visits. This means that there is not a clear cut relationship between the extent of behaviour change and the type of compliance check, as long as customer behaviour is explored.
- For other businesses, where capability is the most important factor, personal contact with Compliance Officers works well to encourage signposting and the provision of more effective guidance and support. This contact can be effective by telephone or face to face, and is particularly important in newer businesses where the people dealing with tax often lack any financial background or training.

The research identified particular issues around the beliefs and capabilities of smaller SMEs who had not previously received a compliance check, and these were also the businesses with most scope for change, as they were still setting up and developing their internal systems and procedures. HMRC could consider the focus of compliance checks and the balance between checking larger, more established SMEs and newer SMEs without a previous check.

1 Introduction

This report contains findings from qualitative research conducted with a sample of small and medium sized enterprises (SMEs) which had experienced a tax compliance check from HMRC within the past three years. The research was undertaken by Ipsos MORI Social Research Institute on behalf of HMRC. This introductory section sets out the context for the research and its main objectives; the methodological approach including sampling and recruitment and research design and analysis; and a note on interpreting the data.

1.1 Research context

As the tax administration and collection body for the UK, HMRC undertakes tax compliance checks to ensure that the correct amount of tax has been declared by participants. These checks aim to identify any fraudulent or erroneous practices which may mean that a customer has not paid the correct amount of tax. Increasing the amount of revenue collected by improving tax compliance among businesses and individuals is a core element of HMRC's Business Plan.

*'Our objective is to provide the money for public services by maximising revenue to close the tax gap and improving the extent to which individuals and businesses receive the credits and payments to which they are entitled.'*³

If the check reveals an error which has resulted in a customer under-declaring their tax liability then the customer is required to pay the shortfall (recorded as additional liability). In cases where HMRC believe that the customer would have continued to make that error without the compliance intervention, HMRC may count this as Future Revenue Benefit (the future monetary amount that will accrue to the Department as a result of the correction identified by the compliance check).

Compliance checks can also result in HMRC imposing a penalty on participants if there is evidence that they have not taken reasonable care in maintaining their tax records and completing their tax return or if there is evidence of deliberate evasion.

HMRC undertakes three types of tax compliance checks:

- 1 ITSA/CTSA checks: A check of single or multiple risks which can be solely correspondence based (exchange of letters) or include a face-to-face meeting with or without examination of records on site. These checks are used for Income Tax Self Assessment (ITSA) and Corporation Tax Self Assessment (CTSA).
- 2 Assurance checks: Records are typically examined on premises and the customer interviewed about their business and records. Correspondence by letter or telephone may also be included in these checks. Assurance checks investigate VAT and PAYE claims within the business.
- 3 Light-touch checks: Telephone call or letter from a Compliance Centre to enquire about a specific tax risk, for example an unusual entry or outstanding tax return.

³ HM Revenue & Customs Business Plan 2012-15, HM Revenue & Customs, April 2012 (<http://webarchive.nationalarchives.gov.uk/20130503123616/http://www.hmrc.gov.uk/about/business-plan-2012.pdf>)

1.2 Research objectives

The principal aim of the research was to explore the perceptions of SMEs which had received a compliance check within the past three years, to better understand how the various elements of these checks can influence, or drive changes in, customer behaviour.

The primary research question for the study was therefore:

- What is the short- and medium-term behavioural impact (if any) on participants of receiving a compliance check from an HMRC compliance officer?

The secondary research questions were:

- On the impact of compliance checks:
 - What are the drivers of behaviour change in connection to compliance checks?
 - Which compliance checks have the greatest impact? Are particular compliance checks associated with particular changes in behaviour?
 - What is the longer term impact of the compliance check?
 - What is the role of external factors in mitigating / magnifying the impact of the compliance checks?
- On the wider effects of compliance checks:
 - What are the wider effects of the compliance checks?
 - As a result of the compliance check, is there evidence of any dissemination to other SMEs who did not receive the check?
 - Is there any evidence of impacts on business behaviour in other areas of taxation, not covered by the immediate check?
- On experiences of compliance checks:
 - Could existing compliance checks be improved, from the customer perspective? What burdens fall on a SME when receiving a check?

1.3 Methodology

Ipsos MORI conducted 48 face-to-face depth interviews with SME participants who had received a compliance check which closed between April 2011 and December 2013. The interviews were conducted with the person within the business who was responsible for handling the compliance check. In sole traderships and other micro⁴ businesses this was usually the business owner, whereas in small and medium-sized businesses⁵ this tended to be the person in charge of financial management within the business.

⁴ Micro businesses are categorised as employing fewer than 10 staff, with a turnover of less than £1.7m.

⁵ Small and medium businesses are categorised as employing between 10 and 249 staff.

Interviews were divided between the three types of check; by whether or not HMRC had recorded the check as resulting in compliance revenue; and, if so, by whether that had been assessed as including FRB or not. The three compliance-related outcomes in the sample were therefore: additional liability (in respect of the amount under-declared) and up to 2-years FRB; additional liability and no FRB; and, no additional liability outcome (where the compliance check did not identify any errors). This final outcome was included to explore whether or not behaviour change may occur after a compliance check even though no errors had been found.

It is important to note that the sample focused on SMEs found to be breaching their tax obligations as a result of genuine error or lack of due care, rather than any deliberate tax evasion.

A qualitative face-to-face approach was adopted to allow interviewers to build a good rapport with the SMEs to encourage them to respond openly to questions about their tax and record keeping behaviour. This approach also allowed for an element of observation and documentary analysis, for example, reviewing letters sent by HMRC. Interviews were conducted on the SME's business premises where possible to allow the interviewer to understand the context in which the check was received as well as see records and systems first hand. Paired interviews⁶ were conducted in cases where more than one person was responsible for dealing with the check or implementing changes in response to it.

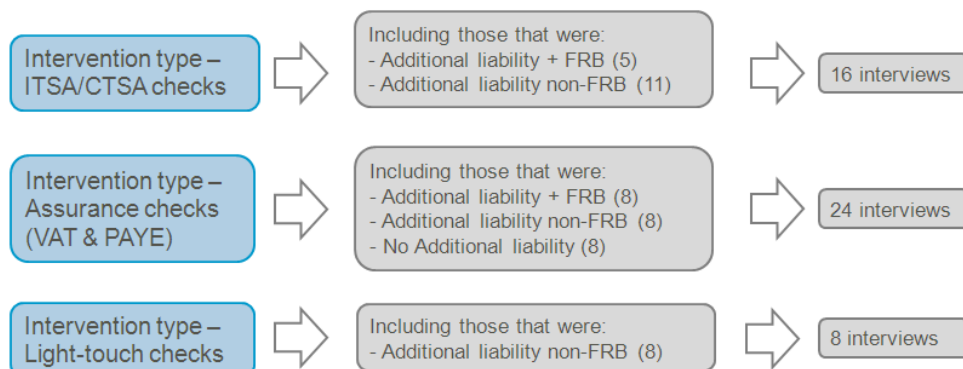
Interviews took place between 30th January and 26th March 2014 and were around an hour in length. Interviews were recorded, with permission from participants, and a selection transcribed.

All participants received £50, or £70 for a paired interview, which was donated to a registered charity of their choice.

1.4 Sampling and recruitment

Participants were recruited to meet the following criteria:

Figure 1.1 – Sample profile



In addition, minimum quotas were set on secondary criteria to ensure a good mix of SME types as well as inclusion of cases of particular interest to HMRC. These criteria included: period in which the

⁶ In total three paired interviews were conducted.

check closed (2011-12; 2012-13; 2013-14), business size (micro; small and medium), location (London, Bristol and Leeds) and whether the case was categorised as large additional liability.

The sample was provided by HMRC from tax compliance check records. SMEs were sent an advance letter from HMRC that introduced the research and allowed them to opt out before their details were passed to Ipsos MORI, who recruited participants by telephone using a structured recruitment questionnaire. This was used to screen out any participants who had no involvement in the compliance check (for example, due to using a tax agent), or who had no recall of it. Using a recruitment questionnaire also helped to ensure that secondary quotas were met.

Appendix A contains a sample breakdown including the reasons for refusal or screen out.

1.5 Research materials

Interviews were conducted using a semi-structured discussion guide to ensure topics were covered consistently and key issues were explored, whilst allowing flexibility to explore particular issues for specific participants. The topic guide drew on a widely used behavioural model, the Theoretical Domains Framework (TDF)⁷. This ensured that we included questions around the full range of behavioural determinants, going beyond attitudes and intentions to also include capability, motivation and environmental influences. Further detail on the behavioural model used is included in Appendix B.

A timeline was also used to help participants to talk through their experience of the compliance check in a structured way and aid recall. Materials were written in partnership with HMRC to ensure that all relevant areas were covered. Research materials can be found in Appendix B.

1.6 Analysing the data

The TDF model guided how we managed and interpreted the data. A mapping framework was developed in order to identify the behavioural drivers for non-compliance, understand the extent to which the compliance check addressed these drivers, or indeed whether they were influenced by other factors, and identify specific behavioural changes for each SME.

The framework allowed us to identify the extent to which the compliance check had addressed the specific behavioural drivers that led to non-compliance. For example, was a lack of knowledge being addressed with information; was a lack of skills being addressed with guidance and advice; or was a lack of motivation being addressed with clear messages about the benefits of improving systems as well as the consequences of not. We then explored how post-check behaviours mapped against this.

This analysis process allowed us to explore patterns across the data which were discussed in face-to-face analysis sessions. During these sessions, the team generated hypotheses of key behavioural outcomes across the data, each based on whether behaviour had changed at all and if so, whether post-check behaviour addressed the specific cause of any non-compliance identified during the check.

⁷ <http://www.implementationscience.com/content/pdf/1748-5908-7-37.pdf>

These hypotheses were then tested and developed further within the coding framework for the data and subgroup analysis was conducted to explore how other factors such as business size, check type, additional liability and FRB mapped against behavioural outcomes

1.7 Interpreting the data

Qualitative research is illustrative, detailed and exploratory. It offers insight into the perceptions, feelings and behaviours of people rather than quantifiable conclusions from a statistically representative sample. Owing to the small sample size and the purposive nature with which it was drawn, findings cannot be considered to be representative of the views of all SMEs which have experienced a check. As such, the word 'participant' has been used throughout the report in reference to a SME customer who took part in the research.

Much of the evidence in this report is based on participants' recall of the check and their perceptions of how it was handled. It is important to remember that even though some perceptions may not be factually accurate, they represent 'the truth' to the participants and as such, are vital in understanding their behavioural responses. The interviews were designed to prompt participants' and aid recall where possible.

Throughout this report we discuss various behavioural outcomes. It is important to note that these outcomes were identified through analysis of participants' responses within a behavioural model and as such have been constructed from the data. The type of behavioural drivers or outcomes relating to specific types of SME, or the strength of feeling attributed to a group is only true of those who participated in the research rather than to the SME population as a whole.

2 SMEs' awareness of and attitudes towards HMRC compliance checks

Key Findings

- SMEs' attitudes towards tax compliance depended on the skills, knowledge and resources that they had, and this varied widely by size of business. Where tax was a core part of someone's job role it was typically a higher priority than for people juggling numerous other responsibilities.
- Awareness of HMRC compliance checks and the perceived likelihood of being checked varied considerably according to the size of the business and whether it had experienced a check before. Although many SMEs who had not already had a check were vaguely aware that HMRC carried these out, they had little detailed knowledge.
- Very few micro businesses believed they were likely to be checked, partly because they were so small and partly because they felt confident in their business' financial system.
- There was a range of beliefs about the potential consequences of non-compliance, ranging from being given one chance to correct their mistakes, to facing severe penalties. Most participants realised that if they were found to be non-compliant they would need to repay tax.

This section explores SMEs' broad attitudes towards tax compliance and their general awareness of HMRC compliance checks, before the most recent check they received. It also explores participants' perceptions of the likelihood of receiving a compliance check, as well as their reactions to initial communication about it from HMRC.

2.1 SMEs' pre-check attitudes towards tax compliance

Participants' perceptions of whether or not tax compliance was a burden depended on the skills, knowledge and resources that individuals in charge of compliance had. This varied widely by size of business and, related to this, the job role and professional background of the person in charge of tax compliance.

Medium-sized businesses often had one or more members of staff dedicated to the company's financial activities, and tax compliance therefore formed a core part of their job. Often, these individuals were trained accountants or experienced book-keepers. In these instances, maintaining tax compliance was a personal and professional priority for the individual in charge of finances as well as the business overall. This meant that they willingly devoted time, attention and resources to 'getting things right the first time around'.

"I'm very much [focused on compliance], I just want to do everything right...It's really important [for me to keep on top of tax obligations], because I feel that that's what I'm here for and if the owner has any comeback, she's going to come to me. So it's kind of doing my job."

Small/ Medium business, ITSA/CTSA check, additional liability non-FRB, London

As well as professional standing, business reputation and culture played a key role in motivating these participants. In some instances, there was a strong company focus on compliance generally, if the company had dealings in a quality accredited sector (for example regulation by industry bodies such as the British Standards Institute). Some businesses were externally audited (usually once or twice a year) so that their financial systems and processes could be verified.

For micro and small businesses, tax compliance was a concept participants aspired to but knew comparatively less about. Before they experienced a check, tax related activities were widely perceived to be an essential part of business, but not a priority. Participants believed they had a duty to pay the taxes they were due, stay compliant and keep up-to-date with tax obligations, but the practicalities of this generally came second to the everyday tasks of running their business. This was particularly the case for micro business owners, who felt they had to juggle many core responsibilities.

“When you’re running the business and you’re doing the work for the client, the priority of doing the books gets less on your to-do list. So invariably what tends to happen is, at the month end when you should be getting your books up to date, sometimes you don’t. You’re too busy.”

Micro business, Light-touch check, additional liability non-FRB, Leeds

Participants who had experienced a no additional liability compliance check in the past tended to adopt a more relaxed attitude towards compliance, and felt more confident in their own financial systems. In contrast, those with no prior experience of being checked often believed they would be burdensome, time-consuming, and could end up costing them heavily. Some participants wanted to avoid being chosen for checks as much as possible, and because they believed that HMRC focused checks on businesses that submitted their returns late or had made mistakes in the past, this motivated them to complete their tax returns on time.

“The priority is to have tax in on time and to do it, so that we don’t have enquiries. Enquiries can cost you an awful lot of money. HMRC’s reputation in these enquires is not good. I’ve heard that on the radio...”

Micro business, Light-touch check, additional liability non-FRB, Leeds

Some participants recognised that, prior to the check, they would have liked more time to spend on their financial and tax activities, but felt they were too busy running their business to prioritise these. Other participants mentioned they were keen to be compliant, but had become “a bit slack” due to other issues taking priority. This outlook often stemmed from a lack of awareness about tax and compliance processes, particularly where participants were unaware that HMRC actually carries out compliance checks on businesses, or where they believed that very small businesses like theirs were “below the radar” of HMRC.

2.2 Perceived likelihood of getting a compliance check

Prior to their check, some small and micro businesses were not aware at all that HMRC conducts checks on businesses’ financial records. Generally these participants tended to be the least well-informed about tax issues.

Among those who were aware that HMRC carries out compliance checks, this tended to be a vague awareness rather than detailed knowledge of the process. In particular, there was little detailed knowledge about what a compliance check might involve, among those who had not been checked previously. Participants with no prior experience of a check tended to have heard

about them from hearsay (for example through friends working in similar trades, or through the media) or had made their own assumptions about HMRC activities.

“Well one presumes they’re checking, but I’m not aware formally of their checking process...I would imagine there would be a cursory check on everything and then a random sampling check into a bit more detail.”

Micro business, Light-touch check, additional liability non-FRB, Leeds

Some participants had experienced compliance checks before (either in their current or previous employment) and these also tended to be the most informed about tax.

Though participants tended to believe HMRC chose businesses randomly for a check beforehand, their views changed in hindsight. After experiencing a compliance check, participants rarely believed they had been randomly chosen: many of them surmised there was a specific reason why they had been selected. This was particularly notable in yielding cases, where the compliance error was found within specific records requested by HMRC.

“[The checks are] not random actually...they had come because I had been filling in my form online wrong.”

Micro business, VAT/PAYE assurance check, additional liability FRB, Leeds

Participants who had experienced numerous compliance checks in the past (particularly those from medium-sized businesses) were of the view that HMRC regularly checked businesses (either every 2-3 years, five years, or ten years) and so deemed it likely they would be selected at regular intervals. Where participants had previously been involved in a yielding enquiry where they had been put ‘on notice’ of future inspection, they believed HMRC would be ‘keeping an eye’ on their business, increasing their chances of being re-selected. These factors are important when considering the potential for checks to have cumulative behavioural impacts over time, as even though some of these businesses came to expect being checked as part of their job, they still took such checks seriously and afforded a high priority to tax compliance.

In contrast, few small or micro businesses believed they were likely to be chosen for a compliance check. This attitude stemmed from a range of different factors:

- Lack of awareness that HMRC carries out compliance checks;
- Belief that checks were targeted at businesses suspected of making mistakes, because their tax return was ‘unusual’ in some way – some were over-confident in their business’ financial systems or processes and therefore did not expect to be checked;
- Belief that the company was too small or had too low activity to be of interest to HMRC. This was often twinned with the belief that HMRC should be focusing on deliberate fraud or non-compliance by large corporations.

Views of participants who had experienced a prior compliance check varied. Some believed that as they had only recently been checked, they were unlikely to be checked again so soon. Others believed that unusual patterns in their finances would flag on HMRC systems and make them more likely to be selected.

“I actually thought that they would come to check up on this particular instance, because what happened was we had a really large refund for the VAT and I thought that would perhaps trigger someone to say “that’s a bit odd for that particular quarter’s return”.. I wasn’t surprised to get an inspection.”

Medium business, VAT/PAYE assurance check, no additional liability, Leeds

2.3 Pre-check views about the consequences of non-compliance

Participants generally believed they would face a consequence if found to be non-compliant, though views varied on what that could be.

Some participants felt HMRC had a relaxed attitude towards non-compliance (particularly those originally from outside the UK). They compared tax systems in other countries and considered that HMRC was 'more lax' about compliance than the authorities elsewhere. Some believed HMRC would give them time or an opportunity to correct their mistakes, to re-submit the relevant forms, or to clarify their reasoning behind completing their tax returns in a certain way. These participants believed penalties or fines were only in place for deliberate 'rule-breakers' or those who committed fraud, rather than for those who had made an honest mistake or shown lack of due care.

"The system here as I understand it is they give you one chance. If you grab it [you're let off]. If you don't, then you get a penalty. In the case of VAT there are some penalties which are well advertised beforehand."

Micro business, ITSA/CT check, additional liability non-FRB, London

"I don't think they penalised me because I think obviously my face doesn't lie and my face must have been an absolute picture when they were telling me [I had made a mistake]. It's obviously not fraud."

Small/Medium business, VAT/PAYE assurance check, additional liability FRB, London

Others who had experienced a compliance check themselves, or who had spoken to friends working in a similar trade, expected HMRC to vary its response according to the scale of the error. They believed HMRC would give them the benefit of the doubt where an honest mistake was made, though were aware they could have to pay a fine as well as any due tax. They generally felt the magnitude of the penalty would be dependent on the size of the error.

A number of participants had a more hostile view of HMRC, though their views stemmed mainly from hearsay or their own speculation, rather than direct experience. They believed they could be faced with a prison sentence if they made a large error, or could be barred from taking up senior roles in other companies.

"I don't think I was very clear on the penalties. I thought it would be something quite drastic like being barred from being a company director in the future."

Micro business, Light-touch check, additional liability non-FRB, London

Companies who believed penalties could be severe also tended to be the most attentive towards financial issues and tax compliance was a higher focus for them.

2.4 Interaction with HMRC

The majority of participants had initially received a letter from HMRC to notify them of the check. They recalled this provided details either of the paperwork they needed to prepare (in the case of visits) or send to HMRC (where there was no visit) as well as details of a compliance officer they should contact for more information. A few did not recall an initial letter, but did recall a telephone call, which they tended to find off-putting as they regarded it as less official and too informal at this stage.

Although participants widely felt the tone of the initial letter was factual, their response to it often varied. Some participants were pleased about getting a compliance check and held the view that this would give them an opportunity to ask technical questions or get external validation about the processes and systems they had put in place. They believed that a non-yielding check by HMRC would provide reassurance that they were doing things correctly, acting as an endorsement of their professional competence and diligence in the eyes of their boss.

“I was hoping it would turn out well and therefore I could actually say to [name], who owns the company, we’ve had a compliance check and everything’s fine, which kind of is quite nice for me. It’s nice to have a third party come in and say things are okay and they haven’t found anything wrong, it kind of validates what you’re doing.”

Small/medium business, ITSA/CTSA check, additional liability non-FRB, London

Participants who had experienced previous compliance checks were confident about it and felt they knew what to expect. Participants whose previous checks were non-yielding were confident that the systems and processes they had in place were satisfactory and believed that if HMRC was to find an error, it would be extremely minor. These participants typically felt they had nothing to hide.

Some participants felt frustrated that they were being checked. They tended to own micro businesses or be heavily involved in other business priorities that took up a lot of their time. They typically felt compliance checks were an administrative burden and could take a lot of time to conclude, based on their own preconceptions or on stories they had heard from friends or seen in the press. A commonly held view among these smaller SMEs was that HMRC should be focusing more attention on larger businesses.

Others felt concerned when they were notified about the compliance check. Their concerns generally stemmed from a lack of awareness about what the process would entail, a belief that they had been selected because they had made a mistake, or a perception that HMRC would heavily penalise them, if this was the case. A few had experienced a check several years previously and held negative perceptions of the process. They were typically less informed about tax and about HMRC compliance checks even though they had a job role where this reflected on their performance.

“My heart sank [when I received the letter] ...you think you’ve made a mistake.”

Micro business, VAT/PAYE assurance check, additional liability non-FRB, Leeds

3 The behavioural impacts of HMRC compliance checks

Key Findings

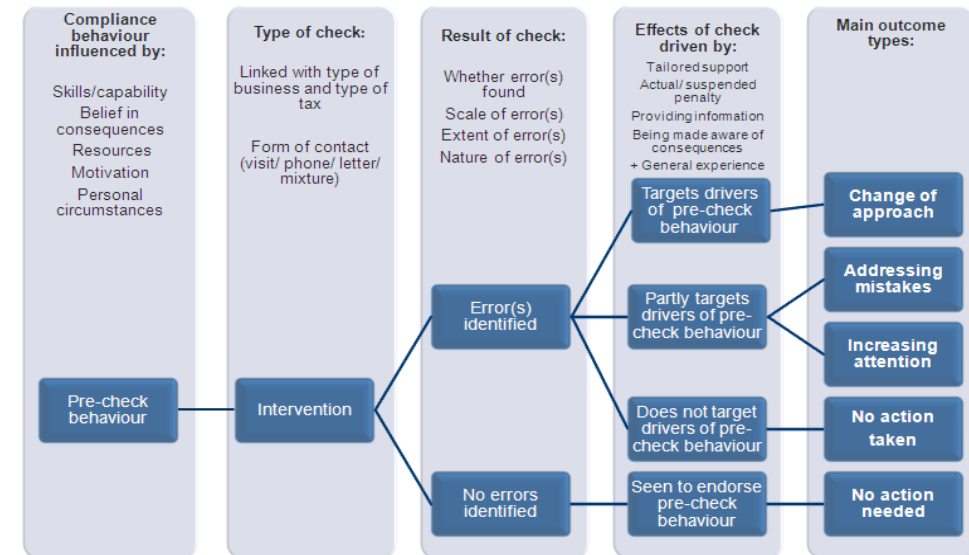
- Where a compliance intervention found an error, the SME usually changed their behaviour in some way as a result, although the depth of this change varied. The exception was when the SME believed that the error detected was either not worth making changes for, or where the SME could shift responsibility for the error onto a third party (such as an agent or accountant).
- The main driver of the depth of behaviour change was whether the check prompted the business to address the underlying reasons for non-compliance, or just the error(s) they had made.
- 'Change of approach' outcomes had the most potential for longer-term change and were driven by tailored support and signposting (not just focusing on the error but on the business' wider capability); the financial impact of the error (significance of the underpayment to the business); and receiving a penalty which had to be paid or being threatened with a penalty that was then mitigated.
- 'Addressing mistakes' and 'increasing attention' were shorter-term behavioural outcomes. The difference between them lay in the nature of the error(s) made and how organised they were about tax compliance. In the former, drivers of behaviour change were getting specific information to correct the mistake while in the latter the main driver was linked to having to pay a penalty. In both cases, just getting a check addressed the common belief that HMRC were unlikely to check very small businesses.
- In cases of 'no action taken' where errors had been found, the common characteristic was deferring responsibility for the mistake to a third party such as a tax agent who had provided poor advice.
- No additional liability cases where no error was found ('no action needed') generally did not make changes in response to being checked, but they had often been checked in the past and this may have had a cumulative impact on their current behaviour.

This chapter discusses the range of behavioural outcomes identified following HMRC compliance checks, and explains the factors associated with each. We have illustrated this using a flow diagram (Figure 2.1) which is designed to show the linkages between different factors that can affect behavioural outcomes, rather than any causal relationships.

3.1 What are the behavioural impacts, if any, of HMRC compliance checks?

Figure 2.1 illustrates the complex interplay of factors which influenced whether or not the tax compliance check had an impact on behaviour, and what type of impact that was.

Figure 2.1 – An overview of the linkages between different factors influencing behavioural outcomes



The first column captures pre-check behaviour – and what was driving non-compliance or compliance before the check. The main factors here were linked to:

- business size (associated with the skills and knowledge of the person in charge of tax compliance, and how much resource (time, IT systems, filing space, etc.) they had available to devote to tax compliance issues;
- motivation (in particular, whether or not compliance was linked to their professional identity) and;
- whether the business believed they were likely to be checked (including previous exposure to HMRC compliance checks), and was aware of the potential consequences in terms of having to pay overdue tax or a penalty.

In a few cases we also found that personal circumstances such as illness played a role in contributing to the behaviour that led to non-compliance.

The middle three columns are focused on the type of check; whether an error was found or not and the scale/ nature of that error; and what aspects of the check had the most impact. The key determinant of whether the check led to at least short-term behaviour change was whether or not it addressed the original drivers of non-compliance, or just the symptoms of that – so did it just target the error or did it address the reason why the error was made?

The different types of outcome are characterised as follows:

- Changing approach – In these case we found evidence that participants have changed the behaviour which underlay errors being made. These participants may be more likely to

maintain compliance in the long-term both in that specific aspect of the return and more widely. This is generally as a result of undertaking training to build their tax knowledge, or implementing a new system to improve their capability.

- Addressing mistakes, not behaviours – Evidence that a check has led participants to fix the specific error they made, but no evidence that they have changed the behaviour which led to that error. Non-compliance is addressed in the short or medium-term but perhaps not in the long-term, and is unlikely to affect compliance in other aspects of that tax return.
- Increasing attention, but not skills or knowledge – This outcome was found most commonly in cases where a skills or knowledge issue was identified as leading to non-compliance but the impact of the check led to increased motivation to get it right rather than directly addressing the skills or knowledge gap needed to do this.
- No change in behaviour – In these cases we found no evidence of changes in the way tax was handled or thought about within the SME after the check. This could be distinguished into two different types:
 - Where no errors or very small errors were found ('no action needed'), this was generally because the business viewed minor errors as inevitable or not worth trying to prevent, and retained a core confidence in the effectiveness of their system.
 - Where larger errors were found ('no action taken'), this was due to devolving responsibility for the error to someone else (usually an external accountant/ advisor).

In the rest of this chapter we discuss these behaviour change outcomes (taken from the last column of Figure 2.1) in more detail. We look at the drivers of each and how these relate to business factors, experiences of the check, and whether or not HMRC categorised the check as resulting in additional liability and/or FRB.

3.2 What drives each type of behavioural outcome?

3.2.1 Change of approach

The 'change of approach' behavioural outcome was heavily driven by Compliance Officers⁸ providing tailored support and signposting to the business experiencing the check. Compliance Officers provided this support in different ways. Those conducting face-to-face interventions provided information and advice, including supporting documents and verbal information, during the face-to-face visit. Those conducting light-touch interventions had discussions with the business by telephone and provided additional information by email. 'Change of approach' was also driven by bringing home to the business the possible consequences of non-compliance.

Before the compliance check occurred the participants had a high level of confidence in themselves and the systems they had in place. They felt they were very capable of dealing with tax compliance issues, even though for many participants this was their first compliance check and their systems had not been previously checked or 'validated' by HMRC.

⁸ We have used the term 'Compliance Officer' generically, to describe compliance staff delivering all types of intervention.

However, the check isolated multiple issues relating to their financial management system, gaps in knowledge and/or skills and their awareness of consequences. The compliance check not only made them aware of the flaws within their current system, it also strengthened the potential consequences of non-compliance by the threat of a penalty or even a potential prison sentence.

There was strong evidence that where an error had occurred, due to a gap in knowledge and/or skills, the Compliance Officers had enabled the participant to address this error through several means. The Compliance Officer provided the business with tailored support and guidance with their financial and record-keeping systems. Businesses were also signposted to information on the HMRC website which related to the error that had been identified during the check and more general information about tax compliance. Hard copy information such as leaflets or booklets was also provided to the participant, which tended to relate to general compliance issues affecting that business.

“[The Compliance Officer] was very, very helpful in terms of some aspects, you know in particular relating to VAT on company cars and that was one thing that I had got wrong and she was very, very helpful in that respect and gave us some advice and gave me things to look up on the internet”

Micro business, VAT/PAYE assurance check, additional liability FRB, Leeds

Some participants mentioned that the Compliance Officers recommended they attend a free HMRC seminar which focused on tax issues relating to SMEs. Generally, these participants appreciated the supportive attitude that most Compliance Officers had taken when approaching the compliance check. This encouraged the SMEs to address the fundamental issues that led to the mistake, rather than just correcting the error that had occurred.

“I think it was all handled professionally, I think I learned something out of it, I learned something new about tax law that I didn't know before and just overall improved our systems... I didn't mind it as an experience actually it was quite alright.”

Small/Medium business, VAT/PAYE assurance check, additional liability non FRB, London

However, there were a few instances where this outcome had led to unintended consequences. In a few cases participants felt that HMRC had been quite harsh with them considering they were micro businesses and only a small error had been found, which led to the business adopting a more negative attitude towards HMRC after the check.

“I thought it seemed quite bullying at the time. Bullying, suspicious questions, yes, just rough you up...”

Micro business, ITSA/CTSA check, additional liability non FRB, Bristol

What types of cases tended to fall within the ‘change of approach’ outcome?

The SMEs that achieved this behavioural outcome were mainly Future Revenue Benefit (FRB) cases and/or large additional liability cases. The high level of yield in some cases (often accumulated over several years, due to recurrent error(s)) had a heavy impact on the business. This meant that ensuring future compliance was of critical importance as the business could not afford to pay such a large sum again. There was evidence to suggest that tax compliance would be maintained for longer because the underlying issues within the business had been addressed.

Case study: Micro business – Light-touch check

The participant was the owner of business which ran fitness classes. The Compliance Officer explained that the business had incorrectly claimed the first year flat rate discount on their VAT return.

The business had claimed the discount on the advice of their accountant and was annoyed that this had led to a check and needing to pay £900 VAT they owed.

During the check the Compliance Officer directed the business to the HMRC website where they would be able to find up-to-date information on VAT returns (they had not looked at this previously).

The Officer also mentioned that HMRC hold seminars for businesses so they learn more about VAT and tax compliance.

“I use the website a lot more, it's really good.... The seminar was great, it's a pity they don't publicise them more widely because small businesses should be able to manage simple VAT returns but there was a gap for me when I started - I did follow advice from an accountant but they were wrong - all I really needed was the seminar”.

3.2.2 Addressing mistakes

The ‘addressing mistakes’ behavioural outcome occurred in cases where the Compliance Officer specifically focused on the error in the return and how the business could ensure that this did not re-occur. In these cases there was little evidence that the Compliance Officer provided advice or information on tax compliance in general, beyond the error identified during the check. Participants were specifically prompted on this to aid recall⁹, but believed they were not offered any wider advice or information. This therefore meant that the underlying issues that led to the error, such as the participant being unaware that they needed to keep up to date with tax compliance issues, were not addressed.

“Not really no, they didn't give advice. I mean, I brought to her attention one or two things I was unsure on, clarification... we had something going on with our books last year.”

Small/Medium business, VAT/PAYE assurance check, additional liability FRB, London

⁹ Participants were prompted on whether they had received written guidance such as leaflets or information sheets, and whether they were referred to the HMRC website.

The fundamental issue in these cases was a gap in the participant's capability, due to a lack of skills and/or knowledge around a specific aspect of tax compliance.

"I was pretty confident that I was following the procedure that was the right one"

Small/Medium business, ITSA/CTSA check, yielding FRB, London

Belief in consequences was also strongly related to this outcome for some participants. This was due to SMEs believing that, as an error had been found during the check, HMRC would be paying closer attention to their tax returns in the future. The check equally brought home to them what the consequences of non-compliance could entail, as some of them had to pay a penalty or interest on the unpaid tax. For many participants this was their first check and they had been unaware of the consequences of non-compliance before now.

"I could imagine they might... 'cause I've one penalty now, they must keep a score somewhere, there's a penalty, so we must be on a list somewhere...therefore maybe they'll bring another visit sooner rather than later, to make sure that we've conformed to what they've asked us to do, to double, double check."

Small/Medium business, VAT/PAYE assurance check, additional liability FRB, London

Unlike 'change of approach' cases, the participants made an assumption during the check that the non-compliance was a specific one-off error, which therefore meant that they did not need to make deep-seated changes to their systems or the way they approached tax compliance. This was often linked to the behaviour of the Compliance Officer (which focused on correcting the error rather than on wider capability issues¹⁰). However, there is evidence to suggest that errors were frequently a result of the SME not keeping up-to-date with tax rates and regulation changes.

There is no evidence to suggest that claiming Future Revenue Benefit in these cases is not accurate. However, if rates and regulations do change in the tax areas that relate to the error it is likely that the SMEs may become non-compliant again, as the check did not prompt them to take responsibility for keeping more up-to-date.

What types of cases tended to fall within the 'addressing mistakes outcome'?

The types of cases that achieved this behavioural outcome were either additional liability or additional liability and Future Revenue Benefit (FRB) cases. However, they did not tend to be large additional liability cases.

The participants in the addressing mistakes outcome were generally reactive about the issue of non-compliance and heavily reliant on HMRC to advise and guide them. Many of these SMEs were micro in size and the person in the business who handled tax affairs was not a qualified accountant (although some of them were trained book-keepers). They were also frequently handling tax as an element of their wider role within the business, which meant that the tax affairs were not always a priority.

¹⁰ An example is provided in the case study box overleaf.

Case study: Small/ medium sized business – PAYE assurance check

The participant was a book-keeper who managed the accounts and dealt with the check.

During the check the Compliance Officer realised that the business had provided an incorrect figure when recording the value of company cars in their PAYE return.

This was not the business' first compliance check and they said that they had been told to use the figure that HMRC provided them with during a previous visit (as a result of a non-compliance found then).

The Compliance Officer informed the participant that the process had changed since that information was provided, and sent the business a letter after the visit which included the up-to-date, correct figures.

The book-keeper now copies these figures from the letter when she completes a return. So while the original mistake has been corrected (twice) the underlying behaviour has not been changed – she still does not look for up-to-date information of her own accord.

3.2.3 Increasing attention

The cases which fell into the 'increasing attention' outcome were more disorganised in their approach to tax compliance than the 'addressing errors' group. The SMEs that achieved the 'increasing attention' outcome placed far less importance on being compliant than SMEs that achieved the other behavioural outcomes.

The SMEs tended to have poor financial record keeping systems in place, which they did not update on a regular basis as this was not something that was prioritised within the business for several reasons. There were either resourcing concerns, time constraint issues or they just did not see this as part of their professional identity within the business as it was considered as something that hindered them from focusing on 'their job'. Some of the SMEs admitted that all three of these reasons were important factors in why they did not keep their records up-to-date prior to the check.

“When you're running your business and very busy, the books go down to the bottom of your to-do list... they were never a top priority.”

Micro business, light-touch check, additional liability non FRB, Leeds

The participants equally had lower levels of skills and knowledge, which lead them to incorrectly completing the tax returns and having multiple compliance issues within their business.

“I'm not an accountant.....I am very much an amateur”.

Micro business, ITSA/CTSA check, additional liability non-FRB, London

The Compliance Officers tended to find multiple errors in these cases and they related to separate compliance issues. Many of the errors had arisen through poor management of the financial systems that the business had put in place, rather than occurring from a one-off mistake.

“I had no system no, just excel spreadsheets... I was updating them every 2 or 3 months I would say.”

Micro business, ITSA/CTSA check, additional liability FRB, London

The participants had a limited awareness of the consequences of non-compliance prior to the check, such as the issue of a penalty, so the check made them more aware of the consequences of errors being found in their return. This low level of awareness was due to this being their first experience of a compliance check. The key consequence of non-compliance - the threat or payment of a penalty - motivated the participants to become more focused on compliance issues in the future.

The heightened focus on tax compliance issues is likely to have a short-term behavioural impact in these cases. Participants increased the level of attention they give to tax compliance, such as the amount of time they take to complete the VAT return, but the underlying issues which led to the non-compliance have not been addressed, as fundamental skills and knowledge gaps were not resolved during the check. Based on participants' recall, there was little evidence that the Compliance Officer attempted to address these underlying skills and knowledge issues during the check.

“I think that the experience is a little bit of a wake-up call as in to do just that just to get on top of it a bit more and give it a little bit more attention it's not particularly difficult to be honest if you actually said “today all I have got to do is this VAT return” you would have it done in half an hour”

Micro business, light-touch check, yielding non FRB, Leeds

What types of cases tended to fall within the ‘increasing attention’ outcome?

The cases that achieved this outcome were all additional liability as the existence of errors was vital to this behavioural outcome. Equally, although the act of having to re-pay tax or a penalty reinforced the need for the SME to become more highly focused on compliance, the absence of any wider system level changes meant that this was potentially short-lived if resource constraints such as lack of time arose again in future.

Case study: Micro business - Corporation Tax check

The manager who was dealing with the business' taxes had little experience and no training in this area, which was not part of his main job role.

“I did not know much [about tax], if I'm honest with you. “

The Compliance Officer found several errors in the tax return which led to the business having to pay a substantial sum to HMRC.

After the compliance check the manager started to update his records more regularly and around a year after the check he employed an accountant to advise him. However, he reported that he had not actually used his accountant for advice yet, despite the check taking place in 2011.

He said that he places greater importance on compliance issues now, but there was no evidence that he had addressed the knowledge or skills gaps that had led to the compliance errors that were found.

3.2.4 No action taken

The 'no action taken' behavioural outcome was strongly linked to the participants' attitude towards the non-compliance that had been isolated during the check and the overall confidence they had in the financial management system they had put in place.

The participants had low skills and capability levels prior to the check, but they tended to be aware of this, which is why they frequently employed third parties such as accountants to help them deal with this area of the business.

"When I set the business up in 2006 I was very reliant on my accountant to tell me how to do VAT returns and so on."
Micro business, light-touch check, additional liability non FRB, London

This reliance on third parties also led to the participants not seeing compliance as part of their role. Therefore if errors did occur they did not regard this as being their fault. They were relying on the advice from their accountant and did not see themselves as responsible for this element of the business, even though they were completing and submitting the returns themselves.

The participants tended to be unaware of the consequences of non-compliance before the check and they equally did not think that HMRC would check their business as they were so small. Issues around HMRC focusing on SMEs rather than tackling larger companies arose here.

"It's not an option well not for a small company. If you're Starbucks or Amazon it seems you don't have to pay tax..."
Micro business, light-touch check, additional liability non FRB, Bristol

The check raised awareness of the consequences of non-compliance among the participants but as they did not see the error as being their fault this did not impact upon their behaviour. There is no evidence to suggest that tax compliance was reinforced as being their responsibility, by the Compliance Officer during the check, although like all of our findings this may be affected by the recall of the participant. The Compliance Officers tended to find single but recurring errors which reinforced the participants' belief that there was nothing wrong with their system overall, but that the non-compliance was due to initial poor advice and guidance from their accountants. After the check the participants tended to change their accountant, rather than taking responsibility for the error themselves. This led to the 'no change' behavioural outcome as the fundamental knowledge and skills gaps they had, and in particular their motivation to take personal responsibility for tax compliance, had not been addressed as they believed the new accountant was better and therefore could be trusted to deal with that area of the business (we have no way of knowing whether this belief was correct).

What types of cases tended to fall within the 'no action taken' outcome?

The 'no action taken' outcome generally occurred within small or micro sized SMEs, as they were most likely to employ a third party to deal with the financial side of the business. They were equally less likely to have any professional training, qualifications or a background in finance.

Case study: Micro business – Light-touch check

The sole trader hired an accountant to deal with the day-to-day financial side of the business, such as invoicing, but he was still completing VAT returns himself. Just before the check happened he changed his accountant.

The Compliance Officer found an error regarding VAT. When VAT increased to 20%, the previous accountant had not changed this on the invoices. The previous accountant then blamed the participant for the oversight. **"The accountant said to me that I should have told him the rate had changed. Like it was my job."**

The participant still uses his new accountant and he still believes that side of the business is not his responsibility. **"I have great confidence in my current accountant to get things correct and he doesn't need me to feed information to him."**

The check has not addressed the knowledge and skills gap which lead to the non-compliance, nor the motivational issues which meant that the participant did not take any responsibility for the error despite completing his own tax returns.

3.2.5 No action needed

The 'no action needed' outcome was heavily driven by;

- Whether no error or a small error was found during the check.
- The person in charge of business finance being highly trained and focused on tax compliance.

In some cases an error was not found and the participants saw this as HMRC 'validating' their system. In others, a small error was found during the check but SMEs saw this as inevitable, believing that even a good system will never be completely flawless all of the time. The participants equally saw the discovery of a small error during the check as showing that their system was solid and did not need to be changed. These cases were different to the cases in the 'no action taken' outcome because these businesses had a highly trained individual focusing on tax compliance, who ensured the business was keeping up to date with tax regulations. Errors that occurred in these instances were related to a very specific gap in knowledge or to a one-off human error such as a miscoded invoice, – rather than a fundamental skills, knowledge or capability issue.

The person in charge of tax affairs within these SMEs tended to be a trained accountant, have some form of accountancy qualification or a great deal of experience in this area. This meant that these individuals had a high level of skills and capability in running this aspect of the business effectively prior to the check.

"It's something that I've always done within my role; so before I joined [the business] I was a management accountant for another company where I worked for 20 years; so it's something that I've been trained in really from a junior accountancy position."

Small/Medium business, VAT/PAYE assurance check, no additional liability, Leeds

The individuals responsible for this area of the business before the compliance check saw tax-compliance as an essential element within their role and it was their responsibility to ensure the business was compliant. Accepting this responsibility meant that these individuals were highly focused on compliance issues and they were keeping up to date with tax rates and regulations.

It's just a core responsibility within the accounts department... Tax compliance is one of those things that the rest of the firm expects me to deal with and they expect me to get it right.

Small/Medium business, VAT/PAYE assurance check, additional liability non-FRB, Bristol

The participants were not surprised when they were first notified of the compliance check, if anything they were expecting it. The SMEs saw tax compliance checks as something that happened at regular intervals. They had experienced several checks before, so they were very familiar with the process and what to expect.

"So I'm off the hook until 2016 because they come every five years. I remember when it was sort of five years almost to the day when [we had the last one]... I think I'd only just joined the company and it was like, oh time for a VAT inspection."

Small/Medium business, VAT/PAYE assurance check, additional liability non-FRB, Bristol

During the check the Compliance Officers either found a small error or no error at all, which meant that the participants saw the check as endorsing the financial management system they had in place. The view that their system had been validated by HMRC caused the 'no action needed' behaviour outcome because the participants did not see any need for change. If anything, they saw the validation of their system as reinforcing that there was no need to change, as they were already compliant.

"He gave quite glowing words. I mean I can't remember whether he said good... but we are a little bit anal about it, mainly because I can see so many opportunities for getting it wrong and it's expensive to get wrong. And the last thing you want is years and years of mistakes building up into a big cost. It's better to get it right, you know."

Small/Medium business, VAT/PAYE assurance check, additional liability non-FRB, Bristol

What types of cases tended to fall within the 'no action needed' outcome?

The businesses in this category were mainly in the 'no additional liability' category, with a few in the 'additional liability, non-FRB' category. Those in the latter category had little recall of having to repay any tax, suggesting that the amounts involved were very small. Most of them were larger SMEs with trained financial professionals in charge of their accounts, who had experienced a number of compliance checks in the past.

Case study: Medium sized business – PAYE assurance check

A chartered accountant was responsible for managing financial records and tax within the business.

"It's something I have always done within my role. It's something that I have been trained in from a junior accountancy position."

The business had not received a PAYE check in some time, so she was expecting one.

"Very likely because we've not had a PAYE check while I've been here so we knew that eventually they would come. I think it had been about eight years so we knew that we would be due for a check."

No errors were found during the check, so she felt there was no need to change the way she was approaching tax compliance as HMRC had validated the system in place and tax compliance was already seen as a high priority within the business.

"Very confident because I got ticks for everything."

4 Does behaviour change differ by compliance check?

Key Findings

- There was no evidence to suggest that the nature and extent of behaviour change was directly linked with the type of check the SME received. A number of other factors which affected behaviour change were identified which included business related, check related and error related factors.
- Business related factors included; the size of the business and the use of an accountant for advice.
- Check related factors included; whether or not the SME had previous experience of compliance checks and the perceived depth and duration of the check.
- Error related factors included; whether errors were identified during the check, the amount the SME needed to repay and whether it was likely to be a recurrent error.
- The interplay between these factors influenced the behavioural determinants of tax compliance within the SME, specifically the level of skills, knowledge and resources which an SME could draw on to maintain tax compliance, as well as its motivation to do so.

This section discusses whether the type of HMRC compliance check received influenced the behaviour of SMEs. It also explores how other factors relating to the business, including its size, how tax compliance was managed and experience of previous compliance checks were linked with behaviour change following a check. Finally, it discusses how the outcome of the check influenced SME behaviour.

4.1 Is the type of compliance check important in driving behaviour change?

There was no clear relationship between compliance check type and the behaviour of SMEs after receiving a check. Instead, the type of behaviour change identified was linked with a number of other factors which combined to affect the level of skills, knowledge and resources which a SME could draw on to maintain tax compliance, as well as its motivation to do so. These factors were:

- The size of the business;
- Whether the business was using an accountant for advice;
- Whether it was the business' first compliance check; and,
- The scale of the error, and subsequent repayment required.

This meant that although certain types of behaviour change may have seemed more likely to occur as a result of a particular type of check, the underlying factors lay within the business itself and the relative financial cost of the check to the business.

The rest of this chapter explores how these business, check and error related factors could either facilitate or mitigate behaviour change within an SME.

4.1.1 The influence of business related factors

The key business related factor which influenced the behaviour of a SME after receiving a compliance check was its size.

Among our participants, VAT and PAYE assurance checks were typically experienced by larger SMEs with relatively high turnovers and these businesses usually employed someone (or a team) within the company to manage their accounts and tax responsibilities. This meant that skills and knowledge of tax tended to be higher than in smaller SMEs because the person managing tax was typically either a chartered accountant or an experienced book-keeper. Their resources also tended to be higher than smaller SMEs as they had few, if any, other demands on their time at work and tended to have more physical and financial resources in place to manage systems. Further, as they were paid to manage the business' taxes and were given resources to do so they tended to be motivated to maintain tax compliance as this fed into how their performance was judged by the business' owners.

"When I announce that we're having a VAT inspection they said 'Well will we be alright, because you're running it?' So that's the sort of attitude which is, 'We expect you to be getting this right. We certainly don't expect you to be sailing close to the wind or anything like that, we just expect this to be got right.'"

Small/Medium business, VAT/PAYE assurance check, additional liability non-FRB, Bristol

This meant that any errors identified during a compliance check tended to be isolated, specific mistakes or oversights rather than as a result of ingrained errors or lack of attention across the entire financial process (encompassing coding, record keeping and the knowledge or expertise of the individual in charge of tax). Typically, they reported that they did not have enough time to check every invoice or receipt which was processed and believed that the cost of doing so would be higher than the cost of any errors which were identified.

Light-touch checks and ITSA/CTSA checks were more likely to be experienced by smaller SMEs. Among our participants, sole traders typically only received Income Tax enquiries rather than Corporation Tax or VAT checks, as they were less likely to be incorporated or to be registered for VAT due to their lower turnover. These businesses tended to have different and more numerous barriers to maintaining compliance than larger SMEs. This was because tax was typically managed by someone who was not qualified to manage accounts or tax and so tended to have larger skills and knowledge gaps around the tax system. These participants tended to manage tax around their main role which meant that they often struggled to find the time or the physical space to manage their records effectively and also generally did not connect these tasks with their professional identity or performance.

"One of the trade-offs about being in business is that if you spent all your time getting your records 100% you would probably never making a living...One of the issues I have constantly is do I sit down and do the administration or do you go out and do something useful for the client."

Micro business, ITSA/CTSA check, additional liability non- FRB, London

As a consequence, these SMEs were more likely to have fundamental or multiple errors than larger SMEs, which often cut across their entire financial and tax management systems (for example, a haphazard filing system). This meant that these SMEs were more likely to feel that they needed to change their behaviour to some extent.

However, the use of [external] accountants sometimes acted as a barrier in these cases. Participants in some of the smaller SMEs which had experienced a light-touch check or ITSA/CTSA check reported that they used an accountant to either initially register for the tax or as a source of advice. This had an impact on the extent to which the business itself took responsibility for any errors found during a check as they were likely to devolve responsibility for this to their accountant. This meant that although they might change their accountant as a result of the check, they were less likely to change their own behaviour.

4.1.2 The influence of the compliance check

Although one might hypothesise that VAT and PAYE assurance checks were more intense as they were conducted face-to-face on the SME's premises, and were therefore more resource-intensive, they seemed to have less immediate impact than many of the ITSA/CTSA checks and light-touch checks. There were two main reasons for this.

The first was that assurance checks were normally handled by an accountant or book keeper who viewed the compliance checks as a necessary part of their job. These participants had normally experienced a number of compliance checks in the past and this meant that they knew what to expect from the check and also expected to receive one every few years. These participants tended to view compliance checks as an overall check of the credibility of the system which they had in place. As they tended to be confident in their system overall, they also tended to be comfortable with receiving an assurance check and did not perceive it as particularly burdensome but as part of their job. Among these businesses, there was therefore a cumulative impact from having had a number of compliance checks in the past, coupled with a high expectation that they would be checked again in future, but less immediate impact on their behaviour after the most recent check.

"I haven't changed the way I'm recording everything as he was perfectly happy with everything. I got ticks for everything so as long as I continue to do the same the next inspection should go quite smoothly"

Small/Medium business, VAT/PAYE assurance check, additional liability non-FRB, Bristol

SMEs which had received ITSA/CTSA checks and light-touch checks were less likely to have had previous experience of a compliance check and so were unsure of what to expect. This meant that they were more likely to feel anxiety about what would happen during the check and what would be expected of them. Additionally, as tax was typically handled by someone who primarily fulfilled another role in the business, they often found the check to be more disruptive as they had less time to fit it in.

The second reason was that participants' perceptions of the level and depth of a compliance check were linked with the number of instances of contact with HMRC and the overall duration of the check, rather than the channel used to conduct it.

SMEs which had experienced assurance checks tended to feel that they had been given plenty of notice and flexibility in arranging a visit and that they had generally only lasted for between half a day to two days. Many also reported that they had only needed to have a short conversation before and after the compliance officer checked a sample of their records and that they had been able to get on with their job in between.

“Quite a bit [of notice], enough. I’d probably say maybe six weeks or four weeks, it was very adequate for what was required. [The Compliance Officer] just requested the information that she was after, and that I just left her alone with the paperwork, which was fair, and I think she called me up maybe twice, just to find something for her.”

Small/Medium business, VAT/PAYE assurance check, no additional liability, Leeds

Conversely, many participants in SMEs which had received an ITSA/CTSA check or light-touch check reported feeling that the check had been time consuming and intrusive. Although these checks were mainly handled through letters and phone calls, the number of these not only meant that the SME needed to have more instances of contact with HMRC than for an assurance visit but also over a longer period of time.

This was particularly the case for ITSA/CTSA checks which could last for up to a year. There was also a feeling among SMEs which had received an Income Tax enquiry that the checks were personal and as such more intrusive as they were dealing with the personal finances of the person who handled the check. This experience often had a serious impact on the person handling the check as it took up a significant amount of time and concern as they did not know how or when the check would end.

“Yes, I didn’t work as much, my revenues for those months is somewhat reduced, I just didn’t feel...at one point I was going to jack the whole thing in, I thought, ‘This just isn’t worth it’.”

Micro business, ITSA/CTSA check, additional liability non-FRB, Bristol

While light-touch checks tended to be shorter than ITSA/CTSA checks, due to the time it took for letters to go between the SME and HMRC, even these could take several weeks or even months to be resolved – so they did not always feel ‘light touch’ to the participants.

4.1.3 The influence of the outcome of the check

The outcome of the check also influenced the behaviour of the SME, and these outcomes cut across different types of check. In cases where no or only minor errors were identified, the SME tended to view the compliance check as a validation of their system and approach and so would be unlikely to make changes as a result.

In additional liability cases, the change in behaviour depended upon the relative value of the repayment that needed to be made by the SME as well as perceptions about who was responsible for the error. For some larger SMEs, the cost of the repayment, while higher than those made by some smaller businesses were not high enough to make changing behaviour worthwhile, particularly if it would require more staff or a new system.

Additional liability cases in smaller SMEs were more likely to lead to a change in behaviour although the key factor here was less about the level of the payment but the extent to which the participant accepted responsibility for making the error. Even in some large additional liability cases, there were instances of SMEs not changing their approach to managing their records and tax as they

attributed the error to the fault of their accountant (for poor advice) or of HMRC (for not providing clear enough information about certain areas of tax).

4.1.4 The relationship between FRB and behavioural outcomes

FRB is the estimated monetary amount that will accrue to the Department as a direct result of the compliance intervention. FRB is a component of the Revenue Protected figures published in HMRC's annual report. SMEs themselves are not aware of whether HMRC has recorded FRB on their case. This is not something that was directly discussed with participants.

The FRB cases in our sample occurred where errors were related to a recurrent error or misunderstanding, such as reclaiming tax incorrectly on expenses, rather than to a one-off mistake such as miscoding an invoice. This is in line with FRB as a concept, which is based on the compliance error identified being something that would recur in the future without HMRC's intervention rather than a one-off mistake.

In cases where HMRC officers had noted potential for FRB to occur, SMEs did make changes although the depth of the change varied. Most of the FRB cases in our sample were in the 'change of approach' or 'addressing mistakes' outcomes.

In the former, the underlying issues within the business had been addressed by the check and the changes that occurred were therefore likely to be more sustainable (although it should be noted that we have no way of knowing this for certain given that the research did not take a longitudinal approach). In the latter, the error itself was corrected, although not necessarily all of the behaviours which caused it, suggesting that maintaining compliance could be at risk if rates and regulations change in future. The extent to which the underlying behaviour was addressed depended on the extent to which the compliance check focused on the error or went beyond this, to address broader capability issues within the business. In such cases, there is no evidence to suggest that claiming FRB is not valid, but the behaviour change identified was less deep-seated than 'change of approach' cases and there is a risk that non-compliance could re-occur in the longer-term.

While all of the light-touch checks in our sample were categorised by HMRC as additional liability but not FRB, we did identify cases of behaviour change among some SMEs who had received a light-touch check, including one 'change of approach' outcome (the deepest level of change, which is likely to be longer-lasting). The relationship between the type of check, and whether FRB is claimable or not is therefore not clear cut. This reinforces the points made in Section 4.1.2 regarding perceptions about the 'intrusiveness' of different types of intervention. Among our participants, there was no linear relationship between the scale of the intervention (from HMRC's perspective) and the outcome of the check: for some businesses, light-touch checks felt more disruptive and time-consuming than others who received what were, on the face of it, more 'intrusive', face-to-face visits.

5 Do HMRC compliance checks have wider impacts?

Key findings

- Network effects are complex and depend on business size, sector and experience. Where businesses did talk to each other about compliance checks, this was usually among accountants working in medium-sized enterprises, who had more knowledge about tax issues to begin with and were more accustomed to being checked.
- Many micro businesses and sole traders preferred to keep news of receiving a check to themselves, viewing it as a personal matter. This was particularly the case for ITSA/CT enquiries.
- We found network effects played a limited role in pre-check compliance behaviour, mainly through hearsay from other small businesses or the occasional media report. The effect of this was usually to circulate 'scare stories'.
- Awareness of HMRC publicity about compliance activity was restricted to a few SMEs in certain sectors, as we might expect given that such publicity is specifically targeted. Similar to network effects, these tended to generate a mood of general concern rather than to stimulate specific action, as participants believed (possibly incorrectly) that their businesses were already compliant.
- Spillover effects to other areas of tax duty were inherently limited by the way that many SMEs managed their tax affairs, splitting responsibility for VAT and ITSA/CT between themselves and an external accountant.
- 'Change of approach' cases were those with the most potential for spillover effects (if the participant was handling more than one area of tax). In other behaviour change outcomes, because the focus was on the error rather than the underlying behaviour, impacts were generally restricted to one type of tax.

In this section we explore the wider effects of HMRC compliance checks. We do this by examining two potential effects that compliance checks may have, beyond the immediate business or area of taxation in which they take place: 'network effects', which entail impacts on other businesses; and 'spillover effects', which entail impacts on other types of tax.

5.1 Network effects

5.1.1 Do network effects play a role in pre-check compliance behaviour?

We have seen in earlier chapters how SMEs for whom this was the first compliance check had only a vague awareness that HMRC conducted them. And among those who were aware that checks could take place, they tended to believe this would not happen to them as they were too small to attract HMRC's attention or believed that, as they thought they were not doing anything incorrect or unusual, they would not 'stand out' (see Section 2.2). The awareness among such businesses tended to be via hearsay and was usually negative, in terms of perceptions of HMRC and how it treated small businesses.

"Just you hear stories of VAT people coming and you know, causing people trouble or fining them or whatever, it's never good news is it? You always only ever hear the bad stories."

Small/Medium business, VAT/PAYE assurance check, no additional liability, Leeds

"I heard some horror stories, yes."

Micro business, Light-touch check, additional liability, Bristol

Participants had limited awareness of HMRC publicity around compliance activity – which tend to be targeted at particular types of business or industry sector. Those businesses that were aware of specific, recent campaigns were in the plumbing and café/restaurant sectors. It should be noted that there has not been a compliance campaign around the café/restaurant sector but some participants believed there had been. Although they were aware of the perceived publicity around compliance activity, the participants had not taken any action in response to them because they already believed their records to be in order.

"They were quite unpleasant and menacing messages that were going out [from HMRC], it was designed to create a climate of fear... So I was aware there was a higher likelihood of getting an inspection that year and because my business is so simple, my turnover's so low, I don't employ an accountant. I'd consider myself reasonably competent with figures."

Micro business, ITSA/CTSA check, additional liability non-FRB, Bristol

Before the compliance check took place, some smaller SMEs who had not experienced a check previously had their preconceptions about it reinforced by talk amongst other businesses. This had diverging effects depending on what they had heard: for example, one became more concerned about their forthcoming check based on what fellow business people had told him, that the compliance officers would keep looking until they found something wrong, while another was more comfortable about hers, after friends reassured her that HMRC 'is more flexible about VAT.' Therefore the research identified limited examples of where such 'talk amongst friends' reinforced a more casual attitude, which had contributed to the original non-compliance.

5.1.2 To what extent does having a compliance check create network effects beyond the business?

Many of the participants who had not been checked previously preferred to keep the check private, in particular sole traders and micro businesses where tax compliance and personal reputation were very much intertwined. This was especially the case in ITSA checks where personal finances were involved. Overall, this meant that scope for wider network effects was limited among sole traders and very small businesses.

“It sounds really bad doesn’t it? It’s like ‘oh my god I’ve done something wrong I am being investigated’ so I think it’s not something that you talk about or share because it almost feels like a black mark.”

Micro business, Light-touch check, additional liability, Leeds

Where such participants did discuss it many of them preferred to keep it within a small personal circle, consulting with family members or with an external accountant for advice on handling the check.

“I spoke to my accountant at the time, that was the first person I spoke to. I made the mistake of mentioning it to my dad and he was very worried... I didn’t tell too many people because I was a bit worried about it and I didn’t know how it was going to go and I was a bit embarrassed about it.”

Micro business, Light-touch check, additional liability, London

Of course there were a few exceptions and these tended to be among participants in certain close-knit industries such as the creative sector, where there was more camaraderie and social interaction, and with it a greater likelihood of informal ‘talk’ and shared experiences. One participant commented:

“I just said it was a real pain in the neck, because it was ultimately. I’m not saying they could make it so it’s not. By the very nature of it you’re being checked for something that if you’ve done anything wrong you could end up paying money out or really getting into trouble.”

Micro business, ITSA/CTSA check, additional liability non-FRB, London

Where participants did more commonly discuss their experience of the check it tended to be in larger companies, where participants often mentioned it to fellow accountants they were friends with in other companies, as part of their everyday talk about work. The focus here tended to be more on their general experience of the check itself rather than on specific points of details about compliance, although in a few cases the research identified participants who used their wider network to seek validation following the check as well as to share information. For example one accountant running the finance team in a medium-sized business had received a check which identified a mistake with how tax relief was claimed on bad debts, which he corrected, but which he justified by the fact that other accountants he knew had been making the same error. He had cascaded the correct information not only to people working in his team but also to accountant friends in other companies.

Participants also tended to discuss the check more widely if it had exceeded their expectations, in terms of how HMRC handled the issues involved. To some extent this provided them with a cathartic experience in which they could share their relief at not being more heavily penalised:

“Have I talked to anybody, yeah, I’ve been if you like negative on the fact that it was found I was wrong and I had to pay money back but to a certain extent positive on the fact that I believe the officer that came was very fair and very co-operative.”

Micro business, VAT/PAYE assurance check, additional liability FRB, Leeds

5.2 Spillover effects

The scope for spillover effects into other tax duties was inherently limited by the way that many of the participants managed their tax affairs. Among many of the smaller businesses, for example, tax duties were compartmentalised, with the participant handling quarterly VAT returns while their annual accounts (either company accounts or self-assessment tax return) were handled by an agent. This was generally motivated by practicalities, such as needing to keep down costs, and underpinned by the (sometimes erroneous) belief that compiling the VAT returns should not be too difficult or time-consuming.

“VAT is my main concern. Because we’re a partnership the partners get taxed individually and our external accountant deals with that... PAYE is done by an external payroll company.”

Small/Medium business, VAT/PAYE assurance check, large additional liability FRB, , London

‘Change of approach’ cases, which entailed more deep-seated attitudinal as well as practical changes towards tax compliance, were those with the most potential for subsequent spillover effects into areas of taxation other than the focus of the check. This was because behaviour change included motivational and attitudinal shifts, in terms of the priority the business afforded tax compliance and how much time and resources they gave to it, which meant that tax issues generally increased in priority within the business. Going on relevant training courses also helped to improve capability across different areas of tax.

Compliance checks in one area of tax could also have a cumulative impact on general attitudes towards tax compliance. For instance, those SMEs who had undergone a series of compliance checks in the past, often medium-sized businesses, tended to expect regular checks across the range of tax duties, and getting these ensured that tax as a whole was kept towards the top of their priority list.

“Because we’d had those checks already for VAT and PAYE it was already on my radar that we do need to be really careful because we might be checked.”

Small/Medium business, ITSA/CTSA check, additional liability non-FRB, London

In cases of ‘addressing mistakes’ or ‘increasing attention’, because the focus was more often than not on the error rather than on the behaviour that underlay it, impacts were generally restricted to that particular area of tax.

6 How would participants like to see compliance checks improved?

Key findings

- Participants preferred to get advance notice of the check so that they could prepare for it. This was especially true of micro businesses and sole traders.
- Some used the time they had to better organise their paperwork and conduct their own internal audits, which could lead to errors being identified before the check.
- Participants were keen to complete the check as soon as possible. To this end, once the check started they preferred more direct forms of communication, rather than exchanging letters, which was felt to 'drag things out' longer than needed.
- Participants who had a light touch check or ITSA/CTSA check often spoke of how open-ended this felt, and wanted to have a clearer outline of the process with more regular progress updates.
- Participants appreciated what they viewed to be a more supportive attitude among compliance officers. This approach could help to allay their worries about being checked in future as well as encouraging them to seek more information or advice from HMRC, which could potentially prevent further cases of non-compliance.

This section discusses how participants would like to see compliance checks improved, by exploring their experiences before the compliance check, whilst the check was being carried out, and after it had concluded. This section should be read in the context of HMRC's new Single Compliance Process (trials in 2012-2013) which aims to reduce customer burden and the time taken to complete compliance checks, by focusing the enquiry so that it is more proportionate to the risks identified, and by seeking early dialogue and a more collaborative approach during the check.

6.1 Pre-check

Initial communication played a key part in reassuring participants and putting them at ease. This was deemed particularly important by participants who had no prior experience of a check and were thus unsure of what to expect. Those participants who had received an initial letter from HMRC felt its content was clear and factual. Letters were perceived to be a traditional, yet 'official' form of communication, and some participants even acknowledged that receiving a letter from HMRC made them "sit up" and pay more attention.

"I think a letter's more official actually. You get so many phoney emails coming through now, with errors, sometimes you miss these things, and I think a letter you don't miss, because it's yellow paper and it's a brown envelope, so you certainly sit up when you get one of those."

Small/Medium business, VAT/PAYE assurance check, additional liability FRB, London

Ideally, letters should provide an option to contact an officer for further information, as participants preferred this because it allowed them to ask questions and get answers. Participants who had little or no prior experience of compliance checks (particularly those involved in a light-touch check) felt the initial letter raised some questions. Therefore, they sought to speak to a Compliance Officer (via telephone) to clarify their understanding and to help put them at ease. These participants felt it was easy to get through to the relevant Compliance Officer by telephone.

Participants generally preferred receiving information about the nature of the check as it enabled them to prepare beforehand. Some participants mentioned the initial letter they received contained an explicit list of documents HMRC would be checking; whilst others mentioned the Compliance Officer they spoke to on the phone detailed what they were looking for.

Further, participants were generally favourable to the window of time HMRC offered for preparing their responses and collating paperwork. There was evidence that some participants used the time to organise paperwork, or even to go through their records and identify any errors before the assurance check. This suggests that offering participants time to prepare before a compliance check can sometimes lead to changes in their compliance behaviour.

“After I knew there was a visit, obviously I knew I couldn’t spend half an hour looking for a piece of paper in the box [where we kept our records]. If they needed something, that needed to be organised somehow. It’s far more organised now. You know where to look for things.”

Micro business, VAT/PAYE assurance check, additional liability non-FRB, Leeds

6.2 During the check

Some enquiries were stretched over relatively long periods of time and involved lots of communication between the customer and compliance officer. Participants who owned micro businesses felt it would have been helpful if the officer dealing with their case was familiar with their business sector and business model (where no visit was involved). These participants believed that having this knowledge would help officers understand their unique circumstances and allow the enquiry to be completed sooner.

“At first it was a lengthy letter...I think the tone of the letter was very harsh without knowledge of my business and they were asking for things that I didn’t have to do. For example, as a sole trader, I don’t have to file for accounts or provide balance sheets. I felt there was a disconnection from the person doing this. She should have maybe thought about the [type of business that I run].”

Micro business, ITSA/CTSA check, additional liability non-FRB, London

The size of the business also influenced participants' perceived role of HMRC. Medium sized businesses felt the compliance checks were more 'routine' activities, whilst smaller businesses felt the criteria for selection for a compliance check was more targeted. Participants from smaller sized businesses perceived the compliance check to be more burdensome, and thus welcomed a more flexible approach from officers. Their time and resources were often limited which meant they preferred to have more direct contact.

Participants were keen to complete the check sooner, and move on. They widely felt that minor queries and clarifications should be resolved straight away. Email and telephone were preferred forms of communication for this as they were more instant. Participants also believed that

administrative details (such as arranging appointments) should be handled via email or telephone, as opposed to by letter.

Email was a preferred means for participants who were asked to send paperwork or documents to HMRC. Participants rarely kept paper copies of documents such as invoices and forms at hand, instead storing them electronically or within their financial management databases or spreadsheets. These participants would have preferred to send relevant documents to HMRC via email or on a USB memory stick. Their preference for doing so usually stemmed from convenience, time pressures and the burden of printing and photocopying costs.

“Even after I submitted some documents they would question things to do with those documents and [there was no real need] to write a letter in response. It could have been a quick email reply and it would have been much easier.”

Micro business, ITSA/CTSA check, additional liability non-FRB, London

Whilst face-to-face discussions were preferred during in-depth enquiries, participants tended to dislike impromptu phone calls. This was particularly the case for micro business owners, who felt it was difficult to answer a call when they were busy, and sometimes would not have the relevant information at hand when questioned by an officer. By contrast, telephone calls were preferred by participants who wanted quick responses to specific queries.

“The letter writing approach was frustrating...if there’s a misunderstanding, a phone call would help...If they do it quicker it’s better for everyone.”

Micro business, Light-touch check, large additional liability non-FRB, London

Participants’ experiences of dealing with a Compliance Officer greatly influenced their perceptions of the check. These experiences varied between individuals. There was some evidence that participants had pre-conceptions about HMRC officers (which mainly stemmed from negative coverage in the media or hearsay, or previous negative experiences), yet participants widely acknowledged how different their experiences were in reality. Some participants were ‘pleasantly surprised’ at how helpful the officer they dealt with had been, and this often helped to put them at ease and gave them a positive perception of the outcome.

“My perspective of VAT inspections completed changed on the basis of [the officer] and the way she handled the visit. You’d know that she wasn’t a pushover ... but she didn’t walk into the office with an attitude, she walked in with “well I’m here to help and offer you advice”, and that has completely changed my perspective. I won’t dread it again, I won’t panic, I won’t stress, I’ll be far more objective about it than before. I wasn’t pleased they picked up [the error] ‘cause I got it wrong, but now I know what I should do and what I shouldn’t do. Next time there won’t be any mistakes.”

Micro business, VAT/PAYE assurance check, additional liability FRB. Bristol

Participants felt the officers did not take a punitive attitude as they had expected or experienced in the past, and this made them less fearful of being selected for another enquiry. It also eased them into feeling more comfortable about approaching HMRC for advice in the future, which could possibly prevent future errors.

On the other hand, there was some evidence that HMRC officers were not consistent in how they dealt with checks. Some participants felt unsettled by the officer they dealt with, and this made them more wary of HMRC.

“I thought it seemed quite bullying at the time. Bullying, suspicious questions. Just rough you up and waste your time. Then the intimidating campaign beforehand, the “We’re coming to get you.”

Micro business, ITSA/CTSA check, yielding non-FRB, Bristol

6.3 Post-check

Participants generally felt the compliance checks were completed in an acceptable timeframe, but where the majority of the communication was via letters, participants felt the process was overextended. Some participants felt they could have been given more updates on progress during the check, as well as a clearer outline of the next stages.

“Probably management of expectation...I think if somebody told me it would take three months until you get a decision, don't fret about it, that's when we'll all start having a conversation, then it may just have been a bit easier, a little flow diagram as well.”

Micro business, Light-touch check, additional liability non-FRB, Bristol

Once the compliance check had been concluded, participants welcomed a letter from HMRC to acknowledge this, or to lay out the outcomes and agreed sanctions or penalty amounts where this was relevant. Participants widely felt having an official letter was conclusive and helped them to resume business as normal.

In cases where the compliance check had been finished, but no official closure given, participants found themselves keeping relevant paperwork at hand or chasing up HMRC for confirmation, which they found frustrating and time-consuming.

“We'd resolved the VAT issue and the queries, but there was no final “it's now finished”, so I held the boxes in my room for months, in case they came back, because I wasn't sure if they were coming back.”

Small/Medium business, VAT/PAYE assurance check, additional liability FRB, London

A few participants felt the offer of advice and guidance they received from Compliance Officers during the check had not been followed up (for example, when they contacted the officer with a query they had been directed straight to the HMRC website or helpline, where they had subsequently been unable to find the specific information they sought). Participants felt this approach was unhelpful as it did not match the expectations they had of receiving more tailored follow-up support, and meant that HMRC was not capitalising on the time spent by the Compliance Officer who had done the visit, in getting to know the workings of the business.

“She advised everything, you know, she answered all the questions we had, she was very helpful here, but outside, after she left, that's it, she said to me, you know, if you have any questions, here's the helpline, call them.”

Micro business, VAT/PAYE assurance check, additional liability non FRB, Leeds

7 Conclusions and implications for HMRC

HMRC compliance checks do impact on SME behaviour. This extends from short-term impacts (addressing errors, and increasing attention) to more deep-seated change entailing a broader change of approach towards tax compliance within the business.

In cases with the most sustained impact, the check addressed the underlying reasons for non-compliance rather than correcting errors that had been made. This level of change was driven by a combination of effective signposting (especially to advice and training) combined with emphasising the penalties for getting things wrong, as supporting capability as well as addressing belief in consequences drove the most deep-seated change. In change of approach cases, evidence suggests that change is deeper and more likely to be maintained in the longer-term, although the research cannot conclude on this with certainty as it was not designed as a longitudinal impact study. In 'addressing errors' and 'increasing attention' cases, impacts are likely to be more transient because the reasons underlying the non-compliance have not been fully addressed.

The behavioural impacts of compliance checks are mediated by a number of other factors linked with: business size (and associated levels of capability, motivation and resources to spend on compliance); whether it is the business' first compliance check or not; the scale of the error and the relative scale of the repayment (or penalty) incurred; and whether or not the SME used an external accountant or adviser when they initially established their financial system. Thus, our findings suggest that impacts are determined more by the characteristics of the business receiving the check, and the result of the check, than to the type of check itself.

These findings have implications for HMRC in a number of ways:

- A key factor in driving change is whether the check addressed the underlying reasons for non-compliance. This means it is important for compliance officers to 'get to know' the business. SMEs also appreciated the more supportive approach that was taken by HMRC staff, compared to checks they had experienced several years ago, and this could encourage them to seek out more information and advice in future. However, SMEs prefer to be able to follow up specific technical queries with the same compliance officer rather than be referred to the HMRC helpline.
- For businesses motivated mainly by the threat of penalties, light-touch checks can impact on behaviour as much as face-to-face visits. This means that there is not a clear cut relationship between the extent of behaviour change and the type of check, and that HMRC should not necessarily assume that certain check types will never have FRB impacts.
- For other businesses, where capability is the most important factor in causing non-compliance, personal contact with Compliance Officers works well to encourage signposting and the provision of more effective guidance and support. This contact can be effective either by telephone or face-to-face. This is particularly true of newer businesses where the people dealing with tax often lack any financial background or training. Overall, the research also identified particular issues around the beliefs and capabilities of smaller SMEs who had

not previously received a compliance check. These tended to be the businesses with the least awareness of compliance issues, and consequently have the most scope for change because they are more malleable as a new business still setting up and developing their internal systems and procedures. HMRC could consider the focus of compliance checks and the balance between checking larger, more established SMEs and newer SMEs without a previous check. Indeed, some of the relatively 'young' businesses we spoke to had expected to be checked earlier, and would have welcomed such a check, either as an endorsement of their financial system (if no errors were found) or as a way to identify improvements and prevent potentially costly, long-running mistakes.

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1 Appendix A – Recruitment outcomes

Sample for SME participants which had experienced a compliance check was provided by HMRC. The table below details the number of useable leads provided in the sample.

Table A.1 – Leads provided by HMRC

Total number of leads in sample	Number of leads with telephone numbers	Number of leads achieved through number matching	Number of leads through manual matching	Total number of leads for recruitment overall
1382	641	239	91	971

The table below outlines the sample outcomes, where recruitment calls were made.

Table A.2 – Recruitment outcomes

Outcome	Notes	Number of cases
Ineligible - over- quota	Did not fit within quotas needed	484
Unable to reach	Included: disconnected lines, wrong numbers and unanswered calls after repeat attempt to contact or messages left.	149
Ineligible – wrong contact	Key reason was that the number on file was for the SME's accountant	118
Refusals	Key reasons were; not having time to take part or not wanting to take part in research	98
Ineligible - recall	Did not remember compliance check	41
Ineligible – use of a tax agent before/ during compliance check	Used a tax agent (accountant) to compile and file tax returns, who dealt with the compliance check	13
Ineligible – profession	As is common practice in qualitative research, SME participants were screened out if they or a member of their immediate family worked in; journalism/the media, advertising, public relations (PR), market research, or central government.	8
Total used		906

2 Appendix B – Research materials

This appendix includes the discussion guide and appended stimulus which were used in interviews.

In order to understand the behavioural drivers of tax compliance among SMEs we drew on a widely-used behavioural model, the Theoretical Domains Framework (TDF)¹¹ for structuring the discussing guide. This ensured that we included questions around the full range of behavioural determinants which could shape behaviour, going beyond attitudes and intentions to also include capability, motivation and environmental influences. TDF is a more comprehensive version of Michie et al's COM-B model¹² and is intended to capture the different influences on behaviour – both emotional and rational, and internal and external.

Table B.1 – Mapping the COM-B components to the TDF domains

COM-B component		TDF domain
Capability	Psychological	Knowledge Skills Memory, attention & decision-making processes Behavioural regulation
	Physical	Skills
Opportunity	Social	Social influences
	Physical	Environmental context and resources
Motivation	Reflective	Social /professional identity and role Beliefs about capabilities Optimism Beliefs about consequences Intentions Goals
	Automatic	Reinforcement Emotion

¹¹ <http://www.implementationscience.com/content/pdf/1748-5908-7-37.pdf>

¹² <http://www.implementationscience.com/content/pdf/1748-5908-6-42.pdf>

Discussion Guide for Drivers of Behavioural Change amongst SMEs following HMRC compliance checks

Background

The project has been commissioned by HMRC to explore the drivers of behaviour change amongst SMEs following HMRC compliance checks.

HMRC wishes to better understand customer perceptions of the influence that compliance checks have on their behaviour. This includes identifying what aspects of the checks have the most positive effect, how long the change in behaviour lasts for, and the role of external factors in encouraging or mitigating the desired changes in behaviour.

Aims and research questions

The primary aim of the project is to use customer perceptions of interventions they have received to better understand how the various elements of compliance checks influence, or drive changes in, customer behaviour. The key research questions for the study are:

- What is the short- and medium-term behavioural impact (if any) on participants of receiving a compliance check from an HMRC compliance officer?
- What are the drivers of behaviour change in connection to compliance checks?
- Which compliance checks have the greatest impact?
- Are particular compliance checks associated with particular changes in behaviour?
- What is the longer term impact of the compliance check?

Structure of the discussion

Notes	Guide Sections	Guide Timings
1&2. Introductions and background	Sets the scene, reassures participants about the interview, confidentiality. Discuss the business and what role the participant has within it. This will provide useful background and also establish rapport.	6-7 mins
3. What was happening before the compliance check?	<p>We will discuss what the business was doing before the compliance check, so we can establish what systems were in place, if any, prior to the check.</p> <p>This section draws on behaviour models in the question design to look in detail at how much the participant knew about tax compliance before the check happened.</p> <p>The sub-headings introducing the question areas in this section derive from the Theoretical Domains Framework (TDF). This has several advantages. Using the TDF to structure this section provides a "comprehensive coverage of possible influences on behaviour". We have used the framework to structure questions about attitudes and behaviours prior to the check as these will have had a crucial influence over their attitude towards the check itself and help us to determine any impacts on their subsequent behaviour.</p>	12 mins
4. Discussion of their experience of the compliance check	In this section the participant will provide an overview of their experience of the compliance check. We focus on establishing the chronology of the events and how the key tools and techniques used by caseworkers to influence behaviour were experienced by the business.	15-20 mins
5. Impact of compliance check on behaviour	This section establishes any changes that have occurred within the business since the compliance check, and assesses the extent to which these took place because of the check or because of other factors, so we can map out the influence that the check had over the SMEs' behaviour. It also explores potential wider impacts of the check, such as network effects and deciding to use a tax agent.	15-20 mins
6. Conclusions	Identifies key messages and sums up.	3 -4 mins
Total time		1 hour

Appendix A should be used throughout Sections 3,4 and 5. Its main purpose is to help us to understand the various issues which may have contributed to the non-compliance, the different aspects of the check; and how each of these may have affected compliance behaviour since the check. Compiling this will allow us to see if the check responded to the needs of the businesses (for example, was a lack of knowledge being addressed with information; or was a lack of skills being

addressed with guidance and advice; or was a lack of motivation being addressed with clear messages about the benefits of improving systems as well as the consequences of not).

A timeline should be used during Section 4 in order to establish the timeline of the check and aid recall.

Note to interviewers

We use several conventions to explain to you how this guide will be used, described below.

Questions	Notes/Comments	Time
<p>Bold = Question or read out statement: Questions that will be asked to the participant if relevant. Not all questions are asked during fieldwork based on the moderator's view of progress.</p> <p>Bullet = prompt: Prompts are not questions – they are there to provide guidance to the moderator if required.</p>	<p>This area is used to summarise what we are discussing, provides informative notes, and some key prompts for the moderator.</p>	<p>How long should be spent on each section.</p>

1. Welcome and introduction	Notes/Comments	Time
<ul style="list-style-type: none"> ○ Thank participant for taking part ○ Introduce self, Ipsos MORI ○ Confidentiality: reassure that all responses are anonymous and that information about individuals or the company will not be passed back to the HMRC or any other Government Department. Re-iterate that we do not have any specific details about the compliance check they had – we're completely separate from HMRC. ○ Explain the research – HMRC have asked Ipsos MORI to talk to participants about their experiences of different types of tax compliance check, as they would like to understand how businesses perceive and experience these. ○ Role of Ipsos MORI – independent research organisation (i.e. independent of Government), gather all opinions: all opinions valid. Remind that there are no right or wrong answers. Commissioned by HMRC to conduct the research. ○ Ask permission to digitally record – transcribe for quotes, no detailed attribution. 	<p>Welcome: orientates participant, gets them prepared to take part in the interview.</p> <p>Outlines the 'rules' of the interview (including those we are required to tell them about under MRS and Data Protection Act guidelines).</p>	<p>2-3 mins</p>
2. Company background	Notes/Comments	Time
<p>Could you start by telling me a little about what your business does?</p> <ul style="list-style-type: none"> ○ What does your business sell/offer? ○ Who are your participants? ○ Who are your suppliers? Is it a family business? 	<p>We ask these questions to confirm the recruitment details and to create rapport/ ease the</p>	<p>4-5 mins</p>

<ul style="list-style-type: none"> ○ How long have you been trading? <p>And could you briefly talk me through your role in the business?</p> <ul style="list-style-type: none"> ○ Probe for whether they are the owner-manager. ○ How long have you been doing this? ○ If one person business: Is this your only source of income? ○ Probe for how much of their time is taken up by business finance and tax-related issues: is this a core part of their role or are they juggling this with a lot of other responsibilities? <p>What is the size of your business, both in terms of people and turnover?</p> <p>How does the business keep up to date with new regulations within your sector, generally?</p> <p>I understand you experienced a compliance check by HMRC... is that right?</p> <ul style="list-style-type: none"> ○ Confirm when this happened in order to establish timeframe <p>Was that compliance check the first you had received?</p> <p>And was that the only time you have received a compliance check by HMRC?</p>	<p>participant into the interview.</p> <p>Essentially this is here as a lead-in to the next section and to help the researcher establish timeframes at the beginning of the interview. We will have already verified that they had a check at the recruitment stage.</p>	
3. What was happening before the compliance check?	Notes/Comments	Time
<p>We are just going to move on now and talk a little bit about the business before the compliance check. You said earlier that (summarise role). Before the compliance check, was your role any different?</p> <ul style="list-style-type: none"> ○ Probe for how much of their time business finance/ tax compliance took up at that point. <p><u>Skills and capabilities</u></p> <p>How long had you been responsible for this area of the business before the tax compliance check?</p> <p>Did you have any training or experience in preparing or completing tax returns before the compliance check?</p> <p>What skills did you think were required to run this aspect of the business effectively, before the check?</p> <p>How were you keeping track of the business' financial records before the compliance check?</p> <ul style="list-style-type: none"> ○ Did you have a system in place? ○ How did the system work? ○ How frequently were you updating your records? 	<p>This section discusses what the businesses situation was like before the check so we can understand what has changed.</p> <p>Use Appendix A to start mapping out the behaviours under each domain area, before the check.</p> <p>We will then use this information to track what, if anything changed during and after the check.</p>	<p>12mins</p>

<ul style="list-style-type: none"> ○ IF had no system: Why was this? ○ Did you encounter problems when trying to maintain a system? What issues arose? How did you deal with them? ○ To what extent did the business keep track of every financial transaction? <p><u>Beliefs about capabilities</u></p> <p>Before the compliance check, how confident were you about financial record keeping in your business?</p> <ul style="list-style-type: none"> ○ Probe for why they were confident/ not confident. ○ Probe for confidence in terms of both the accuracy of the records and to what extent they met tax requirements. <p>Were you confident in your dealings with HMRC in the past? (eg. in completing forms/ tax returns)</p> <ul style="list-style-type: none"> ○ Why do you say that? Probe for specifics about which parts they were not confident about. Were you ever in contact with HMRC before the check? How frequently? Why? <p><u>Knowledge</u></p> <p>How much did your business know about tax before the compliance check happened?</p> <ul style="list-style-type: none"> ○ What did you know about it? Eg. deductions available, when VAT can be claimed ○ ○ Where did you get this information from? ○ Probe for any variations in knowledge about different types of duty, and if so why this is the case. <p><u>Beliefs about consequences</u></p> <p>Before the compliance check, did you know that HMRC carries out checks on business' financial records?</p> <ul style="list-style-type: none"> ○ If so, probe for how regularly they thought these checks were carried out and how prevalent they were. <p>Did you know anyone else who had received a compliance check from HMRC?</p> <p>How likely did you think it would be that HMRC would check up on your own business' financial records?</p> <ul style="list-style-type: none"> ○ Why do you say this? Probe for whether knew of anyone who had experienced a check in the past. <p>At that time, what did you think could happen if HMRC ever checked and found your business tax records were not up to</p>		
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date?

Probe: Were you aware of any sanctions that HMRC could impose if you were not compliant?

- Did you know that HMRC could issue penalties?
- Where did you hear about these?
- Eg. Through advertising/ publicity campaigns (eg. on the radio/ billboards)? Other businesses? Friends or family? Websites? News reports?
- What message did you take from the advertising?

Motivation and goals

Before the check, how would you describe the business' attitude towards tax compliance?

- Highly focused?
- You considered it, but it was not high priority?
- Relaxed?

At that time, how important was it for you to keep on top of tax obligations?

- What other regulations or legislation did you have to contend with at that point in your business?
- If you were pushed for time, what took priority?
- Why was keeping on top of tax legislation important/ not important?
 - Probe for wider impacts of not keeping on top of this, such as loss of business reputation; personal loss of 'face' within the business

Environmental context and resources

Before the compliance check, how easy or difficult was it for your business to keep track and make a record of every financial transaction?

- Probe for whether any constraints such as lack of time, resources (staff support), resources (space/ separate office or place to file records), etc.

Before your compliance check, were there any other situations or issues which affected your business or you personally?

Use timeline to probe for:

- Business issues (eg short staffed, high workload, concerns about staying afloat)
- Personal issues (eg illness, other life events)
- Would any of these have affected how you managed your tax affairs?
- How would you prioritise during busy / stressful periods?

Social influences and professional identity/ standing

<p>(Ask if NOT the owner/manager): To what extent was maintaining tax compliance part of how your performance was assessed within the business?</p> <p>How important was it to you personally and professionally that the business was compliant with tax legislation?</p> <ul style="list-style-type: none"> • Before you had the check, what was your sense of your friends/ competitors' attitudes to tax? Do you think they were meeting all their obligations? • Did you discuss it with them? What did you discuss? • Had you seen any news on TV or in the papers about tax issues? National media eg Google, Starbucks; local media eg hearing of small business evasion cases) If so how did that make you feel about your tax obligations/ HMRC? <p>Emotion</p> <p>How did you feel when you were first notified about the compliance check? (ask question openly first then use prompts)</p> <ul style="list-style-type: none"> ○ Positive/ negative ○ Confident/ pessimistic ○ Anxious/ relaxed 		
<p>4. Discussion of their experience of the compliance check</p>	<p>Notes/Comments</p>	<p>Time</p>
<p>Can you talk me through what happened with the compliance check you experienced? Please start from the point that HMRC first contacted you to where you are today.</p> <p>The following should be used <u>as prompts if needed</u> to help the participant talk through their experience of the compliance check:</p> <p>Did you receive any letters from HMRC? Can you recall how many letters you received?</p> <p>Ask to see an example of a letter they received, if possible, or show them an example template letter. Use this to prompt participant if they are unsure of the type of correspondence we are referring to.</p> <ul style="list-style-type: none"> ○ Were the letters clear? ○ IF NO: How could the letters have been made clearer? ○ Did you understand what HMRC expected you to do? <p>Did a HMRC Compliance Officer call you on the telephone at any point during the check?</p>	<p>Use timeline with the participant to construct chronology of the events.</p> <p>Establish key moments, decisions, actions, actors</p> <p>MODERATOR NOTE: Please allow the participant to explain in their own words (as much as possible) about what has happened to date.</p> <p>Use Appendix A to map out the different aspects of the check, linking these to the relevant</p>	<p>15 – 20 mins</p>

<ul style="list-style-type: none"> ○ What did they discuss with you? ○ Did you find the purpose of the call clear? ○ Was it clear what HMRC expected you to do next? <p>Did a HMRC Compliance Officer visit the business at any point during the check? How long did the visit last?</p> <ul style="list-style-type: none"> ○ ○ Was the purpose of the visit clear? ○ How did you find the Compliance Officer? Were they helpful? Unhelpful? ○ Was it clear what HMRC expected you to do next? <p>Ask the below questions as appropriate once the participant has finished explaining the timeline of what happened.</p> <p>Ask if relevant/ had a full enquiry:</p> <p>Considering all the different forms of communication that HMRC used, which would you say was the most convenient for you?</p> <ul style="list-style-type: none"> ○ Which type of contact would you say provided you with the clearest information on what action to take next? ○ Which type of communication did you find least helpful? Why? <p>How did you initially react to the letter about the compliance check?</p> <ul style="list-style-type: none"> ○ Did you believe HMRC would follow through with the check? Why / why not? ○ (If relevant) Did you believe HMRC would visit your premises? Why / why not? <p>Once you'd been notified that a check/ visit would take place, did you do anything to prepare?</p> <ul style="list-style-type: none"> ○ E.g. checked paperwork; consulted others for advice (probe for who eg. accountant; colleagues; friends; other business owners) ○ (If relevant) Why did you do this? (probe for how far it was prompted by the check) ○ What was the outcome of these preparations? (eg did you uncover any problems in your tax records at this stage?; did you feel more/ less confident about the check itself?) <p>Did you seek, or were you provided with any general information or advice on the process before it started?</p> <ul style="list-style-type: none"> ○ Where did you seek information/advice? ○ Who did you speak to? <ul style="list-style-type: none"> ○ HMRC? ○ A tax agent/ accountant? ○ Another business? ○ Friends? Family? ○ How helpful was this, and why? 	<p>pre-check behavioural domains that they affected.</p>	
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And when the Compliance Officer first arrived/ made contact, how did they describe the compliance check to you?

- How did they describe the purpose of the check?
- What did you understand the purpose of the check to be?
- What type of language did they use?
- Did you find their explanation clear? Was anything unclear? Did you feel able to ask questions?
- Did you understand why your business had been selected?

Ask if relevant/ had telephone or face to face contact: **How did you find the Compliance Officer carrying out your compliance check?**

- How would you describe their manner?
- Did they act/ behave in the way you expected? If not, why not/ what was different?
- What if any impact did that have on how you reacted to them/ what they said?

Ask if relevant – mainly for face to face visits/ longer running cases/ full enquiries: **As the compliance check progressed, did the type of language or the way the Compliance Officer spoke to you change at all?**

- If so, how did it change and at what point in the process?
- How did this make you feel about the check as it progressed? For example, probe for whether it made them feel more anxious or more relieved.

Did you receive any guidance from the Compliance Officer as part of the check?[Could be written materials to read later, or verbal advice]

- IF YES: What did they provide you with?
- Were the tools and advice helpful?
- Did you ask for guidance or advice? Was this linked to any mistake in returns (if applicable)?
- IF NO: What advice would have been helpful to you?

Did you understand why HMRC found errors in your return [if applicable]?

- IF YES: What did you do to understand this?
- IF NO: Would it have been helpful to understand this?
- Did you agree with the decision? Why/ why not?

Did you understand what HMRC expected you to do after the visit had finished?

- IF YES: How did HMRC make this clear to you?
- IF NO: What would you have needed HMRC to do to make this clearer?

After each stage of the check did you find that the business was able to prepare and meet HMRCs expectations in the timescales stated?

- IF NO: What would the business have needed to enable them to meet HMRCs expectations?

What was the final outcome of the compliance check?

- Probe for: penalties paid; any payment scheduling agreed; any suspensions offered.
- DO NOT PROBE explicitly for mitigations – only ask about these if the interviewee mentions them spontaneously.

If suspension/ mitigation offered:

- Did you ask for any support from the caseworker e.g. help with repayment plans?"
- What conditions were made?
- How did you feel about them – how realistic were they?
- What did you have to do to comply with them? To what extent do you think you would have done this anyway, or were they prompted specifically by the check?
- How easy or difficult was it to make the necessary changes?
- How sustainable or not do you think these changes are for your business?

What overall do you think the key reason was for why your tax records were not compliant?

Did the Compliance Officer provide you with any general advice on business practices or the tax process at all?

-
- What was the advice?
- Was the advice helpful?
- Do you think you would have come across this information elsewhere if the Compliance Officer had not provided it?

What if any impact did this have on your view of the compliance check as a whole?

Looking back, how would you describe your overall experience of the process?

- Positive? Negative?
- Why do you say this?

In your experience could any part of the process have been improved?

- In what way?
- Could HMRC have improved the way they asked you to provide information? How?
- If HMRC had done it in this way, do you think it would have made any difference to your experience of the check,

MODERATOR: Please note that mitigation is a sensitive topic so please only explore this if the participant mentions it. Do not bring up this term otherwise.

<p>what you did afterwards, or your view of HMRC? How?</p>		
<p>5. Current attitudes and behaviours regarding tax compliance</p>	<p>Notes/Comments</p>	<p>Time</p>
<p><u>(Skills, capabilities and knowledge)</u></p> <p>Earlier we talked about the way you kept your business records before the compliance check. Do you still have the same system now?</p> <ul style="list-style-type: none"> ○ If not, what do you do now? When and how did this change? ○ How often do you update your records now compared with before the check? <p>(If this has changed since the compliance check):</p> <ul style="list-style-type: none"> ○ Why did you change it? Probe for any differences according to different types of tax. Were you already planning to make changes or were these prompted by the compliance check? <p>What specifically about that check made you change how you kept your business records?</p> <p>Probe for ongoing impact of compliance checks, for example:</p> <ul style="list-style-type: none"> ○ Do they check the HMRC website more regularly now – if so, which parts do they check and why. ○ Have they accessed specific guidance on tax issues (if so probe for what) – why is that? ○ Have they checked specific aspects of how to meet their tax obligations, for example: which expenses are allowable; VAT rules; how to complete the tax return – if so, why is that? <p>Has being checked for compliance on (type of tax) made you think about how you deal with other areas of tax?</p> <ul style="list-style-type: none"> ○ If so, probe for which specific areas of tax; and what has changed (eg. how they complete the tax return; what expenses they claim for; what staff benefits are taxable; etc) ○ Why is that? <p>Did you consider using an agent to deal with your tax affairs after the compliance check?</p> <ul style="list-style-type: none"> ○ IF YES: Why? 	<p>Refer back to Appendix A and map out where changes have occurred since the check.</p> <p>Ensure that you establish the behaviour after the check for each of the behavioural domains discussed in Section 3, and link this to the relevant parts of the intervention.</p>	<p>15 - 20 mins</p>

<ul style="list-style-type: none"> ○ IF NO: Why is this? <p>And did you decide to change to an agent in the end?</p> <ul style="list-style-type: none"> ○ IF YES: How do you feel about this change? ○ IF NO: Why did you decide not to change to an agent? <p>Earlier you said (refer back to Section 3 on how kept up to date on tax). How do you keep up to date with tax information now?</p> <ul style="list-style-type: none"> ○ Do you have a specific system in place that keeps you up to date? ○ Do you now use a tax agent/ accountant to get information? <p>Have you or your staff done any courses/ training on business tax issues, since the check? Why?</p> <p>Are you happy with the system you currently have in place? If not, why and what would you change about it in an ideal world?</p> <p><u>(Beliefs about capabilities/ consequences)</u></p> <p>Compared with how you felt before the check, how confident do you feel about how you handle your tax affairs now?</p> <ul style="list-style-type: none"> ○ More / less confident? – what about and why? Eg. completing tax forms/ returns – probe for specific details ○ Better / worse informed? – what about and why? ○ No change? <p>If you had a query about Tax compliance now where would you go to for information or advice?</p> <ul style="list-style-type: none"> ○ Probe for whether would feel confident to approach HMRC/ check HMRC website etc. ○ Why do you say this? ○ (If relevant) Why would you not look to HMRC? Probe to find out possible unintended consequence of the check – more negative attitude towards HMRC. <p>How would you feel now if HMRC contacted you and informed you that they were conducting another compliance check?</p> <ul style="list-style-type: none"> ○ Confident? ○ Anxious? ○ Angry/ Victimized? 		
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(Environmental context and resources)

Has anything (else) happened or changed in the business since the compliance check?

- Staff changes? Outsourcing?
- Changes in profitability/ turnover/ ownership?
- Office changes/ more space/ better equipment, etc?

If so, what implications has this had for how you handle your financial records? Why is that?

- (IF YES): Has that had any influence on what you've changed since the compliance check? If so, what specifically and why? (eg. change in turnover since compliance check may now mean the business has crossed threshold for VAT registration and now comes under the VAT tax regime).

IF APPLICABLE: Earlier we discussed [refer to personal or professional issue/s they mentioned in Section 3]. Has anything like this occurred since the compliance check ended?

- What impacts if any did this have on how much attention you could pay to your job/ business?
- How did you address this issue?
- How successful were these steps?
- Do you now have a system or procedure in place to help you manage your business if this happens again?
- How sustainable do you think this is and why?

(Motivations; social influences; beliefs about consequences)

Earlier you said that tax compliance took (more/less) priority than (other factors discussed in Section 3).

How important is it for you to keep on top of HMRC tax obligations now?

- What regulations or legislation do you still have to contend with? Is that increasing/ decreasing?
- If you are pushed for time, what would take priority now?
- If relevant: Why is keeping on top of tax obligations more important to you now?
 - Probe for financial consequences of the check (if relevant) and its wider impacts eg. loss of business reputation; personal loss of 'face' within the business

How likely do you think you are to receive another compliance check by HMRC?

MODERATOR: IF the participant has had a major life event please be sensitive and only ask this if you deem it to be appropriate.

<ul style="list-style-type: none"> ○ Why is that? ○ What impact does this have on your attitudes towards keeping up to date with tax obligations/ making sure your records are in order? ○ Probe for possible unintended consequence of the check – eg. whether the business now thinks they're unlikely to be checked again. <p>If someone came to you now for advice on the practicalities of setting up their own business, what would you tell them and why?</p> <ul style="list-style-type: none"> ○ Probe for whether they would mention the importance of good financial record keeping/ tax compliance ○ What would you advise about this? ○ Probe for specific areas eg. treatment of expenses; VAT; staff benefits; how to complete the tax return correctly. ○ Would you mention the possibility of being checked by HMRC/ receiving a penalty or other sanctions? ○ Would you tell them that it's worth employing an accountant to deal with tax, or not? Why/ why not? <p>Did you discuss the compliance check with another business or person?</p> <ul style="list-style-type: none"> ○ Who did you discuss the check with? ○ What did you discuss? ○ How did you describe the check to them? ○ What was the main purpose of the discussion? <ul style="list-style-type: none"> ○ Seeking advice, reassurance; just making conversation; other business / person had also received a check. ○ How comfortable did you feel discussing the compliance check? <p>If someone else who runs a business came to you for advice about how to handle a compliance check by HMRC, what would you tell them and why?</p> <p>Probe for how they would describe the check to other businesses – was it a help or a hindrance, what longer term impacts has it had on their attitudes towards HMRC and tax compliance?</p>		
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6. Conclusions	Notes/Comments	Time
<p>Is there anything else about your experience of the compliance check, which we haven't already discussed, that you would like to mention?</p> <p>Thank participants; explain the next steps (e.g. what HMRC will do with the findings). Mention £50 charity donation and ask business to confirm the charity of their choice.</p> <p>THANK AND CLOSE. Reassure about confidentiality.</p>		3 mins

Appendix A – Behavioural mapping for Sections 3, 4 and 5.

MODERATOR: Please use this as a tool during the interview, to help you to focus the prompts at Sections 4 and 5 and keep a concise record of the key behavioural factors and impacts discussed. You don't need to fill in specific details during the interview - just a 'X' under the relevant columns will suffice to help you keep track. You won't necessarily put 'X' in every box along a row – for example in cases where that factor was not a determinant of compliance; where the check has not addressed the determinant that contributed to non-compliance; where the check has not led to an impact on behaviour; or where the change that was achieved did not actually remedy that particular issue.

Behavioural domains	Before the check	During the check	After the check	Other influences
	<i>Determinant of non compliance</i>	<i>Aspects of the intervention that address this</i>	<i>Impacts</i>	<i>Other influences (not the check itself)</i>
<i>Example: Skills and capabilities</i>	X No awareness that detailed VAT guidelines are on the HMRC website so did not check regularly for updates. Was basing calculations/tax return on out of date information.	X As part of a visit, the business owner was signposted to relevant pages on the HMRC website and also provided with factsheets about VAT.	X Have now updated VAT records filing system. Went on a book-keeping course.	Spoke to friends who also run their own business who recommended he do a course.
Skills and capabilities				
Knowledge				
Beliefs about capabilities				
Beliefs about consequences				
Motivation and goals				
Environmental context and resources including time; space; equipment; other business or life pressures				
Social influences including professional identity/ standing				
Emotion				

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