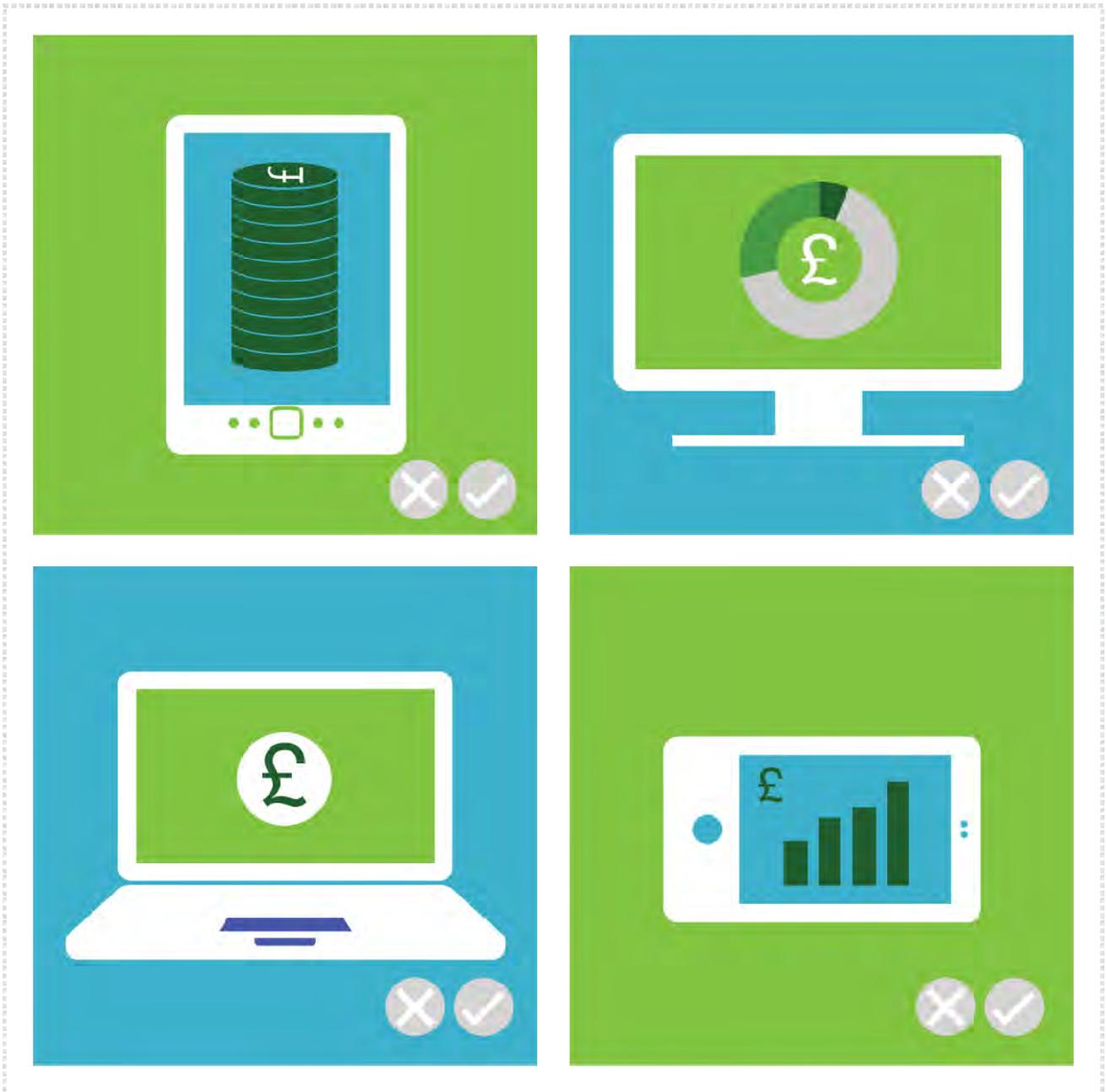


HM Revenue & Customs Tax Agent Segmentation Research - Exploring agents' digital needs and attitudes.

HM Revenue and Customs Research Report 348



HM Revenue & Customs
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1. Introduction

Background

In 2013/14 HM Revenue & Customs (HMRC) commenced a programme of digitisation, Digital by Default, funded by a three-year, £200 million digital investment announced in the 2013 Spending Review. In keeping with its digital strategy, the Department aims to encourage greater use of digital services among the tax agent community.

HMRC estimates that there are approximately 43,000 paid tax agent firms in the UK, ranging from sole traders to international corporations. This figure excludes those working unpaid in the voluntary sector or on behalf of friends or family. It is estimated that agents represent about 8 million taxpayers.

Enabling agents to carry out more transactions online would reduce costs for HMRC and meet customer demand for fewer interactions with the Department. As well as streamlining the system for agents, it would allow HMRC to better understand the different types of agent and help improve customer experience and voluntary compliance.

The Department is developing the Agent Online Self Service (AOSS) as one of the four major exemplar services being delivered as part of the Digital Strategy. Although still in development stage, AOSS will provide a new single portal for agents to register with HMRC and deal with a range of taxes on behalf of their clients.

This widening of digital services for agents forms part of both:

- HMRC's wider Tax Agent Strategy which aims to transform the relationship between HMRC and agents to the benefit of both the industry and their clients
- HMRC's Digital Strategy which aims to deliver a transparent tax system that encourages voluntary compliance, enabled by customer-focused digital services

Research aims and objectives

In early 2014 HMRC commissioned research that aimed to help HMRC to understand the attitudes, needs and behaviours of tax agents towards the use of digital services. The research aims were threefold:

- Primarily to provide a demographic segmentation of the population of paid professional tax agents according to their use of digital services, their needs, and the support they will require making the transition to digital. The segmentation would ideally ensure that HMRC could identify agents in different segments using internal data

- A secondary aim was to explore the ways in which HMRC could facilitate agents' transition to digital, and explore how digital services influence the operation of the agent market and client-agent relationships
- Finally, to update the Department's knowledge about the paid agent community by profiling the agent population in terms of geo-demographic variables developed via research published in 2009¹

To address all of the research aims a mixture of quantitative and qualitative research methods were used. A quantitative survey of agents was conducted to segment the population of paid agents according to their readiness for digital services. The qualitative component of the research principally addressed the secondary aims of the research.

Overall, the study sought to understand the segments of the agent population that were more and less ready to use HMRC's digital services, in terms of both attitude and capability:

- The drivers and barriers of digital services uptake
- Actions HMRC could take to help different segments make the transition to digital
- How agents access information about HMRC and what role digital services play
- How digital services influence agents' contact with HMRC
- How digital services influence agent-client relationships
- The impact of increasing use of digital services on the agent market, including competition

1.1 Methodology

1.1.1 Quantitative research

Fieldwork

A random probability survey of paid tax agents was carried out using Computer Assisted Telephone Interviewing (CATI). The sample of paid agents was drawn from the HMRC held Income Tax Self Assessment (ITSA) and Corporation Tax (CT) databases.

Overall 1,710 interviews were completed, and a response rate of 53% was achieved. The average length of interview was 25 minutes. A segmentation was carried out based on agents' attitudes

¹ Changes to the coverage of the research and lack of available data for the 2009 survey, has limited the ability to make direct comparisons about the agent population between the two studies.

towards digital services. See Appendix A for detail on the fieldwork methodology and segmentation.

At the screening stage, further checks were made on the status of the agent and work undertaken. Those not operating as a paid Tax agent; offering payroll services or acting as international trade, freight forwarder or customs agent only; and who had not had any dealings with HMRC in the last 12 months were excluded.

Qualitative research

The qualitative research was carried out following the quantitative survey, to provide a more in-depth understanding of the tax agents' segmentation and illustrate some of the survey's findings.

In total, 24 60 minute face-to-face interviews were conducted with participants who took part in the quantitative research. Participants were recruited from across the four segments to allow us to explore the quantitative segmentation, identify drivers and barriers to digital services take up and test and develop messages.

Five 90 minute group discussions of 3-9 participants were also conducted to further explore participants' response to HMRC messages, proposed new digital services and their impact on the tax agents' industry. Fieldwork took place during June, July and August 2014.

1.2 Reporting notes

The data was analysed using specialist computer software. Tests for significant differences were performed to identify differences. Sub-group analysis was performed using cross tabulations.

The following points should be borne in mind when reading this report:

- Percentages for single-response questions do not always add up to exactly 100% due to the effect of rounding
- Unless otherwise stated all differences reported are statistically significant to the 95% confidence level
- Base sizes for each result reported are shown with the charts. A result with a base size of fewer than 100 should be interpreted with caution and the findings should be viewed as indicative

2. Executive Summary

2.1 Introduction and Methodology

HMRC commissioned this research to help understand the attitudes, needs and behaviours of tax agents with regards to their use of digital services. The primary aim of the research was to provide a demographic segmentation of the population of paid tax agents, according to their needs and attitudes towards digital services. Alongside this, secondary aims were to explore how HMRC could facilitate agents' transition to digital, and how digital services may influence the operation of the agent market, as well as to update the Department's knowledge about the paid agent community.

A survey of 1,710 paid tax agents was carried out using Computer Assisted Telephone Interviewing (CATI). In addition, qualitative research was conducted to provide in-depth understanding of the tax agents segments. In total 24 in-depth interviews and five group discussions were carried out amongst respondents of the quantitative survey.

2.2 Digital services

The primary aim of the research was to develop a segmentation based on agents' attitudes to, and appetite for, digital service. Chapter 3 therefore explores agents' appetites for digital interaction with HMRC, considering their current attitudes towards digital services more widely, and their views about using HMRC's new digital services. Chapter 4 then goes on to explain the segmentation.

Currently, the majority of agents frequently use the internet (85% using it daily or all the time), and there are high levels of confidence amongst the population in the use of the internet – 95% say that they are confident and capable. Both frequency of use and confidence are higher amongst partnerships and companies.

There is significant interest in increasing dealings with HMRC online, notably for amending tax codes (84%), which is currently not available online. Interest tends to be highest amongst partnerships and companies, as well as firms with turnover above the VAT threshold of £77,000.

- 90% of businesses think that there will be benefits to using HMRC's digital services.
- However, 66% have concerns, mainly because any changes to HMRC's services are expected to cause initial difficulties whilst teething problems are resolved and agents align their practices with the new service.
- Agents believe that new services would drive efficiencies, but they also expected HMRC to expand and improve their digital services to bring these up to date and deliver the functionality / user experience they had learned to expect from commercial providers.

There is therefore a strong appetite to use digital services to interact with HMRC amongst the agent population – 81% of agents said they would either use new digital services as much as they possibly could, or as much as they and their clients felt comfortable doing. Interest tended to be higher amongst partnerships and companies, with 58% and 61% respectively, saying they would use these services as much as they possibly could.

2.3 Segmentation

2.3.1 Profile

Four segments were created incorporating three key factors: annual turnover, confidence and capability in using the internet/online services, and willingness to use HMRC's digital services, producing a segmentation according to agents' needs and attitudes towards digital services (see chapter 4).

The majority of the population fell into three segments that were confident and capable in using online services and willing to use HMRC's digital services, demonstrating a clear interest in conducting more dealings online and engaging with HMRC digitally. The main differentiation between these segments was turnover:

- Corporate pacemakers (11% of population): Annual turnover above £250,000
- Mid-sized progressives: (26% of population): Annual turnover £50,000 – under £250,000
- Small but savvy (51% of population): Below £50,000

The remaining 11% of the segmented population fell into a segment that were generally unconfident and unwilling to use HMRC digital services, termed the 'Hard to win over'. These businesses tended to have an annual turnover below £50,000.

There are a number of further differences between the profiles of each of the four segments, as discussed in Section 4.2. Corporate pacemakers tended to be larger firms, both in terms of turnover, but also in number of employees, number of clients (88% having above 250), range of clients (majority deal with small businesses, private individuals, and sole traders) and the variety of work conducted and ways they represent clients. Along with Mid-sized progressives, they account for the bulk of transactions and dealings with HMRC.

Mid-sized progressives, as mid-sized firms in terms of turnover, tended to have fewer employees (90% having 5 or less), fewer clients (72% have 11-250) and slightly less variety in terms of type of client, nature of work conducted, and ways they represent clients.

In contrast Small but savvy and Hard to win over firms tended to be much smaller firms, with 85% and 84% respectively being sole traders as defined by the ITSA database, and therefore had fewer

clients (84% and 88% having 50 or less) and represented clients in fewer ways. The key difference between Small but savvy and Hard to win overs is the age profile of the agents. Amongst sole traders who are classed as Hard to win overs, 55% are aged 65 or over, compared with just 22% of Small but savvy.

2.3.2 Digital services: Current usage

As discussed in Section 4.3 current usage of digital services varies by segment. Corporate pacemakers use the internet most frequently, with Mid-sized progressives also using it frequently (77% and 63% respectively using it all or almost all the time). Small but savvy use it slightly less frequently (38% using all or almost all the time), but Hard to win overs are the least frequent users, only 12% using all or almost all the time and 24% using it less often than weekly.

Agents who have fewer clients and/or deal with a smaller range of tax affairs use HMRC's digital services less frequently. They are therefore more concerned about how long it would take them to get used to new services, due in part to the experience of transitioning to RTI for smaller agents whose primary activity is to operate payroll. This translates into differing levels of confidence, with just 5% of Hard to win overs reporting that they are very confident and capable in using online services, significantly lower than Corporate pacemakers (88%), Mid-sized progressives (69%) and Small but savvy (70%).

As would be expected, these more confident segments currently undertake more dealings online whilst usage amongst Hard to win overs is significantly lower

2.3.3 Digital services: Future usage

There is clear appetite for increasing digital engagement, particularly amongst the three more confident segments. This is discussed further in Section 4.4.

When presented with a general description of proposed new digital services, 70% of Corporate pacemakers will use digital services as much as they possibly can, as will 61% of Mid-sized progressives and 47% of Small but savvy.

There was greater reluctance amongst Hard to win overs, with 74% only willing to use new digital services as much as they have to.

Importantly, across **all** segments there is a clear increase in the number of Agents interested in conducting these dealings online compared to the number who currently do so – indicating a considerable appetite for increased digital engagement, even amongst the less confident segment, despite initial reluctance.

Varying levels of support would be required across the segments. Corporate pacemakers would require the least (with 51% requiring the minimum level), in contrast to Hard to win overs (where 26% would require a lot of support). However, even amongst the most confident segment, Corporate pacemakers, the majority would require some support (with only 12% requiring no support). The majority of agents across all segments would want HMRC to provide this support.

2.3.4 Summary

In summary, there is a large appetite amongst Agents to engage with HMRC digitally (90% of businesses see a benefit to digital services). Generally larger agents are more interested in these services, and naturally, these firms are involved in the majority of agent dealings with HMRC, as they represent a greater number of clients than smaller agents. Furthermore, importantly, there is interest to conduct dealings online amongst all four segments, including the least confident segment.

However, many Agents (66%) do have some concerns about using HMRC's digital services, and the majority would want at least some support, with just 7% saying that they would require none. As some of the barriers to using digital services tend to vary by segment, uptake could be promoted by focusing on the functionality of the services which would be of the greatest benefit to each segment.

2.4 Agent profile

A secondary aim of the research was to update the department's knowledge of the agent profile, and as such, respondents were asked a number of business demographic questions. This information was used to build the segmentation of agents' appetites for digital engagement with HMRC. The segmentation is discussed fully in Chapter 4, whilst the agent profile is described in Chapter 5.

The majority of the agent population consists of smaller businesses. 64% were classified as sole traders, whilst just 12% were categorised as partnerships in the ITSA database. A further 24% were classified as companies in HMRC's Company Tax database.

Most businesses reported a turnover for the last full financial year below the VAT threshold (65%), and over 55% have only one employee. The same amount of businesses reported having 50 or fewer clients.

The size and type of the business correlates with other business demographics and attitudes:

- Most agents have well established businesses, with 37% older than 20 years old, whilst 23% were 11-20 years old and 20% were or 6-10 years old. Businesses with a larger annual turnover tended to be older, particularly those with £1 million or above².
- Similarly, the majority of sole traders (67%) had worked in the field for more than 20 years.
- 75% of Agents defined themselves as an accountant, 61% as book-keepers and 56% tax advisers. Larger firms were more likely to perform a variety of roles.
- The taxes that agents deal with most frequently were VAT (84%) and Income Tax Self Assessment (83%). Again, larger firms were more likely to deal with a variety of taxes.

2.5 Contact with HMRC

This section summarises the discussion in Chapter 6, which explores how agents currently interact with HMRC and their appetite to increasingly communicate with HMRC digitally in the future.

Most agents have contact with HMRC on a regular basis: 58% have had contact weekly or more often, although sole traders tend to have less frequent contact. The Agent Dedicated Line was the most frequently used method for contacting HMRC for general enquiries (47%), and the HMRC website was most frequently used channel when requiring access to information and guidance on tax issues (53%).

Currently, the primary source for agents finding information about tax issues is the HMRC website, with 78% of agents having used either HMRC's general or specific agent pages to find information on tax issues in the last 12 months.

Notably, there is an increasing preference amongst agents to send and receive communications with HMRC by email, but only if agents received a response in an acceptable timeframe. This preference is consistent across all types of agents. Email creates the expectation of a faster response, which may present a challenge for HMRC - failing to meet these expectations may generate negative perceptions about HMRC's capacity to deal with enquiries.

² Given the relatively small base size for businesses with an annual turnover above £1 million the analysis of this group should be treated as indicative only

3. Digital Services

This chapter will look at agents' internet use and capability and their opinions about using digital services, to build up a picture of how willing the population is to engage with HMRC digitally.

Key findings

- The majority of agents frequently use the internet (85% using it daily or all the time), and currently interact with HMRC online. The highest frequency of internet usage is found amongst partnerships and companies, with 63% and 62% respectively using the internet all or almost all of the time, compared to 37% of sole traders
- There are high levels of confidence amongst the agent population in the use of the internet – 95% say that they are confident and capable. Confidence is highest amongst partnerships and sole traders with 72% and 74% respectively saying they are very confident and capable
- 90% of businesses think that there will be benefits to using HMRC's digital services, although 66% have concerns as any changes to HMRC's services are expected to cause initial difficulties as teething problems are resolved and agents align their practices with the new service
- There is significant interest in increasing dealing with HMRC online, notably for amending tax codes which is currently not available online. Interest tends to be highest amongst partnerships and companies, as well as firms with turnover above the VAT threshold of £77,000
- Agents believe that new services would drive efficiencies, but they also expected HMRC to expand and improve their digital services to bring these up to date and deliver the functionality / user experience [they](#) had learned to expect from commercial providers

3.1 Internet usage and capability

This section covers agents' current behaviour with regards to internet use, as well as their general attitudes towards engaging with new technology.

3.1.1 Frequency of and confidence in internet use

Chart 3.1 shows that internet usage amongst tax agents is high, with the majority (85%) of businesses use the internet all the time or daily. Just 1% of businesses do not use the internet at

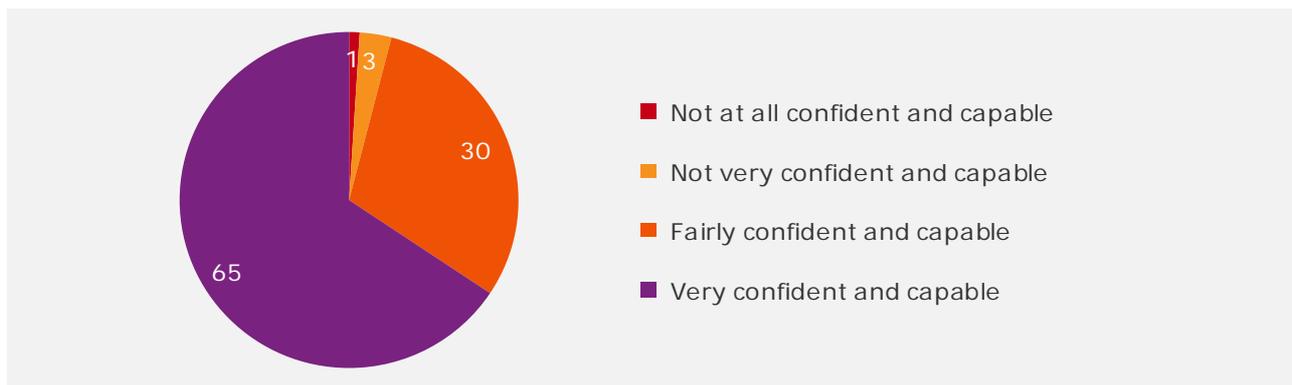
all, either because they do not have access to it, or they do not use it for work purposes. Companies and partnerships use the internet more frequently than sole traders, with 63% and 62% respectively using the internet all or almost all of the time, compared to 37% of sole traders.

This corresponds with high levels of confidence and capability in the use of internet services. 95% of agents said they were very or fairly confident and capable, with 65% saying that they were very confident and capable. Unsurprisingly given their higher frequency of internet usage, companies and partnerships were more confident in using online services, with 72% and 74% respectively, saying that they were very confident and capable compared to 60% of sole traders.

“We run a paperless system...everything is kept electronically. I've been an early adopter with the revenue's electronic services... If the service is there, once I understand the principles behind it [and] if it's a more efficient way of doing business, I use it” (Mid-sized progressive, London)

Those who use the internet more often tend to be more confident; 78% of those who use the internet all or almost all of the time said that they were very confident and capable compared with 53% of those who use the internet less frequently. However it is important to note that the majority (72%) of businesses that use the internet less often than weekly said that they were either very or fairly confident and capable, indicating that even without frequent current use, many agents would be fairly comfortable using the internet and digital services.

Chart 3.1 Confidence in internet use (percent)



Base: all respondents (1710)
Source: Q9 How capable and confident are you/your staff in your business in using email, browsing and other online services for day to day work?

3.1.2 Dealings currently completed online

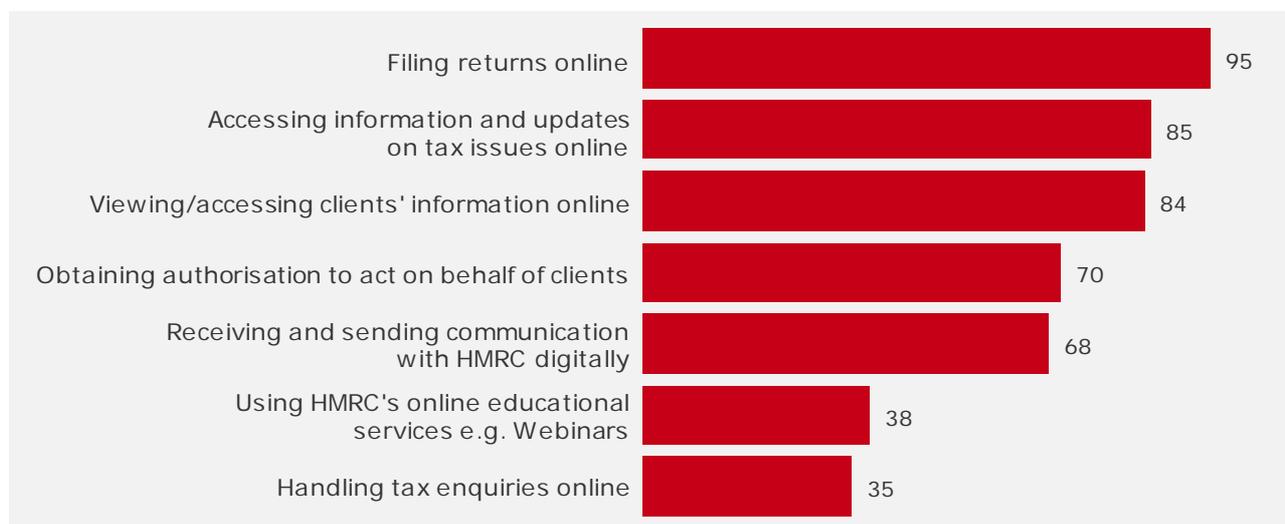
The high level of confidence and capability in the use of internet services is supported by the majority of agents currently completing a number of dealings online. As Chart 3.2 shows, 95% of agents said that they file tax returns online – unsurprising given that in some cases e.g. VAT the filing of tax returns has to be done online. Further to this, more than 85% of businesses access

information and updates on tax issues online, and view or access clients' information online (84%). Using HMRC's educational tools (38%) and tax enquiries (35%) are the services least likely to be currently undertaken online.

Partnerships, companies and firms with annual turnover above £77,000, all of whom tend to be larger firms, were more likely to conduct a number of types of dealing online than smaller firms. In particular these businesses were more likely to obtain authorisation (75-79%), view client's information (92%-95%) and access information on tax issues (91%-96%) than sole traders or firms with turnover below £77,000.

Businesses that are more confident and capable using the internet also tend to conduct more dealings online. The base size is small (23) so findings should be treated as indicative, but even amongst those who said they were not at all confident or capable, some access information and updates on tax issues online, and view or access clients' information online. This suggests that some of these agents would be willing to use HMRC's digital services more, perhaps either if they had support or could clearly see the benefits of doing so.

Chart 3.2 Dealings currently completed online (percent)



Base: all respondents (1710)
Source: Q13 And in dealing with clients tax affairs which of the following do you do online?

3.1.3 Attitudes towards new technology

In order to develop a sense of how agents' would be likely to react to digital services in the future, we asked them to rate their level of agreement with four statements around the introduction of new technologies. Results are presented in Chart 3.3.

57% of agents agreed that they/their business keeps up with the latest developments in technology, with levels of agreement higher amongst partnerships (69%), companies (72%), businesses with a turnover between £77,000 and £1 million (70%) and those with a turnover of £1 million or more (85%). As described above, agents largely felt confident using digital services and there was a perception that taking up new services was expected for professional firms wanting to 'move with the times'. Doing more online also had benefits for the agent, for example by driving efficiencies (see section 3.2.1 Benefits of digital services)

"Life is advancing; everything is now digital – if you don't embrace that you won't have a business. There isn't a choice and it is far more efficient." (Corporate pacemaker London)

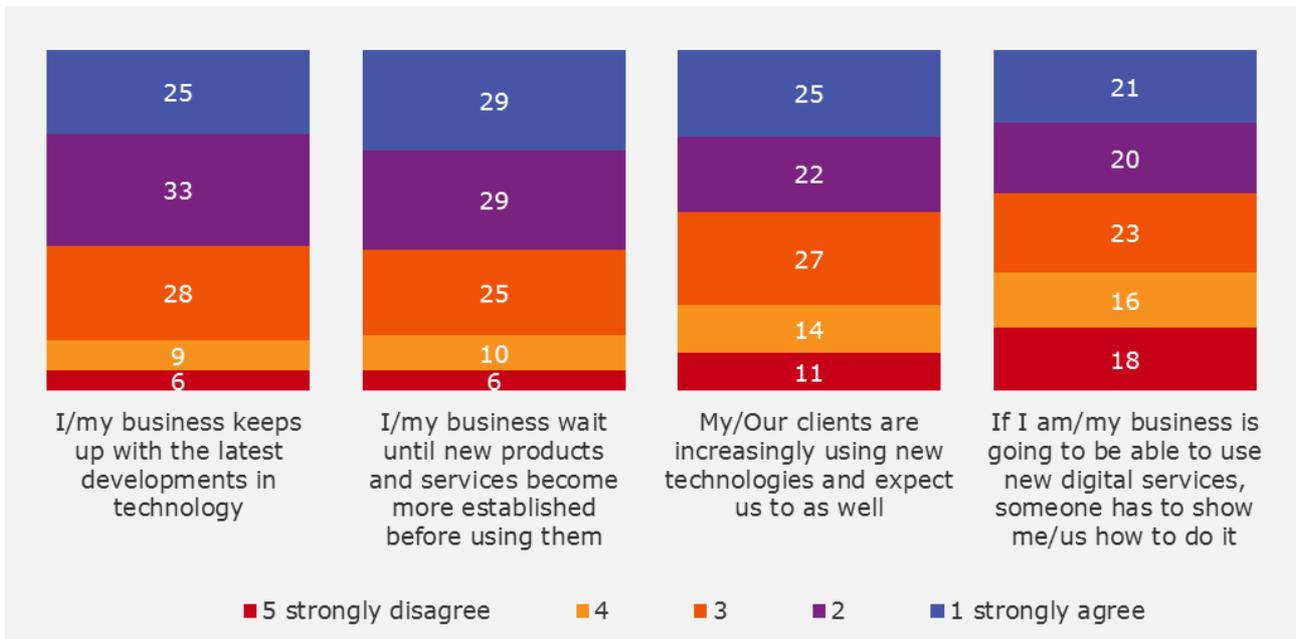
Similar levels of agreement were seen when agents were asked whether they/their business waits until new products have become more established before using them (57%). Only 16% of businesses disagreed with this second statement, perhaps indicating that there is wariness about teething problems associated with new technologies.

"I sometimes worry that the website can't always sort of cope with it [...] in the early days of filing things online that used to sort of crash and you couldn't get things in when you needed to. I think it is a lot better nowadays." (Mid-sized progressive, Leeds)

47% of business agreed that their clients are increasingly using new technologies and expect them to as well. This suggests that agents could be experiencing pressure from clients to use new digital services, as well as from HMRC. As such, there may be opportunities to use this as an angle in the messaging and promotion of the services. Again the level of agreement tended to be particularly high amongst partnerships (63%) and businesses with an annual turnover of £1 million or more (81%), in contrast to the levels seen for sole traders (41%) and those with a turnover below £77,000 (42%).

Whilst confidence and capability in the use of digital services is high, 41% of agents agreed that to be able to use new digital services, someone would need to show them how to do so. There is, therefore, a significant minority who would require at least some support in order to use new digital services. As would be expected level of agreement was much higher amongst those agents who were not confident in the use of online services (79%), although, given the relatively small base size (67), these results should be taken as indicative only.

Chart 3.3 Attitudes towards new technology (percent)



Base: all respondents (1710)

Source: Q9a How strongly do you agree or disagree with the following statements? For each statement please give me a score of 1 to 5 where 1 means strongly agree and 5 means you strongly disagree.

3.2 Views about and attitudes towards expanding and improving digital services

Before questions covering attitudes towards HMRC’s digital services were asked, a general description of the proposed new digital services was read to agents:

Ultimately you will be able to carry out most of your dealings with HMRC on behalf of your clients online, through a new digital tax platform. In order to use the new services you will need to register with HMRC and, once your identity has been confirmed, you will be able to obtain authorisation to act on behalf of a client more quickly and, once authorised, you’ll be able to see all of your clients’ tax affairs in one place.

In time you will also be able to communicate with HMRC digitally through a secure messaging service.

This next section considers tax agents’ opinions about using these digital services, including any perceived advantages or disadvantages of using them, the likelihood that they will use these in the future, and what if any, support would be needed to encourage greater use of these services.

3.2.1 Benefits of digital services

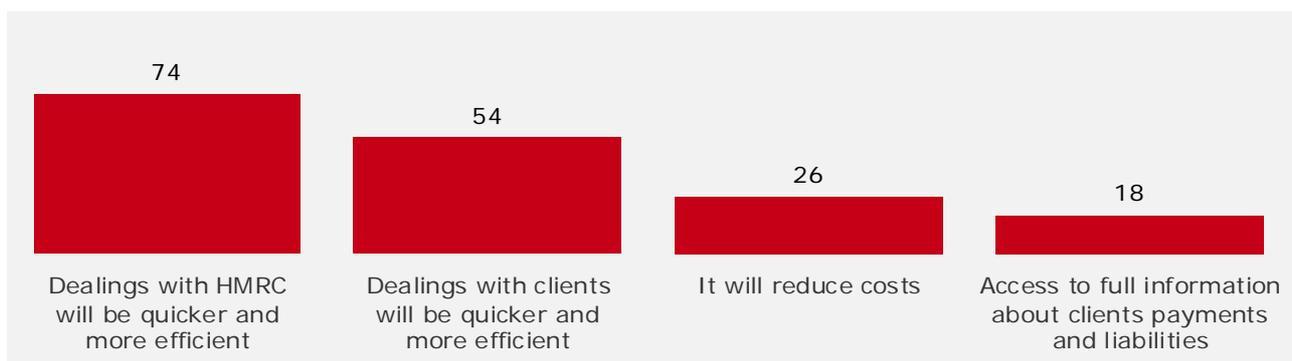
Respondents were asked what they thought the benefits of dealing with HMRC digitally would be, both to their business and their clients, before being prompted to think more specifically around the benefits to do with costs, staff efficiency, dealing with clients and HMRC or security and confidentiality.

Spontaneously, 87% of agents see some benefits to interacting with HMRC using digital services. Primarily these benefits were around speed, with 66% believing dealings with HMRC would be quicker and more efficient, and 47% saying the same would be true for dealings with clients.

Including prompted responses, 90% of businesses thought there would be benefits to using digital services. Again, the primary benefits were around speed and efficiency. Chart 3.4 presents spontaneous and prompted responses combined. Perceptions of increased efficiency in dealing with HMRC and with clients were higher amongst businesses with annual turnovers between £77,000 – below £1 million (84% and 61% respectively) and £1 million and above (89% and 64%) than amongst those with a turnover below the VAT threshold (71% and 51%). This is perhaps driven by the fact that firms with larger turnovers tend to have more clients, and as such increased efficiency would be of greater benefit.

Another benefit widely mentioned was a perceived reduction in costs (26%). 18% thought that having access to full information about clients' payments and liabilities would be a benefit through using digital services.

Chart 3.4 Perceived benefits of using digital services (prompted and unprompted) (percent)³



Base: all respondents (1710)

Source: Q27 What do you feel are the main benefits to you and your clients of being able to undertake more of your dealings online? Q28 And do you feel there would be any other benefits in areas such as costs, staff efficiency, dealing with clients and HMRC or security and confidentiality?

³ Prompted and unprompted includes those who spontaneously gave a response, and those who did so only after prompting.

Supporting the quantitative findings, agents who took part in the qualitative research on the whole believed that doing more online would increase efficiency and reduce costs. Agents said that when HMRC had provided new online services in the past, these usually saved them time (once they had become accustomed to the new service). There was also a perception that new services would offer an enhanced user experience as there was a perception that HMRC's current digital services were out-dated and lagging behind the commercial sector. Doing more online was considered a *sign of the times*; therefore agents expected HMRC to take steps to improve their offer so that their services were more in line with the functionality agents expected.

"I think the more that we can do online, it speeds the whole process up and makes it a whole lot more efficient for us and for the client and for HMRC, ultimately. It just makes the whole system more efficient. So, the more we can do online, the better, really. It's just that much faster. Time-saving for us" (Corporate pacemaker, Southampton)

"I mean if you have to use them and then you get to learn about them I mean it does make your life easier [...] I think the benefits are it's the efficiency of it and the time saving in terms of, and the cost as well for postage and things so it does help" (Mid-sized progressive, Leeds)

Agents said that HMRC's digital services could be inconsistent and lacked functionality that comparable commercial providers delivered – for example, transactional screens for different taxes required information to be entered in different formats and HMRC did not use form validation (i.e. a cross to indicate information has been entered in the wrong format) to reduce error. There was also a perception that HMRC's digital services regularly crashed due to site traffic. As a result online returns or transactions do not complete properly or agents missed submission dates.

"It won't let you pass the page [...] So you ring them up and they say, well, yes, this is a problem and we're working on it but then the computer will still churn the penalties out" (Mid-sized progressive, Birmingham)

Importantly, poor digital services could damage client relationships by causing clients to believe that mistakes or delays were due to agent error. Delays and errors created cost and inconvenience for clients which agents said could be *embarrassing*.

"From the perspective of our client to us it looks as though we're incompetent and not doing our job properly. Well, it's infuriating." (Corporate pacemaker, Birmingham)

Whilst agents were largely supportive of new digital services, to improve efficiencies and address issues with HMRC's service, past poor experience created some scepticism. Some improvements that would address these ongoing issues were welcomed; however, agents questioned whether

new services would improve on the current system – or whether past problem areas would be carried through.

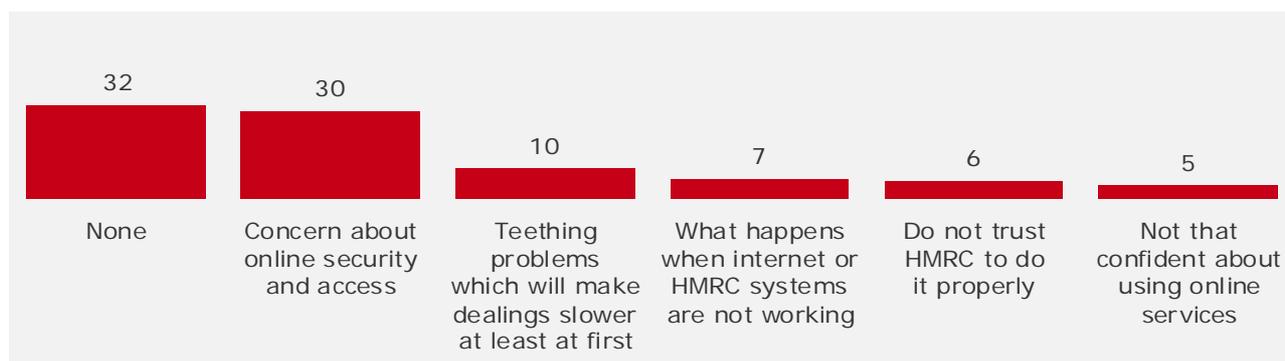
3.2.2 Drawbacks of digital services

Respondents were also asked if they had any concerns about the introduction of digital services, firstly spontaneously, and then again after being prompted to think about costs, staff efficiency, dealing with clients and HMRC or security and confidentiality.

58% of agents had concerns spontaneously, although the nature of these concerns was varied. Once prompted, 66% had concerns (Chart 3.5), with 30% concerned about online security and access, 10% worried about teething problems causing difficulties and 7% concerned about what would happen when the internet or HMRC systems are not working.

Just 5% were worried because they were not confident in using online services, again indicating that there is a small minority of businesses who would be worried about interacting with HMRC digitally as they do not feel confident in their abilities. As would be expected this figure was higher amongst those who previously said they were not confident in using online services, with 10% mentioning this as a perceived drawback, compared to 4% of those who said they were very confident and capable with using online services.

Chart 3.5 Perceived drawbacks of using digital services (prompted and unprompted) (percent)



Base: all respondents (1710)

Source: Q29 And what concerns do you have about the introduction of these new digital services? Q30 And do you feel there would be any other issues around areas such as costs, staff efficiency, dealing with clients and HMRC or security and confidentiality?

From the qualitative research, it was clear there was some anxiety associated with transitional changes to HMRC’s systems. Although agents recognised there was a need for improvement, they had learned to work with HMRC’s current digital services and had adapted their practices to align with HMRC’s systems. Therefore any changes were expected to result in a short term cost as

agents became accustomed to the new provision. Experience of the move to RTI amplified these concerns, particularly amongst agents whose workload was predominately running payroll.

“Sometimes you’ll go on the revenue website and they’ll say oh we’re doing some changes and then you can’t do anything all day and you go on and it’s all changed. It would be nice to at least say have a webinar on CPD or something” (Corporate pacemaker, Birmingham)

“There are a lot of areas where there is improvement [needed] or new services they could offer. It all depends on the process of it really” (Corporate pacemaker, Birmingham)

Agents were also concerned about HMRC’s motivation for expanding digital services and whether this would ultimately present benefits for agents. There was a perception amongst some that HMRC were looking to reduce their own costs by getting agents or customers to input information themselves or by discouraging customers from contacting a ‘real person’. Agents were concerned that as the system became increasingly automated it would also become less personalised – *faceless* – which would save HMRC money but undermine the quality of service.

3.2.3 Likelihood to take up new digital services

There is a strong appetite to use digital services to interact with HMRC amongst the agent population (Chart 3.6). 49% of businesses said that they would use these services as much as they possibly could, and appetite is higher amongst partnerships (58%) and companies (61%) than sole traders (42%), who tend to be less confident with online services overall, but were still interested in using digital services. A further 32% said they would do so as much as they and their clients feel comfortable doing. 16% would use digital services as much as they had to, whilst only one percent would change the services they offer to avoid using them.

As you may expect, agents who were more confident and capable are more likely to use these digital services as much as possible: 57% of those who were very confident and capable said they will do so. However, 10% of those who were very confident and capable would only use these services as much as they had to, indicating that there may be underlying concerns about HMRC’s digital systems.

Chart 3.6 Likelihood to take up new digital services (percent)



Base: all respondents (1710)

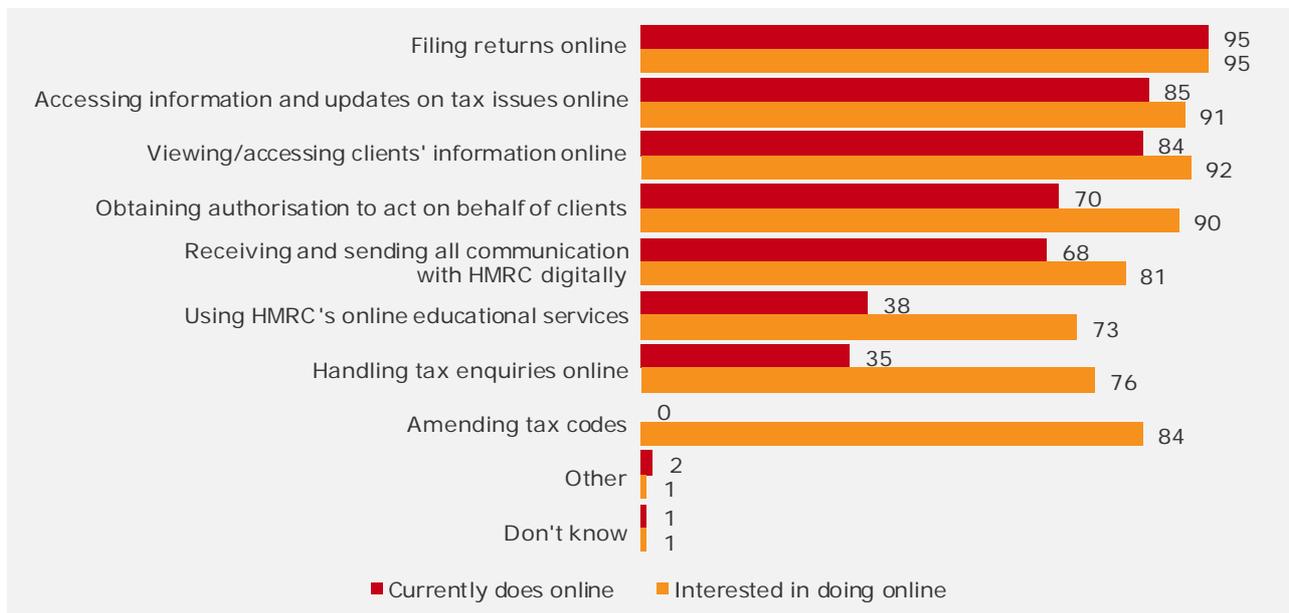
Source: Q31 To what extent is your business likely to take up these new digital services and interact with HMRC online?

3.2.4 Future use of online services

Building upon this interest in digital services, many agents are interested in completing a variety of dealings online (Chart 3.7). In all cases bar filing returns, interest in conducting dealings online is higher than current behaviour, showing potential to increase the use of digital services amongst agents. Most notably, 84% of agents would be interested in amending tax codes online, a service which is not currently available, whilst 76% of businesses are interested in handling tax enquiries online, significantly higher than the 35% of agents who currently do so. Similarly, 73% expressed interest in using HMRC's online educational services, compared to the 38% that said that they currently do this.

Interest in many of the services tended to be highest amongst partnerships and companies, as well as firms with turnover above the VAT threshold of £77,000. This was particularly true of amending tax codes, with 100% of firms with a turnover greater than £1 million were interested compared to 81% of those with a turnover below £77,000.

Chart 3.7 Current online dealings and interest in future online dealings (percent)



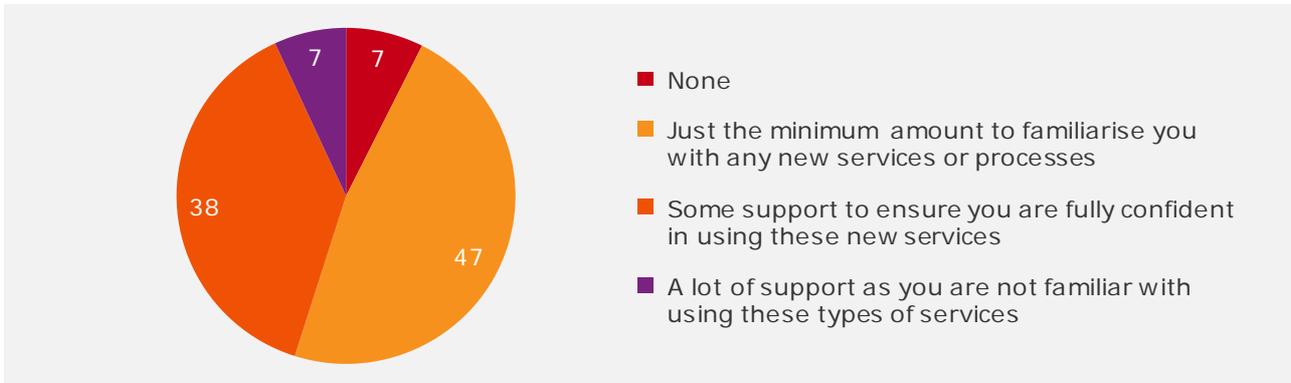
Base: all respondents (1710)
 Source: Q13 And in dealing with clients tax affairs which of the following do you do online? Q32 And which of the following would you be likely or at least potentially interested in doing online?

3.2.5 Support required for digital services

Despite high levels of confidence and capability in the use of internet services amongst the agent population, Chart 3.8 shows that the majority of agents (91%) say that they would require at least a little initial support, with 7% requiring a lot of support. Just 7% of agents said they would require no support; however this figure was higher amongst businesses with a turnover above £1 million (17%) than those with lower annual turnover (7% for those between £77,000 and £1 million and 6% for those lower than £77,000).

This need for support ties into the concerns agents raised around teething problems and what happens when the internet or HMRC's systems are not working, indicating that there is a perceived need to offer some support to help get businesses up and running, and to provide assistance when things do not work.

Chart 3.8 Support required for digital services (percent)



Base: all respondents (1710)

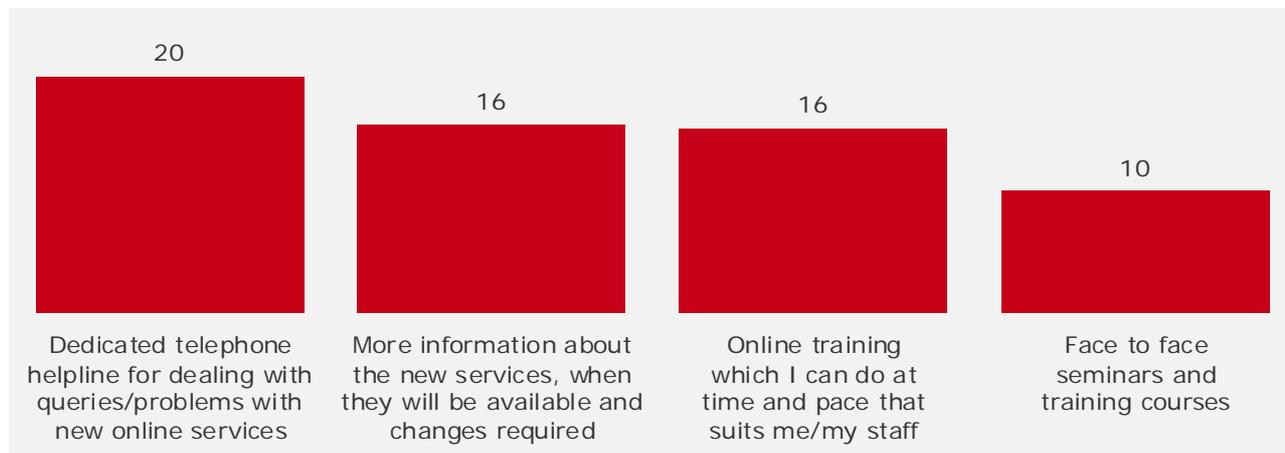
Source: Q33 How much support would you/your business require to help you to take these new digital services and interact more fully with HMRC online?

Respondents were asked what support they would like in order to make the most use of digital services, firstly spontaneously, before then being prompted with a list of possible options.

The most common response was a dedicated telephone helpline for dealing with queries and problems about the new online services, with 20% of agents spontaneously said that they would want this support. Notably 16% of businesses said that they would like more information about the new services spontaneously, which rises to 93% once prompted responses are included. This suggests that some of the concerns that agents raised earlier could be a result of a lack of clarity around what the digital services would be and how they would benefit tax agents.

There was also an appetite for online training, which can be done at a time and pace that suits the business and its staff – 16% respondents saying this spontaneously (Chart 3.9).

Chart 3.9 Type of support agents would need in order to make the most use of digital services (unprompted) (percent)



Base: all respondents (1710)

Source: Q34a What help or support do you feel you need/your business needs to enable you to make most use of these new digital services?

Eighty six percent of businesses said that, if this kind of support were available, they would be more likely to use the digital services and interact with HMRC more online. This was only slightly lower for those who said they would require a lot of support, with 79% of these businesses saying that this support would make them more likely to use the digital services. Similarly, 80% of those who said that they would only use the digital services as much as they had to said that this support would make them likely to use the services more. This suggests a willingness to adapt to use HMRCs digital services, but also indicates that a lack of confidence may have been caused by a lack of knowledge about what the new services would involve, how they would operate, and how they would benefit businesses.

Importantly, 76% of tax agents said that they would want HMRC to provide this support. Just 8% said that they would want professional bodies to do so, and 5% said that they would want this support to come from companies who provide tax and accounting software and systems.

The qualitative research found, perhaps unsurprisingly, that agents who lacked confidence online wanted printed guidance materials and face-to-face support, whilst more confident agents said they would feel happy trialling the service themselves – although they would expect telephone support if they experienced difficulty. This reflects an underlying assumption that new digital services would be sufficiently straightforward to allow agents to take these up with little guidance i.e. that new services would be *intuitive* for agents already accustomed to HMRC’s digital services.

“Whatever changes there are, just let us know easily and clearly what they are. Have webinars for people who want to look at it in detail. I mean, other people like me will just find their way through

it, but if they have that there so that it has got a step-by-step until you get used to it. So, just, yes, give us all the information [...] Connect it all up because in our heads it's all connected. In the world, in the real world it's all connected up" (Small but savvy, London)

Before launching a new service like Agent Online Self Serve, agents expected a range of guidance tools which would give them a sense of the look and feel of the service and an overview of how it works. Across all groups, agents expected HMRC to produce webinars, online tutorials, video and guidance documents – in part because this is what HMRC had produced in the past. In addition to these more typical guidance tools, less confident agents also wanted more hands on support, such as seminars and workshops, as they wanted an opportunity to ask questions and check they were using services correctly.

"Their YouTube account is okay, all videos on there which I sometimes look at just as a training guide...they are free, if you are trying to train some people or learn about a new issue, if you've got 10 minutes at lunch, click and watch a 10 minute update on YouTube, it's free and quick" (Corporate pacemaker, London)

Once the service was launched agents generally said they would look for guidance online before calling the contact centre to avoid long call waiting times. They expected links from pages or tasks to relevant guidance and for guidance to appear in a pop-up window, rather than being redirected to another page, to avoid having to start again when part way through a transaction. Agents who were less confident using digital services said that a printed handbook would also be useful to allow them to easily find and follow instructions on different components of Agent Online Self Serve. However, all agents said they would expect to be able to speak to someone on the phone to answer any questions or if the guidance they required was not easily at hand.

"To be honest I'd prefer an in person where you can ask questions because I'm old fashioned, you know. Would be great if they had a computer [...] you could actually try as you go along." (Hard to win over, Keynsham)

Impact on client relationships

On the whole, agents thought that the impact on competitiveness would be limited – agents believed that clients did not know or care how agents managed their affairs, although increased efficiencies may allow them to take on more clients and / or reduce their prices.

"As long as it gets done, you know? [...] A lot of them are just purely tax return clients and as long as it gets done they don't care how we submit it. As long as we get it done before the deadline and they know how much tax they've got to pay, they're perfectly happy one way or the other."

(Corporate pacemaker, London)

Agents did not expect that Agent Online Self Serve would significantly impact their practices, aside from increasing some backroom efficiency. Consequently, they said they may be able to reduce costs to clients as processes become more efficient, particularly if new digital communication tools reduce delays receiving letters or waiting on hold.

"I mean, obviously from the cost perspective, the more we can do online the less time we have to spend doing it and the less chasing we have to do, means we spend less time on each client's affairs, which, from that point of view can lower costs, which we may or may not be able to pass onto the client, depending. There certainly is sort of efficiency, which will mean cost savings which could lead to lower fees for clients." (Corporate pacemaker, London)

"The quicker we can get access to things, spend less time on it, charge them less money. So from their point of view, you know, they get a more efficient service and it would be cheaper for them. So I think they'd be quite happy with that." (Corporate pacemaker, Southampton)

Better access to clients information may also help to build trust and better client relationships through transparency – e.g. if they can show clients a record of their interactions with HMRC and outcomes of queries raised on the clients' behalf.

Impact on the industry

Increased digital interaction was seen as moving with the times and therefore something that most / all agents all would seek to do. Rather than take up making their business more competitive, agents believed that you could not compete in the current market without being up to speed with digital technologies.

"No matter what sort of accounts you are, if you are not using digital services you will not be an accountant for much longer." (Mid-sized progressive, Leeds)

Therefore agents on the whole did not expect to see significant discrepancies in their industry in terms of take up – or for new services to give a competitive edge to any particular type of agent. Instead, there was a perception that HMRC was lagging behind other service providers used within the industry (for example accountancy software providers) and therefore new digital services would be moving in line with services already typical within the sector. However agents who primarily

managed simple affairs for their clients felt most at risk from HMRC's drive to expand digital services. These agents, who specialised in one or two tasks e.g. in filing self-assessment for sole traders or VAT and payroll for micro businesses, were concerned that they may lose business if HMRC highlighted that new digital services would make it easier to submit returns. They feared that this may either prompt clients to choose to manage their affairs themselves and/or encourage unqualified competitors to undercut them.

4. Segmentation

This section looks at the segmentation of the Tax Agents population. It looks at the profile of firms (both their nature and current usage of digital services) and attitudes towards digital services across each segment. A detailed explanation of how the segmentation was developed is provided in Appendix A.

Key findings

- The majority of agents fall into segments that are confident and capable in using the internet and currently conduct some form of dealing online
- There is clear interest in conducting more dealings online and to engage with HMRC digitally
- The confident and capable segments account for the majority of dealings with HMRC, so such high interest in future online dealings amongst these groups is encouraging.
- There is a small proportion of agents who appear initially unwilling to adapt to using digital services. However, even amongst those less confident in their use of online services and conducting fewer dealings online currently, there appears to be an interest in a wider range of online services. This suggests that, given the right support and positioning, these businesses could become increasingly engaged online
- Agents who have fewer clients and/or deal with a smaller range of tax affairs use HMRC's digital services less frequently and are therefore more concerned about how long it would take them to get used to new services
- Highlighting the practical benefits of Agent Online Self Serve, such as new features or services, is considered sufficient to prompt engagement
- Most agents would require some form of support, but only a small proportion would require a lot of support
- When prompted on the support they would require almost all agents said they would need more information about these new services. At this stage, agents have not been given much information about what would be required of them when moving to digital platforms. It is therefore likely that, as they receive more information, attitudes towards engagement with digital services will develop amongst agents

4.1 Methodology and coverage

HMRC wanted to develop a segmentation of the Tax Agents population to understand their ability and willingness to use digital services, in order to allow support and communication to be targeted to different types of agent as part of HMRC's move to digital.

A key consideration when developing the segmentation was the need to map the segments onto HMRC's own database, so that different types of agent could be identified. Annual turnover is a key piece of information found in the HMRC database so turnover information collected during the survey was selected as the initial basis of the segmentation. A segmentation based purely on turnover created three segments. However this approach did not distinguish the ability to use digital services amongst smaller firms.

TNS BMRB therefore ran multiple iterations of segment solutions to refine the segmentation using three different combinations of input variables: Internet services appetite and capability information only; Company characteristics only; Combination of both. The key discriminators between firms were found to be turnover, confidence and capability in using online services (Section 3.1.1) and willingness to increasingly engage with HMRC digitally (Section 3.2.3).

A segmentation based on these three factors was found to have 100% accuracy when mapping back to the HMRC database. However 9% of the population interviewed could not be segmented due to the absence of a turnover figure and so have been excluded from further analysis based on segment.

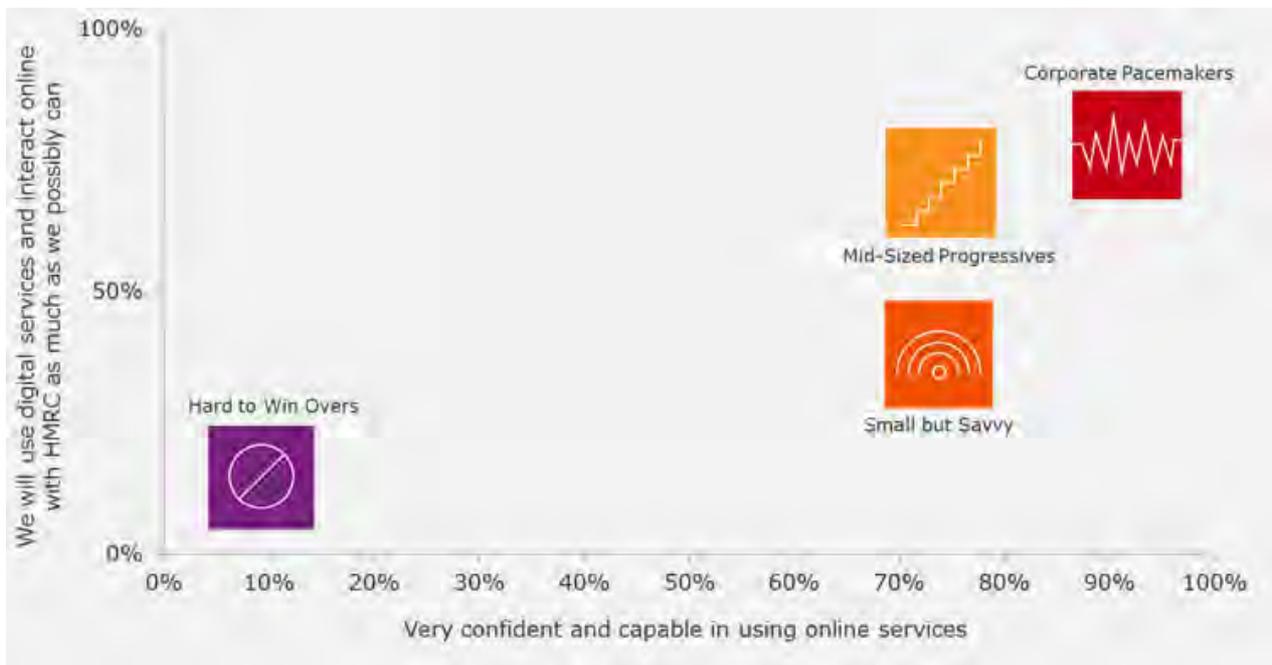
The following figure maps each of the four segments against the two of attitudinal criteria - confidence and likelihood to take up new digital services. The chart shows that:

- Corporate pacemakers were the most digitally willing and able.
- Mid-sized progressives and Small but savvys are similarly confident about using online services, but Small but savvys were less likely to fully utilise these services.
- By contrast, Hard to win overs, show little confidence or willingness to use digital services more.

As already stated, Small but savvys do not show the same willingness to take up digital services, despite showing the same levels of confidence and capability as the Mid-sized progressives. The qualitative research indicates this may be because they see fewer benefits than larger agents were dealing with a wider range of services or because they were concerned about their capacity to deal

with initial teething problems. This is discussed further in Section 3.2 where the different drivers and barriers of taking up digital services are presented.

Chart 4.1 Digital confidence, capability and willingness



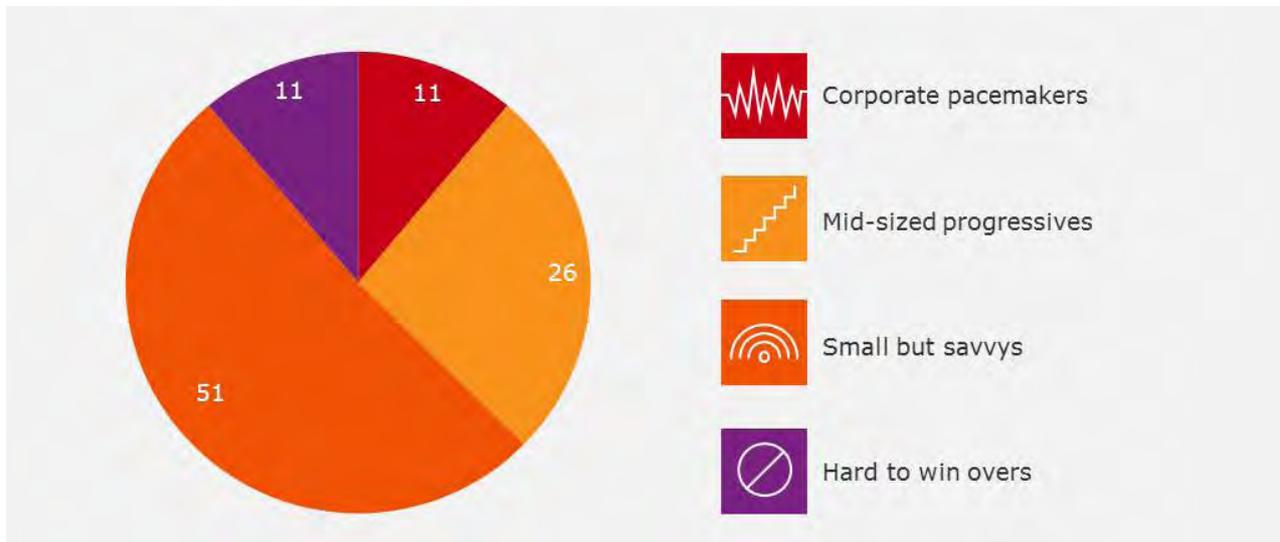
Base: all respondents (1710)

Source: Q9 How capable and confident are you/your staff in your business in using email, browsing and other online services for day to day work? Q31 To what extent is your business likely to take up these new digital services and interact with HMRC online?

4.1.1 Size and profile of segments

Four different segments were created using the approach described above. Chart 4.2 shows how the Tax Agent population is distributed between these segments.

Chart 4.2 Population segmentation (percent)



Base: all respondents (1710)

Source: QS2 In order that we speak to a representative sample of tax agents, what was your turnover for the last full financial year? Q9 How capable and confident are you/your staff in your business in using email, browsing and other online services for day to day work? Q31 To what extent is your business likely to take up these new digital services and interact with HMRC online?

Nine in ten agents fell into one of three segments that were confident and capable in using online services and were willing to increasingly engage with HMRC digitally. Given this includes agents with the largest turnovers, this means that a large majority of the tax agent client base and transactions are handled by agents who are already confident and largely willing to take up new digital services (although as is discussed in section 4.6.2, some Small but savvys may be reluctant to act as early adopters without reassurances about teething problems.)

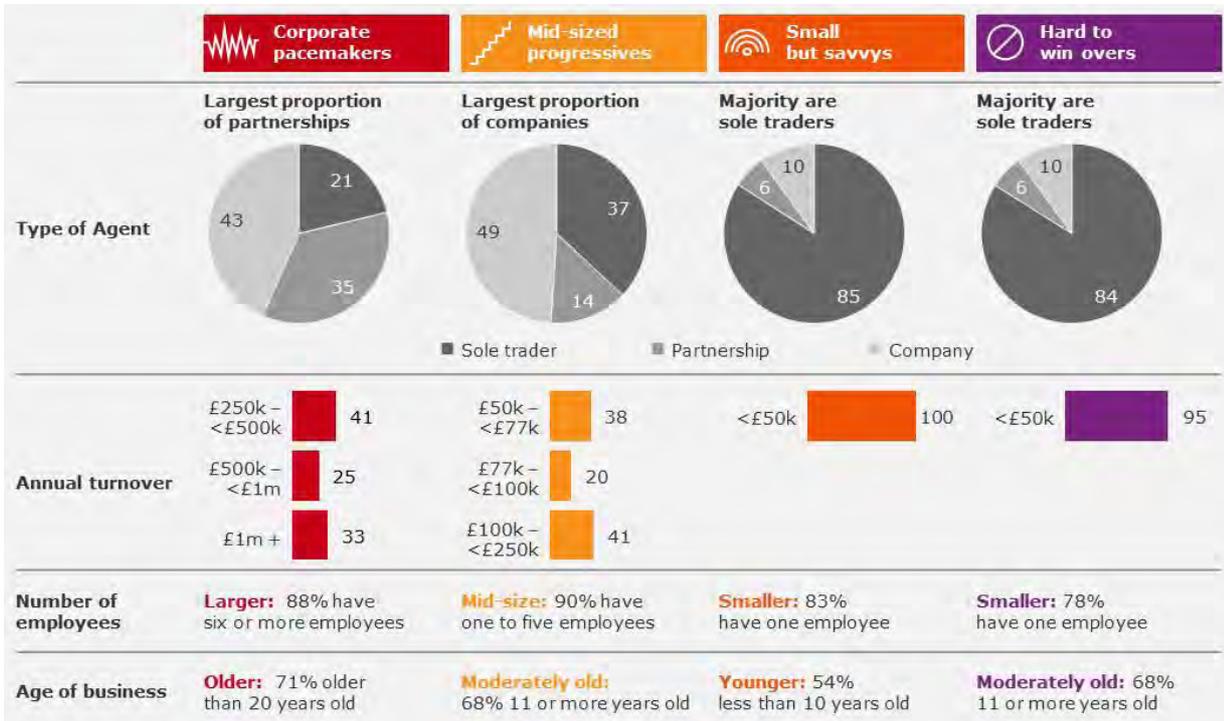
The remaining 11% formed the Hard to win over segment – these firms were less confident and less willing to engage with digital services.

In the section below, we outline key differences between each of the segments against the segmentation criteria: primarily these are turnover, confidence and capability and willingness to take up new services though other characteristics of different firms and agents are considered. This is followed by pen portraits of each of the segments that draw on these criteria to illustrate key differences between the segments

4.2 Segment profile: Turnover and firmographics

Chart 4.3 shows the profile of firms within each segment in more detail.

Chart 4.3 Nature of firms



Base: all respondents (1710)

Source: QS2 In order that we speak to a representative sample of tax agents, what was your turnover for the last full financial year? Q4 Approximately how many people, including yourself, does the business employ? Q3 How old is your business?

Beginning with turnover and firmographics, Corporate pacemakers were much larger firms, both in terms of annual turnover (33% having turnover greater than £1 million) and number of employees (88% had six or more employees, with 13% having 50 or more). They were also more likely to be Partnerships as defined by HMRC’s ITSA database (43%) and companies (35%) Only 21% were sole traders.

Mid-sized progressives (those with an annual turnover of between £50,000 and £250,000) were more likely to be companies (49%) with a further 14% being partnerships. They tended to have between one to five employees (90%). 22% of firms in this segment had only one employee.

In contrast, Small but savvy and Hard to win overs tended to be much smaller firms in terms of turnover (100% and 95% below £50,000 respectively). The vast majority of firms in these segments were defined as Sole Traders by the HMRC ITSA database (85% and 84% respectively), and eight in ten firms in both segments said that they only had one employee (83% of Small but savvy and 78% of Hard to win overs). A further key differentiating factor between Small but savvy and Hard to win overs, was that the sole traders in the Hard to win overs

segment tended to be older (55% over 65 years old) than those in Small but savvy (22% of whom were over 65 years old).⁴ The qualitative work indicated that agents in older age groups sometimes considered themselves to be retired or were winding down their business. They therefore had less inclination to learn new services as they did not intend to operate for much longer and they were not looking to take on more clients. Older agents were also less confident online, having learnt new skills later in their career when it became necessary to use digital services.

“I mean the part of the problem these days [...] it’s probably being done by the younger generation, they assume that everyone’s got a degree in computing and they can find their way around it, you know. Bring my grandchildren in and they’ll be okay but the older generation and the ones who are probably running their own businesses and doing the work, hang on a minute this is all – where are we going with this one? You know, it gets too complicated.” (Hard to win over, Keynsham)

Given that Corporate pacemakers had a larger number of employees it would be expected that a greater proportion of firms in this segment would have staff affiliated to a professional body. Almost all (99%) had at least one member of staff that was a member of a professional body, with the Institute of Chartered Accountants in England & Wales (ICAEW) and Association of Chartered Certified Accountants (ACCA) being the most common (64% and 52% respectively). As would be expected as the number of employees fall, smaller proportions of Mid-sized progressives (89%), Small but savvys (77%) and Hard to win overs (68%) were affiliated. For Small but savvys and Hard to win overs, the most common affiliation was to a non-UK professional body (18% and 26% respectively).

As might be expected given the relative size of the firms, Corporate pacemakers tended to be older and more established (71% were older than 20 years old) than Mid-sized progressives (68% of which were older than 11 years old) and Small but savvy firms (54% of which were 10 years old or younger). Interestingly Hard to win overs tended to be older than other smaller firms, with 49% older than 20 years, reflecting the older age profile of sole traders in this segment.

4.3 Segment profile: Confidence and capability

Online confidence and capability was evident across all segments. They were generally using the internet / online services on a daily basis or more frequently and felt confident doing so. Agents

⁴ A combination of agent turnover and age of agent results in a fairly accurate proxy for segment, which can be mapped onto HMRC’s full database. This can be used to separate out Hard to win overs and Small but savvys.

recognised that doing more online was a sign of the times and largely accepted that use of digital services helped them to drive efficiency.

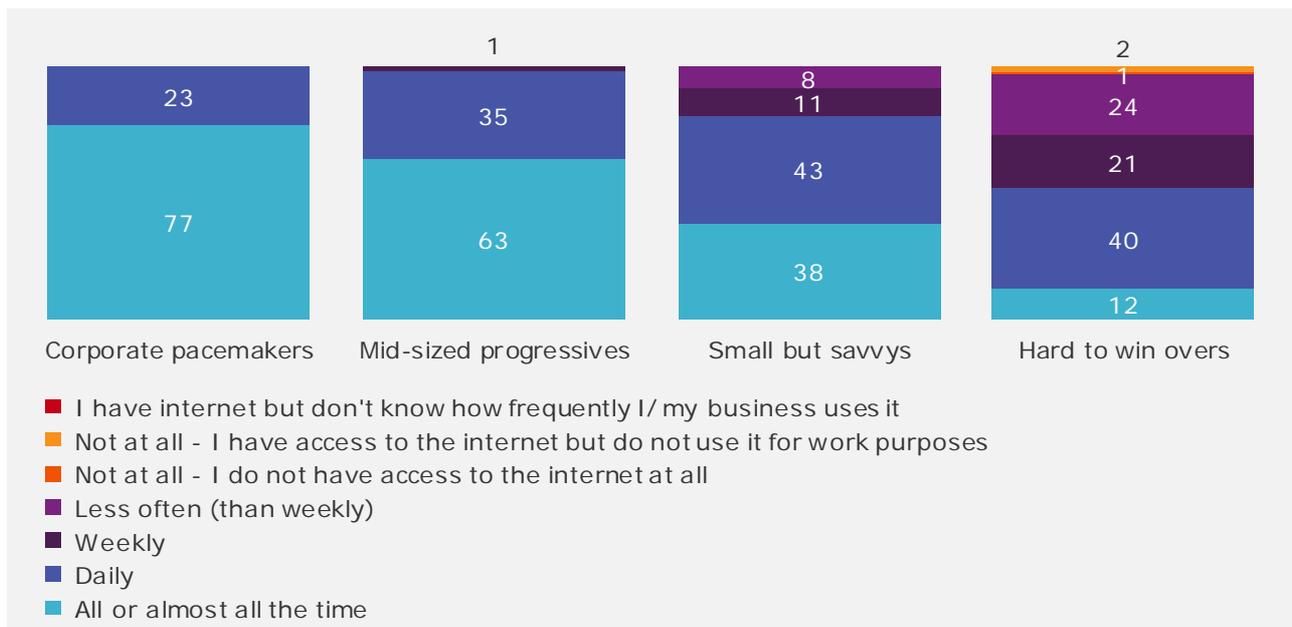
This was with the exception of Hard to win overs, particularly those agents who said who rarely used the internet and were not confident online. However, as shown below, this segment was by no means a lost cause; very few (3%) said they never used the internet and 60% were either fairly or very confident using digital services. The qualitative research showed that those Hard to win overs who did use digital services on a regular basis (at least weekly) were relatively comfortable doing so, but only for tasks they were familiar with. Whilst they may have been familiar with wide ranging tasks, both in their professional and personal lives, including social networking, online transactions, communicating online and sending personal and professional emails, they were nervous about using new services for professional tasks including submitting returns as the potential consequences of getting it wrong may damage client relationships.

“Any agent’s got to be careful that they’re not providing information which can incur the person with an additional – well can be interpreted as an additional taxable liability and then they have customers saying no, no, that wasn’t right, you shouldn’t have said that, et cetera.” (Hard to win over, Keynsham)

4.3.1 Current usage of the internet/online services

Chart 4.4 shows the current frequency of internet usage amongst each segment.

Chart 4.4: Current frequency of internet use (percent)



Base: all respondents (1710)

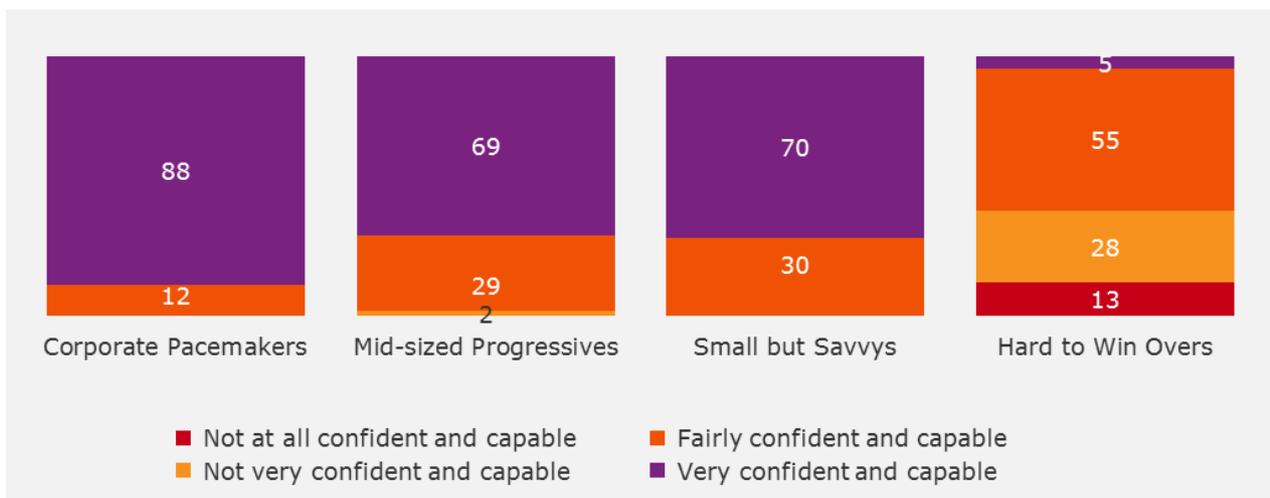
Source: Q7 How often, if at all, would you say you/your business tend to use the internet in the course of your day to day work?

There are clear differences in the frequency of internet usage between the Hard to win overs and the three more confident segments, suggesting different levels of familiarity and proficiency with online services.

All Corporate pacemakers use the internet for work purposes at least daily, with 77% claiming to use it all or almost all the time, suggesting a strong familiarity with online services. Similarly almost all Mid-sized progressives claim to use the internet daily or more often, with 63% using all or almost all the time. Whilst usage is lower amongst Small but savvys, it is still high, with 81% using it at least daily.

In contrast, usage amongst Hard to win overs is lower, with only 12% using all or almost all the time, indicating much lower familiarity, potentially driving a reduced confidence in the use of these services as seen in Chart 4.5.

Chart 4.5: Confidence and capability in using the internet/online services (percent)

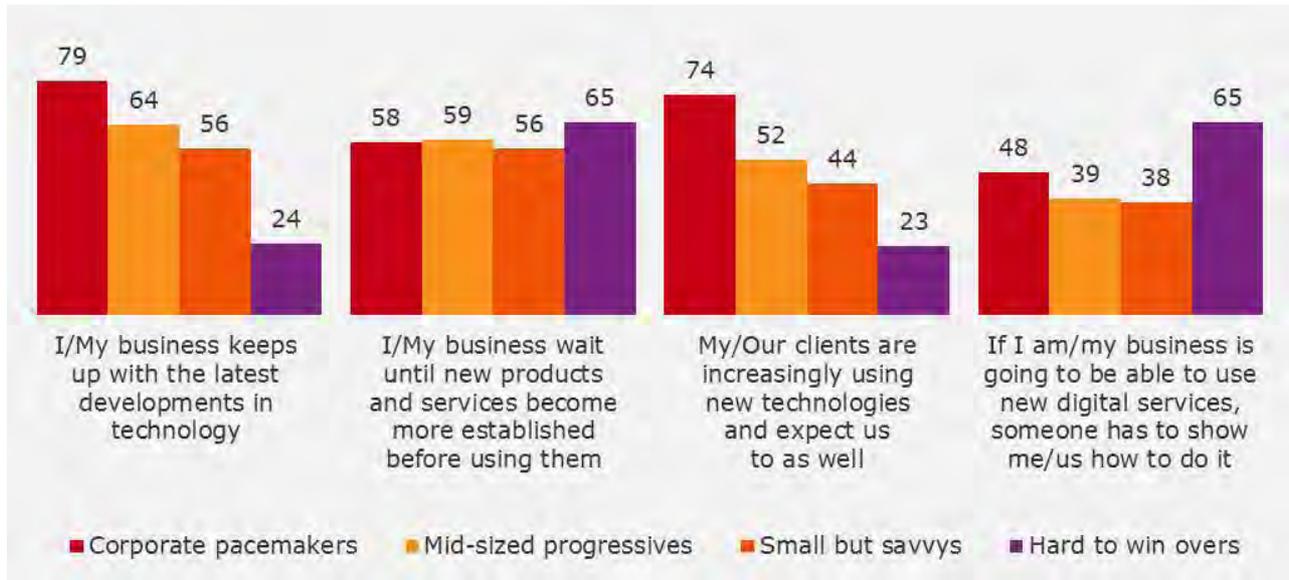


Base: all respondents (1710)
 Source: Q9 How capable and confident are you/your staff in your business in using email, browsing and other online services for day to day work?

As would be expected given their high internet usage, the vast majority of Corporate pacemakers (88%) were very confident and capable in using online services. Whilst lower than the Corporate pacemakers, levels of confidence amongst Mid-sized progressives and Small but savvys were high, with 69% and 70% respectively saying they were very confident and capable. Conversely, Hard to win overs were much less confident in using online services. Only 5% said they were very confident and capable with 28% saying they were either not very confident and capable and 13% saying they were not at all confident and capable, which is unsurprising given the lower frequency of internet use seen in Chart 4.5.

Agents were also asked for their general attitudes towards new technologies. Chart 4.6 shows the level of agreement with various statements across the four different segments.

Chart 4.6: Attitudes towards new technologies (percent)



Base: all respondents (1710)
 Source: Q9a How strongly do you agree or disagree with the following statements? For each statement please give me a score of 1 to 5 where 1 means strongly agree and 5 means you strongly disagree.

Positive attitudes towards new technology tended to mirror current familiarity and confidence with online services. Corporate pacemakers, the most confident and capable segment, were much more likely to keep up with the latest developments in technology (79%) and to be increasingly using new technologies (74%) (or have clients that expect them to). Levels of agreement were not as high amongst Mid-sized progressives and Small but savvys, but remained well above Hard to win overs, 24% of whom said they kept up with the latest developments in technology and 23% of whom saying they were increasingly using new technologies. Conversely, Hard to win overs were much more likely to feel that they needed someone to show them how to use these new services than the other segments. 65% of Agents in this segment agreed with this statement, reinforcing the perception that this group are much less confident in using online and digital services.

Interestingly, however, the number of Agents claiming to wait for new products and services to become more established before using them was well-matched across the segments (albeit slightly higher amongst the Hard to win overs), with between 56% and 65% agreeing with this statement. This perhaps suggests that concerns about teething problems (as discussed in Section 5.2.2) are present for even the most confident of Agents.

4.3.2 Nature of work and clients

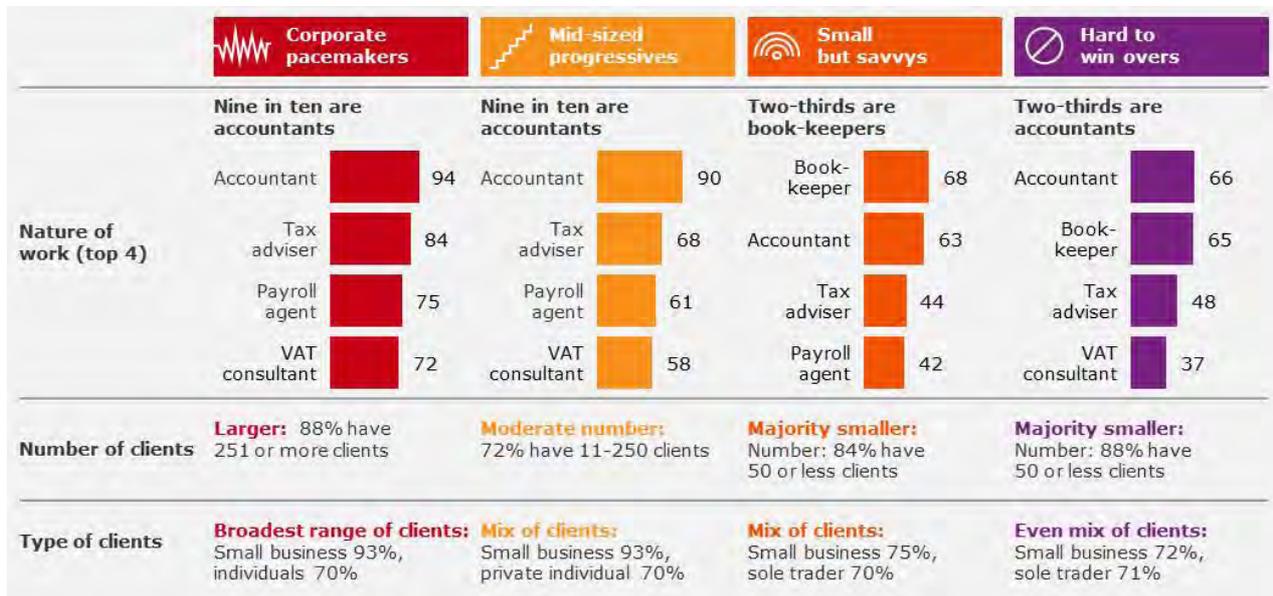
The nature and variety of tasks agents carried out on behalf of their clients also played an important part in their confidence using digital services and views about using new digital services. This was because agents who dealt with a range of services were more accustomed with HMRC's site and were more confident in their ability to use services they were less familiar with.

The qualitative research showed that agents who provided a range of services to their clients or dealt with more complex affairs had a better knowledge of a wider variety of HMRC's digital services – including both informative and transactional elements. These tended to include Corporate pacemakers and Mid-sized progressives who provided accountancy and tax advice to high net worth private individuals or small businesses with more complex affairs as well as some Small but savvy who provided tax advice and accountancy services for a small number of longstanding high net worth clients and therefore used a range of services in a similar way. Agents who offered a range of services to clients recognised there was room for improvement across HMRC's digital services, in particular wanting a more joined up and consistent user experience.

"It might be good to see from a client and all they taxes they deal with in one screen like a dashboard. HMRC is one unit so why can't we see it as one...so you can see everything in one go because it makes life easier" (Corporate pacemaker, London)

Agents who they spent the majority of their time dealing with a small range of tasks (e.g. running pay roll and submitting VAT returns) felt very confident in their ability to use those services and had developed workarounds for points in the process that worked less well. However, they tended to be more nervous engaging with other HMRC digital services, believing that other services were very complex, difficult to use and not designed with the user in mind. Whilst these agents felt very comfortable performing tasks they did on a daily basis, they assumed that other services were poorly designed and too difficult.

Chart 4.7: Nature of work and clients (percent)



Base: all respondents (1710)

Source: QS3: How would you define your business' role in handling clients' tax affairs. Would it be as...? Q15 About how many clients does your business have in total? Q16 Which of the following describe your main types of client?

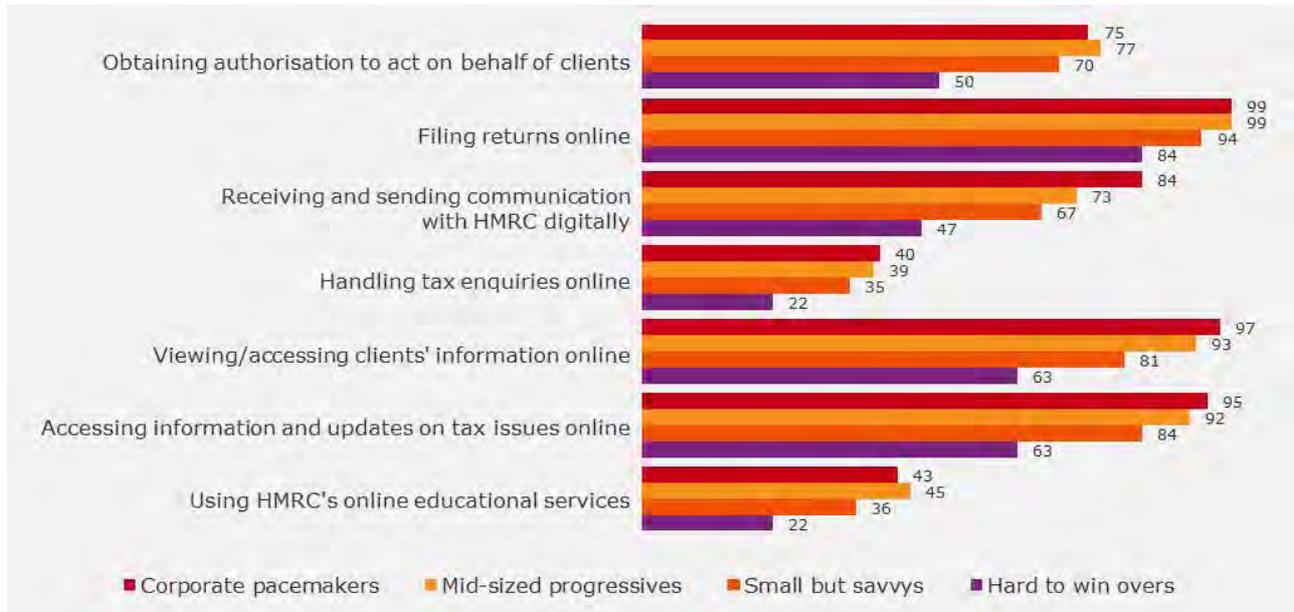
94% of Corporate pacemakers and 90% of Mid-sized progressives defined themselves as accountants. Large proportions of Corporate pacemakers also defined themselves as Tax Advisers (84%), Payroll Agents (75%) and VAT Consultants (72%) indicating that they perform a variety of different roles when representing clients. To some extent the same is true of Mid-sized progressives, with 68% working as Tax Advisers, 61% working as Payroll Agents and 58% working as VAT Consultants. In contrast, Small but savvy and Hard to Win Overs, appear to be much more specialised, with these firms much more likely to work as accountants and bookkeepers than performing other roles.

Given their larger size, it is unsurprising that Corporate pacemakers tend to have a larger number of clients than other firms (88% having 251 or more). Mid-sized progressives tend to have a relatively large number of clients, with the majority having between 11 and 250 (72%). Conversely Small but savvy and Hard to Win Overs tend to have the fewest clients, with 84% and 88% respectively having 50 or less. Given their larger number of clients it is to be expected that Corporate pacemakers would represent a broader range of clients than the other segments. 93% work for small businesses, with a significant proportion also working for private individuals (70%) and Sole Traders (67%).

4.3.3 Current online dealings with HMRC

Chart 4.8 shows the dealings currently undertaken online by firms in each segment.

Chart 4.8: Dealings currently undertaken online (percent)



Base: all respondents (1710).

Source: Q9a How strongly do you agree or disagree with the following statements? For each statement please give me a score of 1 to 5 where 1 means strongly agree and 5 means you strongly disagree.

Corporate pacemakers currently conduct the widest range of dealings online with almost all currently filing returns online (99%), viewing and accessing clients' information online (97%) and accessing information and updates on tax issues online (95%). This segment was also most likely to receive and send all information with HMRC digitally (84%). Mid-sized progressives also conduct a variety of dealings online with almost all filing returns online (99%) and nine-in-ten accessing information and updates on tax issues online (92%) and viewing and accessing clients' information online (93%).

The majority of Small but savvys currently file returns online (94%). Whilst the proportions conducting other dealings online are smaller than the two larger segments they are still relatively high with eight in ten firms viewing/accessing clients' information (81%) or updates on tax issues online (84%).

As would be expected, there are lower levels of online dealings amongst Hard to Win Overs. 84% do file returns online, but given that it is mandatory to file many returns online this is not surprising.

4.3.4 Segment profile: contact with HMRC

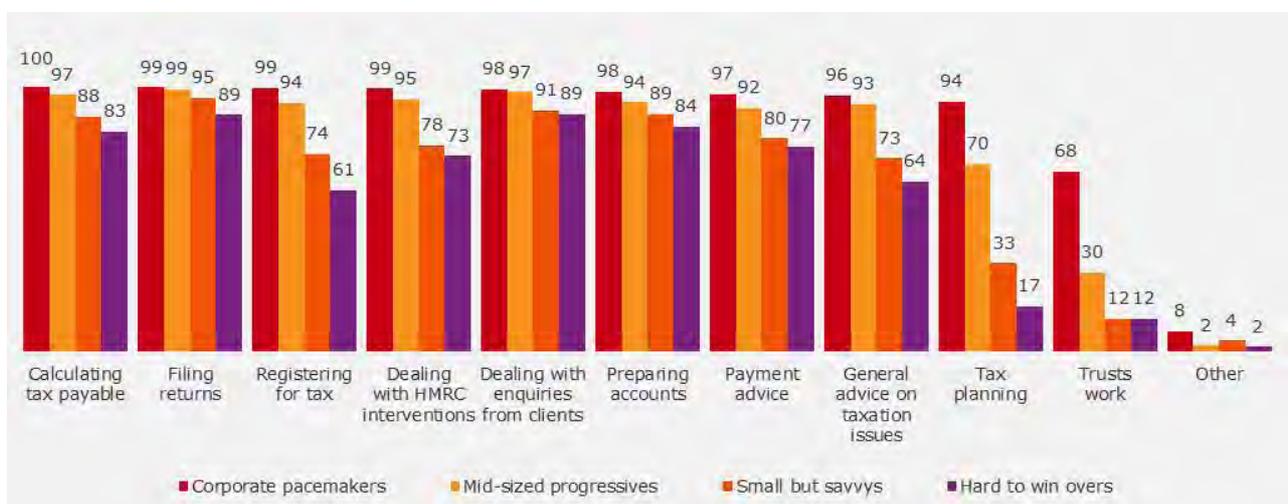
As may be expected, given the differing nature of their work, patterns of contact with HMRC vary by segment. Firstly, Corporate pacemakers tend to have contact with HMRC most frequently, with 81% doing so on a daily basis. Mid-sized progressives have contact slightly less frequently, with just 50% doing so daily, although the majority do so at least weekly (84%). The frequency of contact with HMRC is lower still for Small but savvys and Hard to Win Overs, most only having contact on a monthly basis or less often (62% and 68% respectively).

The channels of contact used by each segment are broadly similar for the three most digitally-engaged segments: Corporate pacemakers, Mid-sized progressives and Small but savvys, most using the website (at least 75%). Significantly fewer Hard to Win Overs use the website to make contact with HMRC (67%), but they have a relatively greater reliance on non-digital channels of contact. For instance, 16% of Hard to Win Overs use the contact centres, broadly in line with Corporate pacemakers (21%), Mid-sized progressives (20%) and Small but savvys (22%). Most notably, the desire to use digital channels of communication, such as email, with HMRC in the future is much lower for Hard to Win Overs than other segments. Just 18% said that they would like to contact HMRC by email regarding a general tax enquiry, compared with 37% of Corporate pacemakers, 33% of Mid-sized progressives and 27% of Small but savvys. A similar pattern was seen in regards to preference for contact from HMRC by email for general tax enquiries, and contact both to and from HMRC for information and guidance.

4.3.5 Segment profile: nature and type of work

Chart 4.9 shows the nature of the work undertaken and clients represented by each segment.

Chart 4.9: Ways represent clients in relation to their tax affairs (percent)



Base: all respondents (1710)

Source: Q12 And in which of the following ways do you represent clients in relation to their tax affairs?

Chart 4.9 shows that Corporate pacemakers represent clients in the widest variety of ways. 100% calculate tax payable, whilst almost all offer every service listed on the chart, bar Trusts work. Whilst it is offered by a smaller proportion of Agents overall, the percentage of Corporate pacemakers offering this service is significantly higher than all other segments. Despite being smaller firms than Corporate pacemakers, Mid-sized progressives also offer a wide variety of services to clients, with the variety lower amongst Small but savvy and particularly Hard to Win Overs.

4.4 Segment Profile: Willingness to engage increasingly with HMRC digitally

Chart 4.10 shows that amongst Corporate pacemakers there was a strong appetite to engage online, with 70% saying they would interact online with HMRC as much as they possibly can. As with other metrics, scores for Mid-sized progressives (61%) and Small but savvy (47%) were not as high. However 90% of Mid-sized progressives and 86% of Small but savvy said they would at least use these new services as much as they and their clients felt comfortable doing demonstrating a strong appetite. Amongst Hard to Win Overs, the desire to interact with HMRC online was much lower, as would be expected given their current usage and confidence with online services. The vast majority of this segment (74%) said that they would only use these services as much as they have to, with 7% going so far as to say that they will change the services they offer to clients to avoid using them.

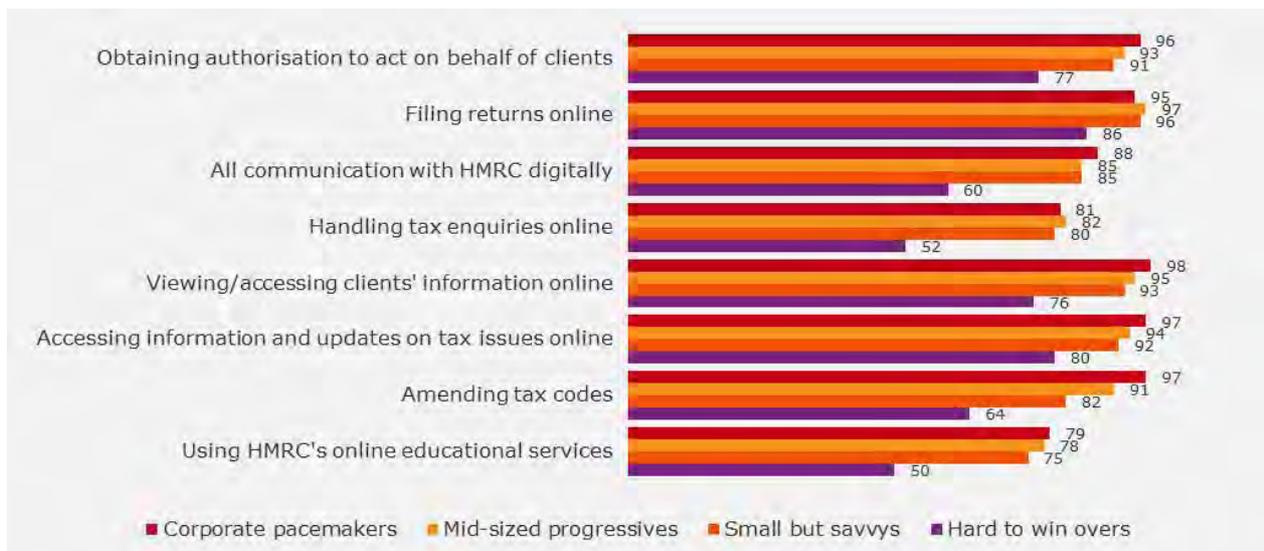
Chart 4.10: Likelihood to take up new digital services (percent)



Base: all respondents (1710)
Source: Q13 And in dealing with clients tax affairs which of the following do you do online?

In addition, agents were also asked about which specific dealings they would be interested in conducting online. Chart 4.11 shows the dealings that each segment were interested in potentially conducting online in the future.

Chart 4.11 Interest in future online dealings (percent)



Base: all respondents (1710)

Source: Q32 And which of the following would you be likely or at least potentially interested in doing online?

As would be expected due to their greater willingness to engage with HMRC online, interest in future online dealings was highest amongst Corporate pacemakers and Mid-sized progressives, with Small but savvy also showing an interest in a variety of different online dealings. Almost all Corporate pacemakers were interested in obtaining authorisation to act on behalf of clients (96%), filing returns online (95%), viewing/accessing clients' information online (98%), accessing information and updates on tax issues online (97%) and amending tax codes (97%). As Corporate pacemakers and Mid-sized progressives account for the majority of dealings with HMRC, such high interest in future online dealings amongst these groups is encouraging for the department's digital agenda.

Interest amongst Hard to Win Overs was generally not as high, although 77% were interested in potentially obtaining authorisation to act on behalf of clients and 76% were interested in viewing/accessing clients' information online. 80% showed interest in accessing information and updates on tax issues online.

Importantly, for all four segments, there was a clear increase in the number of Agents interested in conducting these dealings online compared to the number who currently do so, indicating a clear

appetite for increased digital engagement. The biggest increases were seen for handling tax enquiries online where 41% more Corporate pacemakers, 43% more Mid-sized progressives, 45% more Small but savvys and 30% Hard to Win Overs were interested in this service compared to the number that currently use it.

Large increases indicate that, despite initial reluctance in increasingly using online services (when presented with a very general definition as discussed in Section 3.3), there is in fact some appetite even amongst Hard to Win Overs. It is therefore likely that the correct positioning and support could drive increased uptake amongst this group.

The qualitative research showed that agents' responses to new digital services and their appetite to take up enhanced digital services was influenced by a range of factors, including: the range or complexity of services they offered; confidence and capability using digital services; and their access to support and use of software. These factors shaped their appetite for new digital services by determining the benefits they expected from enhanced digital services as well as how sensitive or equipped they were to deal with initial teething problems.

Corporate pacemakers, Mid-sized progressives and Small but savvys, who dealt with more varied and complex affairs, anticipated wide ranging benefits, including improved communications, easier navigations and a better, more joined up user experience, as discussed in section 5.2.1. They were also less concerned about potential downsides because they expected to receive support from their company, a professional body or their software provider to deal with any initial difficulties bedding in the new service. Those who used accountancy software expected that their provider would carry out development work leading up to any launch of new digital services, and therefore their systems would be aligned at the point of launch, minimising any disruption.

Small but savvys and Hard to win overs, who performed a more limited range of tasks, saw fewer benefits of adopting new digital services and were therefore much more focused on the potential downsides. As these agents spent most of their time doing one or two types of returns, they were more motivated by specific functionality of transactional services rather than improved integration and navigation between services. These agents were in fact nervous about any indication of an overhaul of digital services because they were worried they would need to spend time learning the new system, which would offer them no real benefit.

4.5 Pen portraits

The pen portraits below, which are illustrative of typical agents in each of the segments, show how the range of factors described above influenced willingness to take up new digital services within the segments. In some cases there is more than one pen portrait for each of the segments, to illustrate differences in willingness to take up new services within the segments. As shown in chart 4.10, 70% of Corporate pacemakers said that they would use new digital services 'as much as they possibly can'. However, this response was given by 47% of Small but savvy, the rest saying that they would use new services 'as much as they felt comfortable' or 'only as much as they had to'. These differences are explored further in the pen portraits below:



Pen portrait 1 - Corporate pacemakers

Likelihood to take up new digital services %

- We will use digital services and interact online with HMRC as much as we possibly can
- We will use them as much as we and our clients feel comfortable doing
- We will only use them as much as we have to
- We will change the services we offer to clients so we don't have to use these new digital services



Michelle works in a large accountancy firm. She deals with a range of tax affairs for her clients and is therefore familiar with a variety of HMRC's digital services. She uses these on a daily basis to check client information / returns held by HMRC and to find guidance on legislation. All returns are submitted online, using software which aligns with HMRC's digital services.

Michelle feels it's normal to do pretty much everything online and she is trying to reduce the amount of paper records they hold. Now she can't imagine hunting out paper returns rather than checking records held digitally. It's about moving with the times.

She feels that HMRC's services are a bit cunky and antiquated, but she's gotten used to the system. She likes the idea of a revamp – particularly if new services make it easier and faster to find what she's looking for and get a response to a query.

She knows there will be some teething problems but expects some training nearer the time either from her company or professional body. As she uses these services everyday she's confident new habits will sink in quickly.

Within the Mid-sized progressives segment, there was some variation in the range of services agents provided. Those who dealt with a range of tax affairs were largely confident and very similar to Corporate pacemakers in terms of their response to and attitudes towards expanded digital services, although on a smaller scale. However, there was another group within this segment who provide a limited range of services consequently, they saw fewer benefits of interacting with HMRC online and therefore the downsides loomed larger.



Pen portrait 2 - Mid-sized progressives

Likelihood to take up new digital services %

- We will use digital services and interact online with HMRC as much as we possibly can
- We will use them as much as we and our clients feel comfortable doing
- We will only use them as much as we have to
- We will change the services we offer to clients so we don't have to use these new digital services



Sue is an accountant in a small firm providing End of Year, VAT and SA submissions to a large number of micro-employers with simple affairs. She thinks that expanding services may be beneficial but she is also conscious of some risks.

Some of her clients have approached her to say that they were offered the same service at much lower rates by one-man bands who could do simple returns but were unqualified.

So far, they hadn't taken up the offer but Sue is worried that, if HMRC publicise their new digital services, it might encourage more people to offer this kind of service. As these individuals are unqualified, they may not always get it right, particularly if something unusual arises. She knows her clients take her on because they trust her to get it right and can imagine these sorts of mistakes causing a lot of stress for people like her clients who want someone else to take care of their tax affairs.

There are again two types within the Small but savvys, which mirror the Mid-sized progressives. Those who offered a range of services to a small number of clients (up to 20) with more complex affairs tended to see more benefits of taking up new digital services. Whereas those who predominately offered bookkeeping and payroll services, were more concerned about the potential impact on their business of bedding in the new services.



Pen Portrait 3 - Small but savvy

Likelihood to take up new digital services %

- We will use digital services and interact online with HMRC as much as we possibly can
- We will use them as much as we and our clients feel comfortable doing
- We will only use them as much as we have to
- We will change the services we offer to clients so we don't have to use these new digital services



Michael offers a range of services and tax advice to a small number of high-net worth clients. He used to work in a larger firm but has now started his own business working for a small groups of longstanding clients.

He uses HMRC's website to find information about tax law, check information held about his clients and submit some returns. However, providing tax advice to clients is his core business, therefore he doesn't want to spend a lot of time doing basic tasks like filing returns or waiting to speak to an adviser.

Michael is really keen to adopt any new service which irons out glitches in the system and improves usability and efficiency. He's would also be very interested in any digital communication which would allow him to deal with HMRC more quickly and spending time waiting on the phone. He'd rather wait for an email response as he could do other work in that time and would not need to charge clients for waiting time.

But, Michael is sceptical about HMRC's motives and worried that they are pushing more of their work onto agents. Therefore he wants more detail on the functionality of new services to judge for himself whether there would be practical benefits for his business



Pen Portrait 4 - Small but savvy

Likelihood to take up new digital services %

- We will use digital services and interact online with HMRC as much as we possibly can
- We will use them as much as we and our clients feel comfortable doing
- We will only use them as much as we have to
- We will change the services we offer to clients so we don't have to use these new digital services



Jo works as a sole trader and spends most of her time doing bookkeeping and payroll. She is not sure whether new services would be useful as her clients' affairs are fairly simple and the services she uses work well enough now she has gotten used to them.

She doesn't use software and thinks that HMRC's transactional services are clunky and fall over easily, particularly when demand is high. Therefore, she thinks that HMRC has some work to do to design out glitches and make the current system more user friendly.

Although she is interested in certain new functions – like amending tax codes online –wholesale change to the system rings alarm bells. Having been stung by RTI, she is very worried about teething problems and questions HMRC's ability to deliver a brand new service that works better than it's predecessor.

Hard to win overs were very different to others both in terms of the services they provided to clients and their beliefs about the complexity of HMRC's digital services and their own capacity to manage this. Although more than eight in ten (83%) said they would only use digital service as much as they had to or they would stop operating as a tax agent rather than take up new services, the qualitative research indicated that this group were certainly not all a lost cause. Again, two types are described below; the first expressed some appetite for new services, believing that digital services had scope to improve efficiencies. However, they would only have the confidence to use these if there was sufficient direct support. The second of these consider themselves to be retired and may have never (or very rarely) used digital services and have no interest in learning.



Pen Portrait 5 - Hard to win over

Likelihood to take up new digital services %

- We will use digital services and interact online with HMRC as much as we possibly can
- We will use them as much as we and our clients feel comfortable doing
- We will only use them as much as we have to
- We will change the services we offer to clients so we don't have to use these new digital services



Zynah offers bookkeeping, Payroll, VAT and SA support to a group of friends, family and a few longstanding clients.

She is curious to see how HMRC's new digital offering could improve the service she provides and is fairly confident using online services. Over the years, online services have really helped make her job quicker and easier – and whilst she is still a bit intimidated by doing more online she recognises it's the way the world is going and sees that there are benefits.

Whilst she would happily take up new services, she wants to feel very familiar before using new services to deal with her clients affairs. She is very worried about making a mistake when using an unfamiliar service, believing this could end up costing her clients money or triggering a letter from HMRC. She'll certainly try it out but needs lots of support and guidance upfront so she doesn't get anything wrong when she first starts to use the new service.



Pen Portrait 6 - Hard to win over

Likelihood to take up new digital services %

- We will use digital services and interact online with HMRC as much as we possibly can
- We will use them as much as we and our clients feel comfortable doing
- We will only use them as much as we have to
- We will change the services we offer to clients so we don't have to use these new digital service



Ralph sees himself as retired, having stopped working full time several years ago, although he does still provide some accountancy services to very few longstanding clients. His clients are also well into retirement and have very simple requirements such as declaring income from occupational pensions and rent.

He deals with tax affairs with pen and paper and relies on his nephew for anything that needs to be submitted online. He recognises that digital is the way things are going but he doesn't know how to use the internet and has no interest in learning. He's going to stop trading soon anyway so he's not interested in learning a new service, no matter how much help is available.

4.6 Promoting take-up of Agents Online Self Serve

There was a clear appetite for a range of new digital services across all segments, with the exception of Hard to win overs. The qualitative work shows that this was because, for the most part, the benefits of taking up new digital services were clear and motivating in themselves; even when presented with very high level information about new digital services functionality, agents were able to infer a range of benefits for their business.

However, this research sought to identify ways to encourage agents to take up the services *as soon as possible*. As discussed in section 6.4, smaller agents perceived fewer benefits and were also more concerned about any initial teething problems. Consequently, these agents *may wait to see* whether new services provide real benefits for businesses like theirs before spending any time trialling these.

Therefore, communications to promote take up of new digital services from HMRC needs to do two things:

1. Promote new features, improvements to user experience and functionality to enable agents to infer for themselves the likely benefits for their business; and
2. Provide reassurances about the support and guidance available to smooth the bedding in process for smaller agents who may not have access to support via other channels (e.g. professional bodies or software providers)

In the sections below, we explore of these approaches in more depth, drawing out key differences between each of the agent segments.

4.6.1 Promoting features of new digital services

During the qualitative research, agents were presented with more detailed information about the potential functionality of the Agents Online Self-Serve portal (AOSS). As shown in the table below, AOSS functionality was valued across the segments, although the perceived value was more limited for smaller agents who only dealt with one or two affairs on behalf of their clients. In these cases, they engaged with specific functionality which was relevant to their client base such as changing tax codes or quicker Construction Industry Scheme (CIS)/ other repayments for clients.

				
Client information in one place: Saves time logging in to different systems when checking across client affairs	✓	✓ ✗ But, benefit limited if dealing with a limited range of tax affairs		✗ Concerned about seeing information they should not
Secure messaging service: Saves agents time and clients money (if response time is acceptable)	✓	✓	✓ provides paper-trail / transparency	✗ nervous about usability and security
Checking payments and liabilities: Enables agents to help clients to avoid penalties and ensure compliance	✓	✓	✓ ✗ not their responsibility / clients may not want them to know	
Authorisation and delegation: Faster process and delegation critical in companies using junior staff for simple arrangements	✓	✓	✓ ✗ no benefit of delegation for sole-traders	

Viewing client information in one place: This feature was particularly well received by agents who had large numbers of clients and / or dealt with a range of tax affairs on their behalf. Small but savvy savvys who provided a limited range of services did not believe this feature would be particularly beneficial to them and were more interested in new functionality that was relevant to their client base (i.e. amending tax codes or CIS repayments). Hard to Win Overs were concerned about viewing information their client would not want them to see as this would potentially damage trust

Agents referred to Agent Online Self Serve as a dashboard or one-stop-shop; phrases that are indicative of their perception that the service would improve integration and accessibility of information held by HMRC. This included information held about their clients as well as better signposting to relevant guidance and information. As described above, agents said they often experienced difficulty finding information they needed and therefore wanted guidance documents to be linked to the relevant transactions within the Agent Online Self Serve portal. They said better integration of information held at a client level or at a tax level would improve efficiencies as agents would spend less time moving between content.

"Well, it would make my job easier. The more we can do online, the more information that we can have available easily, means less chasing up of things for clients, HMRC. It would make my job easier, as I said. And obviously the less chasing we have to do from a client's point of view means they can get on with their businesses and their life without having to worry I've got to get this for the accountant" (Corporate pacemaker, Southampton)

In addition, agents also wanted sight of information that HMRC held on customers but which agents could not currently access, such as clients liabilities (for all taxes), CIS deductions by

contractor, payment and liabilities history from previous tax years. Agents said that they often had problems retrieving information from clients; therefore it would be useful to have access to such information and notifications linked to the client account (assuming they have permission to see that information).

"It's a painful process for [clients] and we're having to talk them through to find out the information that should really be available to us." (Small but savvy, Leeds)

Agents also assumed that better integration would allow them to deal more efficiently with errors and penalties by allowing them, and HMRC, to see and access the same information and deal with issues more efficiently. There was a perception that when errors occur, it can be difficult to get to the root cause or resolution (particularly where the agent believed HMRC had made an error.) Whilst automated penalties or warning letters continue to be sent to the customer, this can undermine trust and damage relationships between agents and customers. Therefore agents wanted system change that will give them greater control where errors emerge, or better access to the information HMRC holds to determine why errors have occurred in order to show this to clients.

Secure messaging service: As already described, there was strong interest in digital communications tools where this was expected to improve upon current communications channels (i.e. letters and the contact centre). In particular there was a strong preference for increased communications via email, though with the caveat that agents received a response in an acceptable timeframe (section 2.3). This was evident across all segments, with the exception of those Hard to win overs who said they would not take up any new digital services in the future. A secure messaging service was well received as agents believed this would offer two way communication with reduced waiting times, or at least that they would not have to wait on hold for their call to be answered or passed to the correct team. A secure messaging service could also provide a paper trail or record of the response from HMRC advisers.

"I have a messaging service with my bank...which I find really useful and it gets answered quickly, which I don't have with HMRC...I don't know if the revenue do that but that would be something that I would really like to be able to use, like a sort of instant messaging service to talk to someone at the revenue" (Mid-sized progressive, London)

"I could print it out and it would be a very credible resource." (Small but savvy, Birmingham)

Agents also questioned whether it would be possible to link messages to a transaction or document within the portal. In this way it would be easier to direct HMRC advisers to specific errors

or evidence relating to the query, allowing for better information exchange between HMRC and agents.

Drill down to payments and liabilities: Viewing clients' liabilities would enable agents to help their clients keep up to date and avoid penalties. However, some Small but savvy agents said that this was not part of the service they offered as it was the clients' responsibility to ensure they paid their tax on time. Hard to win overs had clients to whom they only provided bookkeeping or payroll services and they said their clients would not want them to have access to this information. Agents in this group were concerned about the impact it would have on client relationships if they were able to see information that their clients were not comfortable with.

Client authorisation and permissions delegation: In many cases, agents were already using the online client authorisation service and were therefore already aware that these services provided enhanced efficiencies. Delegation was considered important where agents employed staff to manage less complex tasks, but who should not be able to view or change other tax affairs. Integration of information made this particularly important for Agent Online Self Serve as a single login allowed access to a range of client tax affairs, including liabilities. As above, agents needed to be able to show clients that only those authorised to do so could access more sensitive information. Relevant permissions, in built in the system, will address these concerns.

Incentives to encourage early take-up

Agents were asked to consider a range of incentives, to encourage them to take up Agent Online Self Serve as soon as it was launched. These included later filing dates; enhanced support and additional early training; nominal reduction to their tax bill; ability to register clients quicker; access to clients' tax information (e.g. information contained in Self Assessment); quicker Construction Industry Scheme (CIS)/ other repayments for clients; amending tax codes.

Given concerns about teething trouble, there was a consistent demand for initial support. Offering enhanced support for early adopters was a widespread incentive to early take up. For Hard to Win Over participants in particular, training and enhanced support was considered essential to enable them to take up the service, with agents within this group saying they would take up Agents Online Self Serve straightaway if they knew they would get one-to-one support to check they were entering information correctly. However, additional support was well received across agents and seen as a real benefit of engaging with new services earlier rather than later. This was particularly

the case for less confident agents who wanted more intensive support, although agents across all sizes also responded well to this incentive.

Nominal reduction to tax bill was raised by some agents, although on the whole agents were sceptical that the amount would be sufficient to warrant adopting a new digital service, and potentially adapting practices to align with that service, unless there were other benefits. There was little interest and perceived benefit in later filing dates, as they would still be working to a deadline, it would reduce the time between the next submission, and it might cause mistakes as agents already had multiple filing dates to work towards.

4.6.2 Reassuring agents about teething problems when bedding in new services

Despite recognising the benefits of new digital services, for some agents, anxiety about potential teething problems will remain a significant barrier to immediate take-up of new digital services.

Adopting any new services presents two potential challenges for agents:

1. New services may be difficult to use or may not work properly if they have not undergone sufficient user testing at the outset; and
2. Agents will need to adapt their systems and processes to align with new digital services.

To address these challenges, appropriate support is essential both to persuade agents to trial new services and also discourage them from giving up too soon if the new services do not meet expectations.

Support needs

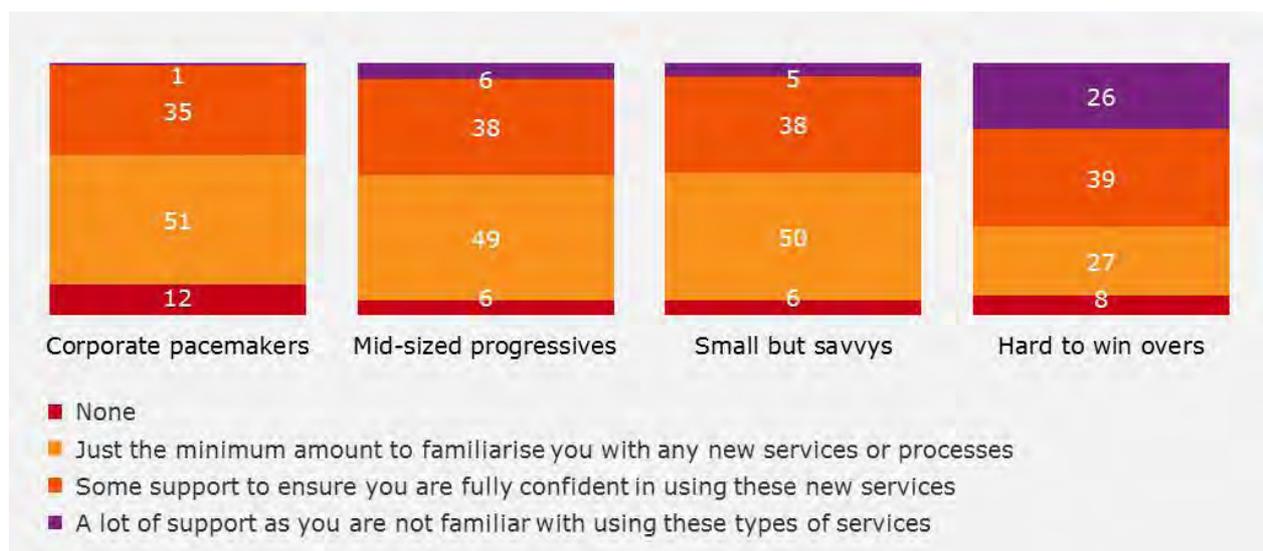
Corporate pacemakers, Mid-sized progressives and Small but savvy's expected that new digital services would be intuitive for agents who were accustomed to using HMRC's current digital services. Therefore they would trial new services first and expected a range of tools to be available – 'at their finger tips'- for troubleshooting if they experienced difficulties. For the most part, they wanted to use web-based tools including video tutorials, online guidance, webinars and webchat. They also expected telephone support to be available, if they could not easily find the guidance they required, although they would only call the contact centre as a last resort.

Hard to win overs were more anxious about making a mistake and were therefore willing to spend time learning about the new services before trialling it for themselves. They therefore wanted to access a mix of online and offline educational support before using new services for the first time.

Face to face support, including workshops and seminars was valued because they wanted to ask questions and try out the system or themselves to build their confidence before using the new service themselves. However, these agents were also interesting in web based tools such as video tutorials and webinars where these clearly demonstrated how the service worked and reassured them that the new service was easy to use and no more time consuming than current services.

Chart 4.12 shows that across the four segments varying levels of support would be required. Corporate pacemakers said they would require the least amount of support, with only 1% requiring a lot of support, 51% only requiring minimum support, and 12% saying they would not require any support. Mid-sized progressives and Small but savvy also required limited support, with 49% and 50% respectively only requiring minimum support and 6% of each segment requiring no support. Hard to win overs also required limited support, with 39% only requiring minimum support and 26% requiring a lot of support.

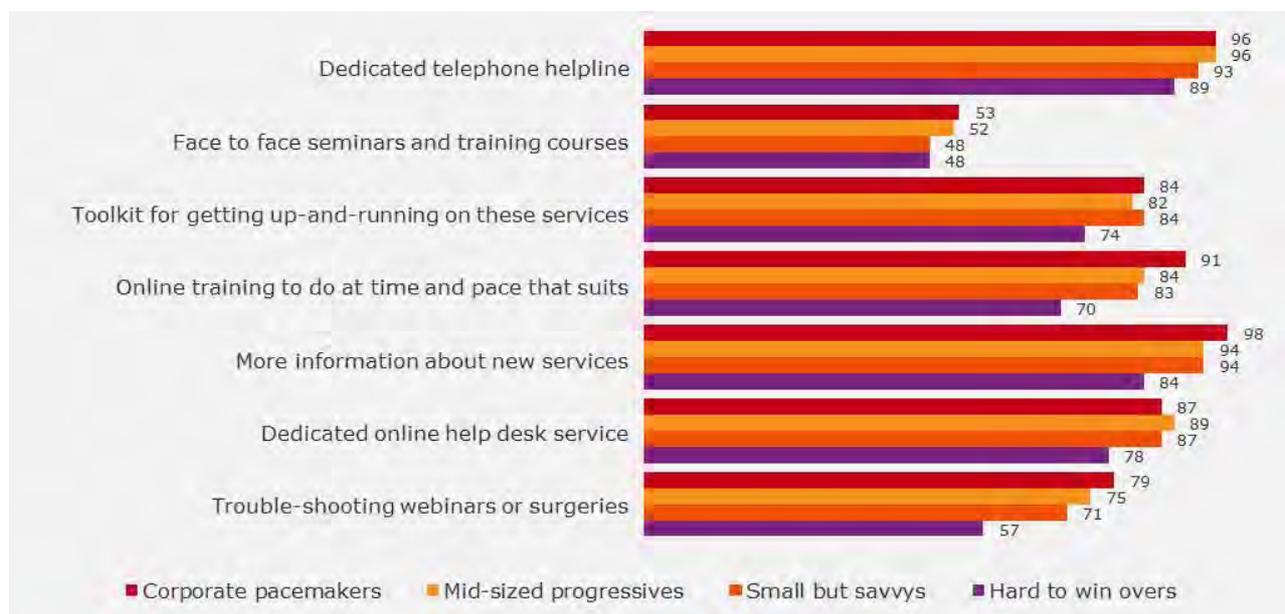
Chart 4.12 Support required for uptake of digital services (percent)



Base: all respondents (1710)
 Source: Q33 How much support would you/your business require to help you to take these new digital services and interact more fully with HMRC online?

Despite low levels of support required, it is important to note that these three segments would require **some** form of support. When asked who they would expect to provide this support, the majority of firms said HMRC (ranging from 71% amongst Corporate pacemakers to 78% amongst Small but savvy). Unsurprisingly, Hard to Win Overs would require a greater level of support, with 26% saying they would require a lot of support. 79% of this segment would expect this support to come from HMRC. Agents were then asked what forms of support they would require, first spontaneously and then prompted from a list. Chart 4.13 shows the support required, combining the spontaneous and prompted answers.

Chart 4.13 Specific support required (percent)



Base: all respondents (1710)

Source: Q34b I am now going to read a list of some of the support that might be available. Which of these would be helpful to you in enabling you to take up new digital services? Q34 What help or support do you feel you need/your business needs to enable you to make the most of these new digital services?

The types of support required by each segment tended to be similar with a dedicated telephone helpline likely to be important. However, unsurprisingly, appetite was lower amongst Hard to Win Overs for web-based training – Toolkits (74%), Online training (70%) and Trouble-shooting webinars (57%). Importantly all segments said that they needed more information about these new services and what was required of them (ranging from 84% amongst Hard to Win Overs to 98% amongst Corporate pacemakers). At this stage, agents have not been given much information about what would be required of them when moving to digital platforms. It is therefore likely that, as they receive more information, attitudes towards engagement with digital services will develop amongst agents.

4.6.3 Communicating about Agents Online Self Serve

After the first wave of qualitative interviews, we developed a set of message propositions, based on agents' response to information about Agent Online Self Serve. From the first wave of research, we found that agents tended to respond well to information which did the following:

- Laid out the **practical benefits** of Agents Online Self Serve;
- **Reassured** them that the service would be secure and would be fully user-tested to minimise teething problems;

- Highlighted that HMRC had developed these new services because they **valued** the central role agents played.

During the groups, we presented a series of propositions to understand what messages worked best in driving engagement with Agent Online Self Serve.

As mentioned above, agents responded well to information that laid out the **practical benefits** of Agent Online Self Serve, including the ability to move between clients' affairs and which highlighted new features or incentives. However, some messages were thought to overstate the likely benefits, particularly among agents who viewed HMRC's digital services as cumbersome and lagging behind commercial service providers. Phrases like 'picking up the pace' and 'pioneering' highlighted that HMRC's current service was poor and out-dated and prompted agents to question whether the new service would be much better. These phrases also raised concerns that development may be rushed and services may be susceptible to glitches and teething problems.

The suggestion that the new service would save HMRC money prompted unhelpful discussion about HMRC's motivation for creating the service and also raised concern that agents will be taking on work HMRC currently does. Many did not believe it would save customers money as doing more online would force customers who had limited online access or confidence to pay an agent to do it for them.

Propositions that were intended **to reassure agents** about usability and security actually had the opposite effect. Agents said that security and user-testing were expected; they also felt these messages were stating the obvious, or they questioned whether testing and security measures were sufficient. However, there was considerable anxiety about teething problems, particularly amongst Small but savvy and Corporate pacemakers who were significantly affected by the changes under RTI. Therefore, it may be that these messages are still required but would be better coming from different and more independent messengers such as professional bodies.

There was a perception that HMRC should acknowledge and **value** the role agents play in ensuring clients submit accurate and compliant returns, although agents said these propositions had little impact on their perceptions of Agent Online Self Serve. However, these also raised a more cynical response from some agents who argued that by expanding digital services, HMRC was shifting administration tasks onto customers and agents – rather than 'valuing' agents, HMRC was getting the most from these changes.

5. Agent profile

This section will discuss the current profile of the tax agents, looking at the characteristics of businesses to provide some contextual information about the population. For sole traders it also looks at their personal demographics. Finally, it examines the nature of agents' client base.

Key findings

- 64% of Agents were classified as sole traders on the Income Tax Self Assessment database, whilst 12% were categorised as partnerships. The remaining 24% of Agents were companies from the Corporation Tax database
- The majority of businesses reported a turnover for the last full financial year below the VAT threshold of £77,000, with just 3% of agents having a turnover of £1 million or more. Sole traders were more likely to have a turnover below the VAT threshold (81%), whilst partnerships were more likely to have a turnover of £1 million or more (12%)
- 82% of businesses had at least one member of staff affiliated to a professional organisation
- 55% of businesses have 50 or fewer clients, whilst 23% have between 101 and 500. 9% of agents had more than 500 clients. Sole traders were more likely to have fewer clients, with 42% having 10 or fewer. In contrast, partnerships were more likely to have a larger number of clients, with 30% having more than 500

Introduction

Agents were asked a number of questions about their business, with some further information being extracted from HMRC's own databases. Respondents for businesses categorised as sole traders were also asked demographic profiling questions, to build a fuller picture of these smaller businesses.

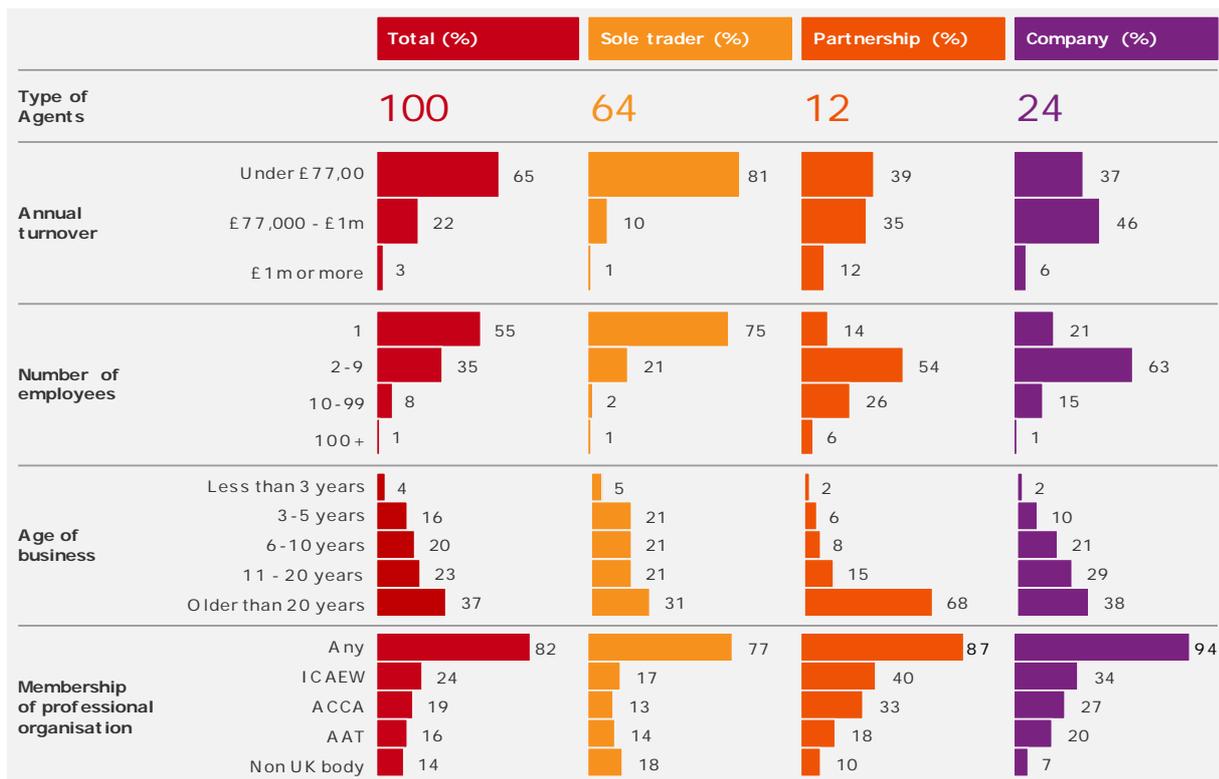
Such demographic questions allow for an updated understanding of the paid agent population. Ranging from sole traders to international corporations, this population consists of all paid professional agents in the UK, but excludes those working unpaid in the voluntary sector, or on behalf of friends and family. More specifically in relation to HMRC's move towards offering more digital services, this research allows for any differing needs or attitudes towards digital services between agents of different sizes, types and customer volumes, to be analysed and understood. Furthermore, taking this a stage further, the relevant business characteristics were used to build

the segmentation of agents' appetites for digital engagement with HMRC, whilst providing the opportunity for the segmentation to be mapped back to HMRC's database. As such, this allows for a more complete understanding of the varying needs and opinions of different groups of agents, which will enable the department to target support and communications to the different segments.

5.1 Agent profile: Nature of business and staff

Chart 5.1 summarises the profile of agents by type, size, age and membership of professional organisation.

Chart 5.1 Agent profile: Nature of business and staff



Base: all respondents (1710)

Source: QS2 What was your turnover for the last full financial year? Q4 Approximately how many people, including yourself, does the business employ? Q3 How old is your business? Q10 Which professional organisations, if any, are you/staff from your business currently a member of?

5.1.1 Type of Agent

Sample for the survey was drawn from the ITSA and CT databases, where the type of Agent was classified. The majority of agents (64%) were classified as sole traders on the ITSA database, with 12% categorised as a partnership. 24% were companies from the CT database.

5.1.2 Size of business

Given the prevalence of sole traders, the majority (65%) of businesses reported a turnover (for the last full financial year) below the VAT threshold of £77,000. Twenty two percent had a turnover of more than £77,000 but less than £1 million, whilst just 3% of agents had a turnover of £1 million or more.

One in ten agents was unable to give a figure for their business' turnover for the last full financial year. As such, these respondents will have been excluded from any further analysis by turnover.

There are also clear differences in turnover by type of agent. Eighty one percent of sole traders reported a turnover of less than £77,000 in the last full financial year, compared to 39% of partnerships and 37% of companies. A higher proportion of partnerships had a turnover of £1 million or more (12%), compared to sole traders and companies (1% and 6% respectively).

5.1.3 Number of employees

Most agents (55%) have only one employee. The percentage of agents with one employee increases to 75% of sole traders, compared with 14% of partnerships and 21% of companies. It is worth noting that 25% of sole traders who submit a SA return have a small number of employees; typically 2-5. 35% of businesses employ between 2 and 9 people, whilst 8% employ between 10 and 99. Just 1% of businesses have more than 100 employees, although this is significantly higher for partnerships, with 6% employing 100 or more people.

As would be expected, analysing the number of employees by turnover, there is a continuation of the relationship between type of agent, turnover and number of employees. 77% of tax agents with a turnover below the VAT threshold have one employee, whilst 23% have between 2 and 9 employees. At the other end of the scale, about one in five tax agents with a turnover of £1 million have more have 100 or more staff, although this must be treated with caution due to the low base size.

5.1.4 Age of business

Most agents have well established businesses. 37% of businesses were older than 20 years old, whilst 23% were either 11-20 years old and 20% were 6-10 years old. Just 4% of businesses were less than 3 years old. Larger businesses also tended to be older. 84% of those with a turnover of £1 million or more were older than 20 years old, compared to 29% of those with a turnover of less than £77,000.

5.1.5 Membership of professional organisations

82% of tax agents employ staff who were members of at least one professional organisation; the most common organisation was the Institute of Chartered Accountants in England and Wales (ICAEW) (24%). 19% of respondents said their business employed staff who were a member of the Association of Chartered Certified Accountants (ACCA), whilst 16% said staff were members of the

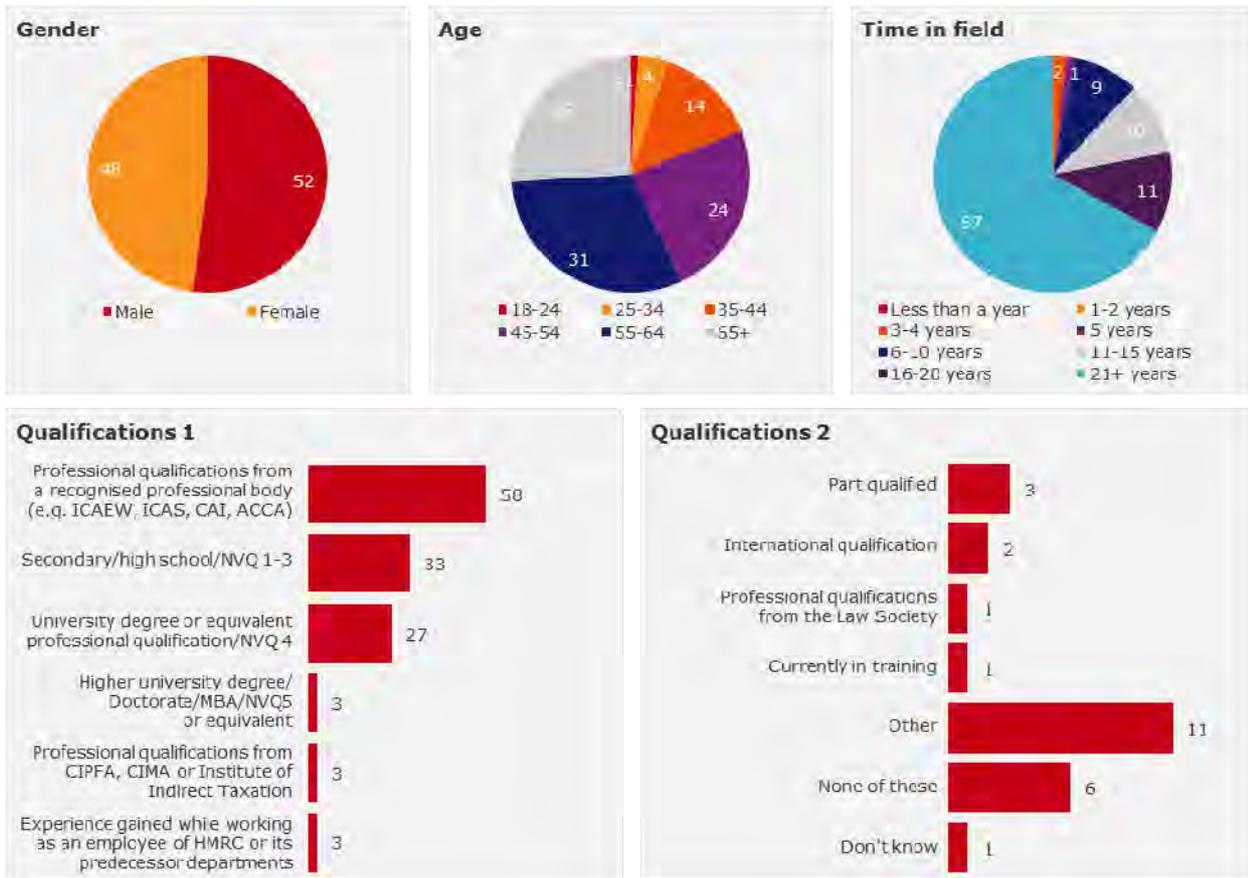
Association of Accounting Technicians. It is important to note that, as tax agents can be members of more than one professional organisation, these figures do not sum to 100%.

Reflecting the greater number of employees, businesses with a larger turnover had a great variety of professional affiliation. On average, tax agents with a turnover of £1 million or more said they employed staff who were collectively members of three professional organisations, with the most frequently mentioned organisations being ACCA (50%) and ICAEW (74%). Contrarily, agents with a turnover below the tax threshold of £77,000, said their employees were members of 1 professional organisation. This was most likely to be a non-UK professional body (19%).

As would be expected given that sole traders tend to have fewer employees, partnerships and companies were more likely to have at least one affiliated member of staff (87% and 94% respectively) and have a greater variety of membership, with an average of two affiliated employees compared to one amongst sole traders. The most frequently mentioned body for partnerships and companies was the Institute of Chartered Accountants in England and Wales (40% and 34% respectively), whilst sole traders were most likely to be a member of a non UK professional body (18%).

Chart 5.2 summarises the profile of sole trader agents by gender, age, length in industry and qualification.

Chart 5.2 Demographic profiling of sole traders (percent)



Base: all sole traders (720)
 Source: Q38 Interviewer code sex. Q39 Which of the following age groups do you fall into? Q42 Overall, how long have you worked in this field Q43 What qualifications do you hold?

5.1.6 Gender and age

Amongst sole traders, there is a relatively even split between male and female tax agents, 52% and 48% respectively. Older respondents made up a significant percentage of sole traders, with 81% of respondents being over 45 years of age and 26% of these were aged 65 or over. Just 4% of sole traders said they were aged under 35 years old. Unsurprisingly, older respondents tended to work in older businesses. 45% of those whose business had been trading for more than twenty years were aged 65 or older.

5.1.7 Time working in the field

Similarly, 67% of sole traders have been working in the field for 21 years or longer. This reflects that 81% of sole traders were over the age of 45 and therefore were likely to have been settled in the profession for a longer time period. Only 3% of respondents had been in this industry for less than 6 years.

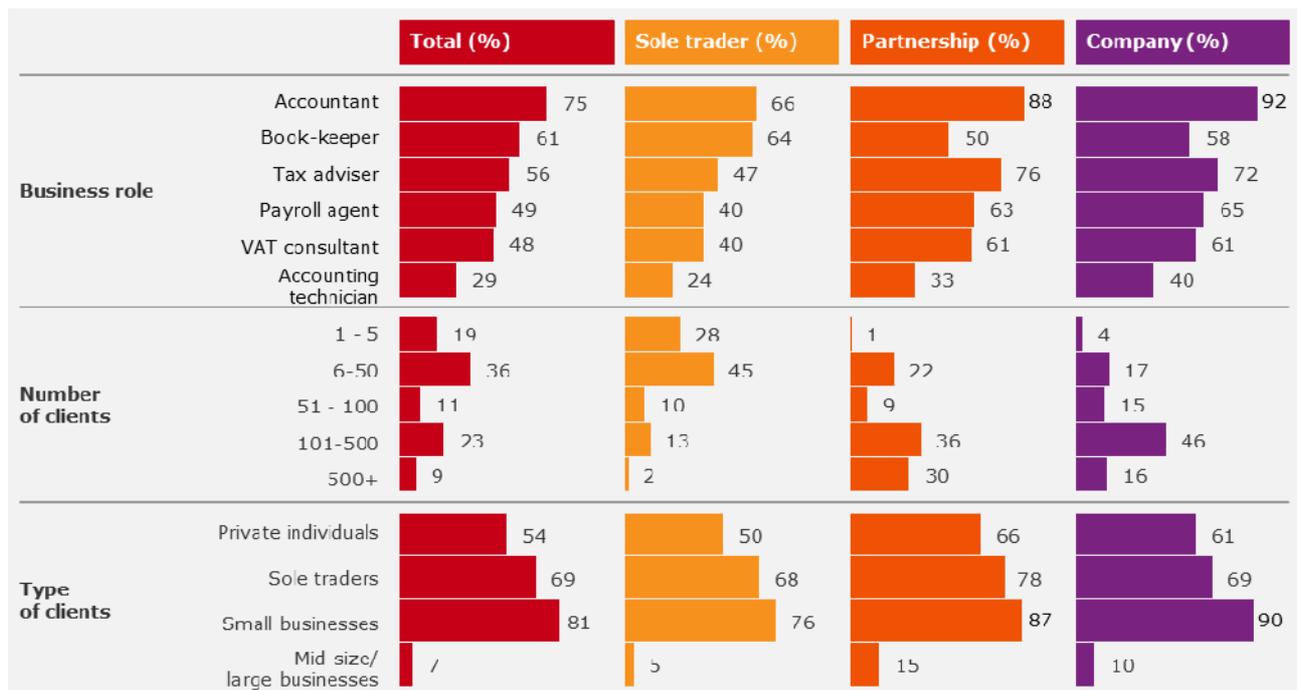
5.1.8 Qualifications

Sole traders were asked what qualifications they possessed. 58% of the sole traders had a professional qualification from a recognised accounting body such as Institute of Chartered Accounts in England and Wales and Association of Chartered Certified Accountants. Three percent had a professional qualification from other financial bodies e.g. Chartered Institute of Management Accountants and 4% were part qualified or currently in training. Twenty seven percent had a first degree or equivalent qualification and 3% had a higher degree MBA or equivalent. Only 6% had none of the listed qualifications.

5.2 Nature of work and clients

Chart 5.3 describes the nature of the work agents do on behalf of clients and the nature of the clients they serve.

Chart 5.3 Nature of work and clients



Base: all respondents (1710)

Source: Q53 How would you define your business' role in handling clients' tax affairs. Would it be as...? Q15 About how many clients does your business have in total? Q16 Which of the following describe your main types of client?

5.2.1 Nature of work

Tax agents can undertake a range of work on behalf of clients. As such, respondents were asked how they would define their role, or roles, in handling clients' business affairs⁵. The three most common roles were accountant, book-keeper and tax adviser. 49% saw their business as a payroll agency and a similar proportion self-defined as a VAT consultancy (48%). 29% said they worked as an accounting technician.

Within each turnover band, most agents saw themselves primarily as an accountant, with 68% of those with a turnover below the VAT threshold, 91% of medium and larger agents with a turnover between £77,000 and £1 million, and 92% of medium and larger agents with a turnover of £1 million or more self-defining in this way. This is reflective of the 2009 study where agents primarily also self-identified as accountants.

The larger agent businesses undertook the greatest the range of work. As such, larger agents were more likely to perform most roles, in particular tax advice and VAT consultancy, with a notable exception being that of book-keeping. Agents with a turnover below £77,000 were more likely to say they undertook book keeping work (67% compared to 51% with a turnover of £1 million or more).

Clear differences were also seen between types of Agents. Partnerships and companies were more likely to perform most roles, and these businesses were more likely to self-define as accountants (88% and 92%) and tax advisers (76% and 72%) than sole traders (66% and 47% respectively).

5.2.2 Client profile

The remainder of this chapter looks at the number and types of clients which agents have and the taxes they deal with on their behalf.

55% of agents had 50 or fewer clients, with 30% having 10 or fewer. 11% of tax agent businesses have between 51 and 100 clients, whilst 23% have 101-500. 9% of businesses had more than 500 clients. In most cases, clients are small businesses (81%), sole traders (69%) or private individuals (54%). Only 7% of tax agent's clients would be considered mid-size or large businesses.

This reflects the profile of tax agents, with sole traders (who tend to be smaller) tending to have fewer clients. 28% of sole traders have five or less clients, with 73% having 50 or less. This is in

⁵ Agents were able to highlight up to three areas of work they were involved with.

contrast to partnerships, where 75% have more than 50 clients and 30% have more than 500, and companies, of whom 77% have more than 50 and 16% have more than 500 clients. As companies and partnerships represent the most clients, they are also involved in the bulk of transactions and dealings with HMRC, amongst all agents.

Similar trends are seen when profiling by annual turnover. 77% of agents with a turnover below the tax threshold of £77,000 have 50 or fewer clients, compared to 9% of those with a turnover between £77,000 and £1 million, and 3% of those with a turnover of £1 million or more. At the other end of the scale, 88% of businesses with a turnover of £1 million or more have more than 500 clients. Those agents with a turnover between £77,000 and £1 million typically have 100-500 clients.

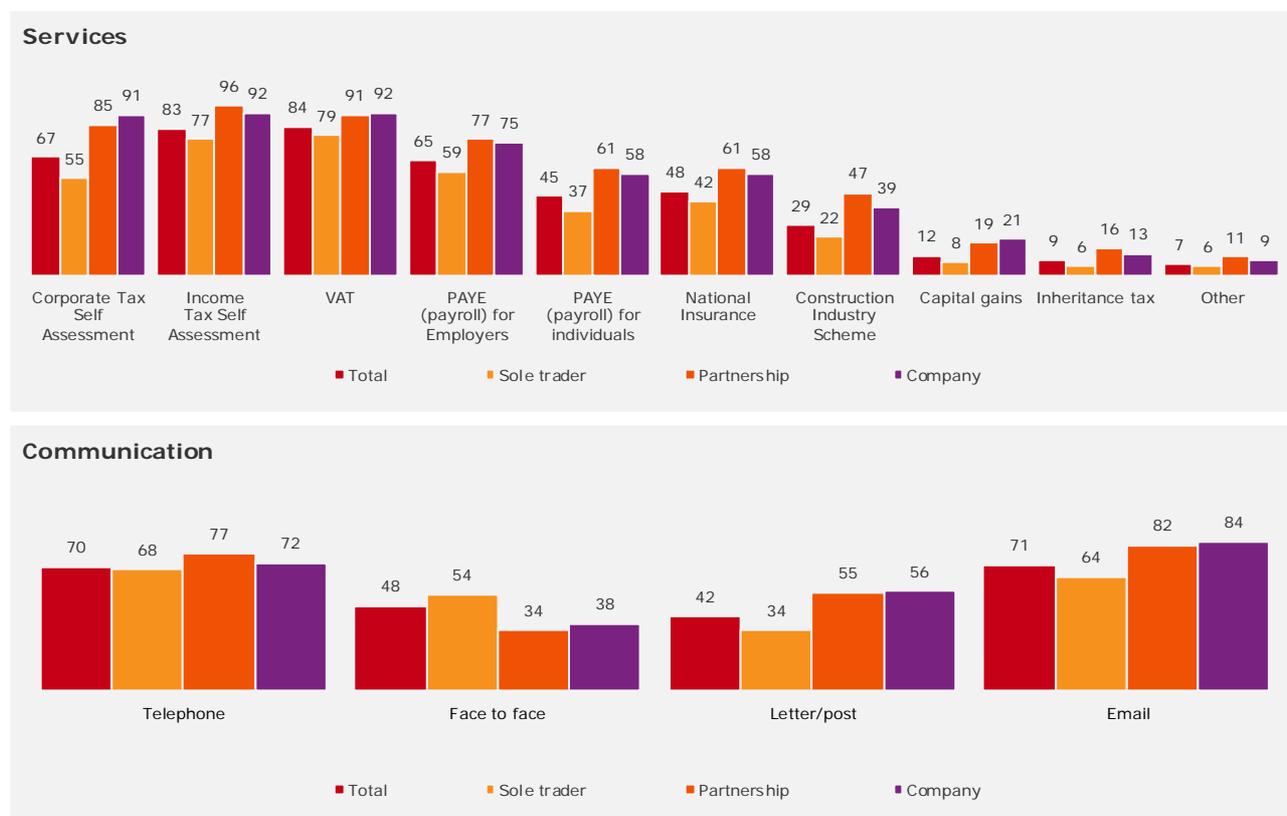
Reflecting the overall trend, the most common type of client represented by sole traders, partnerships and companies were small businesses. However, whilst 87% of partnerships and 90% of companies represent small businesses, only 76% of sole traders do so. Partnerships and companies are also more likely to represent most of the other types of client than sole traders, in particular private individuals (66% and 61% respectively compared to 50%) and mid-size businesses (15% and 10% compared to 4%). This indicates that partnerships and companies represent a wider variety of clients, which would be expected given their greater number of clients.

Similarly, when profiling by annual turnover, small businesses are consistently the most common client, but are more likely to be represented by larger firms. Whilst 77% of firms with turnover below the VAT threshold represent small businesses, this figure is higher amongst those with turnover between £77,000 and £1 million (90%) and £1 million or more (84%). Once again, larger firms appear to represent a greater variety of clients. Compared to firms with turnover over £1 million, those with turnovers below £77,000 are less likely to do work for private individuals (49% compared to 69%), mid-size businesses (5% compared to 27%) and large businesses (1% compared to 6%).

5.3 Services provided and communication with clients

Chart 5.4 summarises the products agents deal with and the channels of communication they use.

Chart 5.4 Services provided and communication with clients (percent)



Base: all respondents (1710)

Source: Q11 Which types of UK taxes and duties does your business deal with on behalf of your clients? Q14 What are the main ways in which you typically communicate with your clients in relation to their tax affairs?

5.3.1 Services provided to clients

The taxes that agents deal with most frequently on behalf of clients were VAT (84%) and, Income Tax Self Assessment (83%). Partnerships and companies and larger agents with a higher turnover dealt with a wider range of taxes on behalf of their clients than sole traders and agents with a turnover of under £77,000 p.a.

5.3.2 Communicating with clients

Agents were asked to select up to three of the main channels they utilise to communicate with their clients in relation to their tax affairs. Email was the most frequently used form of communication for both tax agents in partnerships (82%) and companies (84%), whereas telephone was the primary means of communication for sole traders (68%). Sole traders were also more likely to meet their clients face to face to discuss their tax affairs (54%) than those in partnerships (34%) or companies (38%). Post was used much less by sole traders, with only 34% using this compared to 55% of those in partnerships and 56% of those in companies.

6. Contact with HMRC

In order to guide future policy around digital services an understanding of agents' current contact with HMRC (including methods used and volume of differing contact methods) and attitudes towards differing methods of contact is needed. This section looks at agents' patterns of contact with HMRC over the previous 12 months, including the frequency of contact and channels used to do so. It also covers the business's relationship with HMRC, which other sources agents use to find information about tax and how their business accesses HMRC's online digital services.

Key findings

- Most agents have contact with HMRC on a regular basis: 58% have had contact weekly or more often. Sole traders tend have less frequent contact, with only 18% contacting HMRC daily compared to 59% of partnerships and 52% of companies
- There appears to be an increasing preference amongst agents to send and receive communications with HMRC by email, but only if agents received a response in an acceptable timeframe. This preference is consistent across all types of agents
- Email creates the expectation of a faster response, which may present a challenge for HMRC - failing to meet these expectations may reinforce negative perceptions about HMRC's capacity to deal with enquiries
- The primary source for agents finding information about tax issues is the HMRC website, with 78% of agents having used either HMRC's general or specific agent pages to find information on tax issues in the last 12 months
- 48% of respondents said that one GGW credential is shared between the office staff in order to access HMRC's online services. Firms with annual turnover above the VAT threshold are more likely to share a GGW credential between staff, with smaller firms tending to have only one person using a credential

6.1 Frequency of contact with HMRC

Chart 6.1 shows that 58% of agents said that they had had contact with HMRC on their clients' behalf weekly or more often, with 31% saying that were in contact with HMRC every day.

Frequency of daily contact is highest amongst partnerships (59%) and firms with an annual turnover of £77,000 – £1 million (62%) and, in particular, those with a turnover greater than

£1 million (85%). In contrast, sole traders (18%) and firms with turnover below the VAT threshold (14%) were less likely to contact HMRC on a daily basis. Similarly, only 16% of unaffiliated businesses contacted HMRC daily, with 42% in contact weekly or more often.

Only 9% of agents said that they had only had contact with HMRC once or twice in the last 12 months. As would be expected, this figure was higher amongst sole traders and firms with annual turnover below £77,000 (both 13%). It is important to note that if respondents had not had any contact with HMRC in the previous 12 months, no further questions were asked of them. Whilst this is not directly comparable with the results from 2009, the frequency of agents' contact with HMRC appears to have reduced over the past five years. In 2009, 89% of agents surveyed claimed to contact HMRC at least weekly.

Chart 6.1 Frequency of contact with HMRC in 2014 (percent)



Base: all respondents (1710)
 Source: QS4 While handling clients' tax affairs, how often would you say that your business has had contact with HMRC in the last 12 months?

6.2 Current and preferred channels of contact with HMRC

Respondents were asked what their main method of contacting HMRC was, and what their preferred method(s) both of contacting HMRC and of HMRC contacting them would be (Chart 6.2). These questions were asked in relation to three different types of contact: dealing with general tax enquiries; requiring access to information and guidance on tax issues; and filing returns. Whilst this is therefore not directly comparable with the data from 2009, all three types of contact indicate an increase in preference both to send and receive communications with HMRC by email. This enthusiasm for email contact with HMRC reflects how agents currently contact their clients, with 71% communicating with their clients using this method.

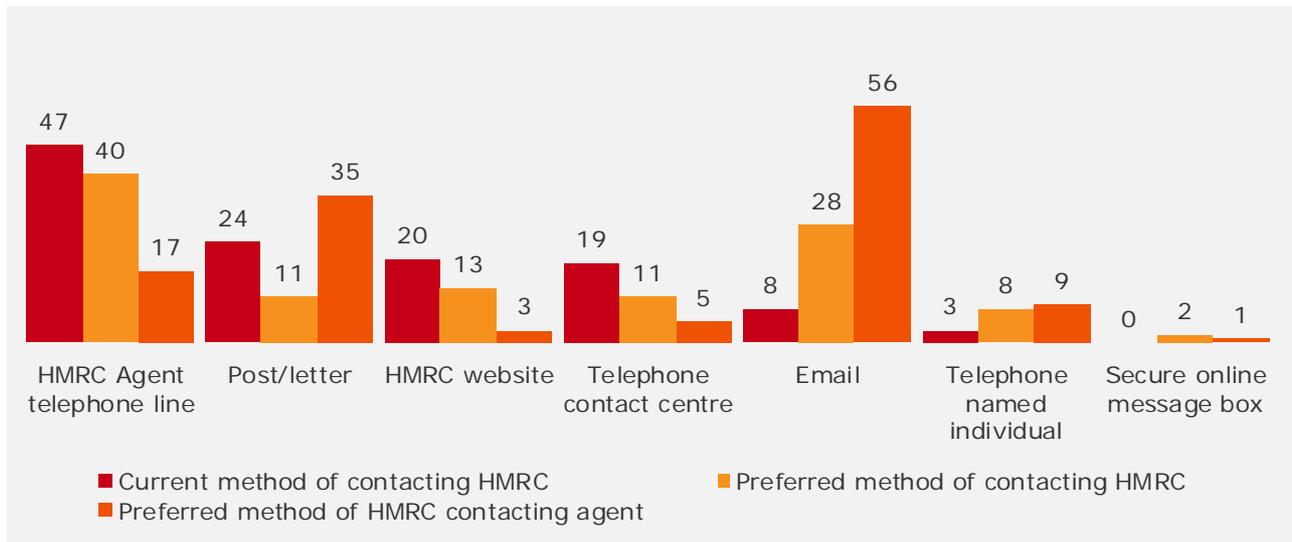
6.2.1 Dealing with general tax enquiries

Agents most commonly use the HMRC Agent dedicated telephone line when contacting HMRC about general tax enquiries (47%), which is broadly in line with their preference to contact HMRC in this way (40%). Preference for the dedicated line is highest amongst partnerships and companies (49% and 46% respectively) and for businesses with an annual turnover of £77,000 – £1 million (50%). The dedicated telephone line is the most frequently used (and preferred) channel of contact amongst unaffiliated agents for this type of query, but they are significantly more likely to use (27%) and prefer (21%) the HMRC website than Agents overall.

Currently 24% of agents contact HMRC about general tax enquiries by post/letter, although only 11% said that this would be their preferred method. Noticeably, partnerships (32%), companies (32%) and those firms with a turnover of £1 million or more (40%) are more likely to currently use post/letter, but there is little difference in preference between different types of businesses or businesses with different levels of turnover (all between 10-15%). In contrast, 28% of agents said that they would prefer to contact HMRC by email, whilst only 8% are currently using this as their main method of contacting HMRC about general tax enquiries. Preference for email is noticeably higher for businesses with turnover greater than £1 million (49%).

With regards to receiving contact from HMRC about general tax enquiries, the majority of agents would prefer this to be via email (56%) or post/letter (35%), suggesting a desire for records of HMRC's communications about general tax enquiries. Interestingly there is little difference in preference for email or post/letter when comparing different types of businesses or businesses with different levels of turnover. Perhaps surprisingly, this preference to receive communications from HMRC by email is stronger amongst agents that have less frequent contact with HMRC (63% of those who have contacted HMRC monthly, compared to 51% of those who have contact on a daily basis). Of those who have contact with HMRC every day, there is a stronger preference to receive communications through the Agent Dedicated Line (20%, compared to 11% of those who have monthly contact), or post/letter (40%, compared to 28% with monthly contact).

Chart 6.2 Contact with HMRC when dealing with general tax enquiries (percent)



Base: all respondents (1710)
 Source: Q19a Which channel of contact do you use most often to contact HMRC when dealing with general tax enquiries? Q20a And which would be your preferred method for contacting HMRC when dealing with general tax enquiries? Q21a And how would you prefer HMRC to contact you when you are dealing with general tax enquiries?

The qualitative research found that agents’ appetite for email communication was based on an assumption that email communication would be more efficient than current methods. However, this relies on HMRC having the resource to respond to email contact within an acceptable timeframe. Based on the exploratory qualitative research, feedback from agents suggested that they were dissatisfied with other communication channels, having experienced long call waiting times and delayed responses to letters. This wasted time and was frustrating and costly for clients (who paid agents for their time chasing HMRC). Therefore, agents would prefer email contact, in so far as it was expected to be faster and more efficient than other channels.

"There's always a delay when you're sending something in the post. If it's available, then we would probably make use of an email rather than letters, just because it's simpler and we don't have to worry about the paperwork." (Corporate pacemaker, Southampton)

Ideally agents wanted their emails to be handled by expert advisers who could respond to more complex technical questions and to have a named contact for more complex enquiries. In some cases, agents had been given the email address of a named HMRC contact, for example when dealing with a complex tax enquiry, which they said improved efficiency as they could exchange documents by email rather than post.

“We've got an investigation starting and we're having difficulty trying to contact the person involved, I think it would be nice to have individual people to email...if you just phone up you can get anybody” (Corporate pacemaker, Birmingham)

“If they don't want everybody to do it, I would like for agents to have some kind of separate communication portal channel with them that would get answered quicker...I just would like to be able to properly communicate with them through a portal” (Mid-sized progressive, Birmingham)

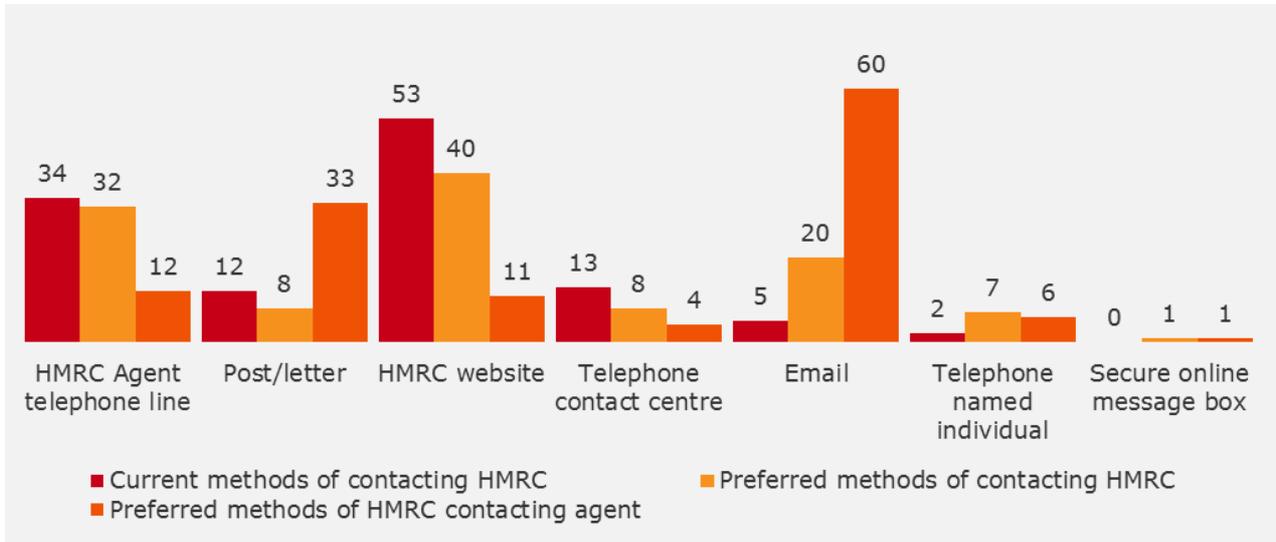
Having a dedicated team, with the appropriate level of expertise, would reduce time contacting a call centre and waiting to speak to an adviser who understands the issue. However, some agents questioned whether HMRC would have the resource to respond to email queries in an acceptable timeframe (say within 24 hours). In which case, email communication would simply reinforce existing frustration with HMRC's communication channels.

6.2.2 Requiring access to information and guidance on tax issues

As shown on Chart 6.3, around 53% of agents say that the HMRC website is the channel they use more often to obtain information, although only 40% of agents say that this would be their preferred method. 34% of agents said their main method of contacting HMRC for information and guidance on tax issues was the agent dedicated telephone line, which is in line with their preference (32%). As with general tax enquiries, there is a desire to contact HMRC by email, with 20% saying that it would be their preferred method, whilst only 5% currently use email as their main method. Interestingly, current usage is consistent across all turnover levels (between 5% and 6%), but preference is higher amongst those with turnover above £1 million (28%).

Likewise, there is a strong wish to receive communications from HMRC by email, with 60% saying it would be their preferred method. Once again firms with turnover above £1 million are more likely to prefer this method (73%). As with contact about general tax enquiries, there is a similar pattern with regards to frequency of contact and preference to receive contact by email; 65% of those who have contact with HMRC monthly would prefer to receive communications by email, compared to 58% of those who have contact every day. Whilst this is a significant difference, it is less marked than for general enquiries.

Chart 6.3 Contact with HMRC when requiring access to information and guidance on tax issues (percent)



Base: all respondents (1710)
 Source: Q19b Which channel of contact do you use most often to contact HMRC when you require access to information and guidance on tax issues?
 Q20b And which would be your preferred method for contacting HMRC when you require access to information and guidance on tax issues? Q21b And how would you prefer HMRC to contact you when providing information and guidance on tax issues?

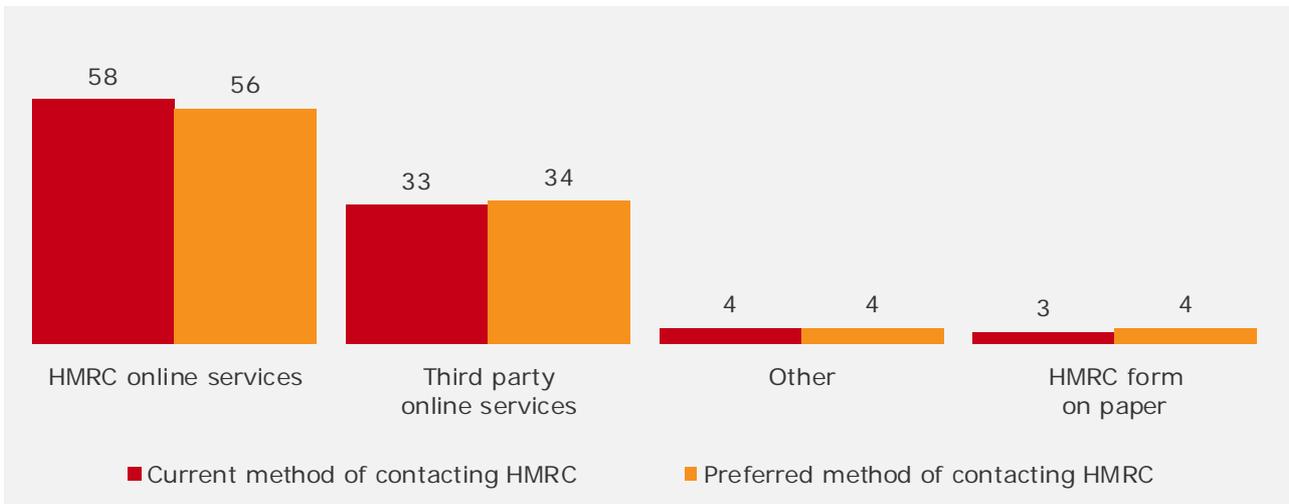
6.2.3 Filing returns

Agents' contact with HMRC when filing returns generally matches preferred channel use (Chart 6.4). Most (58%) use HMRC online services and this is the preferred method for 56% of agents. 33% use third party online services, in line with 34% who would rather file returns in this way. Interestingly, sole traders are more likely to currently use HMRC online services (66%) than partnerships (45%) and companies (43%), with preference for all groups in line with usage. Similarly firms with turnover below the VAT threshold show the highest levels of usage (67%) and preference for these services (66%). Unaffiliated agents were also significantly more likely than average to use and prefer HMRC online services (both 68%).

Conversely, partnerships and companies are more likely to use (50% and 51% respectively) third party online services than sole traders (23%), with preference again in line with current usage. Firms with turnovers of £77,000 – £1 million and above £1 million also have greater preference for third party services (55% and 63% respectively) than those with a turnover below £77,000 (22%).

Overall, again there is a strong preference to receive communications from HMRC by email, with the majority of agents (69%) saying they would prefer to receive reminders and confirmations from HMRC through this channel.

Chart 6.4 Contact with HMRC when filing returns (percent)

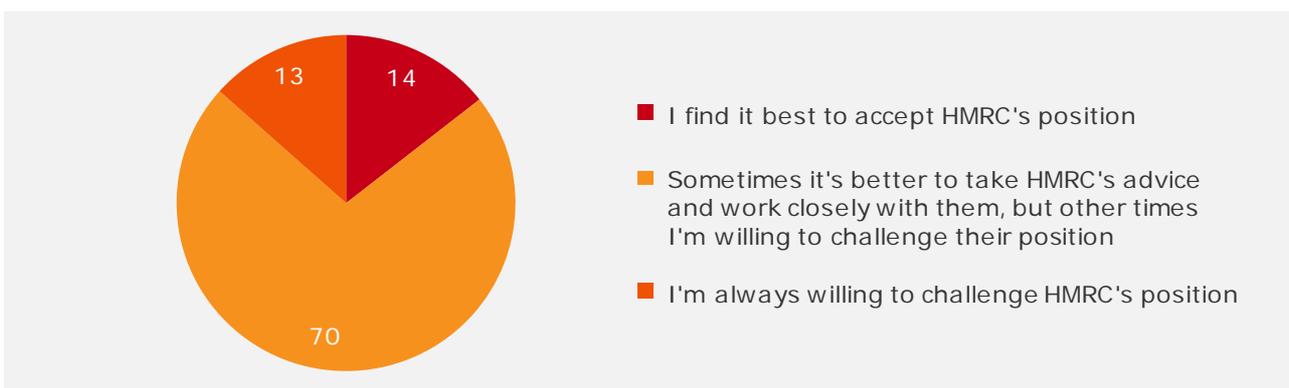


Base: all respondents (1710)
 Source: Q19c Which channel of contact do you use most often to contact HMRC when filing returns? Q20c And which would be your preferred method for contacting HMRC when filing returns?

6.3 Working relationship with HMRC

Agents were asked how they viewed their working relationship with HMRC (Chart 6.5). The majority of agents (84%) were willing to cooperate with HMRC most of the time, which appears not to have changed since 2009.

Chart 6.5 Agents' working relationship with HMRC (percent)



Base: all respondents (1710)
 Source: Q23 Which one of the following statements best describes the way that you view your working relationship with HMRC?

6.4 Sources of information on tax issues

The majority of agents have sought information or advice on tax issues within the last 12 months – just 3% said that they had not used any sources. As in 2009, the HMRC website is a very

important source of tax information and advice with 76% of agents saying that they have used HMRC’s general website to obtain information on tax in the last 12 months, whilst 32% say they have used HMRC’s Tax Agents and Advisers pages specifically (Chart 6.6). This could indicate a low awareness of the specific Tax Agents and Advisers web pages, as those who have used the specific agents pages also use the general website (78% used either).

20% of agents used a contact centre to get information on tax which is, although again not directly comparable, a large decrease since 2009. 25% of agents used the Agents Dedicated Line, and combined, 33% have used one of the telephone channels as a source of information on tax.

Only 23% of agents say they have used a professional organisation to get information on tax, which is much lower than the 82% of agents who are members of an organisation at all. Those who have obtained information on tax from professional bodies tended to have staff who were members of the most common professional bodies; 33% had staff who were members of ICAEW whilst 25% were members of ACCA. As would be expected given that professional affiliation is higher amongst larger firms (due in part to a greater number of employees) a greater proportion of firms with turnover above the VAT threshold of £77,000 obtain information from professional bodies (32%) than those with a turnover below £77,000 (19%).

Chart 6.6 Sources of tax information or advice used within the last 12 months (percent)



Base: all respondents (1710)

Source: Q24 I'd like you to think about sources you've used for tax information or advice, or for solving tax queries over the last 12 months. What sources, if any, have you used in the last 12 months?

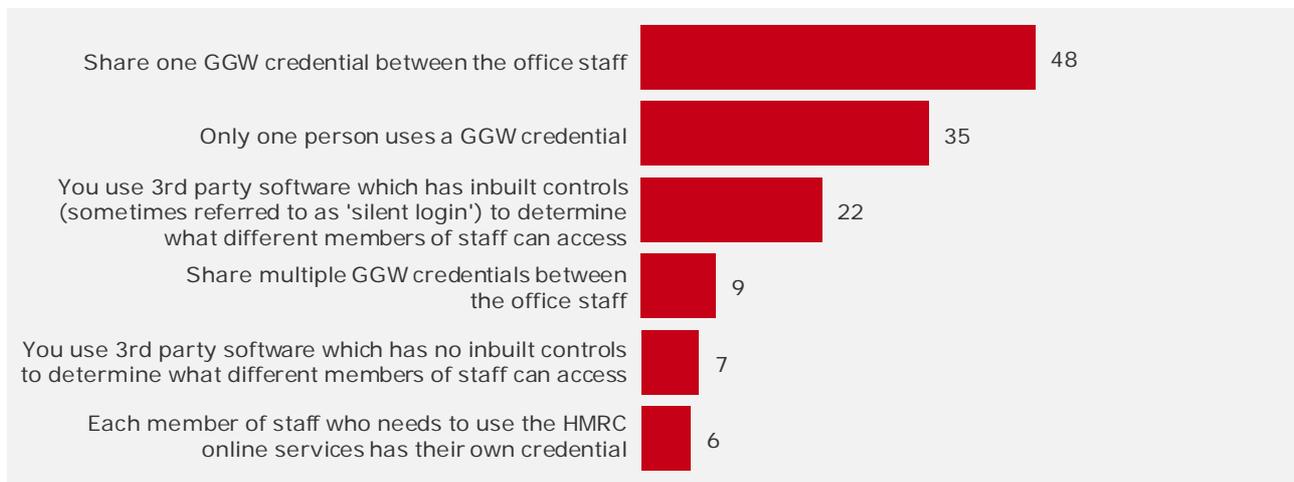
6.5 Use of Government Gateway (GGW) Services

Respondents were asked how their business controls access to HMRC online services, when dealing with clients’ tax affairs. 48% said that one GGW credential is shared between the office staff, whilst one third (35%) said that only one person uses a GGW credential. 22% said that they

used third party software, which has inbuilt controls in order to determine what different members of staff can access. Only 6% of respondents said that each member of staff who needs to use the HMRC online services has their own credential (Chart 6.7).

Given the tendency to have more employees, it is unsurprising that firms with annual turnover above the VAT threshold are more likely to share a GGW credential between staff (58%) than those with turnover below £77,000 (30%). Those with turnover below this amount tend to have only one person who uses a GGW credential (62%).

Chart 6.7 Use of Government Gateway (GGW) services (percent)



Base: all respondents (1710)

Source: Q22 When dealing with clients' tax affairs, how does your business control access to HMRC online services?

7. Conclusions

Overall there is a willingness amongst agents to engage in increased digital services, even within the Hard to Win Over group (with the right support).

The majority of agents are confident and capable in using the internet and currently conduct some form of dealing online and there is clear interest in doing more digitally. As such the majority of the population can be characterised as either a Corporate pacemaker, Mid-sized progressive or Small but savvy, segments that are confident, capable and willing to engage with HMRC digitally.

There is a small proportion of agents who appear unwilling to adapt to using digital services. However, even amongst this less confident, more reluctant segment, the Hard to Win Overs, there appears to be an interest in a wider range of online services. Within this segment, agents need more intensive support to feel confident they will not make a mistake which will damage their client in the future – although there are some who are unlikely to ever take up new services, even with support.

The benefits of new digital services are self evident for most agents. Therefore telling agents about the functionality of new services will be sufficient to encourage most to trial the service and many will do so as soon as possible.

Functionality of Agents Online Self Serve was well received across all segments, although the value of better integration of services had greater resonance with agents dealing with a range of tax affairs for their clients. The following functionality was well received across the segments, although with some caveats:

- **Viewing all client information in one place** drives efficiency for agents dealing with a range of affairs but smaller agents were concerned about seeing information they should not have access to
- **A secure messaging service** was expected to increase efficiency dealing with tax enquiries and provided a paper trail to share with clients, although this assumes that emails will be answered within an acceptable time frame
- **Checking payments and liabilities** enables agents to help clients avoid penalties but may not be appropriate for all agent/client relationships
- **Authorisation and delegations** is essential for larger agents who use junior staff for more simple tasks as better integration also risks allowing people to see and edit information that should not be able to access

Smaller agents who dealt with more simple affairs were more engaged with new functions that are relevant to their client base, in fact messaging which implies an overhaul of the system may be off-putting and raise anxiety about the time costs associated with learning new ways of working.

However, agents dealing with a small number of clients and/or a limited range of services may recognise fewer benefits and therefore they may delay, waiting for any teething problems to be resolved. Offering enhanced support for early adopters may help to bring more agents on board sooner.

The qualitative research revealed that some agents had concerns about usability and performance of new services based on past experiences (e.g. RTI). Whilst they needed reassurances that new services were fit for purpose, hearing these messages from HMRC actually had the opposite effect. Third parties may be more effective in convincing agents that new services will deliver real benefits and that the disruption experienced when transitioning will be minimal.

On the whole, agents do not expect to need a lot of support to use new digital services as they assume these will be intuitive. This may present a risk if agents experience difficulties which they blame on poor design or a fault rather than their own error.

Most agents would require some form of support, but only a small proportion would require a lot of support (primarily Hard to Win Overs). Across all segments 76% of agents would expect support to come from HMRC. HMRC will need to either meet or manage these expectations and should consider the potential role of professional and representative bodies to deliver this, particularly more intensive one-to-one support required by a minority of Hard to win over customers.

Agents said they preferred digital support tools and guidance, but they expected this to be easy to find and signposted at the point at which they experienced the issue – otherwise they will call the contact centre, despite considering this a ‘last resort’.

Whilst higher amongst Hard to Win Overs, all segments are aware of the potential for teething problems, and there is some apprehension that changes could make the system worse – high usage of online services overall means that Agents are generally accustomed to the current system and would not want to learn a new system if this does not improve upon the last.

Appropriate messaging is key for all segments. It must communicate some tangible benefit – Agents are aware there is likely to be some ‘short-term pain’ linked to teething problems and therefore must be reassured that this will lead to longer-term gain to ensure they are willing to adapt. Both quantitative and qualitative findings suggest that efficiency is the key benefit of these new services (although this is less pronounced for businesses that have fewer clients or deal with

a smaller variety of taxes). Additionally larger agents (Corporate pacemakers and Mid-sized progressives) value the fact that all their client information will be in one place, whilst Small but savvy particularly value the fact that online services will create a useful paper-trail.

There will also be other legitimate concerns that need to be allayed – whilst simplicity and efficiency of online dealings is important, there is a concern that increased simplicity will make it easier for non-accountants to do the work instead.

Almost all agents said they would need more information about these new services. At this stage, agents have not been given much detail about what would be required of them when moving to digital platforms. It is therefore likely that, as they receive more information, attitudes towards engagement with digital services will develop amongst agents, reinforcing the necessity for effective messaging.

Appendix A: Technical Method

Quantitative Research

Sample Design

The quantitative sample was selected to ensure that it was representative of the paid tax agent population. A random probability sample of paid agents was drawn from the HMRC held Income Tax Self Assessment (ITSA) and Corporation Tax (CT) databases. The sample was selected by turnover, and in the case the of ITSA records, by whether they were a sole practitioner or partnership.

Assuming a total population of 43,000 paid, professional tax agents in the UK, the sample covered 4% of the total population. However, larger agents, with a turnover of £77,000 or more, were over represented in order to enable more detailed analysis by size of agent. Indeed, tax agents with a turnover of greater than £77,000 accounted for 34% of the sample, but account for just 17% of the total population. Results were weighted at the analysis stage to be representative of the overall population of tax agents.

At the screening stage, further checks were made on the status of the agent and work undertaken. Those not operating as a paid tax agent; offering payroll services or acting as international trade, freight forwarder or customs agent only; and who had not had any dealings with HMRC in the last 12 months were excluded.

Individuals were interviewed on behalf of their business. The individual interviewed was someone who had knowledge of the strategy of the business.

Questionnaire

The questionnaire was developed by HMRC and TNS BMRB to address the research objectives.

All employers were sent an advance letter shortly before fieldwork began. This was printed with the HMRC logo and signed by an HMRC researcher. Customers were not offered an incentive to participate in the survey.

Data Collection

The quantitative interviews were carried out with the aid of Computer Assisted Telephone Interviewing (CATI). CATI means that the questionnaire was displayed and responses captured on-screen. The CATI system also automatically calls respondents and alerts an interviewer when the call is answered, which improves efficiency. Interviewing was carried out in the controlled environment of the research agency's dedicated telephone interviewing centres. Rigorous interview quality control procedures prescribed in ISO 20252 were followed, including a supervisor listening into interviews remotely on a systematic basis.

Interviews were conducted between 10 March and 2 May 2014 and took an average of 24-25 minutes. The final achieved sample comprised 1710 paid tax agents. Overall the estimated response rate was 53%. Table A.1 summarises all of the fieldwork outcomes.

Table A.1 Fieldwork outcomes

Outcome	n
I: Total completed interviews	1710
R: Refusal and break off	18
UB: Unknown if business	338
UR: Unknown if eligible respondent	1609
NE: Not eligible (deadwood)	777
NE: Not eligible (otherwise ineligible)	521
Total sample records	4973
eh: % UB assumed to be businesses / eligible	86.5%
ei: % UR respondents in businesses assumed eligible	76.8%
RR: Estimated response rate	52.5%
Where:	
$eh = (I + R + UR) / (I + R + UR + \text{screened out as ineligible})$	
$ei = (I + R) / (I + R + \text{screened out as ineligible})$	
$RR = [I / ((I+R) + (eh*UB) + (ei*UR))]$	

Data Weighting

Data was weighted to correct for over-sampling certain groups and any differential response by sub group. Table A.2 provides a profile of achieved interviews and the proportion of the population that each represents.

Table A.2 Population distribution

Type of Agent	Interviews achieved	% of achieved sample	% of total UK population
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Type of Agent	Interviews achieved	% of achieved sample	% of total UK population
IT Self Assessment Agents	1264	74%	76%
Sole trader	720	42%	64%
Turnover			
Below £77,000	642	38%	61%
Over £77,000	78	5%	3%
Partnership	544	32%	12%
Turnover			
£0	21	1%	5%
£1 – £76,999	205	12%	2%
Over £77,000	318	19%	6%
Corporation Tax Agents	446	26%	24%
Turnover			
0 to £76,999	233	14%	14%
£77,000 to £1,659,999	189	11%	7%
£1,660,000 or more	4	0%	0%
No turnover information	20	1%	3%
Total	1710	100%	100%

Data Analysis

The data was analysed using specialist computer software. Tests for significant differences were performed at the 95% confidence level to identify differences. Sub-group analysis was performed using cross tabulations.

Changes to the coverage of the research and lack of available data for the 2009 survey, has limited the ability to make direct comparisons about the agent population between the two studies. However, where applicable, broad comparisons have been drawn between the results from the research conducted in 2014 and 2009.

Segmentation

The aim of the analysis was to segment the population of tax agents to understand their appetite for digital services, ideally using information held by the HMRC in their administrative databases, with an option to include survey variables if they substantially enhanced the power of the segmentation.

Analysis was carried out to determine which dimensions discriminate most powerfully across the data held by HMRC to ensure the segments were built on the most relevant data and that this data was robust enough to allow the segments to be successfully mapped back to the database.

Descriptive analysis of the characteristics of agents (particularly internet literacy, frequency of usage, perceived benefits and potential barriers of the transition to digital and support required to maximise uptake) in the form of cross tabs were run to identify the most discriminating variables. Correlation analysis was run to examine the relationship between the data of interest, e.g. the strength of the relationship between internet usage and confidence.

Due to the mix of data types included in the analysis (demographic, behavioural and attitudinal) a non-linear canonical correlation technique was employed as this approach is particularly powerful when combining data types. Although there was a desire to base the segmentation solely on information currently held by HMRC (1) it was hypothesised whether this level of information would be suitable so three sets of non-linear canonical correlations (NLCC) were formed based on learnings from previous stages and used as the basis for k-means cluster analyses to develop homogenous clusters of agents

A classification algorithm was developed to enable the segments to be readily mapped to all agents on the databases. However, given that the current database information is limited to demographics and behaviour the accuracy of database projection was enhanced by the inclusion of key discriminatory attitudinal questions. Turnover was identified as a key variable present on the HMRC databases that could be used to map the segments back to the database. Three additional sets of allocation rules were created on this basis: (A) Based on turnover only; (B) Based on turnover and age of sole trader; (C) Based on turnover and current confidence and capability in the use of online services (Q9) or Based on turnover, confidence and capability and willingness to engage with HMRC digitally (Q31).

Classification based on turnover, confidence and capability and willingness created a rule with 100% accuracy, and by including a couple of attitudinal questions and deriving a more sophisticated allocation rule set we can ensure that the segments are distinct on more than just demographics and business characteristics. This approach created four distinct segments:

1. Corporate pacemakers (generally high turnover, confident and willing)
2. Mid-sized progressives (generally medium turnover, confident and willing)
3. Small but savvy (generally low turnover, confident and willing)
4. Hard to Win Overs (generally low turnover, unconfident)

Qualitative Research

The qualitative fieldwork comprised of 24 face to face interviews, two mini-group discussions and three group discussions with tax agents who took part in the quantitative survey. The research was conducted over two phases and sought to develop a deeper understanding of the segments and generate insight about possible ways to encourage agents to take up as soon as possible. Agents were recruited from respondents who took part in the quantitative survey, based on their response to segmentation questions.

Stage 1 comprised of 15 x 60 minute face to face interviews with tax agents to understand their current interaction with HMRC and their views about using expanded digital services in the future. Participants were provided with a brief description of Agents Online Self Serve and shown some messaging propositions to determine what information had most resonance in shaping appetite for new digital services.

Face to face interviews – achieved sample

Type of Agent	Interviews achieved
Segment	
Corporate pacemakers	6
Mid-sized progressives	6
Small but savvys	6
Hard to win overs	6
Total	24

NB – The 9 remaining interviews shown in the table above were completed during Stage 2.

Stage 2 involved two mini-group discussions and three group discussions lasting 90 minutes. During the groups, agents were presented with a fuller description of the functionality of Agents Online Self Serve, potential incentives for early adoption and a series of messaging propositions, which were refined following the initial stage of fieldwork. Towards the end of the session,

participants were split into two groups and asked to design their ideal service, using counters to prioritise valued features and incentives. Due to the geographical spread of the sample, mini-group discussions were held in two locations. We ran an additional mini-group discussion with one segment (Small but savvys) to ensure sufficient coverage of this important group. In addition to the five group discussions, the 9 remaining face to face interviews were conducted during this stage, according to the design and method described above.

Group discussions – achieved sample

Type of Agent	Interviews achieved
Corporate pacemakers – London	9
Mid-sized progressives - Birmingham	7
Small but savvys - London	8
Small but savvys –Ascot	3
Hard to win overs - Keynsham	3
Total	30