



IFF Research

Large Business Survey 2015

Report

Prepared for



**HM Revenue
& Customs**

By IFF Research

July 2016



IFF Research

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Contents

1	Key findings	6
	Introduction	6
	Wider customer experience	7
	Relationship with the Customer Relationship Manager	7
	Sharing information with HMRC	7
	Attitudes to risk and risk planning	8
	Impact of policy	8
	Influence of agents	9
2	Introduction	10
	Background to study	10
	Methodology	10
3	Overall customer experience	12
	Key Driver Analysis	14
4	Wider customer experience	16
	Consistency	17
	HMRC's understanding of business's level of risk	17
	Clarity on compliance	17
	Transparency of decision making	17
	Digital interaction	18
	Burden of Tax compliance	18
	Risk reviews	19
5	Relationship with CRM	20
6	Sharing Information with HMRC	24
7	Attitudes to risk and tax planning	28
	Tax avoidance	29
	Tax planning	31
8	Impact of policy	32
	Impact on the businesses' competitive position	33
	Effectiveness of maintaining the UK's competitive position in the global economy	35
	R&D expenditure credit	36



9	Influence of agents	37
10	Additional qualitative findings	39
11	Appendix A: Glossary	41

Background and aims	42
Achieved sample	42
Approach to sampling	42
Questionnaire development and screening	43
Response rates	44
Non-response analysis	45
Data linking	45
Data analysis	45
Key Driver Analysis	46



1 Key findings

Introduction

- 1.1 HMRC highly values the relationships it has with its customers, as these relationships are central to achieving the customer compliance and customer experience it aims for. It therefore regularly carries out studies to gain in-depth information about customers' experiences of dealing with HMRC.
- 1.2 This report focuses on HMRC's largest business customers and presents findings from the *Large Business Survey 2015* which is the first of a new annual survey designed to assess (and track where possible) the experiences of businesses that are handled by the Large Business Directorate, which was created in April 2014.
- 1.3 In earlier years, the Large Business Panel Survey assessed the experiences of large businesses managed by HMRC's former Large Business Service and Local Compliance Large & Complex business unit (L&C). The results for each of three distinct large business populations were reported separately – Large Business Service customers; L&C businesses managed by a Customer Relationship Manager (CRM); and L&C businesses managed by a Customer Coordinator. Where findings for "equivalent businesses" in 2014 are quoted, these are combined results for Large Business Service and L&C CRM businesses, which have not been published before.
- 1.4 The *Large Business Survey 2015* was comprised of a quantitative telephone survey of 932 Heads of Tax or Finance Directors from HMRC's large business customers, and 20 qualitative 'follow-up' interviews which were subsequently conducted face to face to explore some of the quantitative findings in more depth¹.

Overall customer experience

- 1.5 Large businesses were positive about their overall experience of dealing with HMRC in 2015 (82% rated their overall experience as 'good'), which was consistent with the last wave of the previous survey in 2014.
- 1.6 However, some large businesses who participated in the survey felt that their relationship with HMRC had deteriorated in the previous 12 months (even if they generally were positive about the overall service provided by HMRC). These businesses were specifically selected to take part in qualitative follow up interviews and are therefore not representative of the overall large business population.
- 1.7 To understand what is *driving* businesses' overall rating of HMRC, Key Driver Analysis² was conducted. The Key Driver Analysis determined that the following five elements of HMRC's service contributed most to businesses giving a 'good' rating of experience overall:
 - HMRC treats the business fairly;
 - HMRC seeks a co-operative relationship with you;
 - there is good co-ordination across HMRC in relation to your business's tax affairs;
 - ensuring your queries are dealt with effectively;

¹ See the Methodology section in chapter 2 and Appendix B for more details about the methodology. See also chapter 10 for further qualitative findings not mentioned elsewhere in the report.

² Key Driver Analysis is a statistical technique used to determine which elements of HMRC's service were most likely to contribute to a 'good' rating of overall experience. This analysis therefore identifies the areas where improvement (or continuing high service) could have the most impact on customers' overall experience of dealing with HMRC.



- HMRC provides your business with certainty in its tax affairs.

1.8 High proportions of businesses (84%) agreed with three of the five statements described above, suggesting that HMRC was doing well in areas that are particularly important to businesses in 2015. Lower proportions of businesses agreed that *there is good co-ordination across HMRC* (59%) and *HMRC provides your business with certainty in its tax affairs* (65%) – improving these areas could therefore result in an increase in the proportion of large businesses having a ‘good’ experience of dealing with HMRC in the future

Wider customer experience

- 1.9 In terms of wider customer experience, the areas of HMRC’s service that businesses were most positive about were as follows: *HMRC are consistent in the way they treat my business* (78% agreement), *HMRC have a good understanding of my business’s level of risk with regards to tax compliance* (75%) and *HMRC make it clear what you need to do to be compliant* (75%). In comparison with these statements, businesses were relatively less likely to agree that *HMRC’s current ways of interacting digitally meet the needs of my business* (56%) and *the overall administrative burden on my business relating to tax compliance is reasonable* (48%).
- 1.10 Most businesses had undergone a risk review in the last 3 years³, and most of those that had undertaken the review were positive about the process. Indeed, around four-fifths agreed that *the risk review process is fair* (79%), and *it is clear how HMRC came to the decision about my risk rating* (81%). Businesses also value the outcome of the risk review process, as 81% agreed that *being classed as low risk is or would be of benefit to the business*.

Relationship with the Customer Relationship Manager

- 1.11 Most large businesses (92%) had dealt directly with their Customer Relationship Manager (CRM) in the 12 months prior to completing the survey. Most of these large businesses rated their CRM highly across a number of service measures, particularly their *professionalism* (94% rated their CRM ‘good’⁴), *being easy to contact* (91% rated good), *ensuring queries are dealt with effectively* (84% rated good) and *provides access to tax specialists when necessary* (83% rated good). These high ratings were consistent with the ratings in the last wave of the previous survey.

Sharing information with HMRC

- 1.12 Businesses were most likely to contact HMRC on a monthly (39%) or quarterly (31%) basis in 2015. Businesses that had had contact with HMRC were asked whether they had undertaken two particular kinds of contact: the majority (77%) of large businesses said they had discussed specific tax issues with HMRC as they arose during the tax year, and fewer, but still a majority (62%), reported that they had shared information with HMRC before committing to transactions.

³ HMRC deploys its large business compliance resources to the areas of highest risk. It uses a comprehensive risk assessment process (the risk review) to determine a business’s risk status. For businesses classified as low-risk, HMRC trusts them to get things right, reviewing their tax returns less often and their risk status every three years. During this time, HMRC ensures it maintains sufficient contact to keep business knowledge up-to-date, including as a minimum an annual meeting. In addition, HMRC expects all large businesses to keep their CRM informed of emerging significant transactions and tax risks in real time. Tax avoidance is incompatible with low-risk status and all businesses can expect a detailed examination where tax avoidance is reported or suspected. For businesses not classified as low-risk, HMRC carries out annual risk reviews and proactively manages the relationship in order to minimise non-compliance. These businesses are much more likely to see HMRC-initiated interventions.

⁴ This is the combined scores of the businesses that rated their CRM ‘very good’ and ‘fairly good’.



Attitudes to risk and risk planning

- 1.13 Most businesses (78%) stated they had a low appetite for risk in relation to tax planning, with 37% saying 'very low'. Only a very small proportion (3%) said they had a high appetite for risk. The majority of businesses said that their stated attitude to risk was shared across their company, and that the business was fully transparent with HMRC about this.
- 1.14 Results in this area suggested a shift to a more compliant mind-set amongst large businesses in terms of tax planning, as the level of agreement across several of the statements had fallen since the last wave of the previous survey in 2014. Businesses in the current survey were significantly less likely (than equivalent businesses in 2014) to agree that:
- *We are always open to ways to legally reduce our tax payments* (74% in 2014 reducing to 65% in 2015);
 - *Tax avoidance is acceptable* (26% in 2014 reducing to 21% in 2015);
 - *We look to reduce tax liabilities through recognising profits in more favourable tax regimes* (12% in 2014 reducing to 8% in 2015).
- 1.15 Half of businesses reported there had been an increased level of scrutiny at the senior level of their business over the business's tax planning measures throughout 2015.
- 1.16 When asked what the most influential factors were on their tax planning decision making, businesses were most likely to cite complying with legislation (36%) and ensuring that any tax planning decisions were commercially viable (21%).

Impact of policy

- 1.17 Businesses were most likely to have been aware of the *Corporation Tax (CT) rate cut* from 20% to 18% by 2020 (97% were aware) and the *increase in the permanent level of the Annual Investment Allowance (AIA)* (79% were aware). In contrast, smaller proportions were aware of the *changes to VAT and Prompt Payment Discounts* (52% were aware).
- 1.18 In terms of what effect these changes would have, the following proportions of businesses⁵ stated that each change would have a *positive impact on their business's competitive position*:
- 60% reported that the CT changes would have a positive impact on the business's competitive position;
 - 34% said they felt the AIA increase would have a positive impact;
 - 9% said they felt the changes to VAT would have a positive impact;
- 1.19 The remainder of businesses generally stated the changes would have a neutral effect (very few cited a negative effect).
- 1.20 A similar pattern was seen when considering whether the changes would be effective or not effective in maintaining the UK's competitive position:
- 84% said the CT changes would be effective in maintaining the UK's competitive position;
 - 33% said the AIA changes would be effective;
 - 14% said the VAT changes would be effective.

⁵ These proportions are based on *all* businesses, i.e. not just those businesses that were aware of each policy change.



- 1.21 Two in five (42%) businesses reported they had benefitted from the Research and Development Expenditure Credit (RDEC). When asked what changes had occurred in their businesses as a result, most (60%) said their senior leaders were now more aware of the tax benefits of carrying out R&D, 40% said their business had chosen to elect early into the RDEC, and 20% were influenced to carry out more R&D.

Influence of agents

- 1.22 Nearly all businesses said they used agents, the majority to receive advice on transactions or operational decisions. Thinking about the impact agents had on businesses, 80% of businesses said using their agent resulted in them making fewer errors in their tax calculations. A sizeable minority (38%) agreed that using agents caused them to implement tax strategies they might not otherwise consider, and a negligible proportion agreed their use of agents resulted in them disclosing less information to HMRC (3%).



2 Introduction

Background to study

The current study: The Large Business Survey

- 2.1 HMRC has a strategic priority to deliver strong customer service for all and achieve the high levels of customer compliance it aims for. HMRC commissioned the new Large Business Survey (LBS) in 2015 to help evaluate whether HMRC's processes are delivering the intended customer experience and compliance from a large business perspective, assess the behavioural impacts of tax policy and tax administration and maintain in-depth knowledge of how the department's relationship with large businesses changes over time.
- 2.2 The new LBS was designed to collect robust data on the largest and most complex businesses with a bespoke approach and a line of questioning appropriate and salient to this customer group.
- 2.3 Since the spring of 2014, the tax compliance of around 2,000 large businesses has been managed by the Large Business Directorate (LBD) within HMRC.

Previous studies: The Large Business Panel Survey

- 2.4 HMRC has carried out research with large businesses since 2008, using a telephone survey and qualitative follow-up interviews, to annually assess businesses' views of the services provided by HMRC.
- 2.5 Most recently, HMRC conducted the Large Business Panel Survey in (2010-14) to monitor the experiences of large businesses managed by HMRC's former Large Business Service and Local Compliance Large & Complex business unit (L&C). The results for each of three distinct large business populations were reported separately – Large Business Service customers; L&C businesses managed by a Customer Relationship Manager (LC CRM); and L&C businesses managed by a Customer Coordinator. Where findings for "equivalent businesses" in 2014 are quoted, these are combined results for Large Business Service and L&C CRM businesses, which have not been published before. For more details about the Large Business Panel Survey, see Appendix B.

Methodology

Approach to data collection

- 2.6 The quantitative questionnaire lasted an average of 20 minutes and fieldwork was conducted using Computer Assisted Telephone Interviewing (CATI) between 20 October and 21 December 2015. In total 932 Heads of Tax or Finance Directors from HMRC's large business customers took part. This amounted to 53% of the available contacts.
- 2.7 To explore some of the quantitative findings in more depth, certain types of large business customers were specifically selected to take part in qualitative follow up interviews (e.g. those who were less satisfied with their overall experience of dealing with HMRC)⁶. The fact that some large businesses with more negative views were purposively sampled, combined with the comparatively small numbers interviewed for the qualitative research, means that **qualitative responses in this report are not representative of the overall large business population.**

⁶ See Appendix B for a full breakdown of the groups of large businesses that took part in the qualitative research.



2.8 A total of 20 qualitative 'follow-up' interviews were conducted between 8 February and 19 March 2016. Interviews were conducted face to face and lasted approximately 60 minutes⁷.

Approach to analysis

2.9 This report summarises the findings from this first year of the new Large Business Survey. The main aim of this research was to assess (and track where possible) businesses' views of the services provided by HMRC. In order to achieve this, several analysis techniques were adopted:

- Comparison with the last wave of the previous LBPS 2014 survey⁸;
- Key Driver Analysis (see paragraph 3.7 onwards for more details); and
- Sub-group analysis.

2.10 Across each of these analysis techniques, only differences identified as significant⁹ have been included in this report.

2.11 'Don't know' or 'prefer not to say' responses have not been included in some tables and figures for simplicity, as the proportions were often negligible and did not add to the overall narrative. Consequently, not all figures will necessarily sum to a total of 100%. Figures may also not add to a total of 100% if the response was multi-coded. Where all responses have been included, figures may not sum to exactly 100% due to rounding.

2.12 Further background on HMRC's large business customers and details about the analytical techniques used are included in the glossary and technical appendix to this report.

⁷ For more details, see Appendix B.

⁸ The Large Business Survey retained relevant questions previously asked in the Large Business Panel Survey, and where this was the case, the current LBD results can be compared with the combined Large Business Service and LC CRM results from the previous survey. These combined Large Business Service and LC CRM scores have not been reported or published before, as the LBPS always reported the three customer groups separately. Where comparisons are made in this report between the current survey and the previous (2014) LBPS, it is this combined score that is cited.

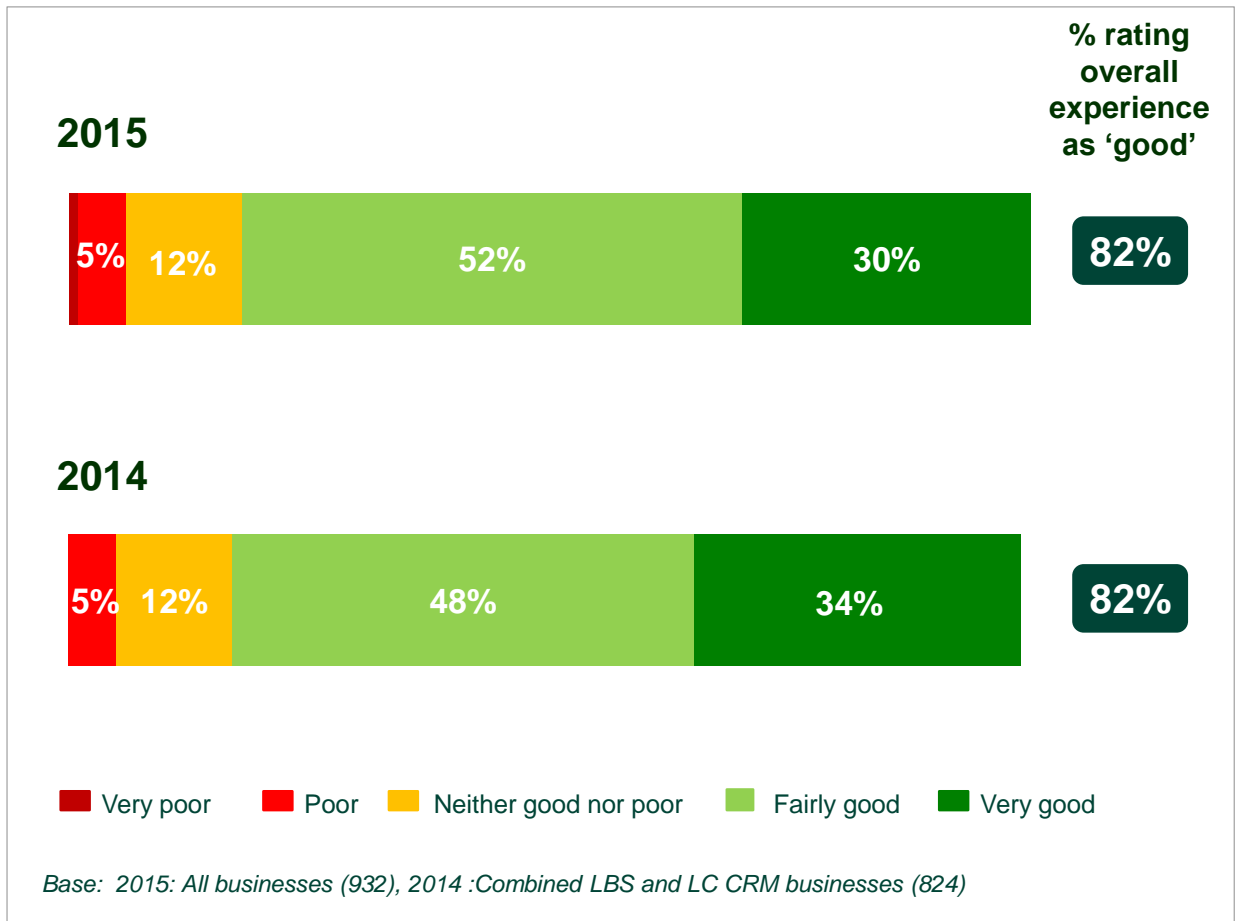
⁹ This means results are statistically significant using a t-test at the 95% confidence level, and where Likert scales have been used in the survey, using a chi-squared test at the 95% confidence level.



3 Overall customer experience

- 3.1 **The majority of businesses in 2015 rated their overall experience of dealing with HMRC as 'good'** - 82% described their overall experience of dealing with HMRC as 'fairly good' or 'very good'. Almost a third (30%) of businesses said their experience was 'very good'. The full ranges of responses for the current survey, and the last wave of the previous survey for comparison, are shown below in figure 3.1.

Figure 3.1: Overall experience of service in 2015 and 2014



- 3.2 The proportion of businesses rating their experience as good overall was similarly high in 2014, with an identical 82% of businesses also rating their experience of HMRC as 'good' in the last wave of the previous survey.
- 3.3 Overall experience with HMRC was also explored further in the qualitative research. A number of large businesses who participated in the qualitative research felt that their relationship with HMRC had deteriorated in the previous 12 months (even if they generally were positive about the overall service provided by HMRC).¹⁰

¹⁰ While this view was expressed by businesses that were dissatisfied with their overall experience with HMRC at the quantitative stage, it was also expressed by those who were satisfied or gave a neutral score at the quantitative stage – nonetheless, their views are not necessarily representative of the overall large business population.



- 3.4 Some of these large businesses felt that this was due to the fact that they had experienced a high turnover of CRMs in the last few years:

We have a good longstanding relationship with regular dialogue but the high turnover of CRM has been an issue over the last few years. If you are operating a CRM model it relies on the CRM developing a good understanding of us and our businesses and the way we work. With continual change that is harder to do as it means we re-educate each new individual.

- 3.5 Some felt that it was increasingly difficult to make contact with HMRC due to changes to communication channels (particularly the introduction of the mailbox service) – which are perceived to have negatively impacted on working relationships and the timeliness of response:

Communication with HMRC has changed again in terms of having one central mailbox rather than going direct to the CRM. We have recently emailed and all you get is an automatic reply saying they have received the email and there is no further information – I suspect it is not even getting through to the CRM within a three-week timescale. That is quite frustrating when trying to continue a meaningful working relationship.

- 3.6 A few large business customers that participated in the qualitative research felt that HMRC had become increasingly centralised and that this had reduced the ability of CRMs to make timely decisions:

For us, the CRM model has worked well but I have noticed that HMRC has become increasingly centralised... the specialists and the CRMs on the frontline have less discretion in dealing with technical decisions and transactional discussions.

- 3.7 Businesses that had had contact with their CRM were more likely to rate their overall experience 'very good' (31%) than those who had no contact with their CRM (19%). This does not prove causation, i.e. that contact with CRM caused better overall experience, or vice versa, but helps to increase understanding about how contact with the CRM and positive feedback on HMRC's overall experience might be linked. It should also be noted that only a minority (8%) of large businesses had no direct contact with their CRM in the past 12 months.

- 3.8 Businesses with higher turnovers (above £41.5m) were more likely to rate their overall experience as 'good' overall¹¹ (84% amongst £41.5m-£499m and 82% amongst £500m+) than those with a turnover of less than £41.5m (69%).

- 3.9 The extent to which tax compliance was perceived as a burden affected businesses' overall rating of their experience of HMRC. Businesses that agreed that the administrative burden of compliance on their business was 'reasonable' were more likely to rate their overall experience of HMRC as 'good' (89%) than businesses that disagreed the burden was reasonable (of which 72% rated HMRC 'good').

- 3.10 It was important to try to understand what is *driving* businesses' overall rating of HMRC. The examples in the paragraphs above showed *relationships* between certain types of businesses and the overall rating given, but further analysis was needed to understand what is genuinely contributing to higher ratings, discussed below.

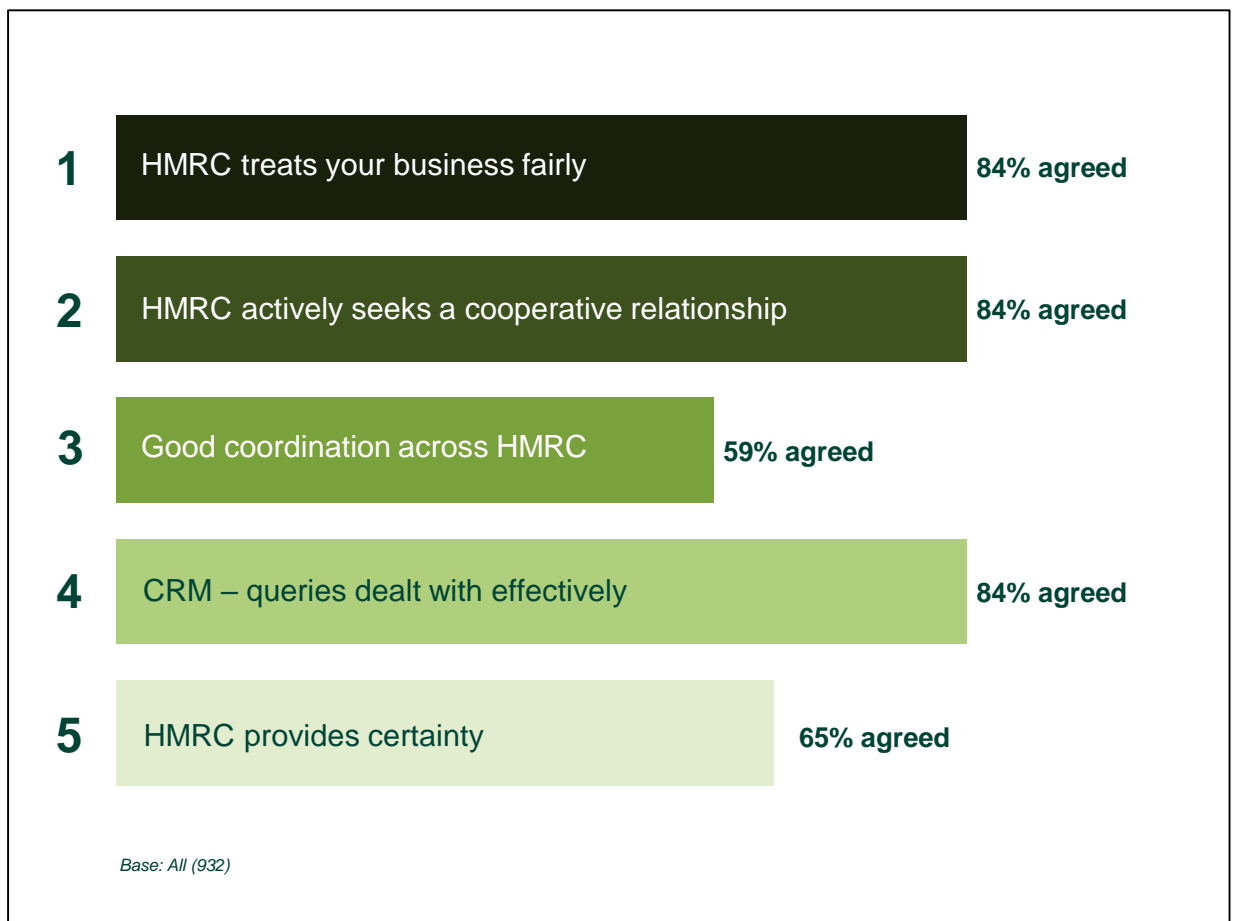
¹¹ I.e. those who rated their experience as 'fairly good' or 'very good'



Key Driver Analysis

- 3.11 Key Driver Analysis (KDA) is a statistical technique used to determine which elements of HMRC's service were most likely to contribute to a 'good' rating of overall experience. This analysis therefore identifies the areas where improvement (or continuing high service) could have the most impact on customers' overall experience of dealing with HMRC¹².
- 3.12 All customer service measures from the current Large Business Survey were included in the analysis¹³.
- 3.13 The key driver analysis determined the following service measures as the five most important drivers of customer experience.
- 3.14 Figure 3.2 shows the current key drivers in order of importance, as well as the proportion of businesses in the Large Business Survey that gave an 'agree' or a 'good' rating for each one.

Figure 3.2: The five most important 'key drivers' of customer experience, and the proportion of customers giving a positive response to each



HMRC treats your business fairly

- 3.15 The most important driver was agreement with the statement *HMRC treats your business fairly*, i.e. agreement with this statement could be said to contribute to a business rating their overall experience

¹² More details on the approach taken are included in Appendix B.

¹³ A list of these customer service measures can be found in Appendix B.



with HMRC as 'fairly good' or 'very good'. There was a high level of agreement (84%) with this statement.

HMRC actively seeks a cooperative relationship with you

- 3.16 The second most important driver of overall positive experience of HMRC was agreement with the statement *HMRC actively seeks a cooperative relationship with you*. Businesses that had experienced contact with their CRM were more likely to agree with this statement (85%), than businesses that had not had contact with their CRM (68%)¹⁴.

There is good coordination across HMRC in relation to your business's tax affairs

- 3.17 The third most important driver of a business's overall experience of HMRC was related to how well coordinated HMRC was perceived to be internally. While this was an important driver of good experience, a relatively *low* proportion, almost six in ten, of businesses agreed that there was a good level of coordination within HMRC (59%), when it came to their own tax affairs. There were no particular kinds of businesses that were more or less likely to agree with this statement. If HMRC could improve perceptions in this area, it could help to improve businesses' overall experience.

Rating of Customer Relationship Manager - ensuring that your queries are dealt with effectively

- 3.18 The fourth key driver of overall experience was related to businesses' queries being dealt with effectively by their CRM. There was a high level of agreement with this fourth key driver of experience – 84% of businesses rated their CRM 'good' when it came to effectively dealing with their queries. This is an area in which HMRC should look to maintain a high service, which could help to ensure overall experience remains positive.

They provide your business with certainty in its tax affairs

- 3.19 The fifth key driver related to HMRC's ability to provide a business with certainty in its tax affairs. There was a lower level of agreement (65%) against this key driver compared to the higher levels of agreement with the first, second and fourth Key Drivers, showing that while this is an important element for businesses, lower proportions of businesses felt HMRC successfully provides this certainty.
- 3.20 Businesses that had experienced contact with their CRM were more likely to agree that HMRC provided certainty (66%) than businesses with no CRM contact (53%)¹⁵. This suggests that the CRM relationship goes some way to aiding the provision of certainty to business customers.

¹⁴ As noted in chapter 3 – only a minority (8%) of large businesses did not have direct contact with their CRM in the past 12 months.

¹⁵ As noted in chapter 3 – only a minority (8%) of large businesses did not have direct contact with their CRM in the past 12 months.



4 Wider customer experience

- 4.1 Having explored businesses' overall rating of their experience with HMRC, and the five key elements of HMRC's service (key drivers) that contributed most to the overall rating, this chapter reports on the *wider* measures of customer experience covered in the Large Business Survey. That is, the measures which have not been shown through KDA to directly influence overall experience.
- 4.2 Figure 4.1 shows the proportion of businesses that *felt positively* about each area of service¹⁶. Where comparisons were possible, the figure also shows the proportion of comparable businesses (combined LBS and LC CRM businesses) that felt positively about each area in the last wave of the previous survey.
- 4.3 This figure does not include risk rating measures, as these are discussed separately later.

Figure 4.1: Performance against the various wider measures of customer service, in the current survey and the last wave of the previous survey (2014)¹⁷.

Measures of wider customer experience	% businesses agreeing	
	2015 LBS	2014 LBPS
HMRC are consistent in the way they treat my business	78	81
HMRC have a good understanding of my business's level of risk with regards to tax compliance	75	79
HMRC make it clear what you need to do to be compliant	75	77
It is clear how HMRC comes to decisions that affect your business	65	Not asked
HMRC's current ways of interacting digitally meet the needs of my business	56	Not asked
The overall level of administrative burden on my business relating to tax compliance is reasonable	48	Not asked

Key

- 71% +
- 51-70%
- 50% or less

Base: 2015: All businesses (932), 2014 :Combined LBS and LC CRM businesses (824)

- 4.4 Of these measures, businesses were most likely to be positive about the extent to which *HMRC is consistent in the way they treat the business*, and least likely to be positive about the *level of administrative burden on their business*. Each of these measures is discussed in more detail below.

¹⁶ Depending on the question asked, the business might have 'agreed' or rated a service 'good' – the questions are shown on the diagram.

¹⁷ Some questions that were previously asked were removed during the questionnaire development phase of the *Large Business Survey 2015*, as the focus of the individual surveys can be slightly different year to year – see Appendix B for further details.



- 4.5 For the most part, businesses' perceptions across these areas have remained consistent over the last year, with few significant differences seen when the feedback was compared with the 2014 LBPS.

Consistency

- 4.6 Consistency is an area about which many businesses feel positive. High proportions (78%) of businesses agreed that *HMRC are consistent in the way they treat your businesses*. Although perceptions of whether HMRC is consistent in the way they deal with businesses was no longer one of the top five key drivers of overall satisfaction, it was still an important measure of whether businesses felt that HMRC's systems and processes are credible and administered in a fair way.
- 4.7 Businesses were similarly positive in the last wave of the previous survey, with 81% agreeing that HMRC were consistent in the way they treated the business.

HMRC's understanding of business's level of risk

- 4.8 Many businesses also felt positive about *HMRC's understanding of business's level of risk with regards to tax compliance*; three quarters agreed that HMRC had a good understanding. CRM contact appears to be linked to higher agreement in this area: businesses that had experienced contact with their CRM were more likely to agree with this statement (76%) than those who had not experienced this contact (61%)¹⁸.
- 4.9 Agreement also differed significantly by:
- Business size - the smallest businesses (with fewer than 250 staff) were less likely to agree that HMRC understands their level of risk (68%) than the largest businesses (over 1000 staff - 76% agreed).
 - Turnover - businesses with the lowest turnover (under £41.5m) were less likely to agree that HMRC understood their level of risk (64%) than those with turnovers of over £500m (77%).
 - Risk review – businesses that had had a risk review in the last 3 years were more likely to agree that HMRC had a good understanding of their businesses level of risk (79%) than those that had not had a review (56%). This suggests that businesses are confident in the risk review process, which will be discussed later in the chapter, from paragraph 4.16.

Clarity on compliance

- 4.10 Three-quarters of businesses agreed that *HMRC make it clear what you need to do to be compliant*. This level of agreement came from businesses across the board, i.e. it was not the case that certain sizes of business were more or less likely to agree. However, those that had had a risk review in the last 3 years were more likely to agree that HMRC made it clear how to be compliant (77%) compared to those that had not had a risk review (65%).
- 4.11 Businesses were consistent in their agreement when compared to the last wave of the previous survey, when 77% agreed that HMRC made it clear how to be compliant.

Transparency of decision making

- 4.12 In comparison with the measures discussed above, lower proportions – though still a majority – of businesses agreed that *it is clear how HMRC come to decisions that affect my business* (65%). Businesses with the highest turnover were less likely to agree with this statement than those with a more

¹⁸ As noted in chapter 3 – only a minority (8%) of large businesses did not have direct contact with their CRM in the past 12 months.



mid-range turnover: amongst those with £500m+ turnover, 62% agreed compared to 70% of businesses with £41.5m-£499m turnover.

Digital interaction

- 4.13 New to the 2015 Large Business Survey was a question on digital interaction: *To what extent do you agree or disagree that HMRC's current ways of interacting digitally meet the needs of your business?* This question was designed to act as a benchmark, to follow customers' opinion on HMRC's digital interaction over time, as HMRC develops its digital transformation. In this context, current level of agreement among large businesses is just over half: 56% of businesses agreed that *HMRC's current ways of interacting digitally meet the needs of your businesses*.
- 4.14 Businesses that agreed that the *overall level of administrative burden of tax compliance was reasonable* (discussed further in the next section) were more likely to agree that HMRC's current ways of interacting digitally met the needs of their business (67%), compared to those who disagreed the administrative burden was reasonable (43%). This suggests that administrative burden may be linked to large businesses' digital interaction with HMRC, though only a relationship, rather than causation in a particular direction, can be implied here.

Burden of Tax compliance

- 4.15 Another new question for the 2015 survey was: to what extent do you agree or disagree that the overall level of administrative burden on your business relating to tax compliance is reasonable? Around half (48%) of businesses agreed that the administrative burden was reasonable, however the remainder were split relatively evenly between businesses disagreeing the burden was reasonable (28%) and businesses that chose the 'neither agree nor disagree' option (23%). The businesses with the highest turnover (over £500m) were more likely to disagree the burden was reasonable (33%) than those with a turnover of under £41.5m (17% disagreed).
- 4.16 The qualitative research explored why some large businesses disagreed that the overall administrative burden in relation to tax compliance was reasonable¹⁹.
- 4.17 A number of large business customers perceived that the administrative burden in relation to tax compliance was not reasonable or proportionate due to cumulative changes to tax policy and the impact of this on the amount of resource needed to be compliant:

Most of the new things that have come in mean more compliance, which mean more procedures and more rules, and, ultimately, more resource.

- 4.18 Some large businesses felt that the increasing complexity of tax rules means that the overall administrative burden of tax compliance is not reasonable:

HMRC's expectation of the business is not proportionate; we have to provide so much resource to comply. For example, Corporation Tax is a complicated area. It's difficult to put a figure on it but it probably costs £250,000 per annum to comply.

¹⁹ Large business customers who participated in the qualitative follow up interviews were purposively sampled because they disagreed that the administrative burden was reasonable in order to do this – see the technical appendix for more details.



- 4.19 Some large businesses also perceived HMRC to be disjointed and felt that this increased the administrative burden unnecessarily as they felt that the information that they have to supply in order to be compliant is often duplicated or overlapping:

The burden is very much because of all the different taxes being administered separately with different formats required, different deadlines and different teams. There is no harmonisation – it is all very disjointed and requires so much duplication of work.

Risk reviews

- 4.20 Most businesses (88%) knew what their business's risk status was, and most had undergone a risk review²⁰ in the last 3 years (80%).
- 4.21 Of the businesses that had undergone a risk review in the past 3 years, most were also positive about the process, agreeing that *the risk review process is fair* (79%), and *it is clear how HMRC came to the decision about my risk rating* (81%).
- 4.22 In terms of the outcome of the risk reviews, most businesses agreed that *being classed as low risk is or would be of benefit to the business* (81%). Businesses with a turnover of over £500m were less likely to agree that being classed as low risk is or would be of benefit to the business (73%), compared to those with a turnover of between £41.5m - £499m (88% agreed).
- 4.23 Nearly nine in ten (88%) businesses said they were 'confident' (either fairly or very) that they *knew what HMRC would challenge as 'tax avoidance'*. Just over a quarter (27%) felt 'very confident', with 60% saying they were 'fairly confident'. When compared with the previous LBPS survey this represented a drop in the proportion of businesses that were 'confident' that they *knew what HMRC would challenge as 'tax avoidance'* from 93% in 2014 to 88% in 2015.

²⁰ A risk-based approach to working with customers was a measure introduced by HMRC in late 2007. All CRM businesses go through a specific risk assessment process, the results of which are shared with the customer.



5 Relationship with CRM

- 5.1 This chapter examines large businesses' relationships with, and ratings of, their Customer Relationship Manager (CRM). The vast majority of businesses (92%) had dealt directly with their CRM in the 12 months prior to participating in the 2015 survey.
- 5.2 A small proportion of large businesses had only dealt with their previous CRM or had never dealt with a CRM or did not think they had a CRM / did not know who their CRM was.
- 5.3 The likelihood of dealing with the CRM increased along with UK turnover – 97% of businesses with a turnover of £500m+, 91% of businesses with a turnover of £41.5m - £499m and 75% of businesses with a turnover of under £41.5m had dealt with the CRM responsible for their business.
- 5.4 Businesses that had dealt with their CRM were more likely to rate their overall experience with HMRC as good or very good (83%) than businesses that had not dealt with their CRM (68%). By contrast, businesses that had not dealt with their CRM were more likely than businesses that *had* dealt with their CRM to say their overall experience in the last 12 months was neither good nor poor (21% vs. 11% respectively).
- 5.5 Overall, businesses that had dealt with a CRM were positive about that experience: 90% rated their overall relationship with their CRM as good / very good (47% rated their CRM as very good).



5.6 Businesses that had had contact with their CRM were also asked to rate their CRM (from very good to very poor) on a number of service measures. Figure 5.1 lists the various measures and the proportions of businesses rating their CRM as 'good' for each, from highest to lowest.

Figure 5.1: Proportion of businesses rating their CRM 'good' on a number of service measures

CRM service measures:	% businesses rating CRM 'good' for each measure	
	2015 LBS	2014 LBPS
Their professionalism	94	Not asked
Being easy to contact	91	91
Ensuring queries are dealt with effectively	84	86
Provides access to tax specialists where necessary	83	Not asked
Responding within the timeframes agreed	80	82
Understanding the commercial context the business operates in *	72	73
Resolving uncertainty around complex or significant tax issues	66	69

Key

71% +

51-70%

50% or less

* 2014 wording: *Their commercial understanding, in relation to your business*

Base: 2015: All businesses that had had contact with their CRM (879), 2014 : Combined LBS and LC CRM businesses (784)

- 5.7 Where comparisons are possible, the proportions of businesses rating their CRM 'good' for each measure has remained consistent since the last wave of the previous survey.
- 5.8 The majority of businesses were positive with regard to specific aspects of the service provided by their CRM – particularly in terms of their professionalism (94% rated them as good or very good in this regard), being easy to contact (91% rated good or very good), ensuring that queries are dealt with effectively (84% rated good or very good) and responding within agreed timeframes (80% rated good or very good).
- 5.9 Around seven in ten (72%) businesses rated their CRM as good or very good in terms of understanding the commercial context they operate in.
- 5.10 The proportion of customers who rated their CRM as good in terms of resolving uncertainty around complex or significant tax issues was lower (66%) in comparison with the other measures. However, a high proportion (83%) agreed that their CRM provided access to tax specialists where necessary, in order to resolve more complex queries.



- 5.11 The qualitative follow up research explored why large business customers gave CRMs a lower rating in terms of their ability to resolve uncertainty around complex or significant tax issues²¹.
- 5.12 A number of large businesses perceived CRMs to be inexperienced and felt that this undermined their ability to resolve uncertainty. This was particularly perceived to be an issue where there had been a high attrition rate of CRMs – it was felt this undermined the CRM's ability to develop a good understanding of the business. A number of businesses also felt that recent CRMs were less likely to have any experience in / an understanding of the specific sector in which the business operated:

It goes back to having a relationship and them knowing your business - it's quite difficult if they keep parachuting people in. You only meet with them 3 or 4 times a year and if one of those meetings is spent introducing yourself and your business you've wasted one of those meetings straightaway. I've also noticed that they have started to introduce CRMs who don't come from a CT background or even have knowledge of financial services and again that is a disadvantage as you have to spend a lot of time introducing them to the sector - that's been unwelcome.

- 5.13 Some large businesses felt that this inexperience coupled with the perceived increased centralisation of HMRC (as discussed in chapter 3) meant that their CRM did not have the authority needed to deliver certainty in a timely manner. Further, some felt that the role of CRMs had changed to focus more on administration, thus removing their ability to make decisions:

The idea of the CRM originally was that they could be decision makers but that has changed and they are now more managers of the process. They now have to refer matters up, on or sideways. In the past the CRMs tended to be much more independent and experienced.

- 5.14 Other than contacting the CRM, businesses were most likely to approach tax specialists directly (49%), contact HMRC via the telephone helpline (35%) or get in touch by standard email (22%) when assistance was required.
- 5.15 Businesses that had dealt with their CRM were far more likely, than those who had not, to approach HMRC tax specialists directly (49% vs. 13% respectively). Further, larger businesses and those with higher turnovers were also more likely to deal with HMRC in this way.
- 5.16 The qualitative follow up research explored large businesses' experiences of dealing directly with HMRC tax specialists²².
- 5.17 Large business customers that participated in the qualitative research and had approached HMRC tax specialists most commonly did this because:
- they had well-established working relationships with the specialists;
 - they felt that specialists would respond more quickly / efficiently than their CRM; and they thought that their queries were 'low level' and did not require CRM involvement.

²¹ This was explored with all large business customers including some that rated their CRM as poor in terms of their ability to resolve uncertainty around complex or significant tax issues but their views are not necessarily representative of the overall large business population.

²² This was explored with some large businesses that had approached specialists directly – their views are not necessarily representative of the overall large business population.



If you get VAT people talking to VAT people it is easier for them to have a conversation... it is the quickest way to get the answer that both parties need.

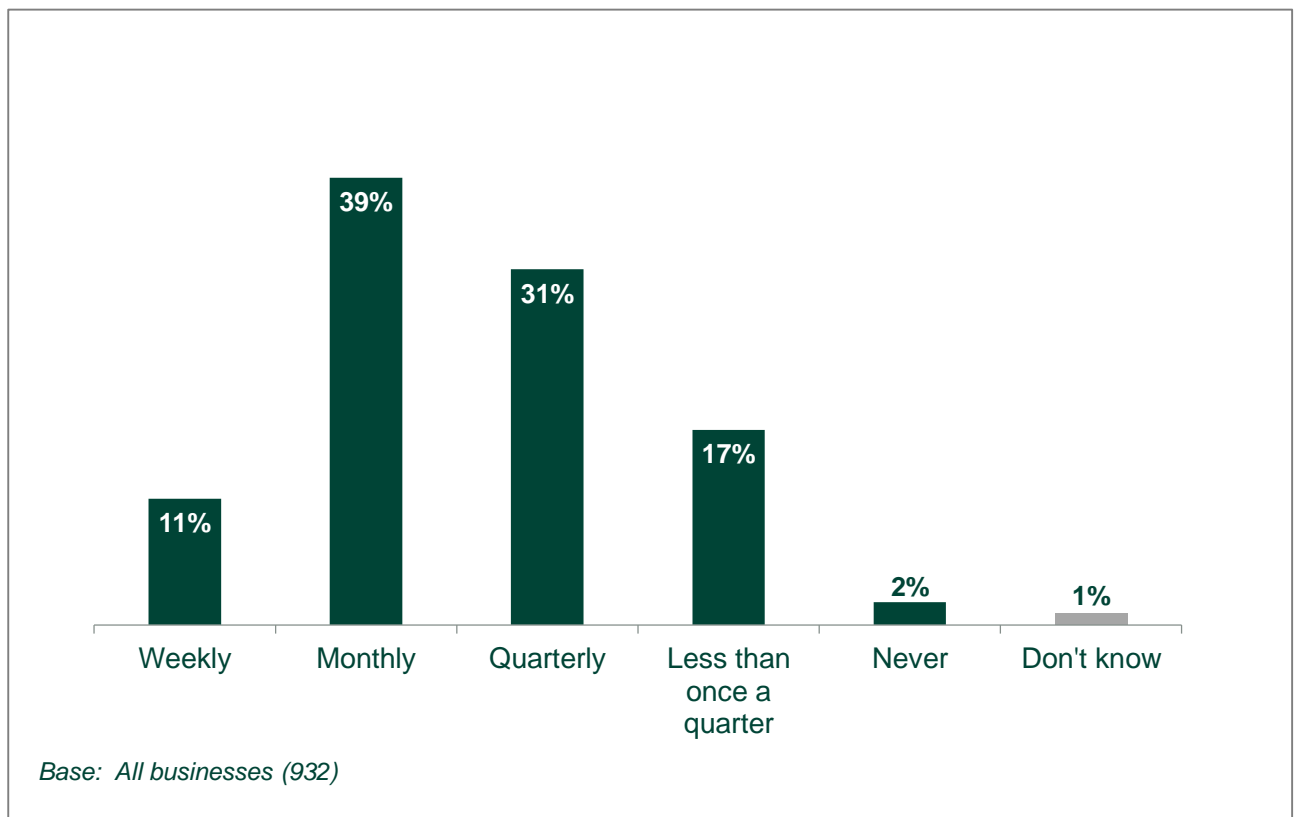
- 5.18 Some large businesses that participated in the qualitative research and had approached specialists directly were positive about this contact (and this was particularly the case for those who had contacted VAT specialists) as they felt the specialists delivered certainty in a timely manner.
- 5.19 However, some were less positive about their contact with HMRC tax specialists. As with CRMs, some large businesses were frustrated about the turnover of specialists and felt specialists were reluctant to give an answer (particularly when trying to clarify legislation).



6 Sharing Information with HMRC

- 6.1 While chapter five provides a good measure of the contact that businesses have had with their CRM, it was also important to explore the frequency of contact with HMRC more generally. This chapter looks at how often businesses had contact with HMRC in relation to tax issues, aside from routine file returns, whether they got in touch with HMRC prior to making tax decisions, and the consequences of this contact.
- 6.2 Figure 6.1 shows that most businesses contacted HMRC in some way in relation to tax issues on a monthly (39%) or quarterly basis (31%).

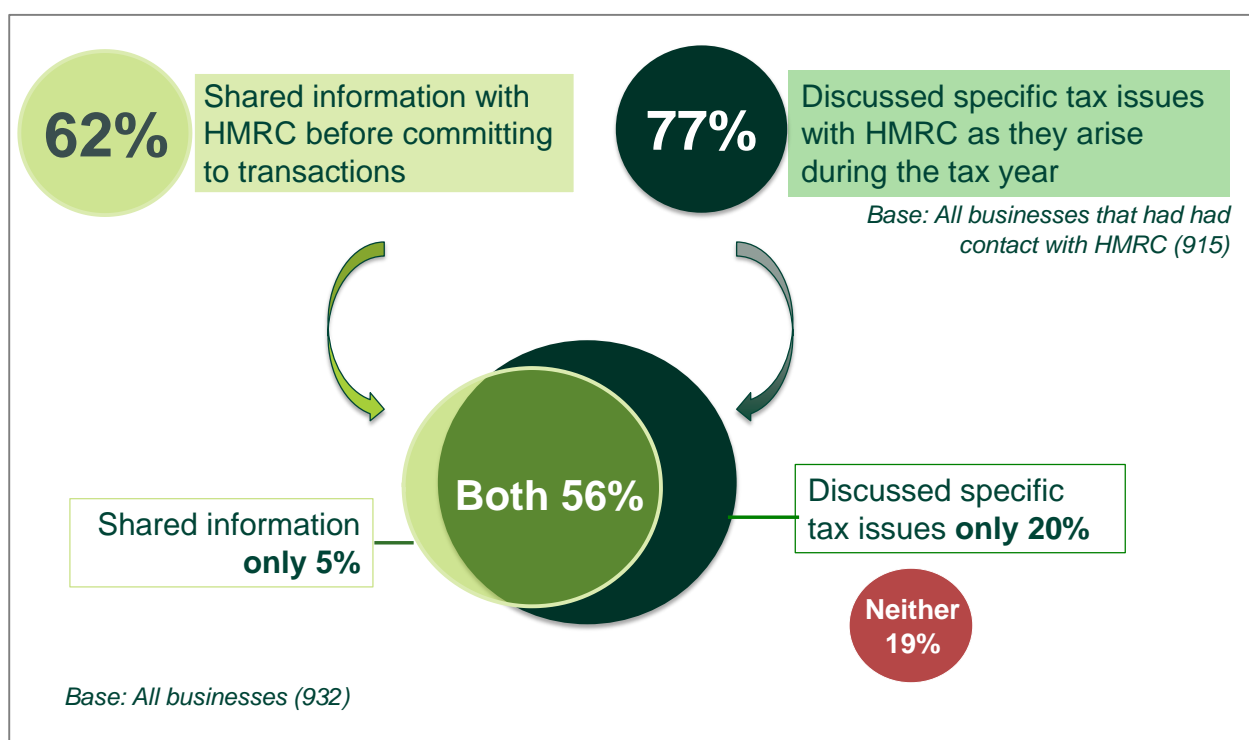
Figure 6.1: How often businesses contact HMRC in relation to tax issues, excluding routine file returns



6.3 Businesses that had contacted any part of HMRC outside of routine file returns were asked specifically whether they had contacted HMRC to do either of the following in the last 12 months (results shown in figure 6.2):

- Share information with HMRC before committing yourselves to significant transactions or operational changes affecting your tax affairs
- Discuss specific tax issues with HMRC as they arise during the tax year and before filing the relevant returns, outside of routine file returns

Figure 6.2: Proportion of large businesses contacting HMRC for either one of two specific reasons



6.4 The majority (77%) of large businesses said they had discussed specific tax issues with HMRC as they arose during the tax year, and fewer, but still a majority (62%) reported that they had shared information with HMRC before committing to transactions.

6.5 Looking in more depth at the proportions of businesses that had done only one action or the other:

- 20% of large businesses had discussed specific tax issues with HMRC as they arose in the tax year, but had *not* shared information before committing to transactions
- 5% of large businesses had shared information with HMRC before committing to transactions, but had *not* discussed tax issues as they arose during the tax year
- Over half (56%) of businesses had had both types of contact with HMRC over the last 12 months
- Around a fifth (19%) of businesses had not had either of these types of contact with HMRC

6.6 The propensity of businesses to contact HMRC in these specific ways increased with turnover and size:



Contacted HMRC to discuss issues as they arise in the tax year

- 85% of businesses with a £500m+ turnover contacted HMRC to discuss issues as they arise compared with 73% of those with a turnover between £41.5m and £499M and 61% of those with a turnover of less than £41.5m.
- Businesses with 1000+ employees were more likely than smaller businesses to have contacted HMRC to discuss specific tax issues as they arise (83% compared to 73% amongst businesses with 250-999 employees, and 67% amongst businesses with under 250 employees).

Contacted HMRC to share information before committing to transactions

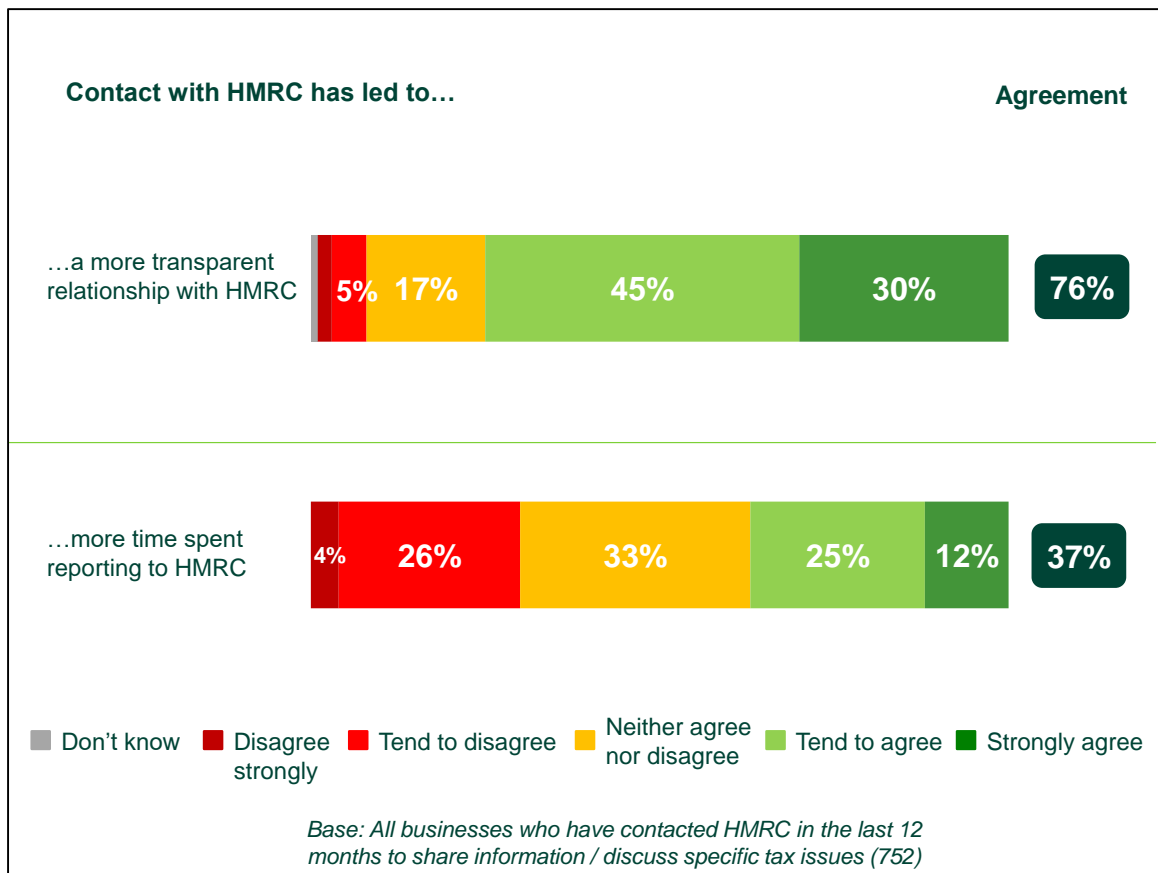
- Of businesses with a £500m+ turnover, 68% had contacted HMRC to discuss issues as they arose compared with 59% of those with a turnover between £41.5m and £499M and 43% of those with a turnover of less than £41.5m.
- Amongst businesses with 1000+ employees, 67% had contacted HMRC to share information before committing to transactions, compared to 55% of businesses with under 250 staff and 56% of businesses with between 250-999 staff.

6.7 The businesses that had contacted HMRC for at least one of these specific reasons were asked whether HMRC had responded to them in a commercially viable timeframe, and whether the contact had delivered certainty for the business; 76% agreed that HMRC responded within a commercially viable timeframe and a similar proportion (73%) agreed that the interaction delivered certainty for their business. There were no differences by the type of contact that businesses had had.



6.8 Businesses were also asked to comment on the perceived impacts of their contact with HMRC over the last 12 months – their views are outlined in Figure 6.3.

Figure 6.3: Perceived impacts of contact with HMRC over the last 12 months



6.9 Three quarters (76%) of businesses reported that their interaction with HMRC had resulted in a more transparent relationship with HMRC. There were few differences here by the type of specific contact that businesses had had, however those that had *both* discussed specific tax issues with HMRC as they arose *and* shared information with HMRC before committing to transactions, were more likely to agree that their contact with HMRC had resulted in a more transparent relationship with HMRC (78%) than businesses that had only discussed specific tax issues as they arose (70%).

6.10 When asked about whether contact with HMRC had led to more time spent reporting to HMRC, opinion was relatively divided, with 30% disagreeing and 37% agreeing.

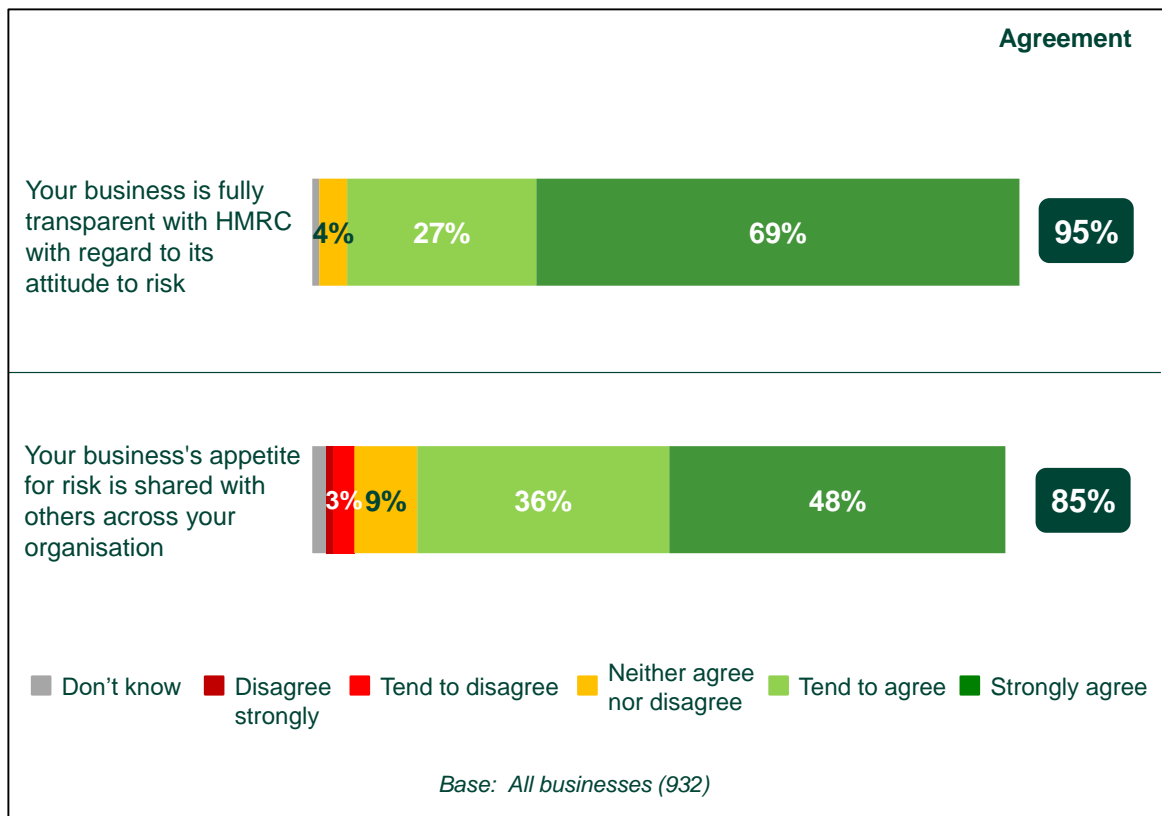


7 Attitudes to risk and tax planning

- 7.1 This chapter outlines businesses' appetite for risk and explores their opinions on tax planning and avoidance. It ends with a discussion of the most influential factors on business tax planning decision-making.
- 7.2 Most large business customers rated their appetite for risk in relation to tax planning as low (78%), with over a third describing it as very low (37%). Just three percent of businesses indicated that they had a high appetite for risk.
- 7.3 As Figure 7.1 shows, the majority of businesses reported that *they were fully transparent with HMRC with regard to their attitude to risk* (95%), whilst less than 1% disagreed. Businesses that rated their experience of HMRC as 'good' (either very or fairly) were more likely to agree that they were fully transparent with HMRC (97%) than businesses that rated their overall experience HMRC as poor (81%).
- 7.4 More than four in five businesses agreed that *their appetite for risk was shared with others in the organisation* (85% while 3% disagreed). Again, businesses that had a very good, or good, overall experience with HMRC were more likely to agree with this statement (87% and 85% agreed respectively) than businesses that rated their experience with HMRC as poor (74% agreed).
- 7.5 Businesses that had dealt with their CRM were also more likely to agree that their appetite for risk was shared with others in the organisation, than those that had not dealt with their CRM (86% compared to 71%).



Figure 7.1: Proportion of large businesses agreeing with attitude statements relating to risk

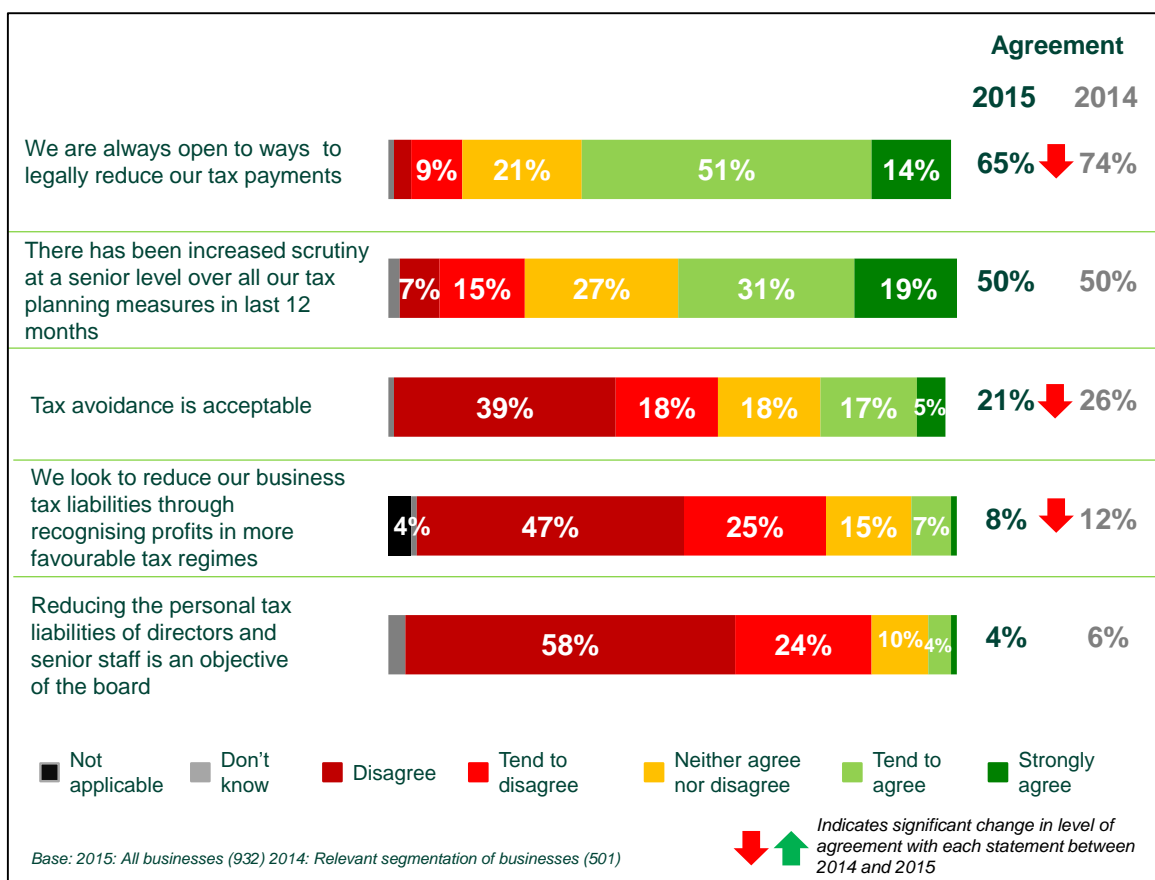


Tax avoidance

- 7.6 Figure 7.2 outlines the response to a number of different statements about tax planning and avoidance, ordered from highest to lowest level of agreement. The majority of businesses agreed that they were always open to ways to legally reduce their tax payments (65%) but most disagreed they would look to reduce tax liabilities through recognising profits in more favourable tax regimes (72%) and that reducing the personal tax liabilities of directors and senior staff was an objective of the board (82% disagreed).
- 7.7 Half of businesses agreed they had seen increased scrutiny at a senior level within their business over all their tax planning measures in the last 12 months (50%). Businesses that agreed that *tax avoidance is acceptable* were more likely to agree that there had been increased scrutiny at a senior level (59%) than businesses that disagreed tax avoidance is acceptable (where 48% agreed there had been increased scrutiny).



Figure 7.2: Attitudes towards tax planning and avoidance



7.8 Agreement with several of these statements dropped since the last wave of the previous survey in 2014, potentially suggesting a shift to a more compliant mind-set amongst large businesses:

- The proportion of businesses agreeing that they *are always open to ways to reduce their tax payments* fell from 74% in 2014 to 65% in 2015;
- The proportion agreeing that *tax avoidance is acceptable* fell from 26% in 2014 to 21% in 2015;
- The proportion of businesses agreeing that *they look to reduce tax liabilities through recognising profits in more favourable tax regimes* fell from 12% in 2014 to 8% in 2015.

7.9 Businesses that had dealt with their CRM were more likely to agree that *there had been an increased scrutiny at a senior level of all their tax planning measures in the last 12 months* (51% compared to 34% of businesses that had not dealt with their CRM) and *less likely to agree that they were always open to ways to legally reduce tax payments* (64% compared to 71% of businesses that had not dealt with their CRM).

7.10 Businesses were also asked about how confident they felt in their knowledge of what HMRC would challenge as tax avoidance. Although the majority were confident (88%), there was a decrease in the proportion that agreed since the last wave of the previous survey (when 93% agreed).

7.11 Businesses that disagreed that it is clear how HMRC came to the decision about their risk rating were twice as likely to say that they were not confident that they knew what HMRC would challenge as tax

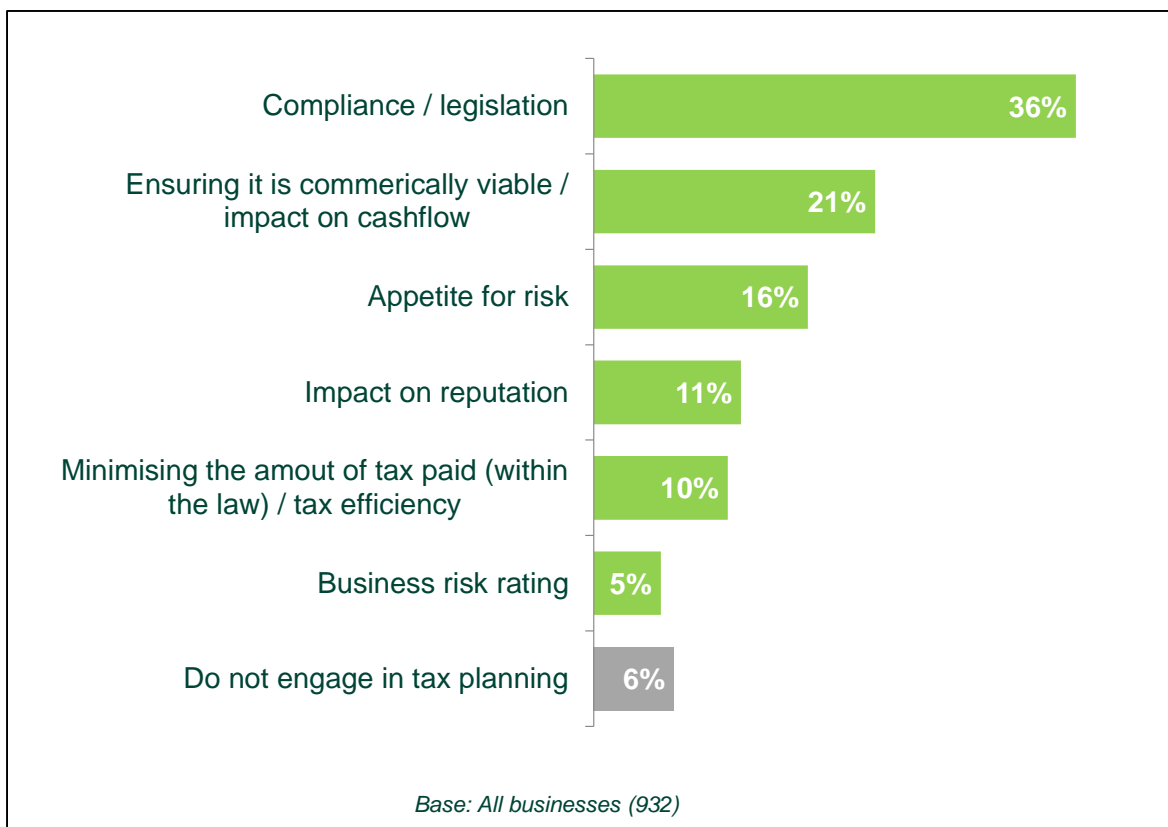


avoidance (22%, compared to 9% who felt that it was clear how a decision about their risk rating had been made).

Tax planning

- 7.12 Businesses were asked an open question about what the most influential factors on their business' tax planning decision making were. Complying with legislation (36%) and ensuring that tax planning is commercially viable and takes into account the impact on cash flow (21%, see Figure 7.3) were factors most likely to be considered influential. More than one in ten businesses also stated that their appetite for risk and the impact on the reputation of the business were influential factors (16% and 11% respectively). Maintaining their business risk rating assigned by HMRC was highlighted by 5% of businesses, and a small proportion referenced preserving their relationship with HMRC (3%).
- 7.13 The financial impact of tax planning was more likely to influence the largest businesses (with at least 1,000 employees) than large businesses with fewer employees. Larger businesses were more likely to cite *ensuring that tax planning is commercially viable* and takes into account the impact on cash flow (24% compared to 11% of those with fewer than 250 employees). These businesses were also more likely to take into account the *impact on their reputation* (15% of those with at least 1,000 employees compared to 3% of those with fewer than 250 employees).

Figure 7.3: Most influential factors on business' tax planning decision-making mentioned by at least 5% of respondents (unprompted)



8 Impact of policy

- 8.1 This chapter explores the awareness and perceived impact of the following three tax policy changes:
- The announcement in Budget 2015 that the Corporation Tax (CT) rate will be cut from 20% to 18% by 2020 (with an interim drop of 1% in 2017).
 - The increase in the permanent level of the Annual Investment Allowance (AIA) from £25,000 to £200,000 on or after 1 January 2016. (This follows a temporary increase to £500,000 between April 2014 and December 2015).
 - Changes to VAT and prompt payment discounts (PPD) which took effect from 1 April 2015. This amendment to VAT legislation was introduced to ensure that suppliers account for the VAT on the actual amount of money paid using a PPD.²³
- 8.2 It also covers take up of the research and development (R&D) expenditure credit (a tax credit to encourage businesses to conduct R&D in the UK) and whether this has triggered any changes in investment decisions and behaviour.
- 8.3 Businesses were first asked whether they were aware of each of the changes. Almost all large business customers were aware of the CT rate changes (97%) and more than three quarters were aware of the increase in the permanent level of the AIA (79%). Awareness of the changes to AIA was significantly higher among the largest businesses (84% of those with at least 1,000 employees agreed compared to 75% of businesses with fewer than 250 employees).
- 8.4 By contrast, a smaller proportion of large business customers were aware of the changes to VAT and PPD (52%). Again, the largest businesses were most likely to be aware (58% of those with at least 1,000 employees compared to 49% with fewer than 250 employees).
- 8.5 Large businesses that took part in the qualitative follow up research and were aware of the changes to VAT and PPD generally found out about it via email notifications from accountancy firms.

²³ Previously suppliers were able to account for VAT on the discounted price offered for prompt payment even when that discount was not taken up. <https://www.gov.uk/government/publications/revenue-and-customs-brief-49-2014-vat-prompt-payment-discounts/revenue-and-customs-brief-49-2014-vat-prompt-payment-discounts>



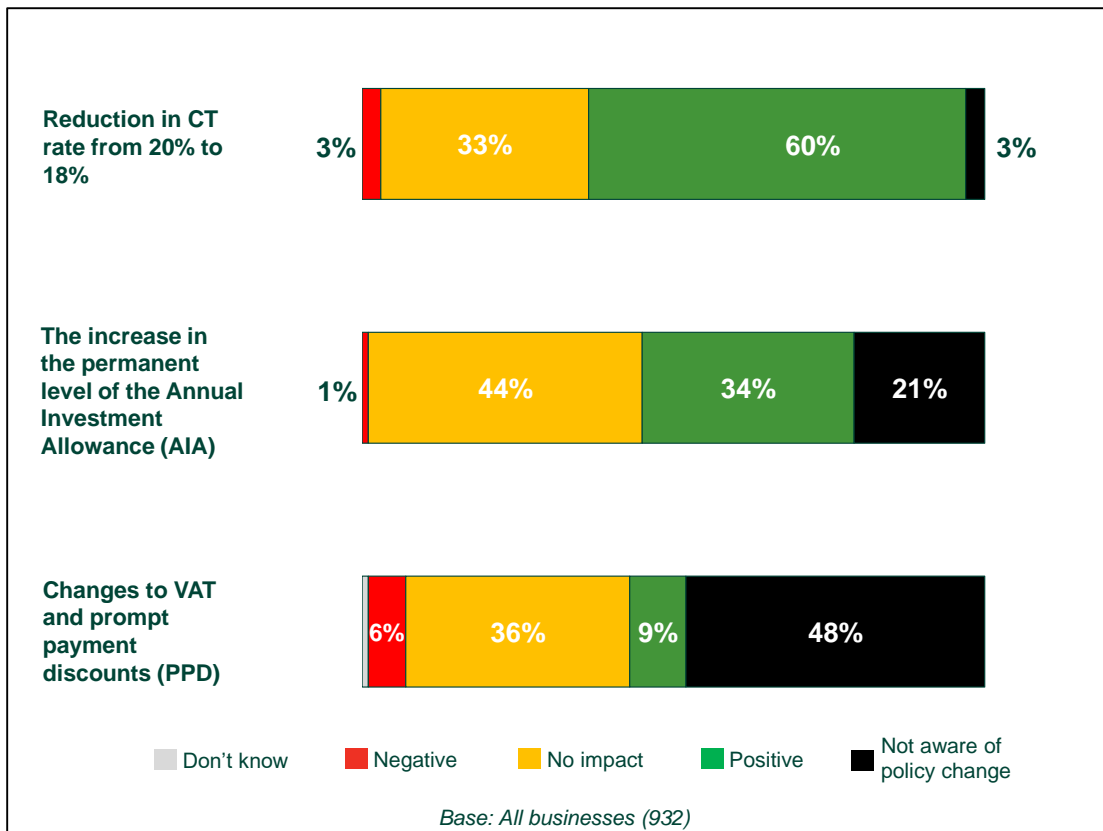
Impact on the businesses' competitive position

- 8.6 *Where businesses were aware of a particular policy change*, they were asked some further questions about their perceived impact of that policy change in terms of:
- Whether the change would have a positive or negative impact on the business's competitive position
 - Whether the change would be effective or not effective
- 8.7 Businesses that said they were not aware of a particular change were asked no further questions on it.
- 8.8 Most large business customers felt that all three policy changes would have a positive or neutral impact on their business's competitive position (see Figure 8.1²⁴). The reduction in CT was most likely to be viewed positively (60%), and the largest businesses were significantly more likely to report this. Three in five businesses with at least 1,000 employees felt it would have a positive impact on their competitive position (62%), compared to just over half of those with fewer than 250 employees (53%).
- 8.9 A third of businesses felt that the increase in the permanent level of AIA would have a positive impact on their business' competitive position (34%). However, when those aware of the change in AIA were asked how the change would affect the amount spent on plant and machinery the vast majority (95%) reported it would have no effect.
- 8.10 Businesses had more mixed views about changes to VAT and PPD: 6% felt it would have a negative impact on their competitive position whilst 9% felt it would be positive. The largest businesses were significantly more likely to expect the change to have a negative impact: 8% of those with at least 1,000 employees did compared to just 2% of businesses with fewer than 250 employees.

²⁴ The proportions given in figures 8.1 and 8.2, and the accompanying text, are based on all businesses, not just those that were aware of each of the changes.



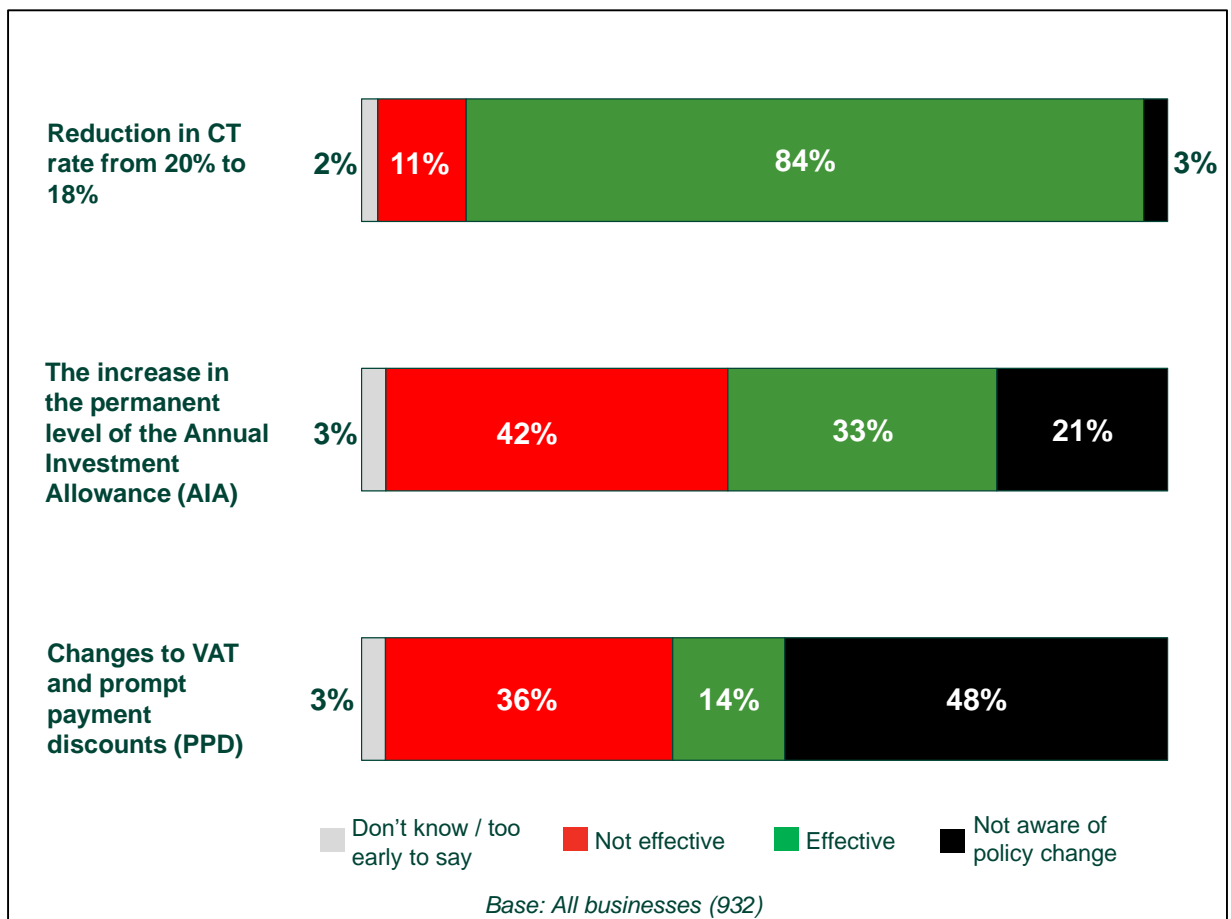
Figure 8.1: Perceived impact of tax policy changes on businesses' competitive position



Effectiveness of maintaining the UK’s competitive position in the global economy

- 8.11 Figure 8.2 demonstrates that the majority of businesses felt that the reduction in CT rates would be effective in maintaining the UK’s competitive position (84%); 11% perceived this change would be not effective.
- 8.12 A third (33%) of businesses felt that the increase in AIA would be effective in maintaining the UK’s competitive position, while 42% thought it would be not effective.
- 8.13 Larger businesses were significantly more likely to report that AIA would be ‘not effective’ (50% of those with at least 1,000 employees compared to 29% among those with less than 250 employees).
- 8.14 Lower proportions of businesses (14%) thought the changes to VAT and PPD would be effective in maintaining the UK’s competitive position’ 36% felt this change would be not effective.

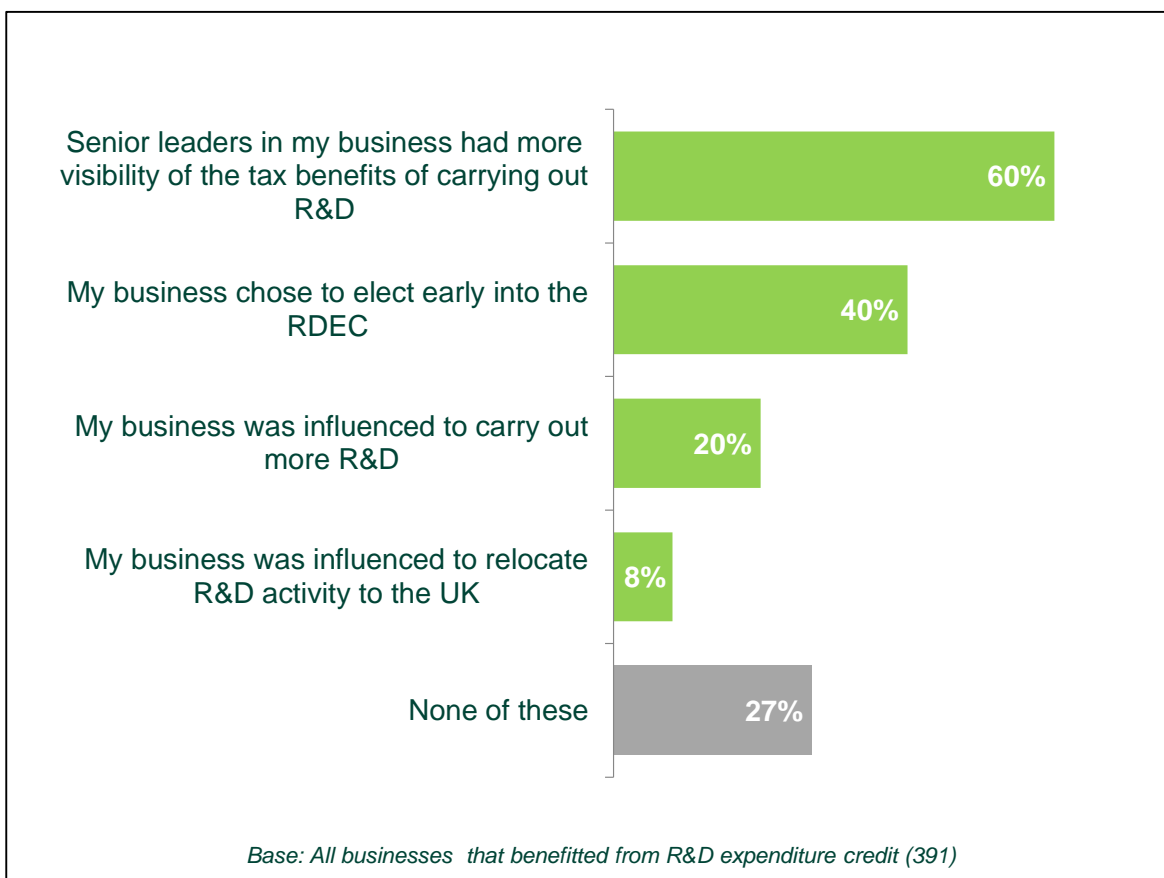
Figure 8.2: Perceived effectiveness of tax policy changes on maintaining the UK’s competitive position



R&D expenditure credit

- 8.15 Two in five businesses (42%) had benefitted from the R&D expenditure credit (RDEC). The largest businesses were significantly more likely to have benefitted from RDEC: over half of those with at least 1,000 employees said they had benefitted (52%) compared to 15% of those with fewer than 250 employees.
- 8.16 Figure 8.3 presents the impact of the R&D expenditure credit on businesses that stated they had benefitted from it. Almost three-quarters (73%) reported that it RDEC had some effect on their business, most commonly because senior leaders had more visibility of the tax benefits of carrying out R&D (60%). Two in five businesses chose to elect early into the RDEC (40%) and one in five were influenced to carry out more R&D (20%).

Figure 8.3: Business investment decisions and behaviour as a result of the R&D expenditure credit

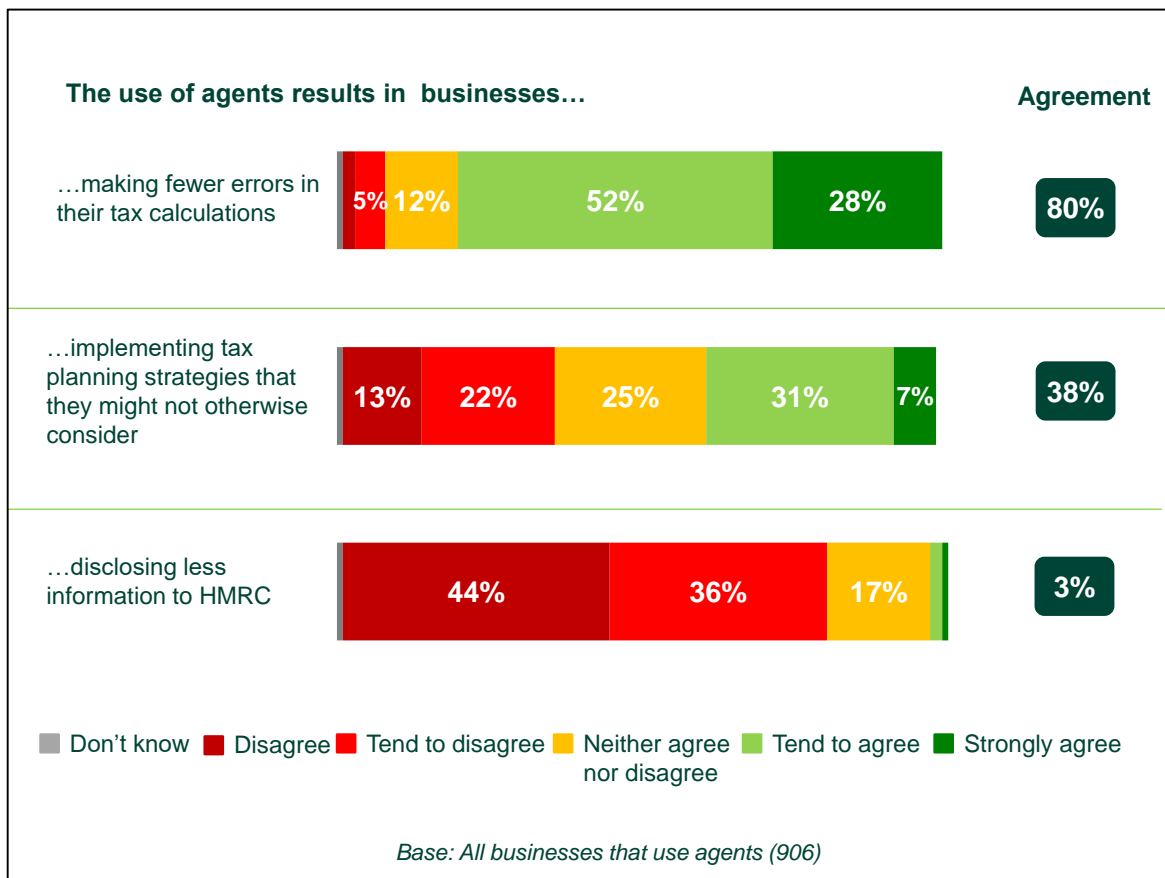


9 Influence of agents

- 9.1 This chapter outlines the main services businesses use external agents for and also examines the influence of agents on tax planning and calculations.
- 9.2 Nearly all businesses used agents (97%). The majority used them to receive advice on transactions or operational decisions including remuneration (85%). The next most common reasons for using agents were day-to-day processing, returns or basic filings (50%) and advice on drawing up the businesses' tax strategy (48%). One in ten businesses also used agents for ad-hoc/general advice or queries (10%).
- 9.3 There were a number of significant differences in how agents were used depending on the size of the business. The smallest businesses (with fewer than 250 employees) were more likely to use agents for day-to-day processing, returns or basic filings than businesses with at least 1,000 employees (61% compared to 43%). Instead, the largest businesses were more likely to go to agents with ad-hoc/general advice or queries (11% compared to 4% amongst those with fewer than 250 employees).
- 9.4 Businesses were asked whether their use of agents resulted in particular outcomes for the business (see Figure 9.1). The outcome with the highest level of agreement was that making use of agents meant that the business made fewer errors in their tax calculations (80%).
- 9.5 Smaller proportions agreed that making use of agents resulted in the business implementing tax planning strategies they might not otherwise consider (38%) and the business disclosing less information to HMRC (3%). Most (80%) businesses disagreed that *making use of agents results in my business disclosing less information to HMRC*.



Figure 9.1: Impact of the use of agents on businesses



9.6 Size of business was related to level of agreement across these statements:

- Smaller businesses were significantly more likely to agree *that the use of agents resulted in fewer errors in their tax calculations* (86% agreement amongst those with fewer than 250 employees and 83% agreement amongst those with 250-999 employees, compared to 77% amongst businesses with 1000+ employees).
- The largest businesses (1000+ staff) were most likely to *disagree* that their use of agents resulted in *implementing tax strategies they would not otherwise consider* (40% disagreed) than businesses with 250-999 staff (29% disagreed).

9.7 Finally, businesses were asked whether their advisor ever suggested new ways of doing business designed to reduce their tax liability. Businesses were split: 47% said yes and 50% said no (the remainder said they did not know). The largest businesses (1000+ employees) were most likely to say that their advisor did suggest this (53%) compared to businesses with 250-999 employees (43% said yes) and businesses with under 250 employees (39% said yes).



10 Additional qualitative findings

10.1 As well as exploring potential reasons behind some of the quantitative findings, the qualitative research also explored the following new topics that were not discussed in the quantitative survey.

Administrative burdens: specific burdens, the extent of the burden and whether it is perceived to be reasonable

10.2 In the quantitative survey large businesses were asked about the main sources of administrative burden in relation to tax compliance. The qualitative research examined why the most commonly cited sources of burden (VAT and CT) were thought to be a burden, the extent to which they were a burden and whether they were perceived to be reasonable.

VAT

- The large businesses that said VAT was a main source of administrative burden and took part in the qualitative research said this was the case due to volume of transactions that it affected. Most thought that this was 'just part of doing business' and that the burden was reasonable as a result.
- Some businesses felt that VAT was becoming increasingly burdensome due to its increasing complexity and recent changes to policy, such as the Mini One Stop Shop (MOSS) scheme.
- A few businesses also felt that this burden was exacerbated due to the fact that their own IT systems are inflexible and are often incapable of accommodating these changes.

CT

- The large businesses that said CT was a main source of administrative burden and took part in the qualitative research said this was the case due to the impact of incremental policy changes – they thought CT was increasingly complex and often required duplication of work which meant they perceived it to be less proportionate.

The role of the tax department in strategic decision-making

10.3 Large business customers that took part in the qualitative research were asked about the role that their tax department played in terms of making strategic decisions that might impact on the amount of tax paid.

- The extent to which tax departments are involved in the strategic decision-making process varied by business and the type of decision²⁵.
- Some large businesses said they were involved in the strategic decision-making process from the start, whereas others were only told about a decision once it had been made.
- All large businesses that took part in the qualitative research said that the tax department usually plays an advisory role. They are often involved to advise on potential issues that may arise due to a decision / recommend on alternative ways to execute a decision.

²⁵ Due to the small number of interviews conducted as part of the qualitative phase of the research it is not possible to determine how this differs by type of business.



- Some large businesses gave examples of instances where the tax department prevented a decision from being implemented. However, no businesses who took part in the qualitative research suggested that tax was the factor driving strategic decision-making:

Decisions work on the basis of how much is this going to cost and how much are we going to earn from it. Tax is somewhere down the batting order and I think that's the right place for it. Once you have decided it is a good idea then tax implications come into it but tax isn't the first thing that people think of - profit and capital are the first two things. Tax is just one interested party, like marketing or HR, we are just another seat at the table.

The impacts of recent policy changes

- 10.4 Some large businesses who took part in the qualitative research were asked about how Plant and Machinery Capital Allowances and The Intangible Assets Regime have impacted on their decision-making, however, they appear to have had a limited impact.



11 Appendix A: Glossary

Term	Definition
Annual Investment Allowance (AIA)	Is effectively a 100% first year allowance for businesses expenditure on almost all plant or machinery (apart from cars) which was previously capped at £25,000. The permanent level of the Annual Investment Allowance (AIA) was increased from £25,000 to £200,000 on or after 1 January 2016.
Corporation Tax	A tax on the taxable profits of limited companies and some organisations including clubs, societies, associations, co-operatives, charities and other unincorporated bodies. The current Government has prioritised the Corporation Tax rate as a key way to increase UK competitiveness. The Corporation Tax rate changes announced in Budget 2015 announced it would be lowered from 20% to 18% by 2020 (with an interim drop of 1% in 2017).
Customer Relationship Manager (CRM)	All large business customers have a Customer Relationship Manager (CRM) who is responsible for their overall tax compliance.
Key Driver Analysis	Key Driver Analysis (KDA) is a statistical technique using multiple linear regression – the aim of which is to help understand what impact different elements of HMRC service (i.e. factors) have on overall experience of dealing with HMRC.
Large Business	For the purposes of this research, large businesses are the 2,000 or so largest and most complex businesses in the UK, which have been allocated a CRM within HMRC's Large Business Directorate. Typically, these businesses have a turnover of more than £200m, but other factors are taken into account when determining a business's complexity.
Large Business Directorate	The division within HMRC managing the tax compliance of the largest businesses in the UK.
Mini One Stop Shop (MOSS) Scheme	The MOSS was introduced in January 2015 and is an optional alternative to registering for VAT in each EU country where a business supplies digital services to consumers. It allows businesses to submit one quarterly return and payment to Revenue and Customs to account for the VAT charged on these services.



12 Appendix B: Technical Appendix

Background and aims

- 12.1 HMRC has always placed considerable importance on its relationship with large businesses. HMRC has carried out research with large businesses since 2008, using a telephone survey and qualitative follow-up interviews, to annually assess businesses' views of the services provided by HMRC. The survey has measured changes in customer service and has, since 2008, also provided performance indicators for one of the Departmental customer experience scores that HMRC used for the CSR 07 and CSR 10 period.
- 12.2 Between 2010 and 2015 the experiences of the largest and most complex businesses in the UK were measured through the Large Business Panel Survey (LBPS). As well as measuring customer experience, the panel survey also sought feedback to help HMRC assess the effectiveness of business tax initiatives, and to develop legislation on Government agenda on productivity, competitive, fairness and regeneration. In addition to the LBPS, between 2011 and 2013 HMRC also conducted the Tax Opinions Panel Survey (TOPS) with the same large business customers to get their views on tax policies. In 2014 the LBPS and TOPS studies were consolidated to reduce research burden on HMRC's large business customers whilst measuring their experiences of dealing with HMRC and their opinions regarding the administration of tax policy and changes to legislation.
- 12.3 Prior to 2014 HMRC's relationships with large businesses were managed by either the Large Business Service (LBS) or the Local Compliance Large and Complex (LC) business unit. The LBS was responsible for working with the UK's largest businesses which all had a Customer Relationship Manager (CRM) assigned to them. Local Compliance (LC) dealt with the tax affairs of the remaining large businesses. The larger businesses in LC also had a CRM, while the rest of the customers had an assigned point of contact from 2010 onwards.
- 12.4 In the spring of 2014 HMRC sought to redefine how large businesses are segmented within the department and since then the largest 2,000+ businesses in the UK have all been serviced by the Large Business Directorate (LBD) and have had a CRM assigned to them.
- 12.5 In the context of these changes and HMRC's strategic priority of improving customer experience, HMRC launched the new Large Business Survey (LBS) in 2015. This survey will be used to help evaluate whether HMRC's processes are delivering the intended customer experience from a large business perspective.

Achieved sample

- 12.6 The 2015 LBS survey encompassed 932 quantitative telephone interviews (which equates to 53% of the sample available). Interviews were mainly conducted with Heads of Tax or Finance Directors from HMRC's Large Business customers. This report draws on the findings of interviews with these businesses.

Approach to sampling

- 12.7 A simple sample of 2,030 large businesses was provided by HMRC with the aim of interviewing as many of these customers as possible.
- 12.8 Where contact details were lacking on the database, telephone numbers and addresses were found where possible via look-up services, and also via manual desk research. All businesses that had viable addresses were sent a letter introducing the research.



12.9 The number of records available for the research is shown in table 10.1 along with the associated confidence intervals.

Table 12.1: Sample selection for main-stage fieldwork

Wave 1 of LBS	Pop (n)	Sample selected (n) Cognitive interviews	No. of interviews achieved (n) Cognitive interviews	Sample selected (n) Pilot	No. of interviews achieved (n) Pilot	Sample selected (n) Main stage	No. of interviews achieved (n) Main stage	Confidence intervals (at 50%) Main stage
Large Businesses	2,030	75	18	60	22	1,716	932	+/- 2.4%

Questionnaire development and screening

12.10 The construction of the questionnaire involved a period of development which included: discussions with HMRC, face-to-face cognitive testing and a pilot telephone survey.

12.11 Cognitive interviews took place between 24th August and 11th September 2015.

12.12 All pilot interviewing took place from IFF's CATI (Computer Assisted Telephone Interviewing) centre for five working days between 2nd and 8th October 2015. A warm up letter was sent before interviewing to introduce respondents to the survey.

12.13 The screening section at the start of the script was used to identify the correct respondent at each business - the person at the business with overall responsibility for dealing with HMRC, usually a Finance Director, Tax Director, Head of Tax or a Senior Accountant.

12.14 The eligibility of the business to take part in the research was also checked during the screening stage, i.e. that the business managed its own tax affairs.



Response rates

12.15 Sub-group response rates were calculated for the whole sample. Businesses which chose to opt out of the research were classified as refusals for the purpose of calculating response rates. Each respondent was allocated to one of the following categories:

- I – complete interview
- P – partial interview (classified as those respondents reaching at least the beginning of section D, deemed a half-way point, before breaking off the interview)
- R – refusal (including those who opted out before the research, those who refused when contacted during the main-stage fieldwork, and those who broke off the interview before reaching the beginning of section D)
- NC – non-contact (those with whom contact was never made during the fieldwork period)
- U – unknown eligibility (including businesses that had moved and could not be traced during fieldwork)
- O – other non-response (including where correct respondent was unavailable throughout fieldwork)
- NE – not eligible

12.16 The response rate was calculated using the following formula²⁶:

$$\text{Response rate} = \frac{I + P}{(I + P) + (R + NC + O) + e(U)}$$

Where 'e' is the estimated proportion of cases of unknown eligibility that are eligible, calculated as below:

$$E = \frac{(I + P) + (R + NC + O)}{(I + P) + (R + NC + O) + NE}$$

²⁶ Thomas, M., 2002 Standard Outcome Codes and Methods of Calculating Response Rates in Business Surveys at the Office for National Statistics, GSR Conference 2002, UK; and Beerten, R., Lynn, P., Laiho, J. & Martin, J. 2001 'Recommended Standard Final Outcome Categories and Standard Definitions of Response Rates for Social Surveys', ISER Working Papers no 2001-23.



12.17 Table 11.2 shows the 2015 LBS response rate²⁷ achieved.

Table 12.2: Response rates achieved (LBS)

	TOTAL
2015 LBS Completed Interviews	932
2015 Response Rates	53%

Non-response analysis

12.18 Checks were run on the profile of complete interviews to detect non-response bias. Non-response bias can occur in surveys if the answers of respondents differ from the potential answers of those who did not participate. The danger of this is that overall results may not be fully representative of the overall customer group.

12.19 The scope for non-response analysis was limited to variables on the original sample database, which were sector, region and HMRC administrative data. Generally, this analysis showed only very minimal differences between the original sample and the profile of achieved interviews.

Data linking

12.20 At the end of the survey, respondents were asked whether they would be willing to have their survey answers linked to administrative data held on their business by HMRC, on the condition that HMRC would still not be able to identify any business that has taken part in the survey, regardless of whether data linking occurred or not. In total 81% of all business customers taking part agreed for their answers to be data linked.

Data analysis

12.21 The previous LBPS dealt with three main customers groups: LBS businesses (those managed by the Large Business Service), LC CRM businesses (those with a CRM that were managed by the Large and Complex group) and LC CC businesses (those with a Customer Co-ordinator rather than a CRM, but still managed by the Large Complex group). As such, the data was analysed separately for the three customer groups - due to the different structure and size of the businesses in the three groups as well as the different service provided to each, there would be limited value in analysing the data from all businesses as a whole.

12.22 In April 2014 the Large Business Directorate (LBD) was formed to deal with *all* businesses allocated a CRM. This meant that the previous 'LBS businesses' and 'LC CRM businesses' became a merged group of 'LBD businesses'. As such, results from the 2015 LBS survey can be compared with the combined LBS and LC CRM results from the previous LBPS 2014 survey.

12.23 When comparing results across years or between sub-groups it is essential to establish whether these differences are significant or not, that is, whether we can be certain that a change in a particular score or percentage from one year to the next is sufficiently large to be considered a genuine movement and

²⁷ The response rate gives the number of interviews achieved as a proportion of the number of records available for use at the beginning of the relevant wave of the project, also taking into account the number of refusals, unobtainable numbers, and various other non-response categories that were recorded throughout fieldwork.



not due to chance. In order to do this, significance testing was carried out on survey findings using a chi squared calculation.

12.24 The calculation investigated whether distributions of categorical variables genuinely differ from one another, by comparing the frequencies of categorical responses between two (or more) independent groups. For the purposes of this report, if a difference in distribution between findings is referred to as 'significant' then this indicates a confidence level of 95% or above (i.e. a 95% certainty that the difference in distribution is not due to chance but indicates a genuine change). In some parts of the differences which are not statistically significant using this test (but add to the overall 'story') have been included. In these instances it has been made clear in the footnotes that the difference was not statistically significant.

12.25 The core survey content of the 2015 LBS has remained broadly similar to that of the previous LBPS survey to enable comparisons, particularly in terms of customer experience score. Where possible, comparisons with previous surveys (2014 LBPS) have been made in this report. However, a degree of caution is needed when looking at direct comparisons for the following reasons:

- Context effects – although most questions remained the same, in some cases the position of the questions within the questionnaire changed. This could lead to a context effect where the respondent's answer to a question is influenced by the context set by previous questions.
- Response order effects – the order in which the questions are asked can affect the responses given. Where possible, this effect has been mitigated in the questionnaire by randomly rotating sets of opinion questions.
- Category effects – a change in the number of categories used to rate a statement can affect the ratings respondents give, as a respondent's rating may vary depending on the number of categories they can choose from.

12.26 In some instances, the base sizes of certain subgroups are small (particularly if the question was modular in nature (i.e. only asked of half the sample)). In these instances findings for these groups should be treated as indicative only. Instances of low base sizes are highlighted in the report.

Key Driver Analysis

12.27 Key Driver Analysis (KDA) is a statistical technique using multiple linear regression – the aim of which is to help understand what elements of HMRC service (i.e. factors) have an overall experience of dealing with HMRC.

12.28 Key Driver Analysis is important as it provides HMRC with insight into which factors are most important for their large business customers. This in turn helps HMRC prioritise areas for improvement with the ultimate aim of further improving the relationship it has with large businesses.

12.29 The Key Driver Analysis was achieved using correlation and regression techniques to understand key influences on responses to the following question:



Overall, thinking about all your dealings with HMRC over the last 12 months, how would you rate your experience of dealing with them?

- Very good
- Fairly good
- Neither good nor poor
- Fairly poor
- Very poor
- Don't know

12.30 An extensive number of measures (i.e. questions) were fed into the Multiple Regression Analysis, which then produced an output detailing the extent to which each measure had a bearing on overall experience. The questions that were fed into the model covered the following areas:

- Whether HMRC treat large businesses fairly;
- Whether HMRC actively seek a co-operative relationship with large businesses;
- Whether there is good co-ordination across HMRC in relation to large business's tax affairs;
- Whether contact with HMRC over the last 12 months has led to a more transparent relationship;
- Whether HMRC provide large businesses with certainty;
- Whether CRMs ensure that queries are dealt with effectively; and,
- The overall relationship with the CRM responsible for the large business.

12.31 The relative strength of each aspect in predicting overall experience gave an indication of the relative importance of each aspect to respondents. Three different analysis models were created, one for each customer group and the results of this key driver analysis can be seen in Chapter X of the report. Each model summarised the top 5 key drivers of overall experience of dealing with HMRC.



Qualitative research – method

12.32 Twenty qualitative follow-up interviews were conducted exploring:

- Overall experience of working with HMRC and how this may have changed;
- Working relationships with CRMs;
- Views on uncertainty faced and the ability of the CRM to resolve uncertainty;
- Views on experiences of dealing with tax specialists;
- The administrative burdens faced by large business, the extent to which they are burden and views on what HMRC could do to reduce the administrative burden of being compliant;
- The role played by the tax department in terms of the strategic decision-making process with large business; and
- How changes to Prompt Payment Discounts (PPD), Plant and Machinery Capital Allowances and the Intangible Assets Regime has impacted on the decision-making process.

12.33 The qualitative interviews lasting approximately 60 minutes were conducted with Heads of Tax and Financial Directors.

12.34 A semi-structured topic guide was used to carry out the interviews, to ensure key topics were explored in sufficient detail while also allowing the flexibility to explore issues raised spontaneously by the respondent. All interviews were recorded using a digital voice recorder, and subsequently transcribed.



Qualitative research – sampling and recruitment

12.35 The sample for the qualitative stage was recruited from those who participated in the Large Business Survey 2015 and gave their consent to being re-contacted for a more in-depth piece of research. From this pool of willing respondents, potential participants were targeted for the qualitative stage based on answers given in the quantitative stage, in order to reflect a range of opinions on key issues.

12.36 The following table shows how the interviews were purposively samples to ensure specific views and options were covered. In this context qualitative findings should not be treated as representative of the large business population.

Table 12.3: Qualitative stage – achieved sample structure

Sample type	How the audience was specified based on the quantitative questionnaire	Number of achieved interviews meeting this criteria
A	Rates CRM poor on ability to resolve uncertainty around complex / significant tax issues (A5_4=4-5)	7
B	Said VAT, CT, PAYE, RTI and Regulatory changes were the main source of administrative burden (E2=1-5)	19
C	Disagreed at E4 that the administrative burden is reasonable (E4=4-5)	14
D	Said they would approach tax specialists at HMRC directly (A9=4)	16
E	Were less satisfied with their experience of HMRC (A1=4-5)	5
F	Were aware of VAT Prompt Payment Discounts (G1_3=1)	13
G	Were aware of change to PPD and thought the change had a negative effect on business (G2_3=4-5)	7
H	Were <u>NOT</u> aware of VAT prompt payment discounts (G1_3=2)	7
I	Made use of plant or machinery capital allowances: G6=1-3 OR answer YES to Q3 on screener: <i>has your business has made use of Plant and Machinery Capital Allowances in the last 12 months?</i>	11

12.37 The respondents were recruited by telephone and conducted face to face by IFF team members with extensive experience of finance-related interviewing at this level. Fieldwork was undertaken from 8 February to 2 March 2016.



Qualitative research analysis

- 12.38 Whereas quantitative research allows us to report percentages of customers that do x and y, qualitative research allows us to explore in more detail the reasons why customers may act and feel the way they do. It should be noted that it is not appropriate to attribute numbers to those who give answers in qualitative work; rather their responses are looked at in the context of wider themes.
- 12.39 The quotes in this report are all directly from the qualitative interviews and have been transcribed verbatim (although all have been anonymised).

