



HM Revenue
& Customs

Research report

Making Tax Digital (MTD)

Qualitative research with individuals and agents to understand attitudes, likely behaviour and engagement with 'Making Tax Digital'

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This report was one of a number of research papers commissioned by HMRC in 2016-2017 to support the development and delivery of digital services for customers. The findings have been used to inform the department's work. HMRC reprioritised its portfolio of transformation projects in 2018 to ensure that it delivers key government priorities. HMRC's overall ambition to become one of the world's most digitally-advanced tax authorities remains unchanged.

Making Tax Digital***About HMRC Process Transformation***

The government is committed to reducing burdens for taxpayers and building a transparent and accessible tax system fit for the digital age.

HMRC Process Transformation has been set up to play a leading role in driving radical transformation across HMRC. This work includes radically re-designing HMRC's processes to become more customer-focussed, intelligence led and digitally enabled.

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Research requirement (background to the project)

HMRC has been designing and developing digital services that intend to provide an improved customer experience, reduce error and fraud, and reduce costs as customers migrate away from more expensive support and transaction channels such as Contact Centres and paper forms.

HMRC commissioned qualitative research to understand how individual customers and agents respond to the core principles of Making Tax Digital (MTD): –

- The Digital Tax Account (DTA)
- Tax in one place
- Tax system relevant to current circumstances
- Using information that HMRC has already or can get from elsewhere

The key objectives were to explore:

- Individual customers' and agents' overall attitudes and expectations of the elements of MTD that may affect them.
- Levers and barriers that may influence engagement with MTDi
- Anticipated impacts and experiences across different individual customer groups of moving to MTD

When the research took place

Fieldwork for this research took place between the 14th and 30th of March 2016.

TNS BMRB

The research was conducted by specialist social research agency TNS BMRB. TNS BMRB has conducted a wide range of research to inform the design of and communications for Government digital services.

Method, data and tools used, sample

Fieldwork was conducted in 5 locations across the UK (London, Birmingham, Cardiff, Glasgow and Belfast) and comprised:

- **12 x 90 minute focus groups with customers** including different types of PAYE & Self-Assessment (SA) customers. The sample comprised participants with varied tax circumstances across variables including life stage; income and gender; time in employment; and digital engagement¹. It also included some participants who changed employment part way through the tax year.

¹ Defined as those who describe themselves as unconfident using computers / laptops and accessing the internet but who do not require assistance engaging with digital technology.

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- **10 x 1 hour depth interviews with customers** with mixed tax circumstances. This included 7 customers with ‘complex’ tax circumstance – people with multiple interlocking relations, such as multiple employments, in receipt of tax credits and self-employed, or those in the transient self-employed category – and 3 ‘Assisted Digital’ customers².
- **8 x 1 hour depth interviews with paid tax Agents** (e.g., accountants).

In both the focus groups and depth interviews, the core concepts of Making Tax Digital (MTD) were introduced, and customers’ views around needs and benefits of the MTD approach were explored. This involved discussion around the overall concept of MTD as well as the four concepts which underpin and inform its design:

- 1) **The Digital Tax Account (DTA)** – the idea that all individuals will have their own digital tax account;
- 2) **Tax in one place** – the concept that individuals will be able to see a picture of their whole tax status in one place (e.g., pulling together information related to pensions, HMRC tax credits, and income);
- 3) **Tax system relevant to current circumstances** – the idea that individuals can have a more up-to-date view of their tax position, as the account will reflect changes made to customers’ circumstances mid-year; and
- 4) **Using information that HMRC has already or can get from elsewhere** – the concept that HMRC will populate individuals’ DTAs with information it holds about the customer where possible

With Agents, discussions also explored the potential impact of MTD on their businesses and service offerings.

² Defined as customers with varying disabilities; customers who lack IT literacy or ability to use digital services without help; and customers who can use digital services but cannot conveniently access them.

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Summary:

- Overall, there is broad cross-audience positivity around the idea of MTD; digital tax is welcomed, even 'expected'.
- The benefits of MTD are more apparent to those with complex tax journeys and high senses of ownership over financial affairs.
- Customers' concerns centered on data security, customer error, increased workload, and a lack of need for those with simple tax.
- Third party data caused most concern out of four concepts - re: privacy, data security and motivations of HMRC.
- Framing is key: "near real time" suggests data is updated immediately and raises high expectations around the speed of updating.
- Support needs were anticipated around tax knowledge and how to use DTA. Customers anticipated webchat and online demos would meet the needs of digitally capable customers.

Main Findings – PAYE & SA Customers

Reactions to Making Tax Digital

As a concept, digital tax was generally welcomed, with participants recognising that the move towards digital services is an inevitable, almost 'normal' aspect of modern life and services. Customers recognised a range of benefits that could be achieved through digitisation and MTD. Benefits included speed, efficiency and convenience, with most customers using their positive experiences of commercial online services, particularly online banking, to inform their expectations. The idea that information would be held online in one place was recognised as a relatively common and effective feature of commercial services and informed customer understanding of digital tax.

Customers maintained their positivity as the four concepts (explored fully below) underpinning MTD were introduced, with customers expressing the greatest comfort with the concept of a Digital Tax Account (DTA) and 'Tax in one place'. However, whilst views remained broadly positive throughout the discussion, as more information was introduced and customers learnt more about specific topics, customer views tended to evolve into more complex reactions. In particular, the concepts of a 'Tax system relevant to current circumstances' and 'Using information that HMRC has already or can get from elsewhere' provoked more detailed questioning. Customers commonly raised questions on what is meant by 'real time' and 'other organisations', and around concepts such as trust, power and access.

Throughout, customers raised questions on how MTD would work in practice and the extent to which it represented a benefit or burden to them individually. There was a high degree of variation in views between and within customer groups (explored below).

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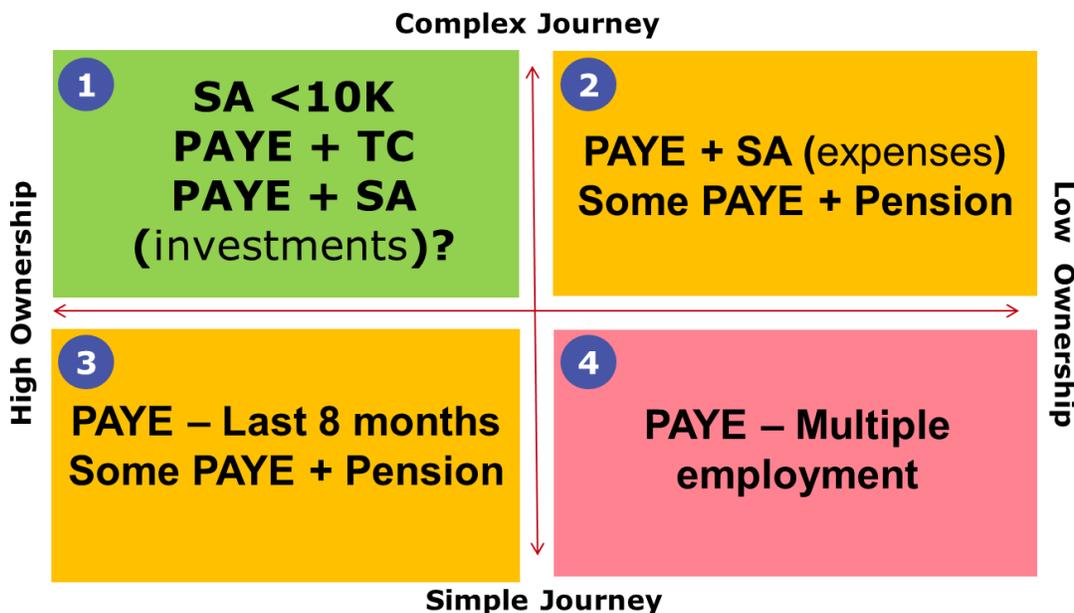
Additionally, some common questions and concerns were raised across groups. These concerns focused on data security, particularly given the perceived sensitivity of information associated with customers’ tax affairs. There were also concerns around digital confidence and access, with customers – usually on behalf of ‘others’ – identifying the need to ensure support would be available for those that needed it. Concerns were closely aligned to age, with older customers worrying about their digital abilities and younger customers worrying about older relatives. Similarly, Agents raised concerns for their older, less digitally-engaged clients. Some also highlighted that whilst customers may be ‘tech savvy’, they may not have regular access to the internet / a computer, or may have mobile lifestyles that do not permit regular access.

Nevertheless, on the whole, customers showed willingness to engage with the concept of Making Tax Digital and recognised potential benefits.

Key drivers of views: journey complexity and individual ownership

Views were not necessarily driven by customer group, or by whether HMRC categorises customers as ‘simple’ or ‘complex’. The greatest drivers of customer reactions to MTD were:
 a) customers’ perception of the **complexity of their tax journey** and
 b) the extent to which customers desired **ownership over their tax affairs**.

The matrix below describes these different customer responses to MTD and the ‘type’ of individual that would react positively or negatively to these concepts. These are described in full below.



1. Customers who had **complex tax** circumstances and a **high degree of ‘ownership’** [box 1, green] typically reacted **most positively to MTD**. These customers were
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generally self-employed or received income through PAYE and tax credits. They already interacted with HMRC so further interaction required by MTD was less of a departure from the norm, and only increased visibility and accessibility of information on their tax affairs. Customers in this group tended to want to exert a high degree of control over their finances and so welcomed MTD and the control it offered them over their tax affairs.

"Sometimes I save too much for my tax bill and sometimes I save too little - either way it's a shock, so it would be great to be able to look at any one time and see what my tax is." Male, Self-Employed, SA Only

2. Customers who had **complex tax** circumstances and a **low degree of 'ownership'** [box 2, amber] had more **mixed views on MTD**. These customers generally completed self-assessment (SA) tax returns as a by-product of their employment (e.g. benefits-in-kind, or taxable expenses) or through passive investments (e.g. rental of housing). Although some welcomed the idea that they would have greater insight into their tax affairs through MTD; others saw little benefit as their income / SA process was currently stable. As a result they assumed MTD would require additional work on their part (e.g. verifying data inputs, updating HMRC on a more regular basis that currently etc.). In short, MTD was seen as a burden, rather than a benefit, by some of these customers.

"It's made everything really complicated...You get really frightened...you can get in so much trouble [if you don't get your Self-Assessment right]." Female, Employed, PAYE and SA due to pensions and saving interests

3. Customers who had **simple tax** circumstances and could **potentially have a high sense of 'ownership'** [box 3, amber] were uncertain about their views on MTD. These customers were generally young or had started work more recently (in this sample, in the last 8 months). This group had relatively low expectations and knowledge about how they should engage with a tax service, and what their level of responsibility is or should be.

"I'd need help if I did something wrong, but I'd probably log on on my way into work on my phone, to check things look ok." Female, Employed, Recently started work, PAYE Only

4. Customers who had **simple tax** circumstances and a **low degree of 'ownership'** [box 4, red] either struggled to see the relevance of MTD to their *current* circumstances, or worried it would require additional work. These customers were generally on PAYE only, through multiple or single employment or pension. Although such customers may be complex for HMRC to engage with (e.g. multiple PAYE), they did not see themselves as complex: this is because their tax is handled by their employer or pension provider and deducted at source. While they may be negatively impacted by this 'complexity' (over- or under-paying tax, for instance), they saw this as either their employers' or HMRC's fault. As a result they had a low degree of personal ownership of their relationship with

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HMRC. While MTD offered this group transparency and visibility of their tax affairs, which was appreciated by some, for others it potentially meant they would have to do more themselves. They saw MTD as adding complexity to something which is currently simple from their customer perspective.

“Someone’s doing everything in the background and I just think leave well alone. At the moment, for 27 years, everything’s smooth. As long as it’s going in the bank I really don’t give a damn, so I wouldn’t use [MTD]” Female, Employed, PAYE Only

Reactions to detailed concepts within MTD

Customers’ reactions to the following four concepts were explored in turn:

1) Digital Tax Account (DTA): *everyone will have their own personalised and secure digital account*

Customers understood this to mean being able to see all their tax details in one place in an online account. In general, customers responded positively to this idea, although it was most appealing to those with complex tax affairs (particularly those whose income fluctuated a lot) and a high sense of ownership – that is, they had already engaged with their tax and having a DTA would make it easier for them to continue to do so. Those who received tax credits, for example, appreciated being able to see an overview of all income and tax in one place, as currently they are inclined to contact separate HMRC departments to deal with each type of tax. Similarly, tax credits customers and those in self-assessment appreciated being able to see up to date information on their tax.

“To actually have it in front of you rather than ‘can you tell me this, can you tell me that.’”
(PAYE/SA Pensions)

Although greater transparency was welcomed by most, some (particularly those with simple tax affairs, those with low digital literacy and those with low ownership of their tax affairs) had a limited appetite for the DTA, with some struggling to see its relevance to their circumstances. Customers highlighted that HMRC would need to provide support to those who are digitally excluded, or who lack confidence using technology.

Across customer groups, participants highlighted security concerns. They believed that the DTA would be attractive to hackers given the amount and type of personal data it will hold about customers.

2) Tax in one place: *a picture of your whole tax status in one place*

Customers’ reactions to this idea were largely connected to the concept of a DTA, which they assumed would include an overall picture of their tax in one place. Reactions to both concepts were on the whole positive. However, those with simple tax affairs saw less benefit

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of having all tax information in one place, as they did not perceive there to be very much information on their tax currently – and thus less need to ‘bring it into one place.’

“The thought of the kerfuffle of me having to go back and in part go through the folder under my bed and then in part look online, that irritates me. I’d much rather it be in one place.” (SA)

3) Tax system relevant to current circumstances: a more up-to-date view of your tax position

Customers generally welcomed this aspect of MTD, particularly those with complex tax affairs – such as customers who completed self-assessment or who changed employments regularly or over the course of the year.

Customers believed that having visibility of mid-year changes to their circumstances would provide them with greater certainty over their tax liability with HMRC. They said that this increased visibility would afford customers greater control and reassurance over the accuracy of tax payments (e.g., customers can check their DTA, spot any inaccuracy / incongruities, anticipate over or underpayments, etc.). Although those with simple tax circumstances and a low sense of ownership over their tax affairs were less able to see the benefits of this concept, SA customers anticipated a range of benefits. They welcomed the ability to update HMRC more regularly on expenses and invoice information in year, seeing this as potentially eliminating the need for the ‘end-of-year rush’ to complete submissions. That this would be automated to an extent (see concept 4, ‘Using information that HMRC has already or can get from elsewhere’) was also welcomed. Customers hoped this would reduce duplication of effort when engaging with tax (e.g., the customer resubmitting data which has not changed since the previous tax year etc.).

“Sometimes I save too much for my tax bill and sometimes too little and either way it’s a shock, so it would be great to be able to look at any one time and see what my tax liability is.” (PAYE and/or SA)

As part of their exposure to this concept, customers also discussed the concept of ‘near real time’ updates to their tax accounts. Understanding of ‘near real time’ varied by individual, with different participants having widely varying perception (from instant to 3 months) of the term. Expectations were often guided by experience of online banking. All groups wanted immediate notification of any changes that would affect income (e.g., tax liability or eligibility for credits or benefits) but ‘overly-frequent’ notifications were seen as stressful, particularly for those who want less ownership of their tax. On the whole, customers with high fluctuation of incomes wanted to receive more notifications from HMRC than those with stable incomes and simple tax affairs.

Making Tax Digital**4) Using information that HMRC has already or can get from elsewhere (e.g. from employers, other government departments or banks and building societies)³:
HMRC will populate your account with the information it holds about you**

The expectation of this aspect of MTD was that DTAs would hold relevant information on customers without them having to provide it. This was compared to the DVLA online process for renewing car tax, which customers found helpful on the basis that much of the information was pre-populated. This concept was particularly attractive to those who currently find their customer journeys with HMRC to be complex, and who have a high sense of ownership over their tax affairs.

Generally, participants were positive about HMRC using information which they knew impacted their tax liability. For example, they were relatively positive about the use of information from organisations like pension providers, employers, childcare providers, and companies issuing share dividends. Generally, customers also accepted data-sharing between HMRC and other Government departments, such as the Department of Work and Pensions. Many customers expected that this kind of sharing already occurred.

“It’s doing the work for you, getting you organised, it’s like having a PA!”
(PAYE, multiple payments)

Participants were less comfortable with the potential for non-government bodies sharing data with HMRC. Partly, this was because this data was viewed as personal and private and customers inaccurately and spontaneously assumed HMRC would be accessing all personal information rather than passively receiving information which would impact their tax liability (e.g. tax on savings etc.).

“It just feels a bit like Big Brother, you know wanting to know everything that you’ve got.”
(Assisted Digital, PAYE and pension)

Checking and editing personal tax accounts: customer behaviour

The frequency with which customers expected they would check their DTAs varied according to the complexity of their tax and fluctuation of their income. Those with more complex tax affairs and a high sense of ownership anticipated they would check frequently (between once a quarter and once a month) to ensure their data was correct. Similarly, younger, more ‘tech savvy’ customers on PAYE expected they would check at least every few months. Although these customers were comfortable with the digital elements of DTA they lacked confidence in dealing with their tax affairs; they anticipated they would check often to seek reassurance. Other customer groups on PAYE varied in terms of whether and how frequently they would check. Customers with more complex tax affairs such as benefits-in-kind through employment expected to check if and when anything changed; those

³ These organisations – both governmental (e.g. DWP) and non-governmental (e.g. banks) – hold information that could potentially impact customers tax liabilities.

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with simple tax affairs and low ownership did not expect their income and tax liability to fluctuate throughout the year and therefore expected to check only once a year.

Those with a higher sense of ownership were more likely to take responsibility for investigating an error spotted, by contacting the third party that had provided the information. They perceived HMRC's role to be to rectify the error once the correct data had been received by the third party. This group was also more likely to want to be able to rectify/amend data themselves online, or notify HMRC online of the required change. In contrast, those with a lower sense of ownership over their tax affairs felt that HMRC should play a greater role in rectifying an error. Typically, they expected to contact HMRC to report an error then leave it to HMRC to contact the third party provider of the data to rectify it. In part this was due to a lack of confidence and experience with detailing with tax issues (e.g. those in PAYE only), but also a sense that they had not opted into using a DTA or requesting the data.

Software and quarterly updating: customers with SA income under 10k

As part of this research a small group of participants (N=6) with self-assessed income under 10k were engaged to understand their views on MTD and the changes it may mean for how and how frequently they engage with HMRC. At present, such customers file tax returns annually. In the future customers may be required to use financial reporting software and update HMRC on a quarterly basis.

The use of software was broadly welcomed and seen as acceptable, providing the software was free to access and easy to use. It was anticipated this would encourage the digitisation of accounts and would reduce the need for some customers to use an agent.

Quarterly updating was subject to more queries and challenged by some. Some anticipated it would reduce the burden of filing a tax return at the end of the tax year; SA customers could report as they go and receive the benefits associated with doing so (e.g., see concept 3 outlined above etc.). However, some saw quarterly updating as creating additional burdens for those who do not update their accounts (whether digital or paper based) on a quarterly basis at present. Small businesses may lack the time and resource to update quarterly, and change their existing behavior. Some were also concerned of potential fines were they to miss payments, which may negatively impact on cash flow.

Support needs

Both customers and Agents anticipated needing some form of support when dealing with their (or their clients') tax affairs. All anticipated the need for support in case of lack of tax knowledge, unclear language or jargon associated with DTAs, poor digital skills and IT failure. This was even the case with relatively digitally confident customers.

Support needs varied according to customers' stage in their journey in interacting with the DTA, their digital capability and the type of problem. Most customers perceived a need for

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telephone support to be available for circumstance where a customer is unable to self-serve through the digital support available. For the digitally confident, this would only be needed if online support options failed; those who were not digitally confident expected telephone support at an earlier stage, for example if they were unable to log on to the DTA or could not work out how to begin to use it.

A key point at which support was anticipated to be most needed (for all customer groups) was when using MTD for the first time, at which stage an online demo or webinar was expected to be helpful. Once they understood how to use it and had successfully navigated their way around the account for the first time, customers did not expect their support needs to be as high, unless specific issues relating to their personal circumstances arose. Webchat was the most popular channel for online support, and those who were digitally confident preferred this over offline channels such as telephone - they expected webchat to enable them to resolve an issue more quickly, avoiding the waiting times and costs of the helpline.

“It would be good if you could like show me how to do it...you only need to be taught once really” (PAYE, multiple employment)

Main Findings – Agents

Reactions to Making Tax Digital

Reactions were broadly positive, with Agents expecting efficiency gains, increased transparency and reduced paperwork as important benefits of MTD for themselves and for their clients. Agents anticipated managing their clients' tax affairs would be easier and more straightforward and that increased transparency would improve relationships with their clients. Agents were positive about the potential time-saving resulting from reduced paperwork and the anticipated benefits to clients in terms of planning and submitting forms.

“It will make 95% of stuff easier and quicker to do.” (Agent, Glasgow)

Whilst Agents were generally positive about the ideas associated with MTD, they voiced some concerns around security, their relationship with their clients and quarterly updates. Like customers, Agents were concerned about the security issues associated with clients' tax information being in one place. They were also unsure about the impact of MTD on their businesses – they questioned whether their clients would need more 'hand holding' as a result of MTD, or conversely whether their clients may decide to 'go it alone.' Some Agents were concerned that quarterly updating would require more time on their part, which would increase costs for their clients.

Reactions to detailed concepts within MTD

Agents were most positive about the concept of digital tax accounts (automatically associating it with the idea that tax information would all be in one place), and the prospect

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of HMRC using information it has or can get from elsewhere. They anticipated this would increase efficiency and save time for themselves and their clients. However, these were also the aspects of MTD that agents needed most reassurance on – in particular, they needed more information on what DTAs would look like in practice and how they would be able to access accounts on their clients' behalf.

Agents voiced some concern about the idea of a tax system relevant to their clients' circumstances. They also raised queries about clients' ability to pay tax throughout the year, due to changes and fluctuations in cash flow, with some also concerned they would feel 'hounded' by HMRC were they to receive frequent communications. However there was also recognition that a 'pay as you go' system would suit many of their clients by alleviating the 'shock' element associated with end-of-year tax payments.

Agents saw the benefits of HMRC using information it already holds and populating the DTA with this data in terms of efficiency gains and improvements to relationships with their clients – Agents would no longer need to chase clients for information which could be a stressful and time consuming process. However, some Agents were concerned that more open and readily accessible information may increase client expectations around the service Agents could provide. For instance, they may expect shorter timelines for Agents to make changes to or update their DTA. This may necessitate a streamlining of Agent processes.

Overall, this research suggests that Agents are likely to be advocates for MTD despite some concern about increasing client expectations as a result of tax being more 'open' and extra work associated with quarterly updates. Most Agents anticipated that they would inform clients of the advantages of MTD, communicating the greater efficiency, speed, ease and prospect of removing end of year surprises - customers or Agents can monitor the account, know what they needed to pay and plan accordingly. They did not anticipate their service offerings would change substantially. Some thought they may lose clients initially, but Agents also noted they might gain new clients who wanted support during and potentially beyond the transition. Ultimately, Agents anticipated it would help foster a more open relationship between themselves and their clients, providing greater transparency around clients' affairs.

"I think the word digital is just another way of saying open...making tax open, getting rid of a lot of the barriers people have around tax and taxation." (Agent, Belfast)

Conclusion

Although MTD will represent a change for customers and Agents, it is broadly welcomed and seen as a natural progression by many. Although some will still need reassurance around efficacy, there was little pushback on digital tax *per se*. Customers and Agents alike see benefits of MTD, and anticipate it will make current processes more efficient and less frustrating. Benefits are seen most clearly by those who currently engage regularly with HMRC or who have a high degree of ownership over their financial affairs. Those whose tax

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affairs are less complex or who have a low degree of ownership have lower appetites for MTD.

Customers' concerns around MTD centered on the overall security of their DTA, whether they would be required to do more in the future, and the extent to which HMRC would be able to access data they regard as 'private'. Of all the four concepts inherent to MTD, HMRC 'Using information that HMRC has already or can get from elsewhere' raised the most questions and concerns. Research demonstrated the need for reassurance and clear communications around what HMRC will and most importantly will not be able to access and see as part of MTD.

Finally, customers anticipated that people engaging with tax online would need suitable support if they encountered difficulties using the DTA. These difficulties could either relate to the platform itself (e.g. customers' ability to use or navigate digital systems) or related to tax knowledge. Most anticipated that a range of support would and should be on offer. While most believed webchat and online demos would meet the needs of the digitally capable, a need was still seen for traditional phone based support to be on offer.