Mid-sized Business Tax Strategy

HM Revenue & Customs Research Report 553

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1 Executive Summary

Background and method

1.1 This report explores the workings of businesses that fall into the mid-sized category, focussing on the common life events they have experienced and their priorities, their overall approach to tax and the extent to which they engaged with agents and HMRC. HMRC categorises mid-sized businesses as those with turnover over £10 million and/or more than 20 employees. However, only mid-sized businesses with turnover over £50 million were in scope for this research because businesses in the upper-end of the mid-sized category are likely to be more complex, and more likely to have a formalised tax strategy in place, than smaller businesses in this category.

1.2 Specifically, the research sought to better understand:

- the factors involved in the decision making of mid-sized businesses towards tax;
- the behavioural factors that could influence mid-sized business tax strategy behaviour; and
- the role of agents within the decision-making process

1.3 A qualitative approach was adopted for this research due to the exploratory nature of the study and the rich level of detail required. In total, 40 one-to-one in-depth interviews were conducted between 24 April and 11 June 2018. Interviews were conducted with senior managers, job titles of participants included: Finance Director; Financial Controller; Finance Manager; Head of Tax; and Chief Financial Officer.

Key business events and priorities

Contributing to the research question: Understanding the factors involved in the decision making of mid-sized businesses

1.4 All businesses had experienced at least one key 'life event[1]' over the last three to five years. For many, these events related to growth. Some businesses reported that they had experienced events related to contraction, and others reported changes to the organisation of the business. Very few identified events related to tax as key events for the business.

1.5 Business priorities were culturally embedded, with participants able to list them without hesitation. For most businesses, growth was the number one priority. Other prominent priorities included providing a service or good to customers and complying with wider regulation. Tax efficiency was seldom mentioned spontaneously as a priority, but it did feature as a consideration for some businesses when pursuing other priorities. Businesses described this approach as '*tax following the business'*.

[1] A 'life event' was described to businesses as any major event for the business, including turnover/employment changes, mergers/acquisitions and restructuring.

1.6 Business priorities were influenced by recent key events, the structure of the business and the sector the business operated in. Business priorities were then typically decided by committee at board level and then communicated throughout the company.

Overall approach to tax

Contributing to the research questions: Understanding the factors involved in the decision making of mid-sized businesses, and understanding the behavioural factors that influence mid-sized business tax strategy behaviour

1.7 Businesses were asked whether their approach to tax was more “proactive” (i.e. they look ahead and actively plan for the future), or “reactive” (they largely do not think about tax and just pay what’s due when asked). Some businesses described themselves as falling into one group or the other, whereas others said they were a mix of the two and described undertaking both proactive and reactive behaviours depending on the situation.

1.8 Businesses often described being reactive regarding tax compliance and changes in legislation. They did not think it necessary to anticipate and plan for changes in tax legislation in advance, often asserting that tax was not high on their agenda for discussion in the company and they just paid what they owed. It was felt that they could react to changes in tax legislation once they were implemented.

1.9 Proactive behaviours related both to tax compliance *and* tax efficiency. Regarding compliance, businesses looked ahead and made a conscious effort to learn about upcoming changes to regulations. Some also mentioned expending time and resource putting in place automated systems and checks to ensure future compliance. These businesses stressed that they wanted to ensure they operated within the law as it was easier and offered more stability.

1.10 Proactive behaviours regarding tax efficiency involved businesses actively seeking ways to minimise their liabilities. Inevitably, the core reason that businesses did this was because they wanted to reduce their costs and increase their profits.

1.11 In almost all cases, businesses’ tax approaches were developed and agreed by members of the senior management team. Most businesses said their general approach to tax had not changed over the last three to five years.

Formality of tax approach

Contributing to the research question: Understanding decision making of mid-sized businesses towards tax

1.12 There was a relatively even split amongst businesses in terms of whether they had a written tax strategy.

1.13 For businesses that had a written tax strategy, some saw this as an opportunity to instil good practices in the business, while others saw it as an opportunity to make a statement about their corporate culture.

1.14 Where businesses had written tax strategies, these were generally created by senior members of staff and reviewed at least annually. In general, strategies were at least available for the consultation of employees, although some businesses also published their tax documents for either their customers or the public. This was generally achieved through their website.

1.15 Amongst businesses that did not have a written tax strategy, some said that having such a document was unnecessary because their tax affairs were not complex enough to warrant the creation of a written document that sets out their approach to tax. Many of those that did not have a written strategy held regular meetings, followed established procedures and used automated systems to enable compliance or efficiency. An unwritten tax strategy did not mean that businesses had an unstructured approach to tax planning.

Use of agents

Contributing to the research question: Understanding the role of agents within the decision-making process

1.16 Nearly all businesses interviewed used an agent. This was typically because they did not think they had the necessary tax expertise in-house, and so utilised agents for ongoing consultancy, planning and strategy, and one-off queries.

1.17 Many businesses utilised Big 4[2] agents, but it was rare for businesses to only use these firms. Many used Big 4 firms alongside smaller or more specialist firms. Some businesses did not use Big 4 firms at all, instead solely making use of smaller firms. This was often because the cost of Big 4 agents was felt to be too high.

1.18 Businesses generally had long-standing relationships with their agents and approached them for advice when needed (e.g. in response to a business life event).

Contact with HMRC

Contributing to the research questions: Understanding the behavioural factors that could influence mid-sized business tax strategy behaviour, and understanding the role of agents within the decision-making process

1.19 Businesses typically contacted their agent instead of HMRC when they wanted assistance or had a query about their tax approach. There were a mix of reasons for this, however it was often driven by the nature of the query or help being sought. For example, some businesses approached agents specifically to reduce their tax bill as far as possible and others sought advice about overseas jurisdictions. It was not perceived to be appropriate to contact HMRC directly about these topics.

1.20 Some businesses had contacted HMRC for clarification on points of law, for queries about compliance in specific or unusual circumstances or occasionally to double-check an agent's approach. Furthermore, a few businesses said their preference would be to go to HMRC for assistance instead of their agent. This is partly because it would be free, and partly because it would mean they receive the most accurate interpretation of policy. However, these businesses often felt it was difficult to contact the person in HMRC with the necessary expertise.

[2] The 'Big 4' are the four biggest professional services networks in the world, offering auditing, taxation and management consulting: Ernst & Young, Deloitte & Touche, KPMG and PricewaterhouseCoopers.

2 Background and methodology

Research background

2.1 HMRC segments its customers by type and size so that it can tailor the services offered to customers based on behaviours, capability and the level of risk. There are five HMRC customer segments in total, one of which is mid-sized businesses.[3]

2.2 HMRC categorises a mid-sized business as those with Corporation Tax or Income Tax Self-Assessment turnover over £10 million and/or more than 20 employees, as well as additional criteria relating to partnerships. Overall, there are currently more than 170,000 mid-sized businesses operating in the UK. These businesses make up a substantial proportion of the overall ‘tax gap’[4] (12%), despite representing less than 4% of the UK business population.

2.3 HMRC aims to focus resource and support at key moments in the mid-sized businesses life-cycle to enable organisations to better understand and pay the tax they owe. This report explores the workings of businesses that fall into the mid-sized category with turnover over £50 million, focussing on the common life events they experience and their priorities, their overall approach to tax and the extent to which they engage with agents and HMRC. This group was the focus of the research because businesses in the upper-end of the mid-sized category are more likely to have more complicated tax affairs, and a formalised tax strategy, than businesses at the lower end of the mid-sized bracket.

Research objectives

2.4 The objective of this research was to improve HMRC’s understanding of what influences business tax behaviour among more complex mid-sized businesses, and to inform HMRC’s communications to ensure voluntary compliance. Specifically, the research sought to better understand:

- the factors involved in the decision making of mid-sized businesses towards tax;
- the behavioural factors that could influence mid-sized business tax strategy behaviour; and
- the role of agents within the decision-making process.

Methodology

2.5 A qualitative approach was adopted for this research due to the exploratory nature of the study and the rich level of detail required.

2.6 The sample was drawn from internal HMRC data using a purposive sampling approach to find mid-sized businesses with turnover of over £50m.

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[3] The other HMRC customer segments are: large businesses; small businesses; individuals; and wealthy.
[4] The tax gap is the difference between total amounts of taxes owed to the government versus the amount they actually receive.

2.7 In total, 40 one-to-one in-depth interviews were conducted between 24 April and 11 June 2018. Of these, 30 interviews were conducted face-to-face and 10 interviews were conducted over the phone, when this was preferred by the business. Interviews lasted between 50 and 60 minutes on average. Interviews were 'clustered' in four main locations in order to carry out the face to face interviews in as efficient a way as possible; the locations were chosen because there were reasonable numbers of eligible businesses in each: London and South East, Birmingham, Manchester and Leeds.

2.8 Table 2.1 presents the profile of mid-sized businesses that participated in the research by turnover and ownership structure.

2.9 Throughout the report any differences or patterns seen by turnover band or ownership structure are highlighted.

2.10 A wide variety of individuals within mid-sized businesses were interviewed, the majority of which were senior members of staff in order to ensure a good understanding of the business's strategic approach to tax. The job roles of participants included: Finance Director; Financial Controller; Finance Manager; Head of Tax; and Chief Financial Officer.

Table 2.1 In-depth interview participants

	Structure		
Turnover	Private	Public	Total
£50-99m	11	7	**18**
£100-149m	8	2	**10**
£150m+	9	3	**12**
Total	**28**	**12**	**40**

Report interpretation

2.11 This report summarises views expressed by senior staff within mid-sized businesses during the qualitative interviews. Note that these perspectives were from businesses in the upper-end of the mid-sized category, rather than perspectives from the mid-sized category as a whole.

2.12 Whilst the research aimed to get a wide range of perspectives, its qualitative nature means that findings cannot be taken as representative of the population of mid-sized businesses (either of the upper-end of the population, or of the population as a whole). The use of words such as 'most', 'many', 'some' and 'few' are illustrative of the findings collected for this study and do not represent the views of all mid-sized businesses.

3 Key business events and priorities

Key business events

3.1 All businesses had experienced at least one key 'life event[5]' over the last three to five years. For many businesses, the key events experienced related to growth. For example, increased turnover, more employees, acquisition of new businesses, entry into new markets and an increase in the number of customers. Growth events were often clustered, with some events leading to others. This was demonstrated in the case of a pharmaceutical business that acquired a subsidiary, and in turn the rights to a new product. This acquisition caused the turnover of the business to double and enabled the business to enter into new overseas markets.

3.2 Some businesses reported events that related to contraction, such as decreased turnover, fewer employees or the disposal of parts of the business. As with growth events, these contraction events were also often clustered. For example, an investment bank that formed part of a foreign owned group reported that external changes within the banking sector had caused them to divest from certain markets and reduce the number of employees in their UK office.

We came to this building in 2011 with about 90 people, planning to go up to 130. We never got above 100 in the end, before things started going down again. We ended up at a stable 70-75… It's now around 60.

Privately owned company, £150m+ turnover, part of foreign owned group

3.3 In a few cases businesses reported experiencing both growth events and contraction events within the last three to five years. For example, one business had acquired three subsidiaries that enabled them to broaden their customer base. However, coinciding with this growth event, the business experienced a decrease in profit because a weak pound increased the cost of imported materials.

3.4 Some businesses reported key events that were unrelated to growth or contraction. These events usually concerned changes to the organisation of the business, such as new internal systems and structures, transfers of ownership or a change in legal status. For example, one business was bought out by an overseas business, another had recently been listed on the New York stock exchange and a further business became a partnership.

3.5 Very few businesses identified events related to tax as 'key events' in the last three to five years. Where key events were related to tax they typically concerned changes to the communication of tax strategies or a change in their tax agent, rather than a change to the tax strategy itself.

In the last year the decision was made to formalise and publish the group's tax strategy to bring it into line with legislation, embedding what we had already been practising.

Privately owned company, £50m-99m turnover, part of a UK group

[5] A 'life event' was described to businesses as any major event for the business, including turnover/employment changes, mergers/acquisitions and restructuring.

Business priorities

3.6 Growth was the number one priority for most businesses. The nature of the desired growth varied from business to business: some wanted to increase profit margins by reducing costs and enhancing efficiency; some wanted to increase their market share by attracting new customers; and some wanted to enter new markets through diversification and acquisitions.

From a commercial perspective [the main priority] is clearly increasing turnover and headcount to make your business more successful - winning new contracts, winning new clients, maintaining existing clients etc.

Privately owned company, £100-149m turnover, part of UK group

Broadening the base of the business so that it can, essentially, leverage itself into the market to be able to supply different services for different sectors and segments - there's been a lot of investment there to broaden the platform, broaden our offer.

Privately owned company, £50-99m turnover, no group

3.7 Delivering a high quality, or improved, service or good was also a priority for many businesses. Though linked to growth, this priority emerged as a distinct theme – it was less in relation to increasing turnover or market share and more in relation to meeting the needs of their customers and stakeholders. Two businesses in the sports industry demonstrated this priority at its most basic level; it was of paramount importance for both these businesses to win contests and competitions because that was their *raison d'être*. This priority was also prominent in other sectors, for example a business that operated in the education sector emphasised that it was a fundamental priority for them to improve schools and support the surrounding community.

3.8 Regulatory compliance was a priority for some businesses. This was because it was important for these businesses to meet the regulatory standards in their respective industries so they could continue to operate and could attract and retain customers. The nature of the regulatory compliance prioritised by these businesses varied, with different regulatory frameworks present in different industries. For example, a manufacturer of confectionary goods was required to meet standards pertinent to the preparation of food, while a business that provided wealth management services was required to comply with financial services regulation.

It is a given for us. We do not do anything that is not compliant with regulations. In fact, probably to the detriment of the business at times…compliance with regulation is probably our number two priority [behind growth].

Privately owned company, £100m-149m turnover, no group

3.9 Tax was seldom mentioned spontaneously as a priority. Many said that their main objectives were to grow the business and to meet the needs of customers and stakeholders, and that tax was secondary to these priorities. A few described this approach as '*tax following the business'* rather than tax driving business decisions. Although it was rarely highlighted spontaneously as a priority, tax did feature as a key consideration for some businesses when pursuing other priorities. These businesses said that they undertook tax planning to maximise tax efficiency where possible. For example, some businesses mentioned using tax reliefs on investments in R&D and a few businesses used transfer pricing to balance their tax exposure across the jurisdictions they operated in.

We are doing research and development and that is an extra tax break that we can use. But that didn't come about because we wanted to find a tax break. That came about because we're doing research and development, and somebody said, 'You should be using that, or getting the advantage that is available to you'.

Privately owned company, £100m-149m turnover, no group

We do have some transfer pricing agreements in place which we think are sensible and reflect how we run our business. We don't structure our business for tax purposes at all, we structure it to maximise income and therefore profits for our external shareholders.

Publicly listed company, £50m-99m turnover, part of foreign owned group

How are the priorities of mid-sized businesses determined?

3.10 At a macro level, the most prominent factors that shaped the priorities of mid-sized businesses were:

- recent key events;
- the structure of the business; and
- the sector the business operated in.

3.11 Ultimately, businesses' priorities were determined by the Board of directors, or the preferences of other leaders of the business.

3.12 Recent key events, particularly growth and contraction, had a big influence over the priorities of businesses. Those that had experienced growth events typically sought to maintain growth or increase the rate of growth, while those that had experienced contraction events typically sought to instigate growth. For example, a recruitment business had won several big contracts in the last three to five years. This business' main priority was to continue their current growth trajectory through the acquisition of other businesses, increasing international trade and attracting new talent. Conversely, a group that had a diverse portfolio of subsidiaries (including property, publishing and transport businesses) had experienced a decrease in profit in recent years and so the group's main priority was to divest from less profitable and focus on the more profitable subsidiaries.

[The priority is to] come out of those areas that we have seen we don't have a future in and to definitely concentrate on two key areas.

Privately owned company, £50m-99m turnover, part of UK group

3.13 The structure of a business, in terms of whether publicly or privately owned and whether part of a larger group, had a significant steer over priorities. Regarding ownership structure, the priorities of publicly listed businesses were influenced by a significantly wider pool of shareholders than the priorities of privately owned businesses. For example, one publicly listed business emphasised that their main priority was to increase their share price to satisfy shareholders and fuel further growth, whereas for an owner-managed business in the manufacturing sector, business priorities were solely determined by the owner.

Ultimately, like any listed business, [the main priority is] to grow the business and increase its share price… we're all working on behalf of shareholders really.

Publicly listed company, £100m-149m turnover, part of UK group

[The owner has] seen the component side of the business flattening, and he sees the market moving more towards a complete type of service, and so that's been the general direction he wanted to go.

Privately owned company, £50m-99m turnover, no group

3.14 Businesses that formed part of a group typically determined their priorities collaboratively between the board of the overall group and the board of the business. For example, an investment bank said that the global head of the group dictated the overarching priorities and then, within these, the business had flexibility to set its own priorities. By contrast, businesses that were not part of a group had autonomy in setting their priorities.

The global head will make a case for a certain amount of business, a certain amount of capital and head count…within the Europe allocation there'll be a certain amount of flexibility.

Privately owned company, £150m+ turnover, part of foreign owned group

3.15 The priorities of businesses were partly influenced by the sector they operated in. This is likely due to different sectors having different cultures and market conditions. For example, businesses in heavily regulated sectors (e.g. food production and financial services) prioritised regulatory compliance more than businesses in other sectors.

3.16 Aside from macro influences, the priorities of businesses were ultimately determined at board level. The frequency at which priorities were set varied from business to business, with some setting new priorities annually and some more frequently. Once business priorities had been determined, they were usually formalised in business plans and Key Performance Indicators (KPIs). The priorities were then communicated internally through documents, meetings and presentations. For example, a law firm developed a business strategy booklet and shared it throughout the partnership and a pharmaceutical business conducted a monthly 'breakfast briefing' with all employees. Progress made against priorities was usually reviewed periodically.

These things are discussed at board level then filtered down into the meetings the senior management team will have with their departments and their work colleagues.

Privately owned company, £50-99m turnover, part of UK group

Every other month [the board meets] discussing progress, where we are in the delivery plan, consolidation, how numbers are stacking up, issues we have and general operational stuff.

Publicly listed company, £100-149m turnover, no group

4 Overall approach to tax

An introduction to the reactive – proactive spectrum

4.1 Participants were asked whether they considered the business to be ‘proactive’ or ‘reactive’ when it comes to tax. As anticipated, businesses did not naturally think in these terms, so a spectrum was described to respondents as follows:

Some businesses are very ‘proactive’ about their tax affairs, i.e. they have a medium or long term written tax strategy, look ahead to plan how they will deal with taxes in the future, they may employ agents to ‘future proof’ their tax plans, etc. Other businesses are more ‘reactive’, i.e. they maybe do not really think ‘in advance’ about tax very much, until an event happens which needs some advice. Where do you put your business on that spectrum, between very ‘proactive’ and looking ahead, to very ‘reactive’ and only thinking about tax when it’s absolutely required?

4.2 Many businesses described themselves as being nearer to one end or the other of the spectrum, though some said they were a mix of both approaches, depending on the situation. When describing why they were proactive or reactive, some businesses spoke about behaviours relating to compliance (i.e. ensuring they follow the rules and obey the law) and some instead cited behaviours relating to tax efficiency (i.e. reducing their tax bill).

4.3 Businesses that said they were **reactive** when it came to tax (i.e. they did not look ahead and plan very much), when asked for examples of this, generally talked about being reactive with regards to **compliance** with tax legislation.

4.4 However, businesses that said they were **proactive** cited behaviours relating to both compliance and tax efficiency.

Proactive behaviours relating to tax compliance

4.5 Businesses described a range of proactive behaviours that related to tax compliance. Almost all proactive behaviours relating to tax compliance involved planning or clarifying internal protocols to ensure prompt and accurate payment of tax duties.

4.6 A few businesses stated that they were putting a lot of time into developing internal management systems and software suites. These were designed with the intention of ensuring that businesses understood what was owed and when, so that they could pay their tax bill on time and accurately.

We’re putting a new Enterprise Resource Planning system in across the whole business, so right through from financial accounting through to supply chain planning, and things like that and we’re proactively making sure the VAT, for example, works on that.

Publicly listed company, £99m-149m turnover, part of UK group

4.7 There was some evidence that businesses that are initially proactive can move to a more ‘reactive’ way of working. An example of this was a business that had been set up in 2015 and had spent a lot of time in their opening year considering what their tax approach would be and creating systems in order to ensure their compliance. Three years later, at the point of interview, the Tax Manager described the systems as now ‘largely running themselves’ such that the business was now in a more ‘reactive’ space.

4.8 Businesses were also proactive regarding compliance by monitoring potential developments and changes relating to taxation. A few businesses spontaneously indicated that they were horizon scanning for potential legislation or regulation changes regarding tax and considering the subsequent implications for their business.

4.9 The formality of these processes varied within these businesses. One business suggested that their process involved informal discussions about potential changes on a regular basis, but only formal modifications to procedures and practices in the event of guaranteed legislative or regulatory change.

We don't have a formal way of doing that, not for tax. I'm asked to contribute to internal documents on, for example, things like Brexit, potential change in government, all that sort of stuff. It's just looking at what the future might look like.

Publicly listed company, £99m-149m turnover, part of UK group

4.10 Businesses also demonstrated that they would plan for changes in their own business. A few businesses described proactive approaches to compliance when planning to open branches of their business in new territories. One business described expanding their business to Finland and consulting agents to ensure that they were compliant with the tax obligations that are specific to that country.

4.11 A few businesses described compliance related proactivity when planning to acquire new businesses. One business described seeking extensive discussions with their agent when they sought to grow through acquisition.

4.12 A few businesses had brought tax in-house (where previously they were reliant on third parties) or hired new members of staff with tax expertise in recent years. The creation of a tax team or the hiring of new tax-specific staff was described as a proactive approach to ensure that the business is fully compliant with all their priorities.

4.13 The creation of a formal document that sets out that business's tax approach was another compliance-oriented behaviour that was demonstrated by a few businesses. This was usually justified as ensuring compliance because it allowed businesses to formalise an approach and create a document against which employees could monitor their actions. By documenting their approach, businesses felt they could more easily ensure that they themselves followed it.

We identified our biggest risk [tax], documented it, and decided how to deal with it.

Privately owned company, £50m-99m turnover, part of foreign owned group

4.14 Another similar proactive behaviour related to compliance demonstrated by a few businesses was an attempt to clarify internal structures and chain of command to ensure that procedures were followed consistently by employees.

Reasons that businesses were proactive regarding tax compliance

4.15 The core reason that businesses demonstrated proactive behaviours regarding complying with tax obligations related to businesses describing themselves as risk averse in relation to tax. Many businesses that were proactively compliant stressed that being within the law was easier and offered more stability than making a conscious effort to reduce tax bills.

4.16 Some businesses demonstrated the belief that it was worth the effort put into creating a set of protocols and procedures that can consistently produce accurate records, which then make it easier to be compliant. The investment was viewed as being worthwhile by these businesses, who considered proactivity regarding compliance to be easier and safer than pursuing any aggressive attempt to be more efficient in their tax affairs.

If you can set up a system so that it does the same thing every time, and you're happy that it's right, then you just have to make sure you stick to the system.

Privately owned company, £50-99m turnover, part of UK group, not an LLP

4.17 A few businesses described an attitude to taxation that focused on proactive compliance in order to avoid queries from HMRC, which were considered time consuming to resolve.

4.18 A few businesses explained that they ensured they were fully compliant to avoid fines. In these instances, any costs associated with being proactively compliant were viewed as preferable to fines that can be imposed by HMRC. These, businesses spoke about the costs associated with getting tax 'wrong', which was synonymous with not being fully compliant / demonstrating illegal behaviours.

We're very cognisant of the fact that, although we talk about a good relationship with HMRC and all the rest of it, the cost of getting it wrong is expensive and it's only a one-way bet, isn't it?

Privately owned company, £150m+ turnover, part of UK group

4.19 A few businesses also discussed the potential for bad publicity. One business stated that bad publicity would be very harmful for them as many of their customers are government clients. This business felt that bad publicity for not being fully compliant with their tax obligations was potentially very damaging to their business.

4.20 There was also a belief that it was easier to plan cash flow around certain, accurate payments of tax obligations than it was to be caught out by fines or payments that could be large and inconveniently timed. These businesses also generally believed that being proactive about compliance helped them to mitigate these risks.

4.21 Some businesses indicated that the reason that they were proactive regarding compliance was that it best reflected the preference of their shareholders or board. One business expressed the belief that all shareholders ultimately prefer the stability of compliance over the potential instability of pursuing tax efficiency, despite potentially being more expensive.

They don't want to see lots of volatility in tax through their numbers. It's not their core focus but, equally it does affect reserves and things like that and ultimately, we're all working on behalf of shareholders as a listed entity.

Publicly listed company, £99m-149m turnover, part of UK group.

4.22 Ownership structure and business profile also encouraged proactivity regarding compliance in other, more unusual ways. An example of this was a business that was part owned by a foreign government. This business reported that being fully compliant was encouraged by corporate culture stemming from their headquarters abroad, where paying tax was effectively seen as paying a dividend of sorts to their stakeholders, the government. Another business stated that they felt a duty to operate above board and be compliant due to them having renowned patrons.

Company culture, instilled by ownership or otherwise, was reported by a few businesses as a key motivator behind their proactivity in being fully compliant regarding payment of tax.

Proactive behaviours relating to tax efficiency

4.23 Numerous behaviours were mentioned by businesses that demonstrated proactive approaches to ensuring tax efficiency. There were no businesses that indicated a complete aversion to any attempts to minimise tax costs by increasing tax efficiency (even among the businesses describing themselves as very proactive towards compliance).

4.24 Many businesses were keen to stress that their tax approach was to be fully compliant while also demonstrating proactivity regarding tax efficiency. Indeed, the tax efficiency driven behaviours described by businesses were fully compliant with legislation. Some emphasised the fact that while they were sure they did not want to pay too much tax, this could often be countered by an equal or greater desire not to pay too little either.

4.25 A lot of businesses used agents to find opportunities to minimise their tax bill, including asking them to seek out allowances that they were eligible for or to find areas of spending that they could deduct VAT payments from. Often this process was collaborative with businesses working alongside their agent to find potential changes to their tax approach that they could use to be more tax efficient.

4.26 A few businesses stated that they used allowances to minimise their tax bill, including capital allowances and Research and Development allowances. In particular, those businesses that are not currently making a profit mentioned that they use capital allowances to be more tax efficient.

We just comply with legislation. If there's an allowance to claim or a relief to get we make sure we claim. If we're unsure we'd seek advice from a third party.

Privately owned company, £150m+ turnover, not part of a group

4.27 Two businesses also mentioned their use of a transfer pricing model to be more tax efficient. However, both businesses suggested that this was not the main motivation behind the development of this system and that, instead, greater tax efficiency was a fortunate side-effect of their decision to move to this model anyway. This is a further example of how some businesses saw "tax following the business".[6]

Developing a transfer pricing mode wasn't around tax minimisation, it was because we'd suddenly become of a size where we had to consider it. It was more about risk management and making sure that we could justify why we've got which profits in which company.

Privately owned company, £99m-149m turnover, part of UK group

4.28 Other behaviours discussed (mentioned by fewer businesses) included:

- A business that was spending time setting up their business in deprived areas that allow the business to utilise tax breaks to minimise their tax bill. Another business mentioned utilising

[6] As referenced in chapter 3.

group reliefs to offset any loss-making businesses or those businesses that are winding down to reduce the tax paid by profit-making businesses.

- Utilising a Group Payment Arrangement[7] to reduce the administrative burden of paying tax as a group and to reduce the overall amount paid.

- One business also detailed their efforts in reallocating and refocusing spending into areas of their business that are tax deductible. The example given involved looking at their marketing department and refocusing spending away from advertising in journals towards spending money on hospitality and entertainment. The finance team of this business had briefed and educated individuals to enhance awareness of how best to save money by focusing spending in tax deductible areas. This linked to a slightly more widespread practice described by some businesses, which involved careful record keeping for VAT purposes and the development of company-wide procedures that ensure that receipts are kept for the same reason.

- Finally, one business explained why they had entered a tax evasion (illegal) scheme previously. This was to manage the serious cash flow problems that they were experiencing at the time. This scheme had since been closed and the business was keen to stress they would not use such schemes again.

We did actually go in for one of these schemes that has been outlawed, because we were just so small, and we were probably a very marginal business at that time.

Privately owned company, £50m-99m turnover, UK group, not LLP

Reasons that businesses were proactive regarding tax efficiency

4.29 The core reason that businesses engaged in proactive attempts to increase their tax efficiency was that they wanted to reduce their costs and increase their profits. Many businesses expressed the belief that no business wants to pay more tax than they need to.

Tax is just seen as another cost which needs to be managed in line with any other cost so it's the same cost-management exercise as any other spend.

Publicly traded company, £50m-99m turnover, not part of a group

4.30 A few businesses also expressed that they were only somewhat proactive regarding tax efficiency and were, in fact, perhaps better understood as being opportunistic regarding efficiency. These businesses put less effort into their attempts at finding new ways to reduce their tax bill but were willing to be proactive in reducing their obligations through means that they were already aware of and comfortable with.

4.31 One business had moved into a new sector utilising tax breaks for research and development purposes solely on the advice of their agent. However, since they realised the potential to be more efficient in this way, they became even more proactive in their behaviour, analysing all aspects of their spending to find any cost that could be claimed as relating to research and development. This case study demonstrated the difference between reactive and proactive behaviour regarding efficiency; one instance was reacting to the advice of an agent to

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[7] Group Payment Arrangements let groups of companies save money by making joint payments of Corporation Tax (https://www.gov.uk/guidance/corporation-tax-group-payment-arrangements)

compliantly use a tax break, the other involved a methodical process of seeking out ways to reduce tax obligations.

4.32 One business reported a more obscure reason for being proactive about tax efficiency. This business was a law firm that advertised its vacancies using a cost-per-partner statistic, which formed the basis of its reputation. Consequently, tax efficiency was justified as enabling the business to recruit a better calibre of candidate. According to this business, increasing profit by increasing income can be very difficult and the same can be said of decreasing spending in other ways. Comparatively, increasing tax efficiency was a rather achievable goal for the business and they expressed the belief that paying less tax enabled their cost-per-partner figure to increase, which enabled them to recruit better lawyers, which in turn increased their profitability.

Profit for growth is profit per partner and that profit is after tax, so we want to comply with our obligations but in the most efficient and cost-effective way we can.

Publicly traded company, £50m-99m turnover, not part of a group

4.33 Proactive pursuit of tax efficiency, therefore, was justified in various ways, usually relating to decreasing costs and increasing profitability. The motivations behind these driving factors can, however, be more nuanced and complicated than simply a desire to make more profit, involving cash flow issues and recruitment strategy as well.

Reactive behaviours relating to tax efficiency

4.34 Businesses that can be characterised as predominantly reactive regarding tax efficiency were overall those businesses that spent the least amount of time thinking about their tax approach.

It's about the business first and the tax second so business decisions are taken and then the tax implications are considered afterwards.

Privately owned company, £99m-149m turnover, not part of a group

4.35 A few businesses expressed a complete lack of appetite for reducing their tax bill. One business briefly considered the use of research and development reliefs but decided that the potential saving was not worth the time taken by senior members of staff to pursue the policy. This business was being reactive in the sense that they did not spend resources attempting to reduce bills, but instead only pursued efficient behaviours that were clearly going to save them money. This form of reactivity is defined by a lack of investment in finding new or innovative ways for the business to reduce their tax bill.

We did attempt to do R&D reliefs but were told by an advisor that after they'd taken their cut it wouldn't be worth it. We gave it a go ourselves but found that the time and effort it took for one of our senior team to look into wasn't worth the £5,000 saving they ended up getting.

Privately owned company, £50m-99m turnover, part of foreign owned group

Reasons that businesses were reactive regarding tax efficiency

4.36 In general, businesses that were predominantly reactive in their pursuit of tax efficiency viewed the time and effort spent pursuing it as outweighing any potential savings brought. These businesses tended to lack any tax specialists in the company or have relatively small finance departments.

4.37 Some businesses stressed that they could only ever be reactive regarding tax as it did not drive their business. This line of thinking followed the logic that businesses are driven by other priorities rather than tax, and tax efficiency follows those priorities or key events and decisions.

4.38 A few businesses stated that they had not made profit in recent years and so did not pay Corporation Tax, leading them to view tax efficiency as a minor issue.

Development and sign-off of tax approaches

4.39 Most businesses had either a specific senior member of staff with oversight of tax or a senior member of the finance team who had responsibility for it. Often this was the research participant and job titles included Finance Director, Tax Director, Chief Finance Officer, Group Head of Tax.

4.40 Some businesses responded that their tax approach was developed by a group of people, including the board, or a few members of the senior management team. More commonly, however, the approach was developed by an individual and then signed off by the board or a more senior member of staff. An example of this may be that a tax strategy is developed by the Head of Tax, who reports to the Chief Financial Officer, who has ultimate sign-off on the proposed approach. This collaborative approach between someone with oversight of tax and a more senior member of staff was common, especially in businesses that were part of a wider group or had a relatively large finance or accounting team.

4.41 A few businesses stated that their approach was led by their agent, with guidance from the business as to their preference and priorities. One business even indicated that the company had so few employees that their tax approach was entirely dictated by their agent, with the respondent overseeing the day to day practicalities of seeing this through.

4.42 A few businesses indicated that they had no formal process for developing an approach to tax, instead handling issues on an ad-hoc basis. These businesses, however, still demonstrated an informal understanding that senior members of staff would be the ones signing them off, even if it was not necessarily set out who that would be.

4.43 Ultimately, while approaches were guided by a variety of individuals within businesses, final sign-off was usually reserved for financial directors, chief financial officers, risk management committees, partnership committees or managerial boards.

Changes to tax approaches over the last 3-5 years

4.44 Three to five years was seen as a suitable time-frame within which businesses of this size might cyclically experience life events.

4.45 Most businesses reported that they had not changed their tax approach in the last 3-5 years, with some of these businesses indicating that the only changes that had been made regarding tax in that time was because of legislative change.

4.46 A few businesses had formalised their approach to tax, for example by creating a written tax document. One of these businesses indicated that they had done this because they were on the verge of being viewed as a large business by HMRC and so they were preparing for Senior Accounting Officer requirements. One part of this preparation was deciding upon a nominated individual to be their Senior Accounting Officer, and another element was to create and publish a written tax strategy.

4.47 Other changes discussed (mentioned by fewer businesses) included:

- A business indicated that they had entirely overhauled their tax systems and approach, scrapping previous plans and moving to a more formal approach. One key part of this was to have regular meetings about tax, whereas previously they had not done so.
- One business indicated that they had spent resource over the last three to five years developing a sophisticated intranet system that enabled them to process and account for tax more easily. This included a desire for more sophisticated accounting reports to be produced and an easier way for employees and contractors to record VAT deductible expenses.
- Another business had grown rapidly after acquiring another company in 2015 and had subsequently moved to a transfer pricing model. To accommodate this, they brought in a temporary worker with specialism in transfer pricing, who helped to upskill the workforce and allow the existing finance team to handle these affairs after he left the business.

5 Formality of tax approach

Written and unwritten tax strategies

5.1 Businesses were split evenly in terms of whether they had a written tax strategy or if it was unwritten. A written tax strategy was defined as a formal document that lays out the approach to tax utilised by a business.

5.2 A mix of all types of businesses indicated that they had formally created a tax strategy document, while a similar mix of businesses indicated that they did not have one. Although one reason supplied by a business as a rationale for creating a written tax strategy was that they were preparing for the requirements imposed upon large businesses, it was not the case that all businesses with written tax strategies were nearer to large status and the accompanying requirement to publish a written tax strategy. There were no clear patterns amongst either businesses that did or did not have written tax strategies in terms of business profile.

5.3 Most businesses that did not have a written tax strategy still had formal approaches to tax. Mid-sized businesses have no obligation to create a written tax strategy, and a few individuals stated that they do not have one as they see no benefit in doing so, rather than because they approach tax in an informal way.

5.4 Written tax strategies, as with all tax approaches, were generally created by senior members of staff including finance directors, heads of tax and tax managers. In addition to this, businesses indicated that they review their written tax strategies at least annually.

Why some businesses have written tax strategies

5.5 Reasons for developing written tax strategies varied. Some businesses saw the creation of a written statement as an opportunity to instil good practices in the business. For these businesses, the creation of a written document allowed them to set out their values and goals regarding tax, creating a document that could be referred to in order to monitor progress and as a manual for how that business approaches tax. Where this was available to staff, the written tax strategy could act as a handbook of sorts for all staff to set out their business's tax strategy.

5.6 Some businesses, particularly those that published their tax strategy documents in public, saw the creation of a written tax strategy as an opportunity to make a statement about corporate culture. One business stated that they were an honest, open business that wanted to be seen as such; for them their tax strategy represented an opportunity to set out their approach to tax, which they felt reflected those values. For this business, therefore, writing down their tax approach document was not just an opportunity to instil a corporate culture regarding tax, but also to publicise it.

It's about being quite open and transparent because we're a client facing business… We want to do things properly and we want to do them in the right way and to be seen to be doing them in the right way.

Privately owned company, £150m+ turnover, part of UK group

5.7 One business indicated that it needed to publish its tax strategy publicly as a result of the business being listed on the US stock market. The business stated that, because of the

Sarbanes-Oxley Act of 2002, it was mandatory for businesses listed in the US to publish a tax strategy document.

Why some businesses do not have written tax strategies

5.8 Some businesses felt that having a written tax strategy was unnecessary because they view payment of tax as relatively straightforward. For these businesses, payment of tax was largely guaranteed by the creation of effective automated systems that track costs and profit and allow for reporting to aid prompt and accurate payment of tax. Consequently, for these businesses tax was not sufficiently strategic to warrant the creation of a written document that sets out their approach to tax.

With tax we just have to keep doing the little things right, and it'll be the big picture we like at the end of the day.

Privately owned company, £50m-99m turnover, part of UK group

5.9 One business expressed the belief that they were too small to create written documents laying out their tax strategy. This business had a very simple financial structure and had a small finance team, of which only the Finance Director and Managing Director had any strategic oversight.

5.10 A few businesses simply explained that they did not have a written tax strategy for the simple reason that there is no requirement for them to have one.

Nothing formally documented like that, no. Certainly not, because we're not required to, so we don't have anything in our public records or in our accounts.

Publicly traded company, £99m-149m turnover, part of UK group

5.11 One business stated that they relied upon their agents for strategic thinking regarding taxation. In this instance, only the respondent, who had a multi-faceted role with various responsibilities, had any involvement in taxation internally. This individual felt that if anybody had a document relating to the tax approach of the business it would be their agent. As far as they were aware, though, no such tax strategy document existed.

5.12 Many businesses that did not have a written tax strategy expressed the belief that writing a tax approach down was not worth it in their instance. These respondents often described an approach to tax based upon regular meetings, following established (but unwritten) procedure and the use of automated systems to enable compliance or efficiency. This highlights the fact that an unwritten tax strategy did not imply an unstructured approach to taxation planning, just that these individuals viewed the structures as easy to follow without necessarily setting it out in writing.

5.13 A few businesses stated that they did not have a tax strategy document as they were focused more upon compliance than tax efficiency and felt that they therefore did not need any strategic planning to be outlined.

5.14 Despite this, a few businesses did express the view that they did not have a written tax strategy because they did not view tax as a priority. These businesses can be viewed as having a more informal approach to tax, with one business even stating that they do not have a 'defined tax process.' These businesses tended to rely upon agents and respond to tax on an ad-hoc basis.

Review of tax strategies

5.15 Written tax strategies were reviewed with varying regularity, although most were reviewed at least annually. One business stated that they review their tax strategy every six months and a few businesses indicated that they formally review it once per year. A few businesses indicated that they would only review their tax strategy in the face of significant legislative or regulatory change.

5.16 One business with a written tax strategy reviewed the strategy every year utilising market intelligence supplied by their agent. They used their agent to provide information about the tax affairs of their competitors so that they could refine their strategy based upon the practices of others in their industry.

5.17 Unwritten tax approaches were also reviewed with varying frequency, ranging from a few businesses effectively reviewing their business on a near-constant, ad-hoc and evolutionary basis, to a few businesses that review tax strategy at regular meetings. The regularity of these meetings included from monthly, bi-annual and annual intervals.

5.18 A few businesses indicated that their reviews were less structured and regular than others. One business indicated that they would only review their tax strategy in the event of a mistake being made in one of their tax returns. This business reviewed its tax approach very rarely, with the last instance being instigated by a mistake in their VAT return. One business also stated that reviews would only begin if they were recommended by their agent, rather than being instigated with any regularity from within the business.

Availability of written tax strategies

5.19 Most written tax strategies were available for the consultation of at the very least, the finance team of that business. Most tax strategy documents were, however, also available to a wider group of individuals, with only a few businesses prohibiting access outside of the finance or accounting team.

5.20 A few businesses made it clear that their tax strategies were available to all employees, although one of these businesses also stated that while it was available to anybody in the business, it had not been advertised to them as it had been judged that it was not relevant for most employees.

5.21 One business indicated that it was available to any customers or stakeholders that wished to see it on request. A few businesses, however, published their tax strategies publicly and in these cases, it was available for consultation or download on their website.

Our approach to tax is set out on our website, it's a corporate statement, but it's also a bit of a personal statement as well. It embodies all the characteristics that I would like to see in a decent tax payer.

Privately owned company, £150m+ turnover, part of UK group

5.22 Most businesses that had created written tax strategies made them available outside of their core finance team, reflecting the varied motivations behind businesses creating and publishing their tax strategy, which have been outlined previously.

6 Use of agents

Types of agents used

6.1 Nearly all businesses interviewed used an agent. Many used Big 4 firms, but it was rare for businesses to only use these firms. Many used Big 4 firms alongside smaller or more specialist firms such as PAYE or SAGE consultants, lawyers, smaller firms, or smaller local firms in locations where the business operated abroad.

6.2 Some businesses did not use the Big 4 firms at all, instead solely making use of smaller firms. Businesses not using any Big 4 firms generally said what they wanted from their agents was sufficiently simple that paying Big 4 rates would not make sense for them. One business, despite using a Big 4 firm, felt this was probably ‘overkill’ for their simple needs.

For us … using a Big 4 agent is probably like using a sledgehammer to crack a nut, but we pay the fees for a simple life.

Private company, £50m-£99m, part of foreign group

6.3 One consideration was whether mid-sized businesses might start to ‘outgrow’ their agents as they attempt to move into the ‘large business’ bracket. As seen in this chapter however, many businesses of this size were already operating at a level that required a Big 4 firm, i.e. any ‘out-growing’ of smaller firms had happened before businesses reached their current size. That said, there were a few businesses that could be considered to have outgrown their previous agent as they chose to move to a Big 4 firm for a more comprehensive service or a more aggressive approach.

How agents were chosen

6.4 Businesses described choosing an agent in one of three ways:

- Existing longstanding relationship;
- Sector knowledge or specific expertise; and
- Previous links with, or recommendations from, a member of the business’s finance team.

6.5 Often there was some crossover between these reasons, for example a business became aware that a certain agent was considered an expert in a specific sector through recommendations from senior people in the finance team, or instruction from a more senior person.

Existing longstanding relationship

6.6 It was common for businesses to have used the same agent for many years. In some cases, the relationship with the agent had commenced before the survey participant joined the company, so they did not have an insight into how or why the agent was chosen. Other businesses that were part of larger groups described a longstanding relationship between their ultimate parent company and an agent. In a few cases, the interviewee was keen to establish if a different agent might suit the business better – generally because they felt they were paying too much for their current agent’s services - but had so far not been granted permission by the parent company to go out to tender to investigate alternatives.

Sector knowledge and specific expertise

6.7 Some agents were chosen based on their knowledge within a sector, for example some businesses noted agents that were considered to have expertise advising sporting teams, law firms or educational institutions. Other businesses said certain agents were known to have strengths in specific areas favoured by the business's finance team.

Different firms have different skill sets…we use [small firm] a lot because they are perceived to be the leading experts on professional partnerships, as an example. I quite like to use [a Big 4 firm] because [a Big 4 firm] are a good technical based firm… so I think they're very good if you need technical support.'

Privately owned company, £150m+ turnover, UK group

6.8 The identification of agents as sector or technical experts was not a formal process, rather businesses maintained that the Big 4 firms each have a focus on specific industries. Businesses reported that the Big 4 did not advertise this, saying it was hearsay within the industry.

Previous links with, or recommendations from, a member of the business's finance team

6.9 Some businesses chose agents due to previous connections with the firm. Some of those interviewed had built a relationship with a particular agent when working at a previous company and made a recommendation on joining their current team. In a few cases, members of the finance team had been employed by an agent in the past and so again, made a recommendation when alternatives were sought.

Why agents were used by mid-sized businesses

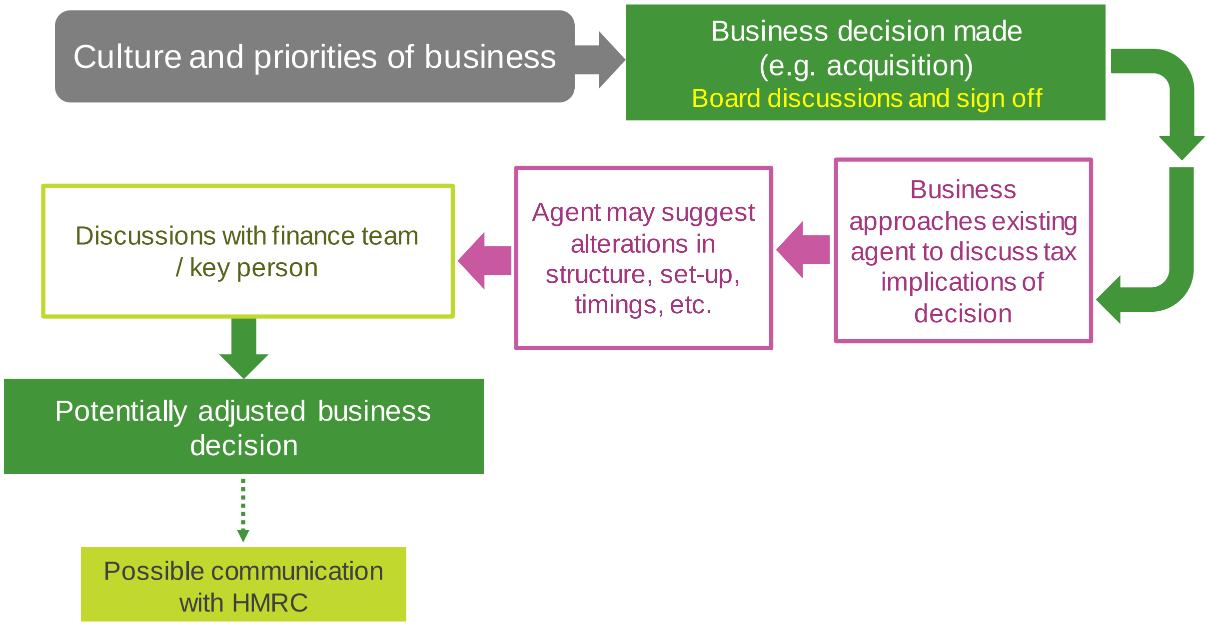
6.10 Businesses used agents for the following main reasons:

- Some used agents for tax planning and advice on their tax strategy;
- Many used agents for 'ongoing consultancy' which was generally focussed on compliance;
- Some businesses approached their agents for genuinely one-off queries; and
- All used their agents for some level of auditing and many had agents do their Corporation Tax computations.

6.11 It is worth noting that almost without exception, business decisions were made first (whether to acquire another business, or property, for example) and then the tax implications of such decisions were then discussed with the business's existing agents, and adjustments were sometimes made as a result. The agent sometimes suggested alternative timings or ways of structuring the change for example. It was very rarely the case that businesses approached agents in the first instance to understand what changes they should or should not make to the business, from a tax perspective.

6.12 The diagram below shows an example of how agents were approached to advise on a business decision.

Figure 6.1 Example of agent input into a business decision



Tax strategy and planning

6.13 Some businesses used agents to specifically reduce the amount of tax owed when undertaking a life event or change within the business. This was common ahead of planned acquisitions, setting up a new business from scratch or deciding which country in which to place a new arm of the business. Businesses described examples of their agents conducting due diligence on businesses they planned to purchase and advising on transfer pricing.

6.14 Indeed, a few businesses mentioned specifically changing agents because they wanted a more aggressive approach when it came to reducing their tax bill.

[The firm] are far more proactive and will advise us how to change the structure of a deal in order to get something better out of it. They're more aggressive. That's what the company wants and what it pays them for. We started working with them 2 years ago as the business got bigger, and so we needed more advice on some of our more expensive land deals.

Privately owned company, £150M+ turnover, No Group

[The owner] and I would think any legal means to reduce your taxes is where I want to be.

Privately owned company, £100m-149m turnover, part of UK group

6.15 As mentioned, the strategic use of agents was generally in response to a current set-up within the business or planned future event. Businesses did not generally ask agents to 'look ahead' hypothetically for tax-saving opportunities. There were some exceptions to this however, such as asking agents to highlight any potential reliefs to be made use of, or changes in legislation that might affect the business in the future.

Ongoing consultancy and one-off queries

6.16 Many businesses used their existing agents for ongoing queries relating to compliance in specific areas in which the internal finance team did not feel very confident, such as VAT or international tax.

6.17 **VAT queries** were common, particularly when combined with international considerations. Examples included:

- Businesses seeking advice on Triangulation when buying in one country then selling in another;
- Queries around reclaiming VAT under specific circumstances e.g. on deal fees for a management buy-out;
- VAT considerations within joint venture agreements; and
- VAT efficiencies in general.

If you juggle joint-venture agreements and VAT, you get hints of all sorts of problems... That's the sort of thing where you think "there's a real cost there, so, yes, I'll take advice on that".

Privately owned company £50-99m, UK group

Within the EU there is a clear policy that you only get charged VAT once, whereas in Switzerland they charge Swiss VAT on top of UK VAT. We thought it sounded wrong, ignored it, and ended up with a bill.

Privately owned company, £150M+ turnover, UK Group

6.18 **International tax queries** included the correct payment of Withholding Tax, as well as more logistical issues such as getting access to overseas tax systems or portals, or advice on which forms to fill out and where they can be sourced.

6.19 **Other consultancy type queries** aimed at existing agents included what the tax implications might be of a Joint Venture Agreement, and gambling considerations when setting up a new arm of a sporting business.

6.20 There were some examples of **one-off queries** from businesses to their agents, such as whether an ex-gratia payment to reward an employee for exam success could be made tax-free.

Computations and submitting returns

6.21 Many businesses used agents for their Corporation Tax (CT) computations; these were seen as complex with several possible pitfalls that required expert knowledge. Several businesses offset profits against losses which also required their CT computations to be treated in a certain way.

We don't have anyone on our staff who is a tax specialist. We use [firm] for calculations for Capital Allowances … and for our CT returns they can 'sift out' anything categorised as an expense but should actually be treated as a Capital Adjustment.

Privately owned company, £50-99m turnover, UK group

6.22 It was more common for businesses to have their VAT returns automated, although a few sought advice on how certain items should be categorised on their returns.

7 Contact with HMRC

Contacting HMRC versus contacting agents

7.1 A central consideration for this research was exploring under what circumstances businesses in the mid-sized bracket (with a turnover of over £50 million) approach HMRC, or their agents, when they have a query about their tax approach or want assistance. In general, these businesses approached their agents rather than HMRC.

Reasons for contacting agents instead of HMRC

7.2 Often the decision to approach an agent or HMRC was influenced by the type of query the business had. Some businesses approached agents specifically to reduce their tax bill as far as possible. These businesses did not think it would be appropriate (or useful) to approach HMRC for 'advice' in this regard due to HMRC's role as the regulator and their perceived stance that the maximum amount of tax should be payable, whereas the business wanted to pay the legal minimum.

7.3 HMRC's status as the regulator also meant some businesses did not feel comfortable discussing an 'unformed' tax plan with HMRC that had not yet been thoroughly considered or the implications discussed with agents; they felt that even if the business did not utilise a particular (perhaps more aggressive) approach discussed, HMRC may consider them a higher risk business in future. Businesses were far more comfortable 'thinking out loud' to agents and discussing different approaches before coming to a decision.

7.4 Many businesses used their agents for ongoing consultancy relating to compliance, i.e. how certain transactions should be undertaken under specific or unusual circumstances (particularly those abroad). Some businesses would like to approach HMRC for these kinds of queries, and a few commented that they had done in the past or would in the future under certain circumstances. Businesses were keen to get free assistance where they could rather than paying agents for it, and some felt that getting an answer directly from HMRC would protect them from HMRC queries at a later date.

7.5 However, many of the businesses that wanted to contact HMRC (or had done), cited two main downsides to contacting HMRC instead of their agents (even where it may be appropriate or preferred to go to HMRC). Firstly, some businesses described considerable difficulties getting through to a person in HMRC with the technical knowledge necessary to answer what was often quite a complex question; often they were 'passed around' on the telephone a number of times and the person they eventually reached did not know the answer.

No, I think that we wouldn't get a competent answer. From experience, senior HMRC workers with specialised knowledge would not be available over the phone, it'd just be general call centre workers.

Privately owned company, £99-149m turnover, no group

7.6 Secondly, some businesses cited the long turnaround times for a response from HMRC, as well as the length of time taken to make contact in the first place. In contrast, their agents are paid to answer the phone and provide a detailed answer swiftly.

7.7 In addition, some businesses noted that the longstanding relationship they had with their agent meant the business's history was well known to the agent and diligent records were kept by the agent of each previous conversation and transaction. In contrast, some businesses described 'starting from scratch' each time they contacted HMRC, and that the quality of records kept of each phone call was variable.

Reasons for contacting HMRC instead of agents

7.8 Despite the misgivings cited by many about the process of contacting HMRC, some businesses would do so under certain circumstances (or would have liked to).

7.9 A few businesses said their *preference* would be to go to HMRC for assistance instead of their agents. These businesses were not trying to reduce their tax bill and wanted technical assistance on compliance in specific situations 'straight from the source'. Businesses would favour this over contacting agents partly because it would be free, and partly because there could be no issues with interpretation of policy – they wanted HMRC to tell them categorically how they should treat a certain tax, so they could be confident there would be no queries in the future. However due to the difficulties contacting HMRC mentioned above, these businesses often approached their agents instead.

7.10 A few other businesses used to approach HMRC instead of their agent because they previously had access to a Customer Relationship Manager (CRM) – a direct point of contact who was swift to contact and who had the expertise the business needed for their particular query. As a result of no longer having a CRM, these businesses preferred to approach their agents for a swift response.

7.11 A few businesses did currently approach HMRC for assistance. This contact often followed communication with agents about an issue, rather than replacing the use of the agent. One business reported that agents can caveat the advice that they give, such that the business wanted to double check an approach with HMRC before undertaking it. A few businesses would approach HMRC to double check their agent's advice if they have a very new relationship with an agent or a consultant, or if the agent was felt to be more aggressive than the business wanted, to reassure themselves that HMRC will not look unkindly on the action.

8 Annex A: Topic Guide

A Introduction (5 mins)

- **Interviewer and IFF introduction:** thank you for taking part in this research that we are conducting on behalf of HMRC.
- **Background to the research**: This research is to explore the priorities and tax decisions of businesses that fall into the "mid-size" bracket. HMRC would like to know more about how these businesses work, the challenges they face when they grow, and the HMRC support and contact that will make it easier for them to run their business and pay the tax they need to pay.
- The interview shouldn't take longer than 60 minutes to complete, depending on your answers.
- **Reassurances:** IFF Research is an independent market research company, operating under the strict guidelines of the Market Research Society's Code of Conduct. We will not pass any of your details on to HMRC or any other companies. It will not be possible to identify any individual or individual company in the results that we report to HMRC and the answers you give will not be traced back to you. Participation is entirely voluntary and will not impact on any current or future dealings with HMRC in any way.
- **Data use:** All the information we collect will be kept in the strictest confidence and used for research purposes only.
- **Request permission to record:** We like to audio record all interviews of this nature so we don't have to take a lot of notes – the recording will be used for analysis purposes. Is this ok?

Switch digital recorder on if participant agrees to be recorded and confirm verbal consent.

B Your business (5 min)

B1 **Can you tell me a bit about your business – what does it do / turnover / employees / number of sites / national or international**

B2 **And what is your role in the business? How long have you been working here?**

B3 **How long has the business been running?**

B4 **What has happened to your business's size in the last 3-5 years? Become smaller / larger?**

B5 **What have been the key 'events' for your business over the last 3-5 years? (please only tell us briefly for now, we will speak about these in more detail later).**

[KEEP LIFE EVENTS IN MIND FOR LATER QUESTIONS ESP. B14 / B27]

PROMPT:

- Substantial change in turnover (was this positive or negative?)
- Cash flow problems
- Substantial change in the number of employees (was this positive or negative?)
- Financed or refinanced the business
- Acquired or merged with another business
- Sold off or closed some of the business
- Opened operations outside the UK
- Started trading internationally; importing or exporting for the first time; or in a new country or market
- Significantly changed tax strategy
- What else?

C Business priorities (5 min)

I'd like to ask about your general business priorities…

B6 **What would you say are your business's priorities?**

PROMPT

- Maintaining / increasing growth? (Turnover or staff?)
- Improving skills within business?
- Diversification of products / services?
- Getting into new markets (overseas)?
- Attracting new customers?
- Tax efficiency?
- Complying with regulations?
- Anything else?

B7 **And of those priorities identified, how would you rank them from most to least important – if it's possible to do so?**

B8 **Do you have a structured approach to deciding your business priorities for example a business plan, board room discussion etc? Can you tell me about this?**

D Approach to tax (15 min)

We've talked about your business's priorities, and about where tax sits within that - I'd now like to ask you a bit about how your business 'thinks' about tax. This covers a variety of things, but specifically -

B9 **How 'formal' is your business's approach to tax?**

- Is anything written down about how you will deal with your tax each year? Or is it more ad hoc?
- Are some areas (or some taxes) that are approached more formally than others? Which ones formal / informal? Why is this? Can you give me some examples?

IF FORMAL / WRITTEN:

B10 **Are these public documents?**

- Who is aware of this plan / policy / document?

B11 **When was your plan / document first written down?**

- Why was it decided to create this formal document at that point?
- How often do you refer to your plan / document?
- Is progress measured against the plan/document?

ASK ALL

B12 **How much, if at all, is your tax approach 'reviewed' or considered throughout the year?**

B13 **What drives this overall approach to your tax affairs?**

PROMPT:

- shareholder preferences
- reducing your costs
- driven by agents
- driven by own expertise or interest
- driven by issues you've had in the past
- driven by HMRC contact
- what else?
- Could you give me some examples?
- driven by legislative changes?

B14 **We now want to ask about your general tax "approach". Some businesses are very 'proactive' about their tax affairs, i.e. they have a medium or long term written tax strategy, look ahead to plan how they will deal with taxes in the future, they may employ agents to 'future proof' their tax plans, etc. Other businesses are more 'reactive', i.e. they maybe do not really think 'in advance' about tax very much, until an event happens which needs some advice e.g.** [ADD LIFE EVENT EXAMPLE FROM B5 IF HELPFUL]**. Neither one is right or wrong, all businesses of course have very different tax needs, but I'd like to know - where do you put your business on that spectrum, between very 'proactive' and looking ahead, to very 'reactive' and only thinking about tax when it's absolutely required?**

PROBE:

- Tell me a bit more about this – could you give me some examples of ways in which you are reactive or proactive?

PROMPT:

- IF VARIES: Could you tell me how it varies with different situations; if you were able to help me understand with an example or two that would be great.

B15 **Does someone within the business have responsibility for developing an approach to tax for the year? (if so, who? is this someone's 'main' job or something they fit in alongside it? Who else is involved? Who signs off the approach?)**

B16 **Many businesses minimise their tax bill as far as they legally can – to what extent would you agree or disagree your business does this?**

- Could you tell me a bit more about this?
- What drives this approach (minimising tax bill, or not)?
- Do you have an example of where you specifically tried to reduce your tax bill (or where you specifically decided not to)? (just a reminder / reassurance that HMRC won't know that your business has taken part and all of this is completely confidential).

Edit 24/05/2018:

If the business does anything at all to minimise their tax bill, try to find out:

- Where did the idea come from originally, the business or their agents?
- If the business, who in the business?
- Ultimately, who "signed off" on the decision to do that?

It is worth noting that the business may not mention tax efficiency exclusively in this section, but we would like to find out this information if they mention it anywhere in the discussion.

B17 **Do you proactively seek help from HMRC about tax?**

- When would you commonly do this?
- Why would you do this? What sort of situation would prompt this?
- How would you do this e.g. telephone, online, via your business tax account, any other way?

B18 **We've talked about your current approach to tax – can you tell me how this has changed over the last 3-5 years?** INTERVIEWER PARTICULARLY EXPLORE HOW THINGS HAVE CHANGED IN RESPONSE TO LIFE EVENTS FROM EARLY CONTEXTUAL DISCUSSION

Explore changes in:

- Formality of approach
- What drives your approach
- Proactive / reactive nature of approach
- Minimising tax bill
- Approach to risk, particularly how this has changed in response to any business life events

E How decisions are made (10-15 min)

I'd now like to move on to think about how decisions are made about tax, within your business

B19 **Can you give me some examples of the most important decisions that would be made about the following taxes within the company each year?**

- VAT
- CT (Corporation tax)
- ITSA (Income Tax Self-Assessment)

B20 **FOR EACH: Who is involved in making these decisions?**

B21 **Talk me through *how* decisions are made in your company with regards tax – what is the process for making these decisions?**

- When during the year are these decisions made?
- Who is involved? (what job titles / roles?)
- In what order?
- Are they advised on these decisions at all? By who? Why?

B22 **Who provides final sign off on each of your major decisions?** NOTE MAJOR DECISIONS AND WHO GIVES FINAL SIGN OFF

- When are these final decisions made?

B23 **We've talked about how decisions are made *currently*; can you tell me how decision making has changed over the last 3-5 years?** INTERVIEWER PARTICULARLY EXPLORE HOW THINGS HAVE CHANGED IN RESPONSE TO LIFE EVENTS FROM EARLY CONTEXTUAL DISCUSSION

Thinking about changes in:

- *What* decisions are made
- *Who* makes the decisions
- *How* decisions are made

F Contact with agents (15 min)

I'd now like to talk about agents.

B24 **Which agent/s or adviser/s do you use? E.g. very large / Big Four? Or smaller, boutique/niche agents? How many do you use?**

- How did you find / approach these?
- Why did you decide to approach these agents? (Recommendation? Previous experience?)

B25 **How long have you been using this agent/s?**

They have used them since 2000.

B26 **At which of the following 'levels' do you engage with agents / advisers? For example…**

- Do you use agents for simple auditing / submitting purposes e.g. to file returns / compute figures for a tax return?
- Assistance with day to day processes such as bookkeeping, regular PAYE tasks, filing VAT returns, etc?
- More strategic processes / planning (consultation) i.e. looking ahead to ensure tax compliance / tax efficiency / both / anything else?
- How does this agent relationship work with your in-house finance departments / teams, if you have one in place?

B27 **We'd now like to know about the most important issues / advice that you use agents / advisers for? It would be great to be able to note 1-2 specific examples if possible.**

- E.g. advice relating to significant life events in the business? (interviewer give examples of life events mentioned at B5). Example possible?
- Advice relating to specific taxes? E.g Corporation Tax / VAT / what other taxes? Example possible?
- Anything else important?

B28 **Would you ever consider going directly to HMRC about these issues / taxes / decisions you have just mentioned?**

- Why / why not?

ALL THOSE WHO USE THEIR AGENTS STRATEGICALLY

B29 **Thinking about using your agents strategically, do you tend to use agents for advice *in response to* a specific business life event that is happening, or expected to happen (e.g. merging, purchasing, moving, some other change)? or do your agents mainly help you to more generally look ahead, even though there may be no specific issues to be dealt with currently?**

- Or a combination of the two?
- Can you give me some examples?
- IF NOT OBVIOUS: Have you ever approached an agent in response to a specific business life-event? Which events/s was this? What advice did you need from your agents?

B30 ***When* do you contact / use your agents throughout the year?**

- When / how often do you contact them throughout the year?
- Are there any points in the year when they contact you? When are these? What is this for specifically?

B31 **How do you feel about your agent's approach to risk or reducing your business's tax bill? Some businesses we have spoken to feel their agents don't go far enough and others feel they go a bit too far for their liking. Where would you say your agent/s fit on that spectrum?**

- Do they match what you want to be doing?
- Do you like some agents / ideas and not others? Why?

B32 **We've talked about how you use agents currently, but I'd like to know how this has changed over the last 3-5 years…**

- The agents that you use (e.g. have you changed your agent or used an additional one?)

  IF CHANGED AGENTS:

  - What drove this change?
  - PROMPT: specialist knowledge needed, advice on certain reliefs, errors, personal relationship, a sense of having 'outgrown' the agent? (if so - in what sense?) etc.
- The 'level' that you engage with agents at (day to day or more strategic)
- The specific issues and decisions you use agents for
- The timing of when you use agents

G Contact with HMRC (10 min)

B33 **How would you describe your business's relationship with HMRC?**

B34 **When, if ever, do you contact HMRC (aside from submitting your regular returns)?**

- What sort of issues or topics would this be about?
- How often do you contact HMRC?
- Do / would you ever 'check' issues with HMRC before committing to returns or making certain decisions?

IF YES – CHECK ISSUES WITH HMRC:

- For what sort of decisions?
- Do these decisions relate to any of the particular business life-events that we have talked about?
- Why do you contact HMRC to check on these issues?

IF NO – DO NOT CHECK ISSUES WITH HMRC:

- Why do you not 'check' with HMRC on particular issues before taking actions or making decisions?

B35 **What is it like to contact HMRC?**

- Is it a positive / negative experience?
- Why do you say that?
- Can you give me some examples?

B36 **In general, how helpful do you find HMRC when it comes to helping you meet your tax obligations?**

- Why do you say this? Can you give me some examples?

B37 **Does HMRC ever contact your business?**

- When does this happen?
- What is the contact about?
- How do you feel about this contact?

B38 **What could HMRC do better, to help you meet your tax obligations?**

- Any changes to HMRC's service?
- Changes to level or type of contact that you have with HMRC?
- How / why would this help you? What specific impact would this have?
- Can you give me some examples?

H Final wrap up (2-3 min)

B39 **Is there anything else you would like to add that hasn't been discussed?**

B40 **And would you be happy for us to pass a transcript of this interview to HMRC, on an anonymised basis, so with any identifiers removed?**

Yes	
No	

B41 **As discussed, we would like to donate £25 to a charity of your choice as a thank you for giving up your time. Which charity would you like the donation to go to?**

INTERVIEWER WRITE IN CHARITY AS SHOULD APPEAR ON CHEQUE
INTERVIEWER WRITE ADDRESS WHERE CHEQUE SHOULD BE SENT.

THANK PARTICIPANT AND CLOSE INTERVIEW

I declare that this interview has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.		
Interviewer signature:	Date:	
Finish time:	Interview Length	Mins

"

IFF Research illuminates the world for organisations businesses and individuals helping them to make better-informed decisions."

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Whether employer or employee, client or collaborator, we are all humans first and foremost. Recognising this essential humanity is central to how we conduct our business, and how we lead our lives. We respect and accommodate each individual's way of thinking, working and communicating, mindful of the fact that each has their own story and means of telling it.

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