



HM Revenue  
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**Research report 575**

# **Making Tax Digital Letter Testing**

Research to understand how Self-Assessment customers could be encouraged to voluntarily sign up for Making Tax Digital

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# 1. Executive Summary

This qualitative research was conducted with Income Tax Self-Assessment (ITSA) customers and agents who work with ITSA customers. It explored responses to an invitation to self-employed businesses and landlords to voluntarily use Making Tax Digital (MTD) for Income Tax.

At the time the research was conducted, low awareness of MTD meant any communications would need to clearly explain what MTD is, when and why it is being introduced and what it means practically for customers and agents.

When MTD was explained to customers, their assumption was that the move to quarterly updates would involve doing the equivalent of an annual tax return four times a year. Giving customers specific information about the requirements of MTD would help more digitally confident customers to recognise that they already have the skills to successfully use the software and that it may reduce time spent meeting tax obligations.

To encourage engagement with MTD, communications should emphasise the benefits for customers and agents, as relevant. Customers felt that the benefits of MTD included reducing the time needed to make their annual tax return, as they would do a smaller return quarterly and their business taxes being more streamlined. Agents also felt that quarterly updating could help them to spread their workload over the year and avoid the annual rush. Stating when customers would need to start using the Income Tax service would also help to build engagement by giving a deadline to work to.

Agents would appreciate being told about the invitation to join MTD before customers, to give them time to find out more about MTD and prepare for any questions their clients may have.

## 2. Introduction

### 2.1 Background

Under Making Tax Digital (MTD), self-employed businesses and landlords will keep their income tax records digitally and send quarterly income tax updates to HMRC using MTD-compatible software. Some self-employed businesses and landlords are already able to sign up for the Income Tax service, but the Government has stated that it will not be mandating MTD for any new taxes or businesses before April 2021. The MTD service for VAT will be compulsory for businesses with a turnover above the VAT threshold (currently at £85,000) from 2019.

Whilst self-employed businesses and landlords are not currently mandated to sign up for MTD, HMRC was interested to find out how this customer group would respond to a letter inviting them to voluntarily sign up for the service.

### 2.2 Research Aims

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The objectives of this research were to understand:

- Comprehension of the letters.
- Clarity of the key messages, particularly the call to action.
- The extent to which the messages persuaded customers to voluntarily engage with MTD.
- What action recipients were likely to take after receiving the letter and any ways in which the letter could be designed to increase their likelihood of them voluntarily signing up for MTD.
- Who customers would involve in their decision about whether or not to engage with MTD, why, how they would go about doing this and implications of this for the design of the letter.
- How well the letters capitalised on motivations and overcame barriers to voluntarily engaging with MTD for income tax amongst customers and any developments which could enhance their ability to do so.
- How the letter could be improved and any considerations or differences amongst the different audience subgroups.

### 2.3 Method and sample

A qualitative approach was taken for this study, consisting of:

- Three discussion groups and nine depth interviews with ITSA customers who had an annual business turnover of more than £10,000.
- Twelve depth interviews with agents who have ITSA customers as their clients.

All participants were recruited by specialist recruiters. Within the recruited sample there was a mix of VAT registered and non-VAT registered customers. The sample also included a mix of customers who employed tax agents and those who did not. Depth interviews were carried out with digitally assisted customers. This group included those who file a paper SA return.

Before each interview or discussion group participants were reassured that their responses would remain confidential and anonymous and that no identifying information about them would be passed back to HMRC by Ipsos MORI.

Fieldwork took place in Birmingham, Manchester and London in February 2018.

Three letters and a leaflet were tested with customers, and two letters were tested with agents.

## 3. Findings

This report presents summary findings of what ITSA customers and agents would need to know about MTD in order to encourage them to voluntarily sign up to MTD or support their clients to do so.

### 3.1 Customer communication needs

This section outlines what customers would need to know about MTD to encourage them to voluntarily sign up and considerations for how the information is presented to maximise engagement.

#### Customer response to MTD

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ITSA customers engaged with HMRC in a practical way. They focused on the actions they needed to take to comply and knew little about MTD, including when and why it was being introduced. To address this, the invitation to sign up for MTD would need to clearly explain what MTD is, why and when it is being introduced and what the changes would mean for them practically.

Customers were receptive to HMRC making more use of digital solutions for management and payment of taxes. This fitted with how they engaged with other services and was seen to show HMRC as being a modern organisation. However, there were also concerns about what the changes associated with MTD might mean for them. Based on the information provided, customers assumed (incorrectly) they would have to submit the equivalent of four annual returns rather than one. They therefore believed that MTD would be more time consuming than the current system. Customers also had questions about what would happen if they made a mistake and how to account for invoices and expenses that ran over the quarter.

*“It's [MTD] modern and encouraging... It's keeping up to date with the times.”  
ITSA Customer*

Customers who were currently using accounting software to manage their taxes and using the Personal or Business Tax Account to submit their SA return already saw their taxes as being digital. They didn't understand how MTD would be different.

To address concerns about the changes, communications about MTD will need to clearly explain what the changes mean for these customers practically and how they can benefit from signing up. The benefits of MTD for ITSA customers were seen as making their business finances more streamlined, giving them the confidence that they were getting their taxes right and hopefully saving them time overall.

*“The letter needs to mention how you will save time. How your records will be more accurate. How you will be more organised, how you will be more in control of looking at your own finances at a touch of a button.” ITSA Customer*

Concerns about having to learn a new system, and potentially making costly mistakes, could also be allayed by positioning MTD as a development or improvement to how customers were already managing their taxes. This would also be a better reflection of how customers already using software and the PTA / BTA saw the changes.

Being invited to sign up for a pilot caused concern. Customers interpreted this as meaning that the system was not fully developed or tested and that there might be problems using it. Informing customers that the system is already being widely used could help to reassure them.

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*"I don't like pilot...pilot in my organisation means we don't really know what we are doing and I don't think a tax authority should really be communicating in that way with its customers." ITSA Customer*

Because the move to MTD felt like a major shift for customers, they felt that a letter would not be able to tell them everything they needed to know in order to sign up. Signposting sources of additional information about MTD and what it would mean for customers helped to address this. YouTube was the preferred type of support. They felt that the videos would be relatively short, easy to understand and accessible on demand so customers could watch them in their own time.

*"I would go and have a look at the YouTube video...it's far more compatible for me than reading something." ITSA Customer*

It was important to make the steps to finding out more as simple and straightforward as possible. Directing customers to 'search for' particular phrases which would lead them to the right content would be more engaging than asking them to enter lengthy or complicated website addresses.

Personalising the letter by referring to the customer's agent or the type of software used (where relevant) also helped to build engagement by showing that they were being personally invited to sign up for the service, rather than it being a generic invitation.

*"It's good to have the software named... Shows that your software is compatible... Feels like HMRC have done their research." ITSA Customer*

Stating the date by which customers would need to sign up by the service helped to encourage customers to act by providing a deadline.

### **Considerations for letter design**

As well as the content of the letter giving customers the information they needed to engage with MTD it was also important for the letter design to encourage engagement with the content.

The letter heading needed to quickly engage customers with the content to encourage them to read on. To do so it needed to be immediately relevant and of interest. Customers were not engaged by the idea of helping HMRC but equally did not want to feel that they were being told to sign up. To maximise engagement, the heading should position MTD as something which customers would benefit from finding out about early.

The research also found it was important for the letter to be on one side of paper as in the sessions customers did not always turn over the page. When the letter was on two sides, important information, such as where to get additional support was missed. To strike the balance between giving customers the information that they needed and the letter being easy to engage with, a separate leaflet could give more detail about how MTD works in practice.

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Overall, ITSA customers who were more likely to engage with MTD were those who were already highly digitally engaged for general activities and who had relatively simple tax affairs. Being digitally engaged positively influenced customers' likelihood of engaging with the service as they could more clearly see the benefits, such as speed and simplicity. This method of record keeping was also more likely to easily fit into their current approach. Simple tax affairs also contributed to customer likelihood to engage with MTD as they were likely to be less reliant on their agent and moving to a system of regular updates felt easier to manage. Some customers in this position even felt that they would no longer need an agent as their taxes would be easier to manage.

### **Considerations for leaflet design**

As customers felt that they would want a letter introducing them to MTD to be on one page it would be helpful to supplement this with an information leaflet giving more detail on MTD. This would help to encourage engagement by further addressing the barriers to engaging with MTD and emphasising the benefits.

When presenting an overview of customer obligations under MTD, it was important to make this feel as simple and easy as possible. Customers were worried that MTD could make managing their taxes more complicated or time consuming, so a simple overview could help to allay these concerns. In addition, highlighting any ways in which customers may already be engaging in activities required by MTD would make the transition seem easier and therefore more appealing.

Case studies helped to reinforce the benefits of MTD by giving customers examples of how MTD helped people like them manage their taxes. They also demonstrated how easily MTD could be embedded into their business practices.

A leaflet was also a good place to signpost customers to further information and resources to answer any questions about signing up for MTD.

### **3.2 Agent communication needs**

The role of the agent was very important, as customers who used an agent said they would go straight to them if they received any communication from HMRC, including about MTD. However, the agents interviewed had low knowledge of MTD. To address this, as with the customer letters, any communication would need to explain what MTD is, when it is happening, why it is being introduced and how it would affect both agents and their clients.

*"I would explain a little bit about this digital thing." Agent*

*"I think transparency is the key really, why are we doing this, why is HMRC doing it." Agent*



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Depending on their attitude to their work and where they were in their career, agents were worried that MTD could mean more work for them or less. Agents who worried that MTD could mean more work also worried that their clients would not want to pay more for their services. Emphasising the benefits of MTD for both agents and clients could help to address this. One benefit identified by agents was that MTD might mean their workload was spread over the year, rather than in an annual rush as is currently the case. However, as there were some concerns about MTD affecting volumes of work, it would be important to emphasise that the changes would mean agents were able to distribute their work differently, rather than leading to more, or less, work.

*“[Having] a bit more information about Making Tax Digital, more information on what’s going to change [would be good].”  
Agent*

It was important to explain or signpost agents to more detailed information about how MTD would work in practice. Agents felt that webinars were the best way to learn about MTD as they would give detailed information and allow participants to ask questions.

*“I have used [webinars] before and they are good. It’s visual and they go through all the steps and they explain [points] quite easily.” Agent*

Agents felt that their clients would contact them as soon as they received letters inviting them to join MTD. To give them time to prepare for these anticipated queries, agents wanted information about MTD before their clients. Agents also thought it would be helpful for HMRC to identify which of their customers had been invited to join MTD so that they were prepared for them to get in touch about this and could even contact them proactively.

## 4. Conclusions

### Customers

- Self-employed businesses and landlords customers within this research had low knowledge of MTD at the time it was carried out. Any communication inviting them to sign up for the Income Tax service would need to act as an introduction to MTD, explaining what it is, why it is being introduced and how it can benefit them.
- Whilst customers were generally receptive to HMRC offering a more digital service, they were also worried about changes to the system for managing their taxes. They were familiar with the existing process and worried about making mistakes. As such it was important for the service to seem easy to use and transition to. Case studies helped customers see how MTD could help them and how easily it could fit in to their business practices.
- Explaining that MTD is used by other business customers like them also helped build acceptance for the service. Customers were worried by the use of the word ‘pilot’ as they felt that this suggested that the system was not properly developed and tested.

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- The benefits of MTD self-employed businesses and landlords identified were that it could help them manage their business finances by making them more streamlined, and giving them confidence that they were getting their taxes right. Not having to gather and submit their receipts and invoices from the whole year was also seen as a key benefit.

## Agents

- Agents played a very important role in securing engagement with MTD amongst ITSA customers. Customers would go directly to their agent with any information from HMRC and rely on them for guidance about whether to sign up.
- Agents interviewed knew little about MTD at the time. It was therefore important to explain why and when the changes were being introduced and what this would mean for ITSA customers and their agents, including the benefits.
- For agents, one of the benefits of MTD was being able to spread their workload over the year. However, they were worried that MTD could cause more work for them and these concerns would need to be addressed.
- Agents needed more information about MTD before knowing whether to recommend their customers to sign up. Webinars were the preferred channel for agents to get more information about MTD.