



*Research report*

# Understanding Affluent Individuals

**Personal Tax Customer and Strategy Directorate  
July 2012**

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**Understanding Affluent Individuals*****About Personal Tax Customer & Strategy (PT C&S)***

Personal Tax Customer & Strategy works with colleagues in Personal Tax and across HMRC to use Customer Insight to help design, deliver and operate services for individuals.

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## Understanding Affluent Individuals

### *Research requirement (background to the project)*

The overall objective of this project was to help HMRC to:

- build a sound understanding of the affluent to:
  - find out whether different behaviour patterns exist;
  - establish whether it's possible to identify and define groups with common attitudes and behaviours;
  - explore attitudes towards tax generally; and
  - to understand the role of tax advisors/agents.
- identify, define and describe affluent customers:
  - produce a sound portrait of their characteristics to inform HMRC's service delivery.

Affluent individuals according to the HMRC definition are those who have an annual income of £150k or more, or who have assets in excess of £2.5m - excluding the 5,000 wealthiest individuals who are dealt with by HMRC's High Net Worth Unit. Agents are individuals who provide professional advice in relation to tax.

### *Who did the work (research agency)*

The research was conducted by Quadrangle.

### *When the research took place*

Phase 1 of the programme took place between December 2011 and February 2012; Phase 2 between February and April 2012.

### *Method, Data and Tools used, Sample*

1. Phase 1 explored how the research would be used to inform HMRC practices, products and communications as well as how Quadrangle should construct the qualitative research in Phase 2. Phase 1 comprised of:
  - Desk research
  - 7 HMRC stakeholder consultations
  - 2 external stakeholder consultations
  - 10 'pathfinder' depth interviews conducted with 6 affluent individuals and 4 with agents.
2. Phase 2 was the main period of interviews with affluent customers and their agents, including:

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- 32 depth interviews with affluent individuals, across a mix of income and asset levels, from regions throughout England;
- 10 depth interviews with individuals earning between £113k to £150k (to determine whether there are tipping points in tax planning, resulting from the loss of personal allowances and ahead of individuals being affected by the 50p rate of tax);
- 10 depth interviews with Agents representing affluent individuals, to profile the affluent population by drawing on the knowledge Agents have of these clients and understand better the relationships between affluent individuals and their Agents. Agents included a mix of specialist tax planners, wealth advisors, high street accountants, boutique firms, “big 4” and “tier 2” firms; and
- 4 paired depth interviews with an affluent individual and their Agent, to explore individual relationships in detail and capture the interplay between Agent and Client.

Depth interviews of 45-60 minutes were conducted face-to-face or, where necessary, by telephone, in London, the South East, Midlands and the North West.

## *Main Findings*

### Overview of key findings

1. **Respondents’ lifestyles did not correlate or have any impact on tax attitudes and behaviours.** There was a breadth and diversity of lifestyles among respondents but these factors had seemingly little or no bearing on tax behaviour.
2. **Many respondents did not feel affluent**, describing themselves as financially “comfortable” but also sharing a sense of being overworked and burdened by large financial commitments. There was a lack of awareness amongst this group that they were within the top 1% of earners. As a group, respondents tended to compare themselves to their own peer group.
3. **Respondents’ attitudes to managing finances varied according to the value they attributed to financial management and the control they wanted to exert:**
  - some saw it as an end in itself, others saw it simply as a means to an end;
  - there were differences between those who preferred to be more in control of their finances, and therefore were less willing to delegate to agents, whilst others showed little interest and were happy to delegate such responsibility.
4. **Respondents expressed the view that having the highest rate of tax at 50% represented a tipping point** towards avoidance amongst those who, otherwise, would not seek to avoid, thereby decreasing the tax take and acting as a disincentive to working hard, progressing and earning more.
5. **There was a common view among respondents that small government tends to be better than big government.** This was rooted in a perception that larger government tends to be inefficient and wasteful.

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6. **Respondents tended to distinguish between taxes and group them into 3 broad categories:**
  - tax on income
  - tax on goods/ services
  - tax on assets.

They tended to believe that taxing income and consumption (goods and services) is acceptable in principle. Judgements as to the “fairness” of any particular tax on income depended upon the specific rate set. By contrast, they thought that taxing assets was unfair in principle as they believed it represented, in effect, “double taxation”.
7. **Respondents had three main drivers for using Agents:**
  - Accuracy (keeping on the right side of the law)
  - Time management (helping to navigate what is a complex tax system)
  - Minimisation/ avoidance (reducing one’s tax bill through planning).
8. **Respondents tended to have limited direct interaction with HMRC** although those that did interact directly broadly perceived HMRC to be fair, competent and efficient in administration of the tax system. There was demand to see HMRC close loopholes and impose tougher penalties on those found to really be abusing the system.
9. **Media, family, friends and professional agents all had influence** and jointly helped to define what tax behaviour is acceptable or not. They operated in different ways and had different impacts.
10. **There were three primary drivers** that made it possible to distinguish between different types of affluent – their motivation to comply, the opportunities to minimise and their tolerance to risk. These factors determined tax behaviours and therefore defined the types.
11. **These three primary drivers gave rise to 5 different types of affluent** individuals who were categorised by their attitudes and behaviour to taxation rather than by lifestyle or volume of wealth.

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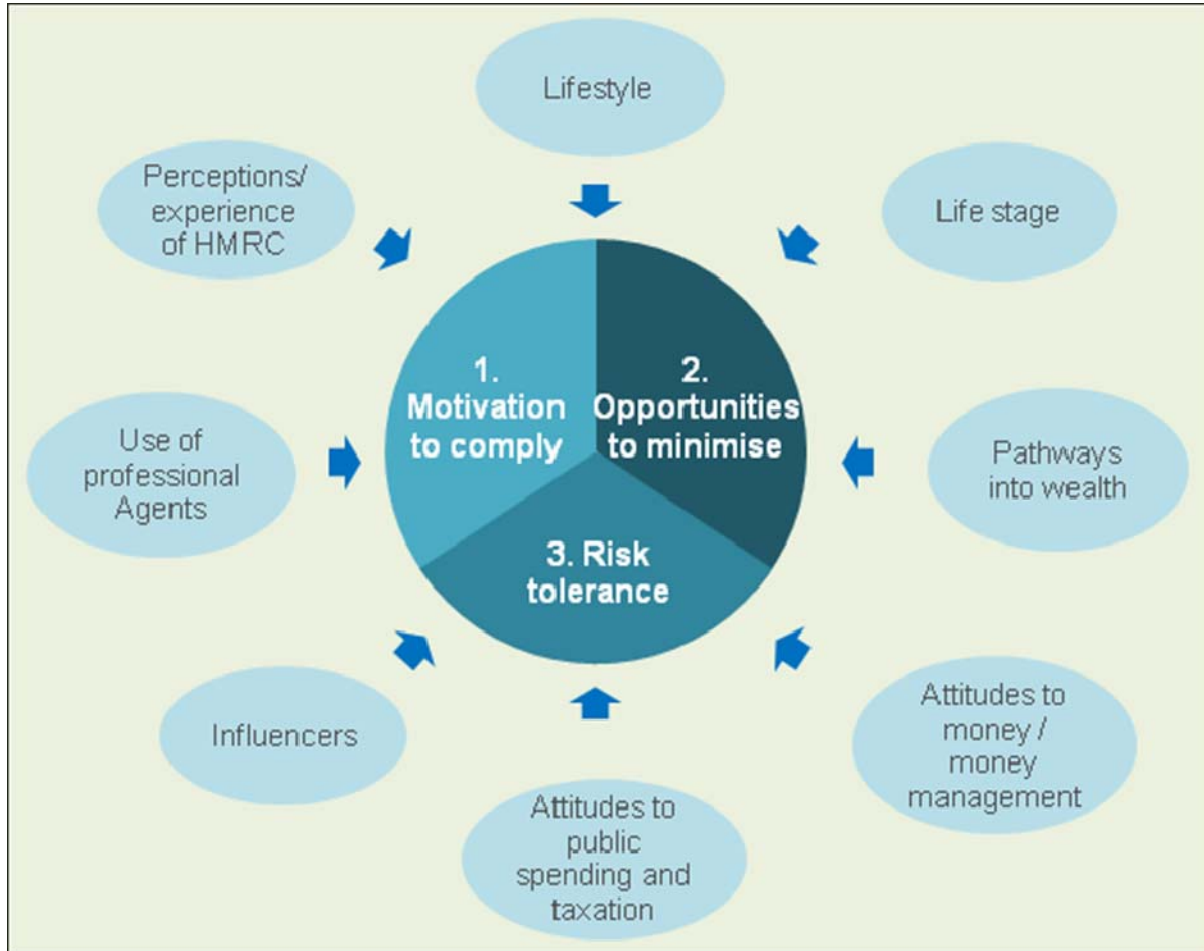


Figure 1

### The Affluent Typology: three key drivers

The three drivers which define the affluent typology are:

1. **Motivation to comply** – refers to people’s willingness to comply voluntarily. The highly motivated made no effort to minimise, even where opportunities were present and only made use of mainstream tax allowances and reliefs (e.g. ISAs, Gift Aid, contributions to pension funds, etc).
2. **Opportunities to minimise** – refers to the scope that there was for an individual to minimise their tax liabilities. These opportunities tended to arise where individuals could take discretionary income, had complex tax affairs, had high disposable income or received lump sums or irregular income.
3. **Risk tolerance** - the degree to which individuals were willing to take chances and could handle uncertainty.

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Each of these three drivers carried a low, medium or high classification. The way in which a respondent was categorised determined their typology outcome result (see Figure 2 below). The research did not quantify the size of each type; however, HMRC’s experience is that the majority of affluent individuals are compliant.

The affluent typology logic:

**The typology logic.**

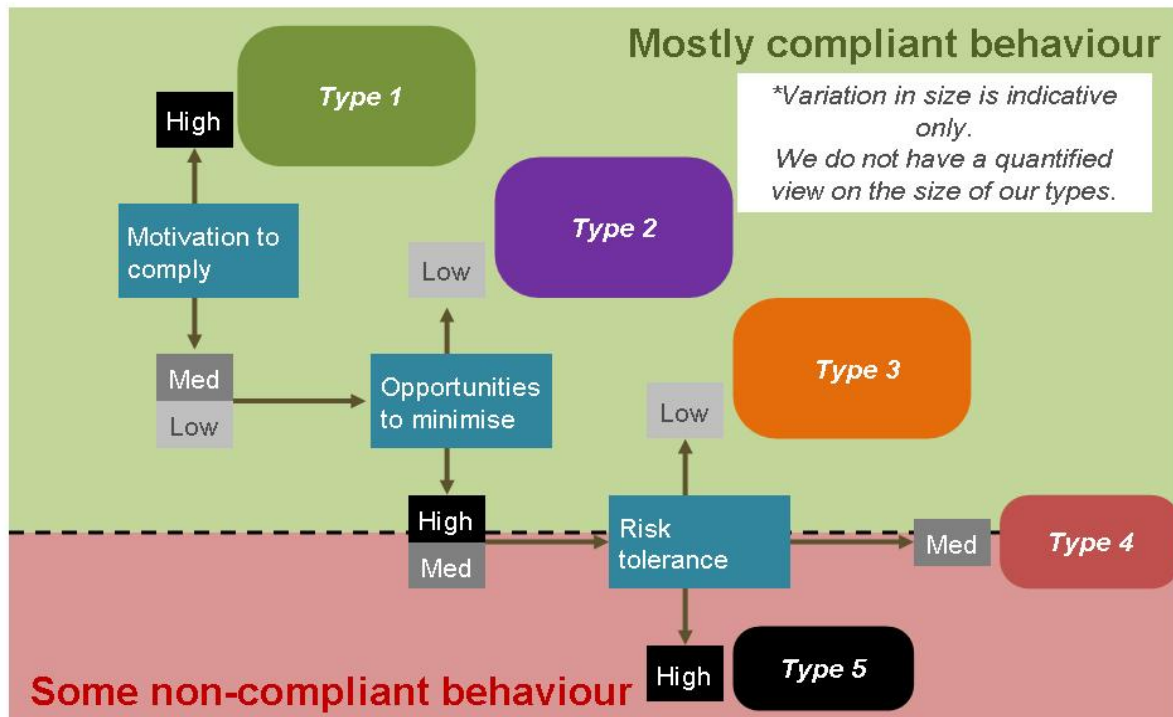


Figure 2