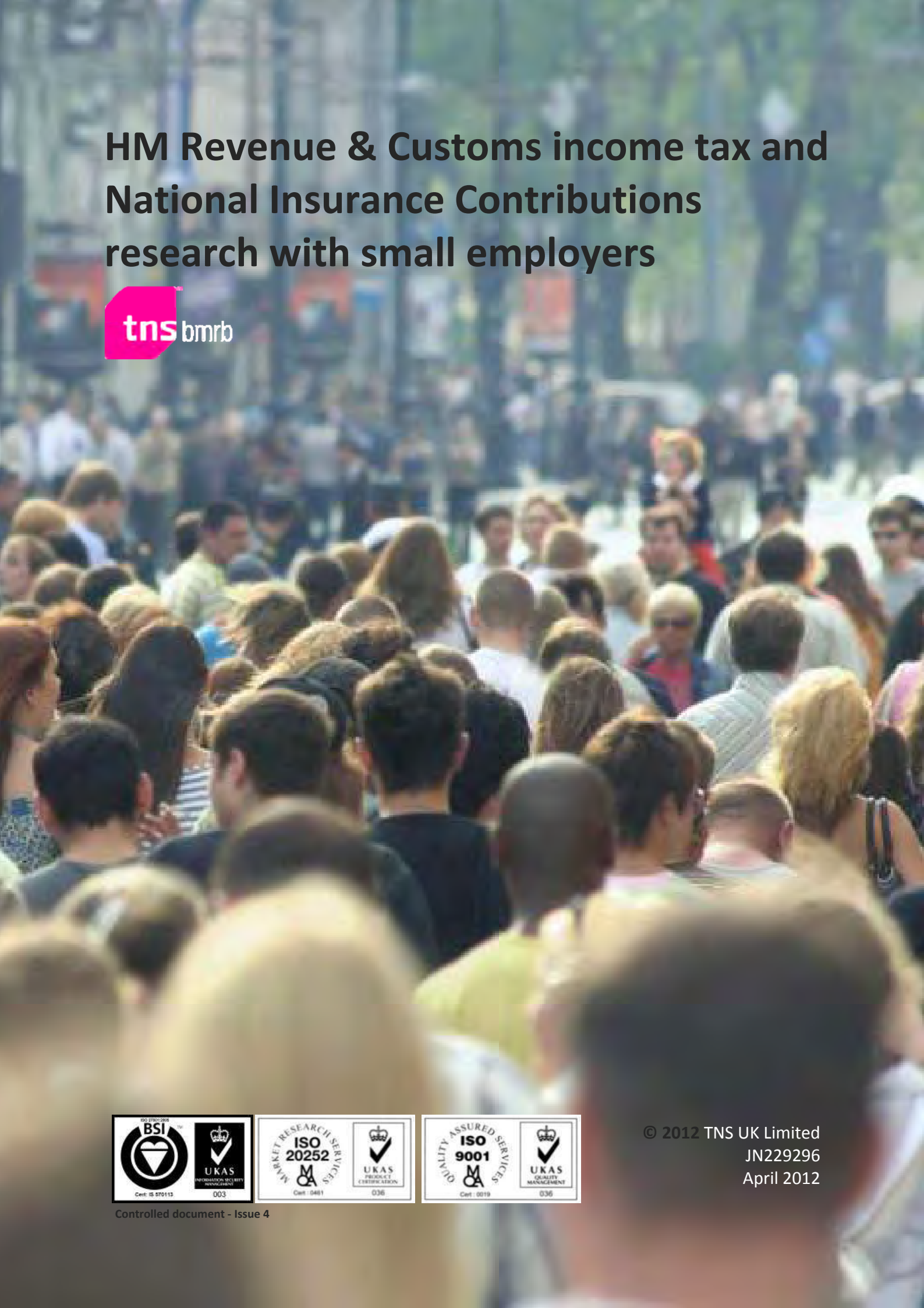


# HM Revenue & Customs income tax and National Insurance Contributions research with small employers



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# Executive Summary

## Background and method

At Budget 2011 the Chancellor announced a programme of work exploring how to integrate the operation of the income tax and National Insurance contributions (NICs) systems. The objectives of this work were to reduce the burden on employers, increase fairness, remove distortions in the system and reduce administrative costs. Research was conducted to enhance the information gathered from the Call for Evidence,<sup>1</sup> which took place in summer 2011, with 'Next Steps' published in November 2011.<sup>2</sup> This report presents the findings of this research.

Small employers, with fewer than 50 employees, were the focus of the research, because little was known about the ways in which they deal with PAYE and they were considered less likely to respond to the Call for Evidence. Given the focus on reducing burdens and complexity a better understanding of this was sought. The aims of the research were to provide insights into how small employers operate the income tax and NICs systems, establish key areas of difficulty with the two systems, and gauge employers' views and priorities for potential changes.

The research used an integrated programme of qualitative and quantitative research. An initial development stage was used in order to develop understanding of the way the systems are operated, and to produce tools for the main survey stage of the research. This incorporated HMRC stakeholder workshops, exploratory face to face in depth interviews with 12 small employers, cognitive questionnaire testing, and a fieldwork pilot of 50 small employers. The main survey used a random probability sample of small employers, with 1500 20 minute telephone interviews conducted in late 2011/early 2012. The person with responsibility for administering payroll within the business was interviewed. Two discussion groups were conducted with financial agents, and two with small employers to further explore issues around changes to the system. Finally follow-on in-depth interviews were conducted with 12 survey respondents, to further explore issues arising from the survey.

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<sup>1</sup> 'Integrating the operation of income tax and National Insurance contributions: a call for evidence' - [http://www.hm-treasury.gov.uk/consult\\_income\\_tax\\_national\\_insurance\\_contributions.htm](http://www.hm-treasury.gov.uk/consult_income_tax_national_insurance_contributions.htm)

<sup>2</sup> 'Integrating the operation of income tax and National Insurance contributions: next steps' - [http://www.hm-treasury.gov.uk/tax\\_income\\_nics.htm](http://www.hm-treasury.gov.uk/tax_income_nics.htm)

## Key findings

### Dealing with income tax and NICs

Two thirds of small employers (66 per cent) carry out some income tax and NICs tasks in house and outsource others, with 77 per cent of employers using an agent for at least one income tax or NICs task. Only 11 per cent of small employers hand over everything to an agent, although this is slightly more likely among smaller employers, and those who have been trading for less time. Even for these employers, the majority still conduct at least some tasks in house.

The initial qualitative work suggested that payroll tasks could be usefully split into routine payday and year end tasks, irregular in year tasks (e.g. dealing with joiners and leavers, and errors) and more complex non-standard tasks (e.g. the income tax and NICs implications of pensions, redundancy payments etc). The survey confirmed that tasks which are irregular or seem more complex to employers are most likely to be outsourced. End of year tasks, which tend to be perceived as complex, are outsourced by 52 per cent of small employers. Around half outsource each of the less regular in year tasks (e.g. 55 per cent outsource the production of P45s).

More complex tasks that are only dealt with by a minority of employers are an exception to this approach. Those employers dealing with more complex tasks with implications for income tax and NICs, such as statutory pay, workplace pensions, or benefits in kind, are less likely to outsource them. This is because these tend to be dealt with mainly by larger employers, who are more likely to have specialist staff in house to deal with payroll. Half or more deal with each of these tasks completely in house, with the highest levels for those dealing with benefits in kind (67 per cent).

For most employers that do some or all tasks in house, this does not take a great deal of their time. On average, payday tasks take two and a half hours each payday, with end of year tasks taking around seven hours each year. This does not vary greatly, with almost all reporting spending under five hours each payday and under 22 hours at the end of each year. Thirty per cent of employers use a software package to deal with payroll, and this does increase the cost, although most spend under £600 a year for subscription software, or under £350 for an off the shelf package. Thirty two per cent use HMRC free tools, but the qualitative work suggested that some small employers believe the free tools do not have sufficient functionality for their needs.

Lower tech solutions are not uncommon, with around 20 per cent using spreadsheets and 18 per cent using paper based workings, although only 9 per cent totally rely on paper-based workings. Four in ten still pay HMRC by cheque. The qualitative research suggested that a move to e-solutions could be challenging for a significant minority of small employers and the use of low-tech solutions could act as a barrier to bringing tasks that are perceived as more complex in house. It also suggested that the use of low-tech solutions can increase employers' understanding of how the income tax and NICs systems work, with others content to rely on software or tools, with an associated belief that they did not need to fully understand the system.

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Of the three in four small employers using an agent, 50 per cent believe that they lack the skills to perform all of their payroll tasks in house and 31 per cent say they have insufficient resource. Twenty one per cent are worried about getting things wrong if they do not hand over some or all tasks to an agent. The qualitative research suggested that others believe it is a better use of resources, and more cost effective, to pay an agent to deal with payroll (and other business finances), and leave staff free to deal with customers.

Seventy one per cent of those who use an agent for some tasks only outsource the tasks they see as more complex, although 26 per cent use an agent to check their in house calculations. An agent (usually a finance professional) tends to be used for a variety of tasks (including guidance), and the qualitative work suggested that employers do not usually know how much of the agent's time is spent on payroll tasks versus broader financial tasks. From the qualitative research it is clear that the cost of using an agent is not necessarily high, but that habit is likely to be the biggest barrier to reducing agent use. While some employers have brought more tasks in house over time, most started off their business either using an agent, or conducting tasks in house, and see no need to change.

### Difficulties

The survey also explored employer's perceptions of how much of a burden income tax and NICs are, relative to other tasks a business has to deal with. The survey found that the burden was rated, on average, as three and a half out of ten, where one is no burden at all and ten is the greatest burden from running a business. The qualitative research found that tasks such as making sales, securing finance, paying invoices and other statutory burdens such as employment law are perceived as much more burdensome than income tax and NICs. While most of these tasks are inevitably likely to be more time consuming than payroll, this does provide context for the perceived relative burden of dealing with income tax and NICs in the broader context of running a business. More research would be needed to better understand how much of a burden they thought this was compared to other statutory obligations imposed by Government.

When presented with a range of specific income tax and NICs tasks, 50 per cent of small businesses do not perceive any of the tasks to be a particular burden to their business. This perceived lack of burden often reflects the use of an agent to conduct tasks for the business, and those dealing with all tasks in house are more likely to report that at least one task is a burden (61 per cent). Further qualitative exploration revealed that perceived burden is driven by perceived complexity, but also that familiarity, regularity and the potential for impact on business decisions (such as whether to offer benefits in kind or financial bonuses) also play a role.

The single most commonly reported burden is dealing with HMRC, a burden for 27 per cent of small employers. Only a small minority report each of the other listed tasks as a burden: 13 per cent perceive the income tax and NICs elements of employees leaving and joining to be a burden, and no

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other task is a particular burden for more than ten per cent of small employers. This is sometimes because of high levels of outsourcing (e.g. working out the NICs letter, cited as a burden by six per cent, and outsourced by 53 per cent). Other tasks are only relevant to a minority of small employers (e.g. benefits and expenses, a burden for six per cent, but only dealt with at all by 29 per cent).

Some tasks are perceived by the vast majority as *not* being a burden (80 per cent for employees leaving and joining, 83 per cent for the differences between income tax and NICs). Other tasks are a relatively higher burden, although none is a burden for more than three in ten of those who deal with each in house. The income tax elements of dealing with statutory pay (29 per cent), termination and redundancy payments (26 per cent) and end of year returns (26 per cent) were most likely to be reported as a particular burden for those dealing with each in house.

Overall, respondents report that errors in calculating NI are made infrequently. Only 30 per cent recalled an error, most of these less than once a year. While 40 per cent would ask an agent to correct such a mistake, 55 per cent would correct it themselves. Most report correcting such errors to be easy: 79 per cent for each of NICs and income tax errors, although income tax is perceived as slightly easier to correct (33 per cent finding it very easy compared with 24 per cent for NICs).

Answering queries employees have about income tax and NICs is slightly more problematic; with half only confident in explaining simple queries (49 per cent for NICs, 48 per cent for income tax) and over a quarter unable to answer any queries (28 per cent for NICs, 27 per cent for income tax). Explaining changes to employee tax codes is perceived as more straightforward; 65 per cent were confident they could do this. This is part of wider evidence (shown elsewhere) that although tax and NICs are not seen as burdensome, they are not well understood.

## Change

The qualitative work suggests that most small employers view income tax and NICs as one system and cannot see what could be usefully simplified, often because they rely on software or an agent and have little understanding of the process. Simplification is perceived as likely to help employers understand the systems and explain things to staff, but to have little scope to reduce burden, and there is some degree of concern about the burden of familiarisation required by any changes.

In the survey, while 30 per cent of employers who outsource tasks would be willing to bring some tasks back in house if they were sufficiently simplified, only 13 per cent are able to think of anything that would achieve sufficient simplification, reflecting a general lack of understanding of the processes. Just 12 per cent of employers carrying out tasks in house can see any improvements that could be made that would reduce in house costs.

A total of 18 per cent of employers are able to suggest some way to improve the systems in order to reduce costs. Suggestions tend to centre on better support and improved software or tools. Some suggested specific changes to areas of particular burden (e.g. end of year returns or P11Ds) but no

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one area stands out. Only three per cent spontaneously suggest aligning the income tax and NICs system in some way, but largely without giving any further detail.

When presented with a list of differences between income tax and NICs, although 65 per cent of employers think one or more of the differences add to the burden of operating payroll, no particular difference between income tax and NICs stands out. Employers with less experience, and those who outsource everything or who use low tech methods for their payroll in house, report more of a burden resulting from the differences. This is likely to relate to a lack of understanding and a fear of getting the tasks wrong, for those who outsource. For those who use low tech methods for calculating payroll, the differences probably do add a real burden to their calculations, as they must calculate the two taxes manually.

Just 23 per cent of small employers can spontaneously suggest any changes to reduce the differences between the two systems that would reduce costs or burden. These are mostly suggestions to simply combine the two systems (13 per cent) with no real detail. From the qualitative research it seems that aligning the two systems is intuitively sensible, but that employers find it hard to know what it would involve or to judge the impact it would have on workload.

When specific changes are suggested to employers, the majority response for each change is that it would make no real difference to the burden of payroll administration. Aligning the thresholds for NICs and income tax receives the most positive reaction. The qualitative research suggests this is because it is the simplest concept to understand and has no obvious downside. Twenty eight per cent believe this change would be enough to save costs in house or bring the task back in house.

Dealing with benefits in kind each payday and in the main annual tax return, and getting rid of the P11D has a more mixed reception, with 26 per cent thinking it would reduce the burden, but 16 per cent thinking that it would increase it. The qualitative research suggests that this may relate to fears that this would involve the equivalent of an end of year return every payday.

A move to dealing with NICs annually has a slightly more positive reception than moving to deal with income tax every payday: 20 per cent think assessing NICs annually would reduce costs, compared with 13 per cent for dealing with income tax every payday. The qualitative research and the survey results both suggest that employers tend to see the NICs system as slightly more complicated and to be a little more confident dealing with income tax.

On balance, small employers think that dealing with employee NI annually and employer NI each payday is more likely to add (14 per cent) than reduce (ten per cent) burden, although as for all suggestions, the majority say it would make no difference. The qualitative research suggests that this seems a more complex proposition to employers.



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Employers who have more experience with dealing with payroll tend to be more positive about the suggestions for change. In total, 40 per cent of small employers think that one or more of the five suggested changes will reduce the burden, but this falls to only 22 per cent of those who outsource everything to an agent.

This supports the qualitative finding that employers who outsource do not necessarily understand the processes involved in payroll and so find it harder to understand how changes to the system would impact on their business. Only five changes were included in the research and it is possible that further suggestions would meet with a more positive reaction. However, the qualitative research suggests that employers would need considerably greater understanding of the processes to truly understand what any suggested change would entail, and the benefits it might bring.

## Conclusions

The research shows that income tax and NICs are not well understood by employers with fewer than 50 employees. Many employers would not feel confident explaining to their employees how their tax and NICs liabilities have been calculated, or be able to explain any changes. Many employers are nervous or afraid of making mistakes, especially if it might mean they paid their staff the wrong amount. This lack of understanding and nervousness is one of the reasons why most small employers decide to outsource at least some of their payroll tasks to an agent.

Despite this tendency to outsource tasks, the survey showed that employers do not see income tax and NICs as a particular burden when viewed in the context of the other demands of running a business, such as making sales and securing access to finance. More research would be needed to better understand how much of a burden they thought it was compared to other statutory obligations imposed by Government.

Employers are not able to come up with many specific options for making the system simpler or easier to understand. When specific changes are suggested, the majority response is that they do not think any one change by itself would make a significant difference. The qualitative work suggested that one of the reasons for this is the fact that they rely on software or agents, and therefore can not see how changing the operations could make much difference.

They find it difficult to imagine how changes to align the operation of the income tax and NICs systems would help reduce their administrative burden, beyond helping them to understand the systems more fully. There is, in fact, more of a call currently to provide improved tools, support and information, and perhaps to simplify some of the specific tasks, than to integrate the two systems.

Employers that keep more tasks in house are more positive about the potential benefits from change. This may suggest that employers who outsource do not necessarily understand the processes involved in payroll and so find it harder to understand how changes to the system would impact on their business.

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In conclusion, the research has shown that small businesses do not have a good understanding of income tax and NICs, and many prefer to pay an agent to fulfil at least some of their obligations on their behalf. More detailed research and work would be needed to better understand the true drivers of administration cost for small business from complying with the personal tax system.

# 1. Introduction

## 1.1 Background

At present, HMRC collects income tax and National Insurance Contributions (NICs) using the PAYE system, which has remained substantially unchanged since it was introduced in 1944. Within this system, income tax and NICs are operated as two separate systems with different periods and bases of charge. Under the current system, income tax has no age limit, is paid on all income, and is assessed on total annual cumulative income, with three rates applied above the personal allowance. NICs are paid from 16 to State Pension Age on most earnings, but not on most benefits in kind; they are calculated in each earning period on each employment in isolation; and they are applied at two rates above the primary threshold. Both employer and employee have NICs liability, while the employee alone pays income tax.

In 2011 proposals were made to review the possibility of **integrating the operation of income tax and National Insurance Contributions**. The aim was to further simplify the tax system for employers, reduce purely tax driven business decisions that currently result from anomalies between the two systems, increase fairness and transparency for employees, and reduce HMRC administration costs to the taxpayer<sup>3</sup>. A **call for evidence**<sup>4</sup> was issued in July 2011. Following this, a 'Next Steps' document<sup>5</sup> was published in November 2011. This summarised the results of the call for evidence, and set out some objectives and principles for reform and an indicative timetable for consultation and implementation. It also explained some of the challenges that must be overcome if reform is to succeed. In order to better understand the perceptions of burdens by small business this external research was also undertaken.

The challenge is to align the operation of the two systems in a way that delivers genuine simplification for employers, without significant adverse impact to the Exchequer, employer or taxpayer. While there will be transitional costs, these must be outweighed by longer term savings both for employers and HMRC (and therefore the taxpayer). In order to design the change, a greater understanding is needed of the burdens that the current system places on the employer. **Research** was commissioned among **small employers** as they were considered less likely to respond to the Call

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<sup>3</sup> Small Business Tax Review (Office of Tax Simplification, March 2011)

<sup>4</sup> 'Integrating the operation of income tax and National Insurance contributions: a call for evidence' - [http://www.hm-treasury.gov.uk/consult\\_income\\_tax\\_national\\_insurance\\_contributions.htm](http://www.hm-treasury.gov.uk/consult_income_tax_national_insurance_contributions.htm)

<sup>5</sup> Integrating the operation of income tax and National Insurance contributions: next steps' - [http://www.hm-treasury.gov.uk/tax\\_income\\_nics.htm](http://www.hm-treasury.gov.uk/tax_income_nics.htm)

for Evidence and little was known about the ways in which they deal with PAYE. Given the focus on reducing burdens and complexity a better understanding of this was sought.

## 1.2 Aims and objectives

The overarching aim of this research was to help HMRC understand the approach currently taken by small employers to calculating and administering income tax and NICs, and to gauge their views on potential changes to income tax and NICs policy.

More specifically, the key objectives were:

- (i) to provide insights into how small employers operate their income tax and NICs systems
- (ii) to establish key areas of difficulty for small employers within the current system
- (iii) to gauge small employers' views on potential changes to the system identified by government, and small employers' priorities for reform.

## 1.3 Research method

This section gives an overview of the research method, with further details included in the appendix.

### 1.3.1 Developmental stage

#### Stakeholder workshop

An initial questionnaire design workshop was held to begin the research process, taking the opportunity to engage with key HMRC stakeholders, to explore the question areas in more detail, consider the themes to be explored and to refine the topics for which questions were required. Stakeholders were also given the opportunity to share existing knowledge (e.g. from HMRC frontline or operational staff feedback).

#### Qualitative exploratory depth interviews

It was believed that small employers in particular frequently struggle with the complexity of the Income Tax and NICs systems, although relatively little is known about the specific features that employers find most difficult or that are more error-prone. In order to develop sufficiently sensitive survey questions exploratory qualitative research was used to flesh out the relevant process issues, understand the level of burden they place on employers and identify the language that is used by employers to describe the payroll processes they use.

Twelve, 60 minute, face-to-face depth interviews were conducted with small businesses to provide an insight into how they manage the payroll process. A wide range of employers were included reflecting a range of industry sectors as well as payroll processes that were managed in house or were outsourced wholly, or in part, to an agent. Employers were sourced using free-find recruitment methods.

The output from this stage of analysis allowed us to identify:

- hypotheses about **how small employers deal with Income Tax and NICs**;
- the **issues that need to be addressed by the survey questions**;
- the **concepts and language** that capture **employer Income Tax and NICs processes**; and
- the features that employers consider make the Income Tax and NICs **process less straightforward**.

### Cognitive testing

Alongside the pilot, eight, 30 minute cognitive interviews were undertaken by telephone. Sample was selected to cover the same broad spread of employers as the exploratory question development interviews and the interviews were designed to test comprehension and understanding of a set of the draft survey questions. Employers were again sourced using free-find methods.

Once the interviews had been completed, all the issues for each question were collated onto a 'master' copy of the questionnaire, showing all the variations in interpretation, issues for attention and suggestions for change.

### Fieldwork pilot

Following the depth interviews, a quantitative questionnaire was developed. A short fieldwork pilot to test the questionnaire then took place. Given the time constraints it was not possible to test the planned sample approach in field, but instead a sample of small employers from Dun & Bradstreet for the pilot. The pilot was used to assess willingness among employers to take part in a survey on this topic, and to gauge how well the questionnaire worked.

Interviewers were fully briefed ahead of the pilot interviews, and then asked to conduct the interviews as if this were the main survey. Researchers listened in to interviewers and took notes on problematic areas, and then asked the interviewers for their feedback on how well the interview worked.

In total 50 interviews were conducted.

Following the testing phase (pilot and cognitive testing), feedback was shared with HMRC together with suggestions for a revised questionnaire. A final questionnaire meeting was held to discuss and agree these changes.

### 1.3.2 Main survey stage

The main survey was designed to test hypotheses from the qualitative work about how small employers deal with income tax and NICs, and to address (for the first time) the third objective around reactions to potential change.

IDBR sample was used, as it is the most robust sample frame of small employers who deal with income tax and NICs, since their sample is drawn from PAYE records.

A sample design was produced to ensure sufficient coverage of larger employers (with 10-49 employees) and of employers that do all of their income tax and NICs tasks in house, consisting of a sample skewed slightly towards larger employers, with 1000 interviews covering all small employers and a boost of 500 employers who do all income tax and NICs tasks in house.

A random probability sample of employers with fewer than 50 employees excluding financial agents was selected at enterprise level, after stratifying by top level industry sector within size band. Number look up was used to find as many telephone numbers as possible. A sub-sample was selected at random for fieldwork to maximise potential response rates.

The final data were weighted back to natural proportions, using population figures by size band from IDBR, and estimates of the proportion of small employers using an agent, based on all records screened during fieldwork. An estimated overall confidence interval of +/-3.5 per cent was achieved.

Fieldwork took place from the 21st November 2011 – 6th January 2012 and was conducted using CATI (Computer Assisted Telephone Interviewing). Interviews were conducted with the person in their company responsible for administering payroll. An introductory letter was sent out on behalf of HMRC before the start of fieldwork to tell respondents about the fieldwork and assure them that the research was genuine and confidential. The questionnaire was 20 minutes long on average.

An estimated response rate of 57 per cent was achieved.

## 1.4 Qualitative follow up

### Group discussions

Two group discussions with a broad selection of employers and two group discussions with agents were undertaken as part of the research programme. The key aim of the group discussions was to explore views about the potential changes to the income tax and NICs systems, and any change in burden that specific changes might bring about. In addition the group discussions were able to further explore the way in which employers managed their payroll process and the role that agents played.

The discussions were 90 minutes long, with employers and agents recruited using free-find methods.

### Depth interviews

Twelve, 60 minute depth interviews were conducted with employers that had participated in the survey. Employers were selected to reflect a range of positive and negative views about the potential changes to the income tax and NICs systems. These follow-up depth interviews allowed

issues from the survey to be explored in more depth and provide insight into employers' reactions towards possible ideas for change to Income Tax and NICs.

## 1.5 Reporting conventions

This report discusses the results from the qualitative and quantitative research stages.

The following conventions have been used in quantitative charts and tables:

- Percentages for single-response questions do not always add up to exactly 100 per cent due to the effect of rounding
- A '\*' symbol denotes a percentage of less than 0.5 per cent
- A '-' symbol denotes zero.

## 2. Dealing with income tax and NICs

The first research objective was to provide insights into how small employers operate their income tax and National Insurance Contributions (NICs) systems. This chapter will cover the hypotheses produced from the initial qualitative exploratory work and then explore the extent to which these were backed up by the results produced from the quantitative survey. Throughout this and the subsequent chapters, insights and illustrations are added from all stages of the qualitative research.

### 2.1 Hypotheses from exploratory work

The process of dealing with income tax and NICs by small employers was mapped by the qualitative exploratory work. This split the tasks dealt with by small employers into three key types:

#### i) Routine payday tasks

The most common tasks were the routine payday tasks such as calculating an employee's income tax and NICs contributions each payday, or producing pay slips. These were generally perceived as being straightforward to deal with and were the tasks that were most likely to be dealt with in house, perhaps with an agent checking the work if it was slightly more complex, such as calculating NICs for company directors.

#### ii) Irregular in year tasks

Some income tax and NICs tasks were dealt with less regularly, such as employees joining and leaving, errors in NICs payments and employee queries about their income tax or NICs contributions. The qualitative work led to the hypothesis that these tasks were more likely to be outsourced, or the employer would be more likely to seek guidance from an agent.

#### iii) End of year tasks

End of year payroll tasks differed from payday tasks, as they tended to take longer and be more complex than in year income tax and NICs dealings. The qualitative interviews found that small employers would be more likely to outsource these, due to the fear of getting these tasks wrong.

Cross cutting these types, there were a number of non-standard tasks perceived as being **more complex tasks**, and which were dealt with only by a minority of employers in the sample. These included income tax and NICs calculations relating to workplace pensions, salary sacrifice schemes and redundancies. Because of the perceived difficulty of these tasks, they were likely to be outsourced to an agent, through fear of error.



Dealing with income tax and NICs

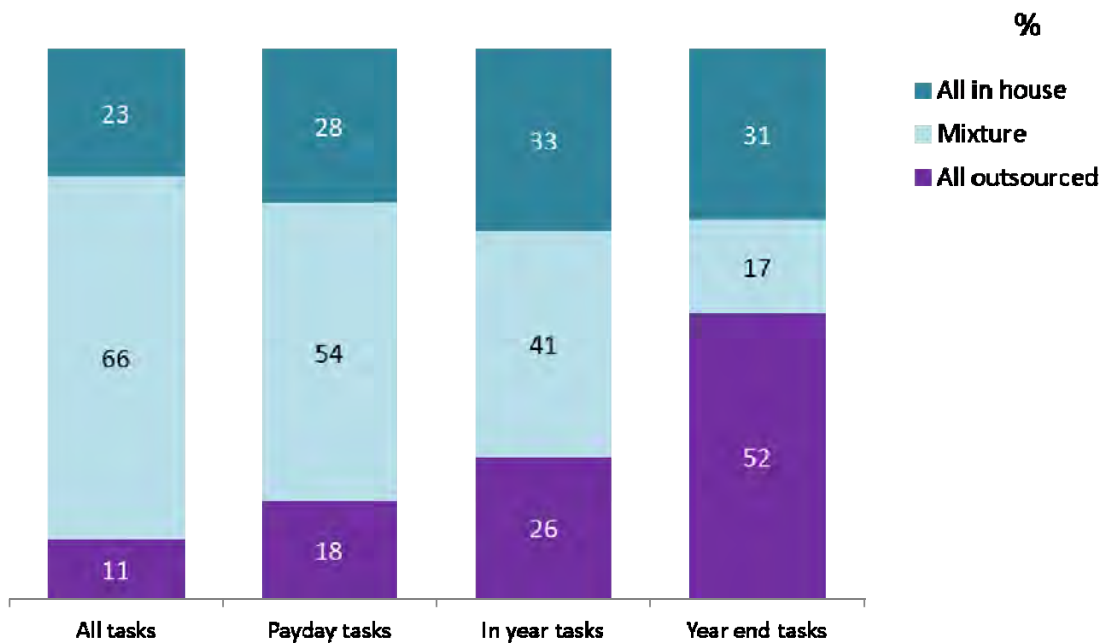
The qualitative work also provided the hypothesis that, while **agent use was high**, a lot of income tax and NICs work was carried out **in house**. Some small employers still relied on manual calculations, through paper based calculations or spreadsheets, and there was likely to still be a surprisingly high reliance on cheques as a payment method. The exploratory work suggested, however, that employers who dealt with NICs or income tax in house were most likely to rely on software, which included commercial software or HMRC provided software tools. There were mixed feelings about the tools and support provided by HMRC. Small employers appreciated that they were simple, useful and free, but some reported that the tools did not have all the functionality they required, that they found it difficult to find what they were looking for on the website, and that it was also difficult to speak to the correct person on the telephone helpline.

**2.2 Overall nature of dealings with income tax and NICs**

The majority of employers reported paying their employees either monthly (60 per cent) or weekly (40 per cent) with only a minority (six per cent) having more than one PAYE system.

Confirming the hypothesis from the qualitative research, the survey found that the majority of small employers dealt with some income tax and NICs tasks in house, with most using a mixed approach; operating some tasks in house and outsourcing other tasks to agents (Chart 2.1).

**Chart 2.1: Outsourcing of income tax and NICs tasks**



*Base: All respondents (1500)  
 Deal3. Do you deal with this totally in-house, or does someone outside of the business deal with some or all of it?  
 Deal6. I want to know whether you deal with all of it in-house or whether you use someone outside of the business to deal with some or all of each task.*

## Dealing with income tax and NICs

Only 11 per cent outsourced all income tax and NICs tasks to an agent. This was lowest for payday tasks (18 per cent) and slightly higher for in year tasks (26 per cent). Around half (52 per cent) of employers outsourced their end of year income tax and NICs tasks to an agent.

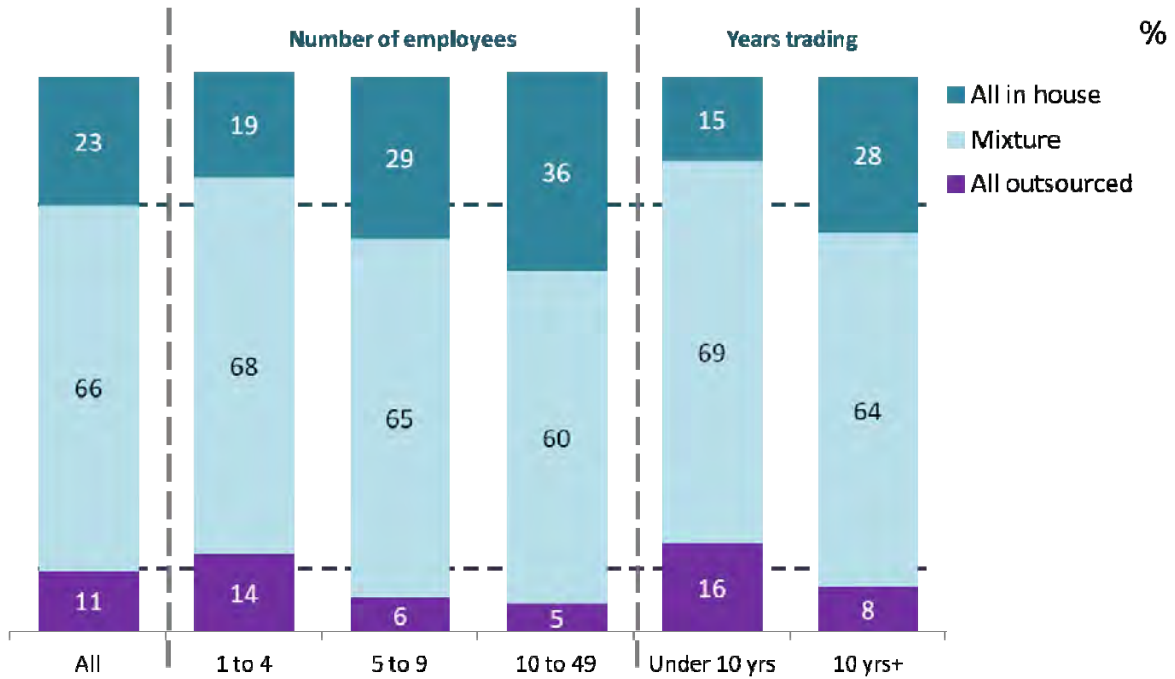
One in four small employers (23 per cent) carried out all income tax and NICs tasks in house. This did not vary greatly between payday, in year and end of year tasks. In total 77 per cent used an agent for at least one income tax or NICs task.

There were variations in agent use. Certain employers were more likely to use an agent, with size and experience related to the decision to outsource to an agent. Eighty two per cent of employers with one to four employees outsourced at least one task to an agent, falling to 65 per cent of employers with 10 to 49 employees. There was a similar pattern for size by turnover, with agent use being higher for companies with lower turnover. Based on the qualitative research, larger businesses were more likely to consider their business's financial affairs sufficiently complex or time consuming to make it cost effective to employ dedicated staff within the business to deal with finances (including payroll) and so would be less likely to use an agent.

Employers and respondents with less experience were more likely to outsource something to an agent. While an agent was used by 85 per cent of the employers that had been trading for less than ten years, this was lower at 72 per cent of employers that had been trading for more than ten years.

There was a slight difference in agent use depending on industry sector, but this was linked to the relative age profiles of employers in different sectors. Seventy per cent of employers in construction and production (typically older employers) outsourced something to an agent, compared with 80 per cent of those operating in wholesale or retail (typically younger employers). The pattern of smaller and less experienced employers being more likely to use an agent than larger, more experienced employers was the same for pay day, year end, and in year tasks.

Chart 2.2: Outsourcing of income tax and NICs tasks by size and age of business



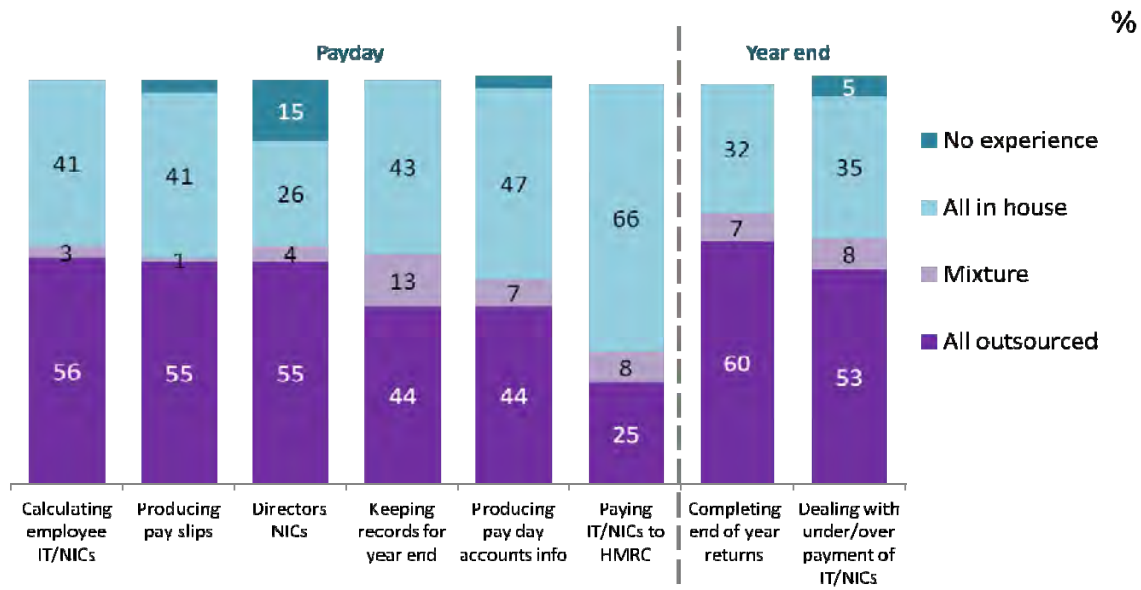
Base: All respondents (1500/601/398/501/397/1100)  
 Deal3. Do you deal with this totally in-house, or does someone outside of the business deal with some or all of it?  
 Deal6. I want to know whether you deal with all of it in-house or whether you use someone outside of the business to deal with some or all of each task.

Even among smaller and younger employers, few outsourced everything (Chart 2.2). Irrespective of size or experience of the company, around two thirds of small employers ‘mixed and matched’ tasks, performing some in house and outsourcing others.

2.2.1 Agent use for regular payday and year end tasks

While few small employers outsourced all tasks, there was generally a high level of outsourcing for each of the regular pay day tasks (Chart 2.3). Several payday tasks were fully outsourced by at least half of small employers: calculating employee income tax and NICs each payday (56 per cent), producing pay slips (55 per cent) and calculating directors NICs (55 per cent). Directors NICs was the one regular task of which a sizeable proportion of small employers (15 per cent) had no experience. Just 26 per cent of small employers dealt with directors NICs in house. There was a fairly even split between outsourcing and working in house for producing pay day accounts information and keeping records for year end. Making the regular income tax and NICs payment to HMRC was the one regular task that was most likely to be dealt with in house (66 per cent).

Chart 2.3: Outsourcing of regular pay day and year end tasks



Base: All respondents (1500)

Deal3. Do you deal with this totally in-house, or does someone outside of the business deal with some or all of it?

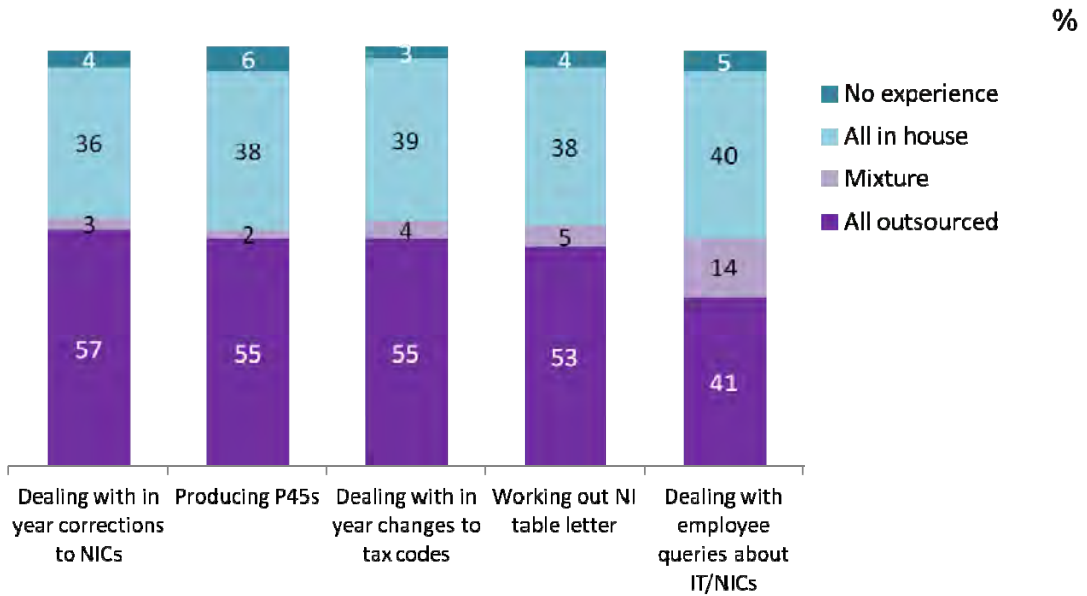
Deal6. I want to know whether you deal with all of it in-house or whether you use someone outside of the business to deal with some or all of each task.

The end of year tasks were more likely to be outsourced. Sixty per cent outsourced the end of year return, and 53 per cent outsourced the dealing of any underpayments or overpayments of income tax or NICs. Perhaps surprisingly, given the perceived higher level of complexity with these tasks in the exploratory research, around a third performed each of the year end tasks in house.

### 2.2.2 Agent use for irregular tasks

There are several income tax and NICs tasks that small employers deal with on a more irregular basis. Chart 2.4 shows how each of these is dealt with. Each of these tended to be outsourced fully, with a similar proportion totally outsourcing each of: in year corrections to NICs (57 per cent), producing P45s (55 per cent), dealing with in year changes to tax codes (55 per cent) and working out an employee’s NI table letter (53 per cent). Dealing with employee queries about income tax and NICs was more likely to involve a mixture of in house work and outsourcing and, backed up by data from other survey questions and the qualitative research, this suggests that, for some, simple queries are dealt with in house and anything more difficult to answer is referred to an agent (see also Section 3.6).

Chart 2.4: Outsourcing of irregular tasks in year



Base: All respondents (1500)

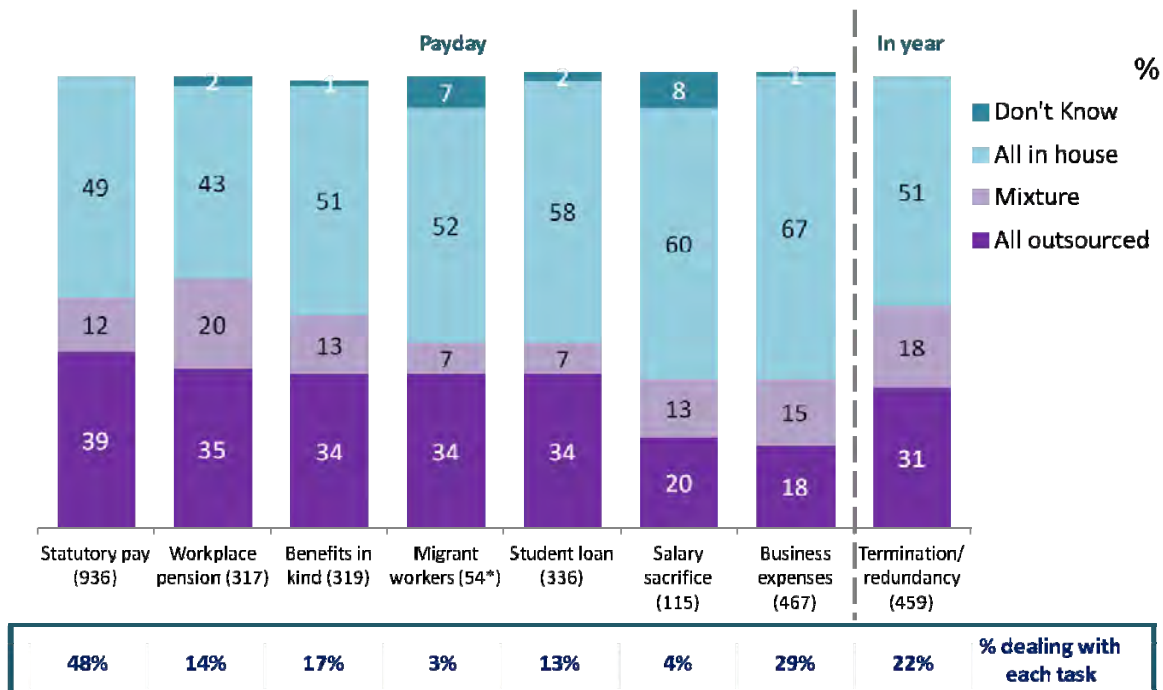
Deal3. Do you deal with this totally in-house, or does someone outside of the business deal with some or all of it?

Deal6. I want to know whether you deal with all of it in-house or whether you use someone outside of the business to deal with some or all of each task.

### 2.2.3 Agent use for more complex tasks

There were several income tax and NICs tasks that were perceived in the exploratory work as more complex and less likely to be dealt with by all small employers. In the survey, some of these tasks were dealt with by a very small proportion of employers (e.g. three per cent had experience with migrant workers and four per cent had salary sacrifice schemes). Half or fewer dealt with each of the remainder (Chart 2.5).

Chart 2.5: Outsourcing of more complex tasks



Base: All who dealt with tasks (base sizes on chart)

Deal3. Do you deal with this totally in-house, or does someone outside of the business deal with some or all of it?

Deal6. I want to know whether you deal with all of it in-house or whether you use someone outside of the business to deal with some or all of each task.

The hypothesis from the exploratory work was that these tasks were likely to be outsourced due to perceived difficulty, and fear of getting these tasks wrong, although it did also suggest that larger firms would be more likely to deal with tasks in house than smaller firms. The survey results found that these more complex tasks were *less* likely to be outsourced than to be dealt with in house. It seems likely that, since larger businesses are more likely to deal with these more complex issues, and they are more likely in general to use in house resources to deal with Income Tax and NICs tasks, that this extends to the more complex tasks as well.

Just a fifth of those who had experience of salary sacrifice schemes (20 per cent) and business expenses (18 per cent) outsourced each of them fully to agents. Between three in ten and four in ten outsourced each of the other complex tasks.

## 2.2.4 Qualitative insight into how small businesses use agents

### **Building firm**

*Employing 26 people, this building firm had been long established and had developed an in house office administration function. With the software available it was now possible to undertake the day book, invoicing and payroll. As their knowledge and confidence increased they were phasing out the use of an agent, except for any queries that they could not deal with themselves.*

From the qualitative research, and confirmed by the survey, employers outsource to an agent to undertake a range of different aspects of the payroll task. Conceptualising payroll as four discrete tasks: setting up a new employee on the payroll system; calculating gross wages; calculating income tax and NICs; and end of year tasks, agents could be involved in each of these four tasks.

For example:

- Setting up a new employee on the payroll system
  - All the employers in the qualitative research obtained the information necessary to set up a new employee (such as name, address, date of birth, NINO, etc.)
  - While most of the employers set up the new employee on the payroll system themselves, employers that outsourced most, or all, of the payroll tasks also outsourced the new employee set-up process.
- Calculating gross wages
  - In most cases the employer in the qualitative research calculated the gross salary and any expenses themselves before entering the information into their own payroll system or passing it to their agent. There were some employers however, that passed employee timesheets to the agents, outsourcing the gross pay calculations.
- Calculating Income Tax and NICs
  - Depending on the knowledge and skill of employers, employers would outsource the entire payroll calculation, undertake all the calculations themselves, or undertake a 'basic' payroll, outsourcing what were perceived as more complex tasks to an agent such as directors NICs and statutory benefits. In general, it was the larger employers with an in house finance capability that undertook the more complex payroll tasks in house.
- Year end
  - All of the employers in the qualitative research involved an agent in some aspect of the end of year process. In the main, employers outsourced the end of year process to their agents, including the production of P11Ds and the filing of P14s and P35s. Only the larger employers that undertook all the payroll tasks in house undertook their own end of year processes, using an agent just to check their calculations.

## Dealing with income tax and NICs

The situation regarding the calculation of payroll was not static. As employers took on more staff, became more knowledgeable and experienced, and developed an in house finance capability for dealing with invoicing etc, there was some indication that employers would bring part of the payroll process in house.

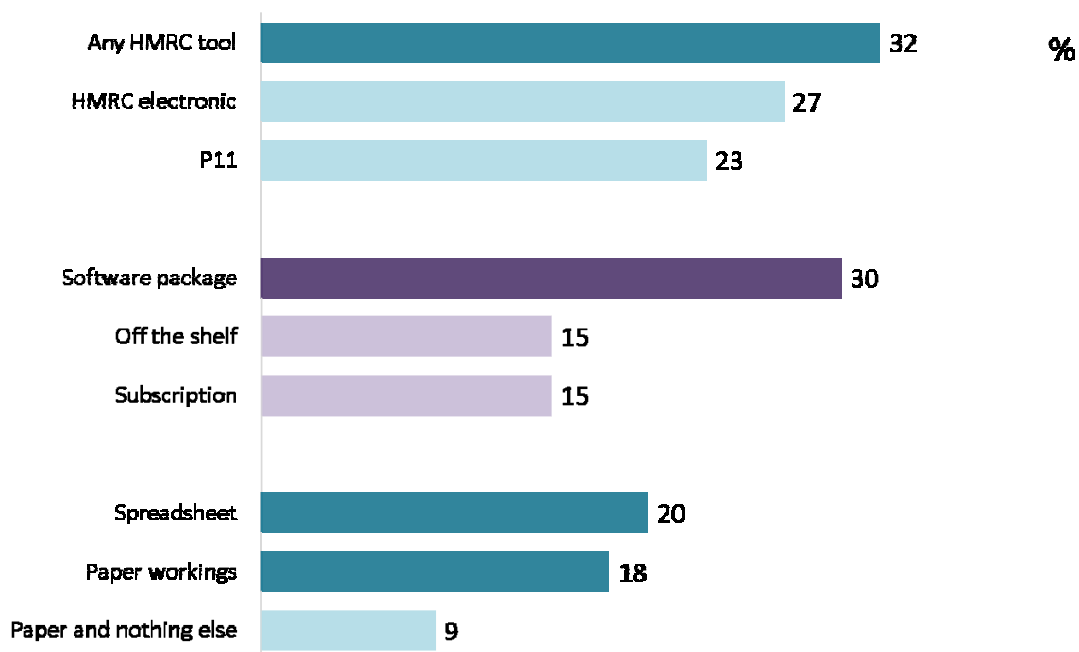
*"I was doing everything anyway ... So [accountant] was no longer needed."*

(Employer, 10-24, London, no agent)

### 2.3 Methods used to deal with income tax and NICs in house

Nine in ten small employers dealt with some aspect of income tax and NICs in house. The most common methods used were free HMRC tools and commercially purchased software (Chart 2.6).

**Chart 2.6: Methods used to deal with income tax and NICs in house**



*Base: All who do tasks in house (1434)/use a software package for payroll tasks (695)*

*Deal12. When dealing with payroll tasks within the business, which of the following methods do you use. Is it?*

*Deal13a. On what basis do you pay for the software package?*

One third of small employers who deal with anything in house used HMRC tools (32 per cent). This was most likely to be in electronic format (27 per cent), particularly the online PAYE and NI calculator (27 per cent). Twenty three per cent used the P11 in some form (17 per cent of small employers used the downloaded P11 calculator, and 13 per cent used the paper P11). Employers with one to four employees were more likely to use HMRC tools than those with a larger number of employees (33 per cent of employers with 1-4 employees use HMRC tools, compared with 29 per cent of employers with 10-49 employees).



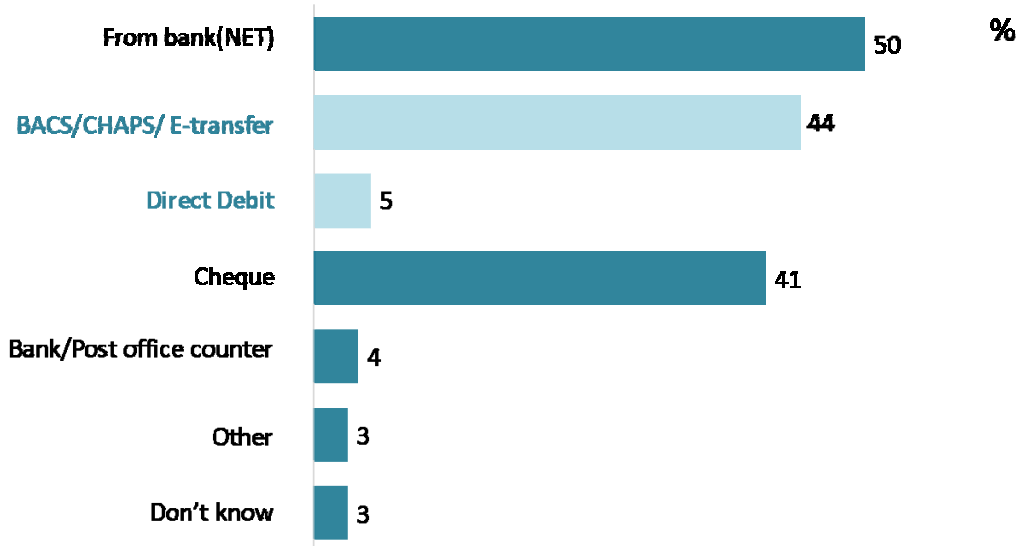
Dealing with income tax and NICs

At a similar level to HMRC tools, 30 per cent of small employers used a commercially purchased software package. This was evenly split between those whose software incurred a one off cost and those who paid subscription charges (15 per cent for each). More than half (54 per cent) of employers with 10 to 49 employees used a software package and this was most often subscription based (37 per cent).

There was a fairly high level of ‘low tech’ solutions being used to deal with payroll tasks within the employers. Similar proportions used each of a spreadsheet (20 per cent) or paper methods (18 per cent). Perhaps surprisingly, nine per cent were solely reliant on paper and used nothing else. Employers trading for under ten years were more likely to use a spreadsheet (26 per cent) with employers with under five employees who had been trading for at least ten years more likely to use paper methods (25 per cent).

The most common method of making income tax and National Insurance payments to HMRC was directly from the bank (50 per cent). This was made up of electronic payments from the company’s bank account (24 per cent), BACS/CHAPS payments (20 per cent), or Direct Debit payments (5 per cent). The exploratory work suggested that respondents were often unable to differentiate between these terms and used them interchangeably (Chart 2.7). Making payments from the bank was more prevalent among larger employers (62 per cent of those with 10-49 employees).

**Chart 2.7: Payment method**



*Base: All respondents (1500)  
Deal 14. How does your business make Income Tax and National Insurance payments to HM Revenue and Customs?*

Despite the ease, and proliferation of online banking, 41 per cent of small employers still reported making their income tax and NICs payments to HMRC by cheque. This was higher among the smallest employers (44 per cent of those with fewer than 5 employees) and older companies (45 per

cent of those trading for over ten years). Based on the qualitative work, the smaller, older companies were likely to have always paid by cheque and are unlikely to change this habit unprompted. The number of employers that pay by cheque is something that could make any move towards a mandatory electronic payment very challenging for HMRC.

## 2.4 Qualitative insight into in house calculation methods

Based on the qualitative research, undertaking the regular payroll involved two or three main tasks, depending on the size of the business. The first task would be to calculate the gross pay for each employee; the second would be the calculation of Income Tax and NICs, payment to HMRC and production of pay slips; and for the larger companies, the third task was the production of payroll management reports.

For the larger employers, with complex pay structures, the gross pay calculations were the most time consuming aspect of the payroll process. These employers often used spreadsheets to undertake these calculations, and in some cases this could account for up to half of the time processing the payroll. By contrast, a small retail outlet paid their staff the same wage every week – for them there were no new gross pay calculations.

### **Estate Agent**

*With four outlets and around 40 employees, most of the negotiators had different bonus and commission arrangements. For every member of the sales team, records had to be maintained, checked and an individual gross pay calculation made. Of the six person days each month devoted to payroll tasks, over two thirds was taken up with gross pay calculations and producing payroll related management reports, which they saw as a key part of the payroll process.*

Once the gross pay calculations had been undertaken, the Income Tax and NICs calculations were made using one of four methods: commercially available proprietary software; HMRC Tools; ad hoc in house software usually based on a spreadsheet; and paper methods, sometimes using a spreadsheet to double check the figures.

### 2.4.1 Qualitative insight into the use of proprietary and in house software

Based on the qualitative research, in larger businesses, payroll was usually the function of a more generalised finance function, with staff managing the day book, payments, and invoices, etc. These larger employers mostly used proprietary software such as Sage, Quickbooks and Morepay. The use of software was viewed as a way of managing the more complex aspects of payroll, such as income tax and NICs calculations; automating the more run-of-the-mill tasks such as payslip production; and ensuring accuracy and providing a permanent record.

It was clear that staff undertaking payroll using proprietary software varied in their level of understanding and skill in handling Income Tax and NICs. For some of the smaller employers, the

use of software meant that relatively little skill was required in using the software, although it was pointed out that in order to set up employees on the software system that some basic knowledge was required in terms of understanding income tax codes and NICs letters.

*"When I do it [using payroll software] I'm literally just entering the figures."*

(Employer, 1-4, London, no agent)

*"Providing you set up the information correctly in the software, it deals with all the differences correctly for you."*

(Employer, 25-49, Birmingham, no agent)

While the larger employers generally had a better understanding of how the Income Tax and NICs calculations worked, and some said that with a little bit of revision that they could still undertake the payroll if the software was to stop functioning, for many of the micro and small employers the calculation of Income Tax and NICs was happening in a 'black box' and there was little inclination to understand the processes involved.

*"Using the computer to do payroll makes it an easy job. You don't even have to be numerate ... it knows it, you don't have to know it, it tells you what you've got to pay."*

(Employer, 1-4, London, no agent)

For smaller employers, issues such as statutory pay, benefits in kind, student loan repayments, etc. had either never been encountered or were a rarity. In the main, these employers generally asked their agent (who would usually be undertaking their end of year processes) for advice or to undertake the payroll calculation for them. There were however instances of smaller employers using HMRC's online calculators to supplement their basic payroll packages. Larger employers, by contrast, had usually purchased more sophisticated software packages which would deal with these types of changes to an individuals' pay and therefore undertook them in house. If there was an issue they did not understand they would either consult their agent or a paid-for advice service that was part of their software package deal.

Although they were rare, there were employers in both the quantitative and qualitative research that used their own proprietary 'software' for payroll calculations. These were all spreadsheet based, needing manual updating every time there was a change to Income Tax or NICs, and required considerable knowledge in order to maintain them. The use of these in house payroll systems seemed to be historical and a way of minimising company expenditure on proprietary software packages and annual updating contracts.

There was often a great concern over accuracy, with some employers aiming to balance their payroll 'to the penny'. In the qualitative research there were a small number of employers who used different methods to check the accuracy of their payroll calculations. By way of example, one

medium sized employer carried out the payroll every month using proprietary software and then checked it against calculations from their own spreadsheet.

*“We do both. We’re a little bit obsessive about checking things”*

(Employer, 25-49, London, uses agent for end of year only)

#### 2.4.2 Qualitative insight into the use of HMRC tools

In the qualitative research, employers with less than ten employees that used HMRC online tools used the Basic PAYE Tools and / or the Company Car and Car Fuel Benefit Calculator.

##### **Cafe Owner**

*Having been in business for 24 years this cafe owner currently employs five people. Employees are paid the same wage every week, with variations or irregular tasks such as statutory pay arising very rarely. Concerned about the costs of outsourcing payroll, HMRC’s Basic Tools package is used. This makes calculations very straightforward. Minor changes to the functionality of the software would be helpful but the lack of payslips is not an issue as these are not provided to employees anyway.*

Employers were very pleased that the HMRC Basic Tools software was free of charge and thought that for a small business with relatively simple payroll requirements the software was easy to use and straightforward. However, there were some downsides: some employers reported that in terms of functionality the Basic Tools software was limited as it did not provide a pay slip printing option, and retained limited history compared to commercial software.

Despite the perceived downsides of the HMRC Basic Tools software, there were medium sized employers that wished it would provide greater functionality so that it would be of greater use to them too.

Although experience of the Company Car and Car Fuel Benefit Calculator was very limited, employers were very complimentary about its functionality and ease of use, although there were some comments about how slow the website on which the calculator was hosted could be, as well as providing excessive information.

*“I don’t like using HMRC tax tools because the HMRC website is really slow...it provides reams and reams of information.”*

(Employer, 25-49, North London, uses an agent for some payroll tasks)

### 2.4.3 Qualitative insight into the use of manual Income Tax and NICs calculations

#### **Pest Control firm**

*Trading for over 20 years and employing 9 employees, this family business employs the partner of one of the directors to manage the payroll. This is her only task and takes a couple of hours every week. She is very familiar with the paper-based P11 and sees no reason to change; she is also fearful of using a computer and usually asks one of the family if anything requires looking up on the internet.*

As the survey has demonstrated there continue to be employers that undertake the Income Tax and NICs calculations on paper, using the P11 Deductions Working Sheets and the published income tax and NICs tables. In the qualitative research, these employers were small and generally had simple payrolls with unvarying gross pay, outsourcing anything unusual, such as statutory pay or aspects they saw as complex, such as benefits, in kind to their agent.

There were three reasons why these employers continued to operate a manual payroll:

- inertia – they could see no good reason to change the way they were operating;
- a fear of using a computer and / or the internet; or
- a greater feeling of control and a perception that by using software they would no longer be able to see how the net pay was being calculated.

*“I do payroll manually...it is what I have always done. I am happy with pen and paper, I can see it all there. I would be a bit nervous of doing it wrong on the computer.”*

(Employer, 5-9, Birmingham, uses agent for end of year and directors NICs)

While it was apparent that some of the employers that were using paper-based methods were simply ‘filling in the numbers’ and did not have a full understanding of how Income Tax and NICs worked, it was apparent that others had a very good understanding of the differences between Income Tax and NICs, that there were different thresholds and that Income Tax and NICs do not apply uniformly to different types of expenses and benefits. This was also true for those who had written their own payroll spreadsheets. In this sense there was some indication that those employers adopting paper-based and own-software systems could have a better understanding of Income Tax and NICs than those using HMRC Tools or basic payroll software packages.

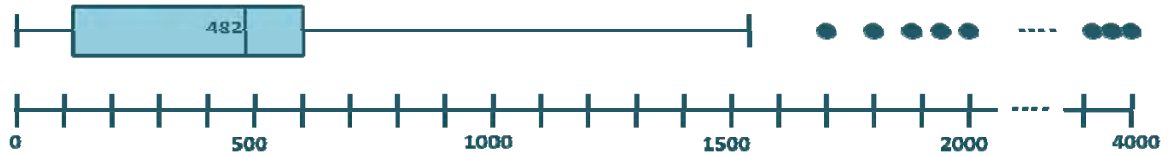
## 2.5 Cost of dealing with payroll in house

HMRC electronic payroll tools are free. However, three in ten small employers chose to purchase software off the shelf or by subscription. The cost is not particularly high for the majority who purchase software. The box plots in Chart 2.8 show the range of costs incurred for those who pay a subscription for their software, and those that pay a one off charge for their software. The boxes in the chart show responses from the 25<sup>th</sup> percentile to 75<sup>th</sup> percentile (i.e. the middle half of

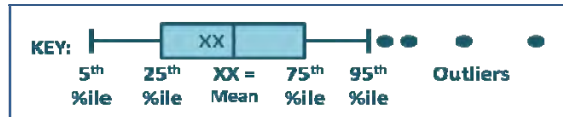
respondents), with the line within the box representing the average (mean) cost. The lines going out from the sides of the boxes show the range from the 5<sup>th</sup> to 95<sup>th</sup> percentile of responses, with any dots representing outliers.

Chart 2.8: Distribution of costs of software

Annual subscription costs



One off purchase costs



Base: All who use off the shelf software package (255) / subscription software (384)  
Deal 13b. How much did you pay/do you pay each month/year?

The average one off cost for purchased software (non-subscription) was £286. There was generally not much variance from this with three in four small employers paying less than £350. There are a few outliers shown on Chart 2.8, with several reporting costs of above £1000.

There was a wider variety of costs for subscription software, and a higher overall cost. The average cost was £482. Three in four, however, reported paying less than £600 per year and 90 per cent paying less than £1500 per year.

In addition to the cost of software, the other main call on resources for those dealing with payroll tasks in house is the time this takes to administer. Eighty nine per cent of small employers reported doing some payroll tasks in house. The reported amount of time taken on payday tasks was not high. On average this was 2.4 hours each payday, with 95 per cent of small employers reporting less than five hours per payday. The average amount of time taken at the end of the year was just over seven hours (7.1) so this suggests the administrative burden at the end of the year is not great, with 95 per cent spending 22 hours or less.

Interestingly, the average amount of time spent on payday tasks was lower for the small employers who do all tasks in house (1.9 hours each payday, 5.8 hours at year end), compared with the average for all small employers with in house dealings.

Companies who deal with complex tasks spent slightly longer on income tax and NICs tasks, than those dealing with standard tasks only both each payday (2.8 hours compared with 1.3 hours), and year end (7.8 hours compared with 5 hours) but the time taken was still small.

Almost all small employers ran their payroll on a monthly (60 per cent) or weekly (40 per cent) basis<sup>6</sup>. Running the payroll on a monthly basis took slightly longer for each payroll run than weekly (2.8 hours compared with 2 hours), but this means that a small employer needs more resource per month for running a weekly payroll (8 or 9 hours per month).

Based on the exploratory work, it seems likely that the use of software or long established methods (spreadsheet or paper) makes the calculation quite simple in most cases and minimises the amount of time needed.

## 2.6 Reasons for outsourcing

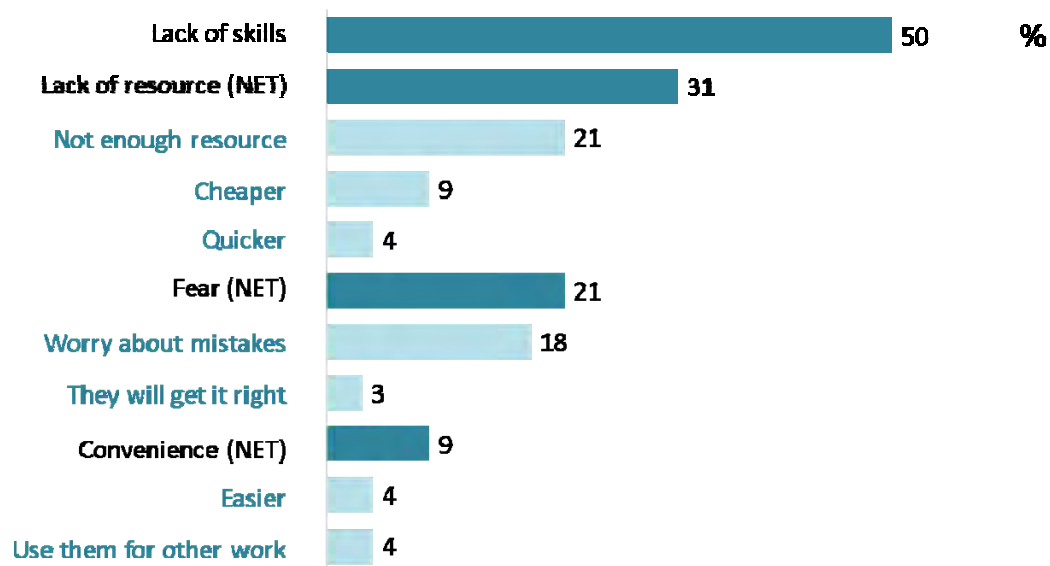
Three in four small employers (77 per cent) outsourced something to an agent. The majority of small employers who outsourced used a paid finance professional such as an accountant (94 per cent). Only five per cent of small employers used a payroll bureau. Employers with 10 to 49 employees were more likely to use a payroll bureau (13 per cent) than those with one to nine employees (three per cent).

The reasons for outsourcing varied. The main reason was a perceived lack of skills; 50 per cent believed they did not have the skills to do complex tasks in house (Chart 2.9).

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<sup>6</sup> Respondents could provide multiple answers to this question if they paid their employees on more than one basis i.e. some weekly, some monthly

Chart 2.9: Summary of reasons for Agent use



*Base: All who outsource to agents (791)/ who do at least one task partly in house and partly outsourced (461) Deal8. And why do you use someone outside of the business to deal with some or all of your payroll tasks?*

Concerns about skill levels decreased with age of employer: 59 per cent of small employers trading for less than five years were worried about the skill gap, and this decreased to 47 per cent of employers that had been in business for ten or more years.

Thirty one per cent outsourced income tax and NICs tasks because of resourcing issues: 21 per cent did not have enough resource, nine per cent thought it was cheaper to outsource and for four per cent it was perceived as being cheaper to outsource.

Twenty one per cent outsourced because of fear: either the fear of getting it wrong (18 per cent) or the belief that the agent will get it right (three per cent). From the exploratory work, fear appeared to be a larger driver of outsourcing, whereas the survey suggests that resourcing and skills are bigger barriers to conducting work in house.

Nine per cent outsourced for reasons of convenience, with some of these employers stating that they already used an agent for their general accounting purposes so it made sense to pass payroll over to them as well.

Shedding a little more light on the use of an agent, of those who did some tasks in house and outsourced others, 71 per cent said they did the straightforward tasks in house, outsourcing the more complex tasks. Those using paper calculation methods were more likely to report this approach (81 per cent) compared particularly with software users (61 per cent). This is likely to reflect the fact that complex tasks are likely to take considerably longer on paper than using software that is set up to handle such tasks.



Twenty six per cent said they used the agent to check work completed in house. This was higher for employers using HMRC tools (35 per cent) but not for other software users (24 per cent) or those using paper methods (22 per cent). This suggests lower confidence among those using the free tools.

### 2.6.1 Qualitative insight into reasons for using an agent

Offering further insight into the responses given in the survey, based on the qualitative research employers outsourced some or all of their payroll tasks to an agent for a variety of reasons. These included:

- Fear of making a mistake, either through a lack of skills or trying to combine payroll with other aspects of a busy employer;

*“There was probably more of a risk that I would get it wrong because I was rushing it and that’s when mistakes happen.”*

(Employer, 1-4, London, all outsourced)

- A lack of skill and knowledge to undertake payroll themselves;

*“We don’t have the expertise here ... although we do all our own accounts no one has ever done payroll and there would be the risk of getting everything wrong.”*

(Employer, 10-24, London, all outsourced)

*“I have never volunteered to take it on. It all sounds very complicated.”*

(Employer, 5-9, Birmingham, end of year, directors NICs and P11Ds outsourced)

- Payroll being a task that is not core to their business and distracts from their customer focus. By outsourcing they no longer have to think about payroll – and the cost is manageable;

*“You’re spending less time on something else that isn’t core to your business [...] we’re architects, do we need to worry about PAYE? Even if it’s relatively straightforward.”*

(Employer, 1-4, London, all outsourced)

*“Never really think about [the cost.] The main thing about it is not having to think about it, that is the key thing.”*

(Employer, 10-24, London, all outsourced)

*“Simple really. I can spend time in the shop looking after my customers ... and the cost is small in comparison with how much it would cost me to employ someone to look after the business.”*

(Employer, 5-9, Milton Keynes, all outsourced)

Employers in the qualitative research had rarely thought about bringing the payroll tasks in house. In part, this was because they did not have the skills to undertake the payroll themselves and in part because there were other business tasks that were more pressing. Generally, the costs were considered to be manageable and small compared to their other business costs. Bringing payroll in house had simply never been considered.

However, there were two scenarios in which bringing payroll in house had been considered. For a small retail outlet, that was finding trading difficult in the current economic climate, the cost of the weekly payroll was beginning to look expensive. However, they continued to outsource their payroll because they were worried about making mistakes.

*“Sometimes I think the payroll is quite small so I should just really do it [...] But I am so scared of getting it wrong.”*

(Employer, 1-4, Birmingham, all outsourced)

For another company that had merged and found itself with two subsidiaries and three separate payrolls, discussions had recently begun about the comparative costs of outsourcing the payroll versus employing a part-time member of staff, or training existing staff, to undertake the payroll.

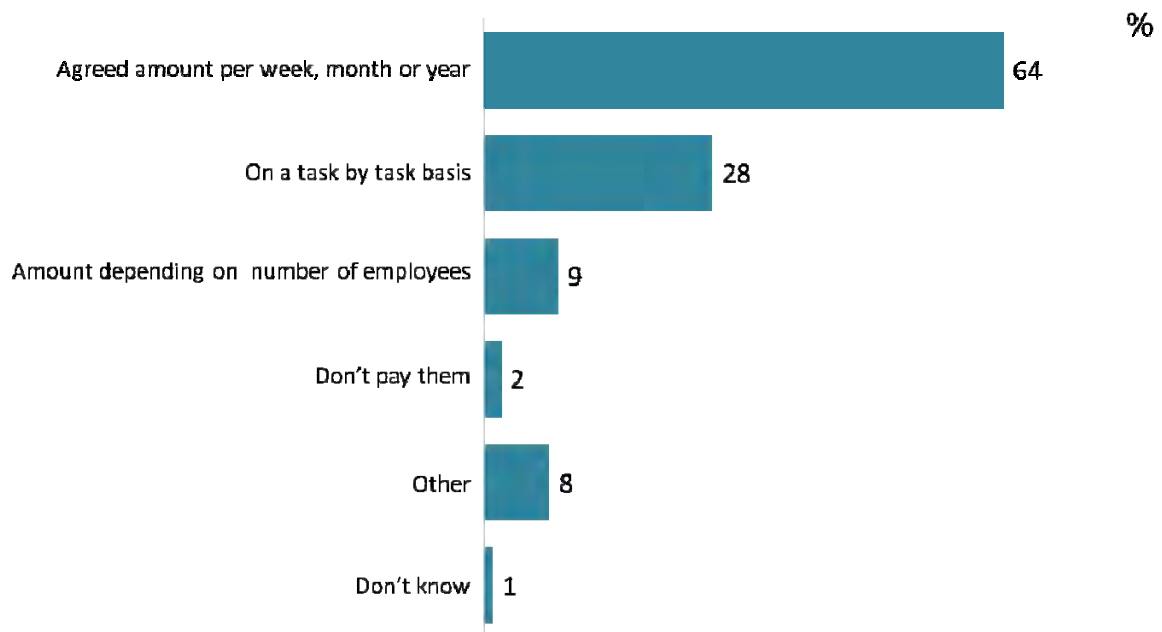
*“It’s £96 a month for each of two of the companies and a bit less for the third company. Yes, we have started to talk about the costs and brining it in house, but there is the cost of staff, training and the payroll package to take into account.”*

(Employer, 24-49, London, all outsourced)

## 2.7 Basis for paying agents

Two in three small employers (64 per cent) that outsourced any income tax and NICs tasks paid their agents a fixed amount (Chart 2.10). This agreed amount was likely to cover all tasks that an accountant does for a business, not just payroll, so unpicking the actual costs of payroll specific work is likely to be difficult. Three in ten (28 per cent) paid their agents on a task by task basis.

Chart 2.10: Basis of payment of agents



Base: All who outsource to agents (791)

Deal7b. When you use someone outside the business, on what basis do you pay them for their help?

### 2.7.1 Qualitative insight into agents costs

Based on the qualitative research, agents charge for their services in different ways. In general, the larger agents quoted a set fee that was usually based on the number of employees for whom payroll would be processed. However, they were mindful of the rates that payroll bureaux charge and set their rates accordingly.

*"Accountants would charge [...] based on an hourly rate [...] you can use that as a basis [...] but you are conscious these clients could go to a bureau who would charge on a pay slip basis, so you have to tailor it to take that into account."*

(Agent, accountancy firm)

Nevertheless, agents retained the right to increase their costs if the nature and / or scale of the business changed. For example:

*"Most accountants prepare timesheets [...] If they agree a fee and [...] the timesheets show there was a lot more time obviously they will try and increase the fee."*

(Agent, accountancy firm)

*"If you've done something very recent it might only take you a little while to tell them whereas the previous job it took half an hour, so in that case you might be tempted to charge them the half hour because you know that in the past it's taken that long [...] if you just tell them 'it's x' and no fee or anything you're a bit daft."*

(Agent, accountancy firm)

Agents were often involved in a wide range of tasks for employers. This could include corporation tax, VAT, end of year returns, as well as PAYE. For these tasks the agent negotiated a set fee, with the option to change the fee if the amount of work required changed. There was no evidence of any of the employers in the qualitative research receiving an itemised account of how their bill was broken down – and it was not something that they had necessarily thought about or required.

*"Our directors they like things to be simplistic, they're short on time [...] they need to know how much [they've] got to pay and when by. I don't think they think they need that detail."*

(Employer, 5-9, London, all outsourced)

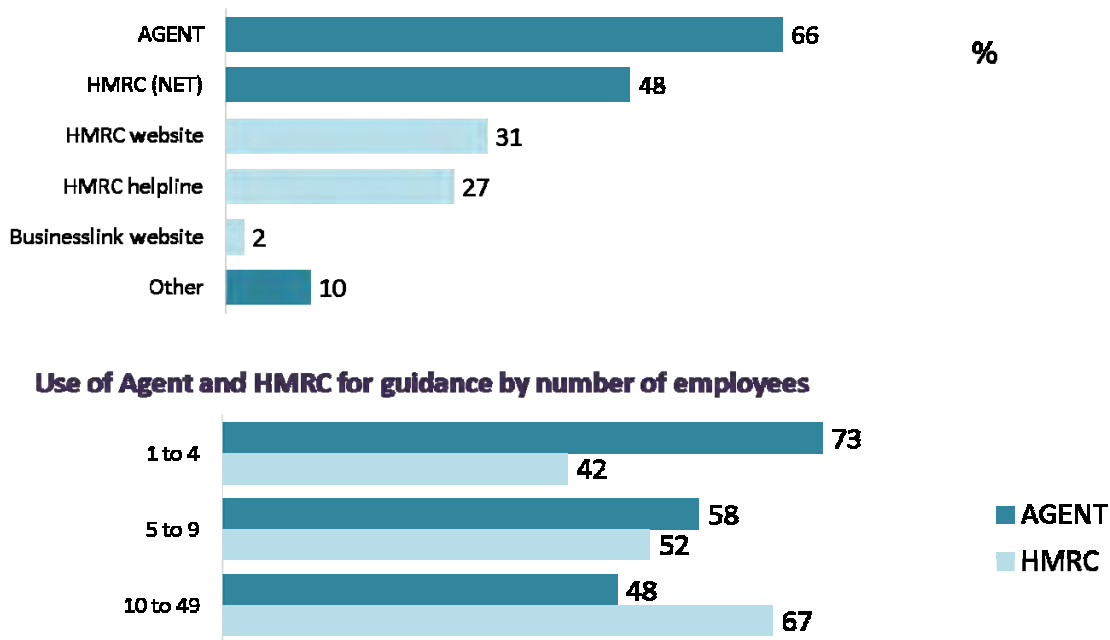
However, itemised billing of agent's services would provide greater transparency and in some cases may encourage an employer to re-consider whether they want to continue outsourcing their payroll.

*"If it [payroll] comes out that its £500 a year and it's something I could do [...] I could save a bit of money [...] His job as an accountant is to crunch numbers [...] to get me to pay as little tax as possible, so if there's something I can do to reduce his fee [...] then there's more money saved."*

(Employer, 1-4, London, all outsourced)

## 2.8 Sources of guidance

Small employers were most likely to go to either their agent (66 per cent) or an HMRC source (48 per cent) if they needed information or guidance on any aspect of dealing with income tax or National Insurance. Just one in ten would go to another source, usually some personal contact (Chart 2.11).

**Chart 2.11: Sources of guidance used (in total and by number of employees)**

Base: All respondents (1500)

Deal15. If you needed information or guidance on any aspect of dealing with Income Tax or National Insurance for your business, where would you go?

The HMRC sources used for guidance comprised the HMRC website (31 per cent), HMRC helpline (27 per cent) and the Businesslink website (two per cent).

Among those who use an agent, 79 per cent of those said they would go to them for guidance. This means that someone who uses an agent would not go to them for guidance, perhaps because of cost implications. Of those who use an agent, 37 per cent would also use HMRC as a source for guidance.

Reflecting the trend that the smallest employers were most likely to outsource, the smallest employers were most likely to go to an agent for guidance (73 per cent of those with one to four employees), and the larger firms with 10 to 49 employees were more likely to use an HMRC source for guidance (67 per cent).

### 2.8.1 Qualitative insight into information and guidance

Matching the survey results, the qualitative research found that employers used three primary sources of information when undertaking payroll tasks: their agent, HMRC website, and the HMRC helpline.

For those using one, the first point of contact was usually the agent. This was partly a matter of habit because agents tended to deal with a wide range of financial issues for employers, not simply payroll. In addition, agents were easily contacted and there was the belief that their agent would be

able to answer questions on a range of subjects, which made contacting them very efficient. There could be cost implications from using an agent, although this depended on the nature of the contract that employers had with their agents.

HMRC sources of information were welcomed, and for some employers they were the first point of contact. Experiences were mixed.

Employers that had used the HMRC website found it to be very comprehensive but difficult to navigate and find the precise information they required. There was also a strongly held view that the website text was difficult to understand, with many employers either calling HMRC for further explanation or contacting their agent to check their understanding.

*“If I have a problem, usually I try and look it up on the HMRC website....If I can’t get the answer I call them.”*

(Employer, 4-6, London, no agent)

*“I kept reading and reading the information that I had printed off the HMRC website and I couldn’t make sense of it... In the end I spoke to a [HMRC] gentleman who explained it on the phone.”*

(Employer, 5-9, Birmingham, uses agent for complex tasks)

Asked about which helpline they had contacted, employers were not always sure whether it was a general helpline, the Employer Helpline or a helpline concerned specifically with Income Tax or NICs<sup>7</sup>. Where employers were sure, it was generally the Employer Helpline that they had contacted.

Employers were often very complimentary about the helpline they had contacted – and grateful that advice and guidance was available free of charge. Employers had mixed experiences and often talked about their most recent contact with HMRC. In this respect, some employers had a good experience and found that they could easily get through to the helpline and that the call handler answered the enquiry politely and knowledgeably, while others recalled less positive experiences, particularly in terms of getting through and finding the right person to talk to.

*“Sometimes you do end up getting passed along and passed along but you do get an answer eventually.”*

(Employer, 4-6, London, no agent)

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<sup>7</sup>There was some evidence that employers were using the ‘Income Tax enquiries for individuals, pensioners and employees’ helpline and the ‘National Insurance enquiries for employees and individuals’ helpline to check Income Tax rates and for other enquiries.

*“If you phone them [HMRC], you get shipped around about 20 departments. I certainly wouldn’t phone [HMRC]. I’d go to Morepay over them.”*

(Employer, 25-49, London, no agent)

One small employer, who had been trading for many years, always posed as a new employer and called the New Employer Helpline. They did this because they thought that the call handler would be ‘more gentle’ with them and provide an easier to understand explanation.

## 3. Difficulties

The second objective for HMRC was to identify any particular areas of difficulty for small employers in dealing with income tax and National Insurance Contributions (NICs). This chapter details the hypotheses provided by the initial qualitative research and then looks at the findings from the main survey, including the perceived burden of dealing with income tax and NICs, what areas in particular are reported as burdensome by employers, and detail on how employers deal with errors and employee queries. Again, further insights and illustrations are added from all stages of the qualitative research.

### 3.1 Hypotheses from exploratory work

The exploratory work suggested that small employers did not see income tax and NICs a large burden overall, although some employers found tasks with which they were unfamiliar (such as the income tax and NICs implications of statutory pay) more burdensome, but with relatively little perceived burden overall compared with other demands on an employer. When asked to think about their business as a whole, and all the tasks involved in running it, employers were more likely to perceive tasks such as generating new business, remaining solvent, securing finance and paying invoices as burdensome. There was also some evidence that statutory burdens, such as the perceived inflexibilities of employment law, were also burdensome. Income tax and NICs were reported to be less of a burden than any of these other areas.

If income tax and NICs were to become simpler to administer, employers thought that it would make it easier for them to understand the process, but that this would not necessarily reduce the burden. This was often because they were just typing numbers into a software package or handing information over to agents to deal with, so they did not necessarily understand the processes involved and the implications of any change. This also meant that employers said that they would struggle to explain some of the more complicated elements of income tax and NICs if employees had any queries, as they did not always understand them themselves.

Another potential burden was dealing with errors. As discussed in Chapter 2, employers reported using agents because they were scared of making a mistake. Therefore, if a mistake was made in relation to income tax and NICs, they would be most likely to use an agent to fix it.

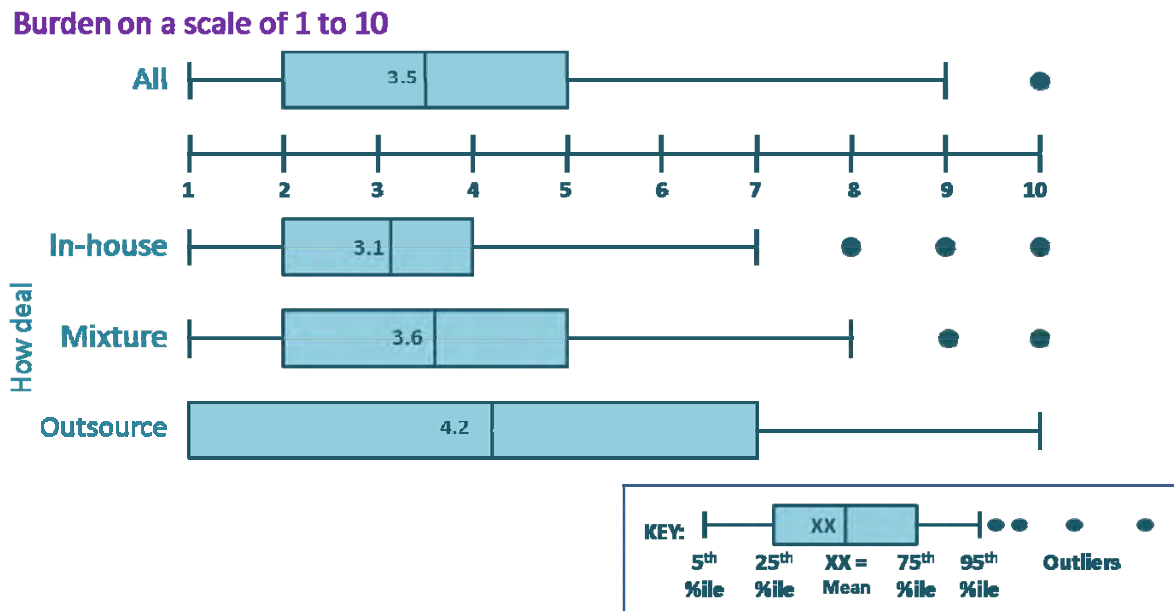


### 3.2 Overall burden of dealing with income tax and NICs

Excluding the cost of paying income tax and NICs, compared to other aspects of running a business, dealing with income tax and NICs was not perceived by businesses to be a great burden. The question in the survey did not prompt employers to think about any other specific elements of running a business, but based on the qualitative research this was likely to include generating new business, remaining solvent, securing finance, paying invoices and statutory burdens such as employment law.

Overall, when asked to rate the burden on a scale of one to ten, where one is no burden, and ten the greatest burden, respondents rated it on average at 3.5 (Chart 3.1<sup>8</sup>). Three in four employers rated the burden at five or below. From the qualitative work it was apparent that tasks such as making sales, securing finance, and paying invoices tend to be perceived as more burdensome than payroll.

Chart 3.1: Relative burden of dealing with income tax and NICs



Base: All respondents (1500)  
 DIFF1 - How great is the burden of dealing with Income Tax and NI relative to all other things a business has to do?

In general, there was not much of a variation in the perceived burden between different types of business. Those with fewer employees tended to be slightly more likely to say that it was not a burden at all, but there was no difference in the mean scores by size.

<sup>8</sup> The boxes in the chart show responses from the 25<sup>th</sup> percentile to 75<sup>th</sup> percentile, with the line within the box representing the average (mean) cost. The lines going out from the boxes shows the range from the 5<sup>th</sup> to 95<sup>th</sup> percentile of responses, with any dots representing outliers

Employers who outsource income tax and NICs tended to rate the burden as slightly higher than those who do everything in house, although there was more variation in the level of perceived burden for this group compared with those who do work in house, meaning they were more likely to report both a higher and lower burden (Chart 3.1). Perceptions of higher burden may relate to the reasons for outsourcing these tasks (because they are perceived as difficult) or it may relate to the cost of having to outsource the work being perceived as a burden to the business. A lower burden may be reported as employers just hand everything over to an agent, thus removing the burden.

### 3.3 Specific areas of burden

To ascertain whether there were particular aspects of dealing with income tax or NICs that caused a greater burden, respondents were read out a list of different tasks and asked if they find each one a particular burden. Only a minority of those dealing with each task in house reported that it was particularly burdensome (Chart 3.2). This reflects the overall lack of reported burden, and confirms the hypotheses from the exploratory work.

**Chart 3.2 Whether each task is a burden (among those dealing with each)**



DIFF3 –I'm going to read out a list of areas some people find burdensome when dealing with income tax or national insurance. For each one, can you tell me whether you find it a particular burden in your business?  
Base: All respondents (1500)

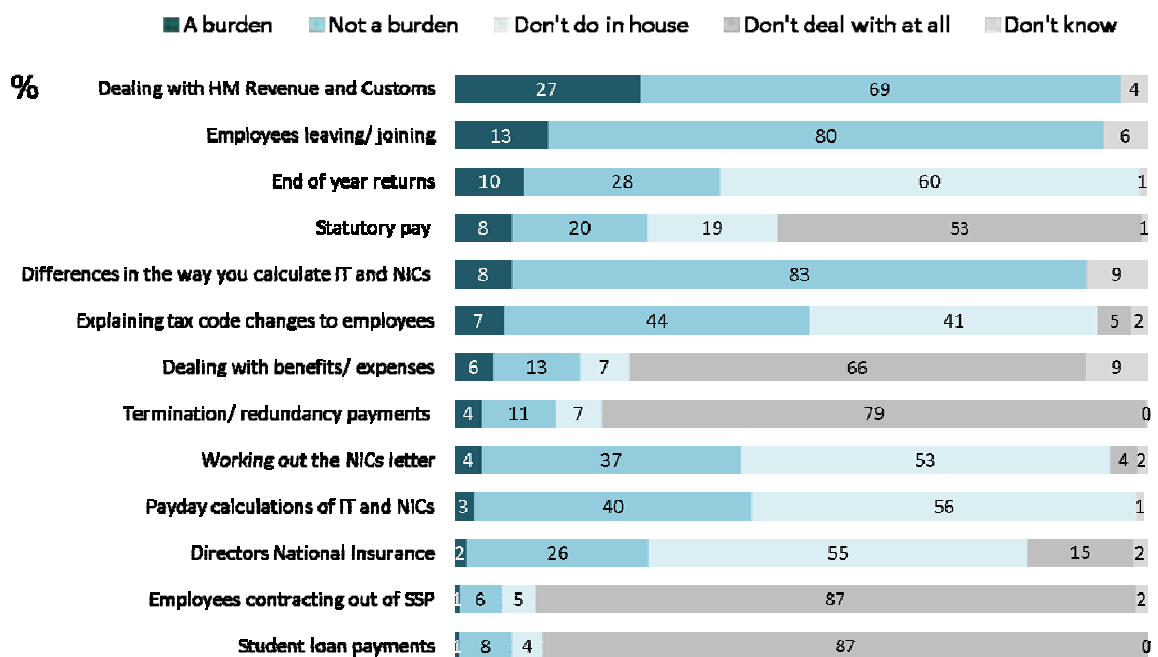
Among those who deal with them in house, employers are most likely to rate dealing with the income tax and NICs elements of statutory pay, and of termination and redundancy payments, along with dealing with HMRC and end of year returns as a burden (Chart 3.2). Each of these areas is rated as a burden by just under three in ten respondents. Three of these areas are tasks that would not be performed very often and so the burden may be a result of relative unfamiliarity with the task, meaning employers see it as more complex.

Difficulties

Two of the next three highest burdens (employees leaving or joining and explaining tax code changes to employees, each rated as a burden by 13 per cent of employers) are also tasks which would be performed less frequently by most employers, which helps to explain why they may be viewed as a burden. For those who deal with benefits and expenses in relation to income tax and NICs, this may be dealt with on a payday basis but the qualitative work suggested that there is some confusion over whether tax and NICs apply to specific benefits and expenses.

Since not all employers deal with each of these income tax and NICs tasks (either in house or at all), it is also relevant to consider the burden of each task across all small employers, thus taking into account the extent to which each task applies, as well as the relative burden (Chart 3.3).

Chart 3.3 Whether each task is a burden (among all small employers)



Base: All respondents (1500)

DIFF3 –I'm going to read out a list of areas some people find burdensome when dealing with income tax or national insurance. For each one, can you tell me whether you find it a particular burden in your business?

When looking at all small employers, the most reported burden was dealing with HMRC, for 27 per cent of respondents. Employers who deal with all of their income tax and NICs tasks in house and larger employers were more likely to see this as a burden, as were those with non-standard, more complex dealings (Table 3.4).

**Table 3.4 Burden of dealing with HMRC**

	All employers	Number of employees			Complexity of tasks done		Approach to payroll		
		1-4	5-9	10-49	Standard tasks only	Non-standard tasks	In house	Mixture	Out-sourced
%	27	26	25	33	21	30	32	27	15

Base: All respondents (1500)

DIFF3 I'm going to read out a list of areas some people find burdensome when dealing with income tax or national insurance. For each one, can you tell me whether you find it a particular burden in your business? – 'Dealing with HM Revenue and Customs'

Each other task was only considered a burden by a small minority, in some cases because they were perceived as not being a burden (e.g. employees leaving or joining, or differences in the way you calculate income tax and NICs), others as they were often not dealt with in house (e.g. end of year returns, working out the NICs letter, and payday calculations) and others as few employers actually dealt with them (e.g. benefits and expenses, and termination and redundancy payments).

Overall, half of employers reported at least one aspect of dealing with income tax and NICs to be a particular burden. This rose to 61 per cent of those who dealt with all tasks in house, compared with only 15 per cent of employers who outsourced everything. Related to patterns of outsourcing, 61 per cent of employers with 10-49 employees reported at least one burden, compared with 25 per cent of smaller employers. The difference by size is likely to be the result of larger employers dealing with more complicated tasks in house.

### 3.4 Qualitative insight into perceived burden

When they were asked to think about *all* the tasks involved in running a business, employers in the qualitative research reported that managing the payroll and calculating Income Tax and NICs were a relatively minor burden. Tasks considered to be more burdensome included generating new business through making sales, attracting new customers and providing quotations for new projects; remaining solvent, which was a particular issue in the current economic climate; securing finance; and paying invoices. While these core business tasks will inevitably take more effort, and be more of a focus for businesses, this does help to provide a broader business context within which to view the relative burden of running a payroll.

There was also some evidence that statutory burdens (perhaps more similar in nature to payroll tasks), such as the perceived inflexibilities of employment law, were also burdensome. For example, employers thought that the current employment law made it difficult to re-size the workforce which meant they were reluctant to expand their workforce in case they faced a further downturn.

## UNCLASSIFIED

### Difficulties

Within the payroll process itself, the regular calculation of income tax and NICs was considered to be a relatively minor task, primarily because employers used software to undertake the calculations or outsourced those tasks that they were not confident to undertake themselves. Payroll tasks that were more burdensome included: calculating the gross pay of employees with fluctuating salaries, end of year returns, and answering employees' payroll queries.

*"Sage does absolutely everything [...] It takes me with 35 members of staff. With no aggravation, if it takes me six or seven minutes to run the payroll [...] to me Sage was the best thing ever invented."*

(Employer, 10-49, London, use agent for end of year)

However, as the quantitative research has demonstrated, employers do find other aspects of payroll more burdensome, particularly dealing with expenses and benefits in kind or where the issue, such as the administration of income tax and NICs for statutory pay, arises relatively infrequently. Experience was often a key issue here: larger employers that did most PAYE calculations in house thought that the income tax and NICs aspects of statutory pay were straightforward to deal with once they were set up in the software. By contrast, a small family business which had never dealt with statutory pay assumed its administration was very complex and therefore burdensome. Should such issues arise they would ask their agent to undertake the calculations for them.

*"Just things that are out of the ordinary...you have to stop and think."*

(Employer, 1-9, Milton-Keynes, uses an agent for complex tasks)

Of all the payroll tasks, benefits in kind and expenses were said to be the most difficult and burdensome aspects to deal with. This was because the rules concerning them were reported to be particularly complicated, plus the onus was on the employer to decide whether the item attracted income tax and NICs. This was one of the few instances where the differences between income tax and NICs compounded the level of burden as employers needed to understand the different rules concerning liability for each deduction.

*"There's a slight judgement involved [...] which can make it a bit more of a grey area [...] the layman who isn't a bookkeeper would not really know what is allowable [...] that's sometimes what can cause confusion."*

(Agent, sole-trader, London)

For small employers, the level of anxiety and confusion associated with expenses and benefits in kind meant that they had often decided to recompense employees through less tax-efficient options such as annual bonuses, rather than taking the time to learn the rules themselves or pay an agent to manage these for them.

*"Expenses – that is such a minefield from my point of view. We've done away with expenses in the system other than things where [...] you've got [...] a letter from the inland revenue saying you can make these payments because they're on business only [...] all the things that might create benefits you get rid of it because you just don't know where you are with it."*

(Employer, 10-49, London, uses agent for complex tasks)

For those employers that reported the income tax and NICs system to be burdensome, it was clear that this was primarily because of a fear of making an error, rather the process of running a payroll. Errors were a general concern for employers. This was partly because they feared how HMRC would react to any errors in their income tax and NICs calculations and partly a responsibility to ensure that employees had their income tax and NICs deducted correctly. These anxieties either drove employers to outsource their payroll to an agent, who acted as a safety net, or to cross check calculations manually, significantly adding to their workload.

*"There's so many rules [...] you never know, when an inspector comes in, [...] what they will or won't accept."*

(Employer, 10-49, London, use agent for complex tasks)

*"You double check and triple check and manually check before you push the button to go."*

(Employer, 1-9, Milton-Keynes, uses agent for end of year)

*"Not knowing means you have a fear about it so you have to do a lot of boning up [...] but realistically, when we're talking about those difficult areas, we never really know whether we've gotten it right."*

(Employer, 10-49, London, use agent for complex tasks)

### 3.5 Errors in income tax and NICs calculations

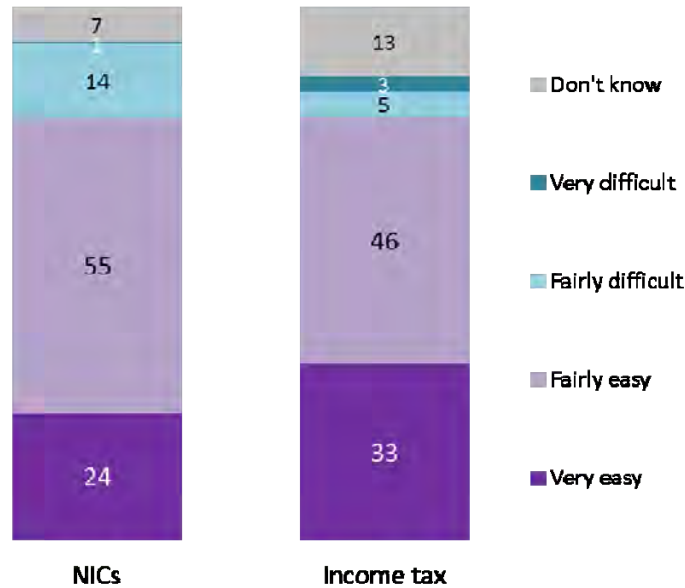
Errors are another potential source of burden for employers. Very few employers reported that they made frequent errors in the calculation of NICs. Of the 30 per cent who did report ever having made an error, the majority said that this only happened less than once a year. Employers who perform more complex in house were more likely to report having made a mistake (34 per cent compared with 15 per cent with standard tasks only), but did not report errors occurring any more frequently.

When NICs errors are made, employers differed in their approach, with 55 per cent choosing to correct the error themselves, either by correcting it in their records or contacting HMRC, and 40 per cent asking an agent or software provider to fix the error. Thirty five per cent said they would just let their agent know and then take no further action themselves, illustrating the level of reliance on agents for some employers. As might be expected, the larger employers, as well as those who do all payroll tasks in house, were more likely to take action themselves to fix the discrepancy (56 per cent of employers with 10-49 employees and 88 per cent of employers who do everything in house would take action themselves), whereas those who hand tasks over to an agent were more likely to pass

this on to an agent too (62 per cent of employers who outsource everything would leave this to an agent to fix).

Employers who have ever made an error in income tax or NICs calculations tended to report that each was resolved relatively easily (Chart 3.5).

**Chart 3.5 Ease of correcting income tax and NICs payment errors**



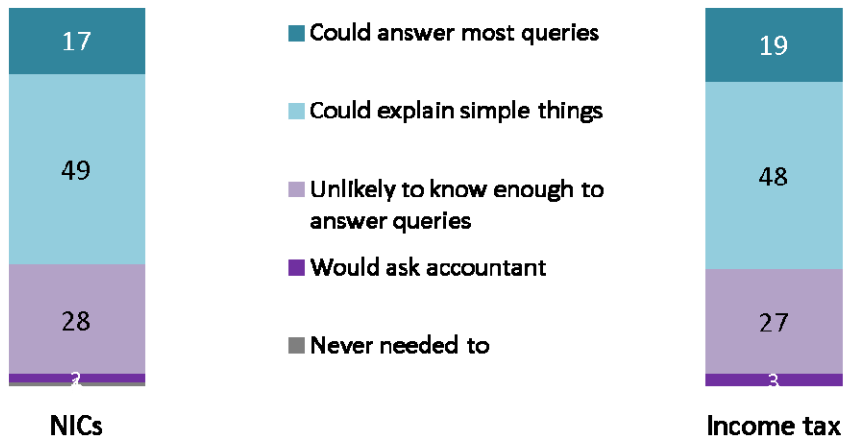
*Base: DIFF6 – All respondents who have made an error in NI calculations (229) DIFF 6b – All Respondents who have made an error in Income Tax corrections (960)  
 DIFF6 – How easy is it to make NI corrections from a previous payday?  
 DIFF6b – How easy is it to make Income Tax corrections from a previous payday?*

Employers reported that correcting income tax payment errors was more likely to be very easy (33 per cent) than correcting NICs errors (24 per cent), but the same proportion said that correcting a mistake for either was easy overall (79 per cent). However, around twice as many respondents rated correcting NICs as difficult (15 per cent) compared with income tax (eight per cent) suggesting that income tax is slightly easier for employers to deal with than NICs. This reflects the findings of the qualitative research which suggested greater familiarity with income tax.

### 3.6 Answering employee queries

A further area raised in the qualitative work as potentially problematic was answering employee queries, given the apparent lack of understanding of income tax and NICs among most small employers. Over a quarter of employers reported that they would be unlikely to know enough to answer queries employees might have about income tax or NICs (Chart 3.6).

Chart 3.6: Ease of answering employee queries about NICs and income tax



Base: All respondents(1500)

DIFF9 – Which best describes how well you could answer employee questions about their National Insurance?

DIFF10– Which best describes how well you could answer employee questions about their Income Tax?

This was particularly the case amongst smaller employers: for employers with 1-4 employees, 33 per cent said they would be unlikely to know enough to answer queries about NICs; and 31 per cent that they would be unlikely to be able to answer queries about income tax. Those who outsource everything were also more likely to say they would be unable to answer any queries (NICs: 42 per cent; income tax: 50 per cent), supporting the view that those who do not deal with income tax or NICs themselves are less likely to understand it.

Almost half of employers reported that they would be able to answer simple queries, with a further one in six reporting that they could answer most queries, suggesting that some employers do have a good understanding of the processes involved, but probably only of the simpler tasks. Employers were slightly more likely to be confident in answering queries about income tax (16 per cent more confident about income tax) than about NICs (eight per cent more confident about NICs), but for three in four, there was no difference in their confidence levels between the two.

Two in three employers (65 per cent) said they would be confident in explaining to an employee the impact that a change in tax codes might have on their pay. This suggests that this is an area employers perceive as relatively simple, and something that they would understand themselves.



## 4. Change

The final objective was to gauge small employers' views on, and priorities for, potential changes to the income tax and National Insurance Contributions (NICs) systems and the impact employers perceived these would have on the way they deal with income tax and NICs. Hypotheses from the exploratory qualitative work are followed by discussion of the survey findings. Again, further insights and illustrations are added from all stages of the qualitative research.

### 4.1 Hypotheses from exploratory work

The preliminary qualitative research found that employers tended to view income tax and NICs as one single system, so were unable to imagine how aligning the way the two systems are operated would simplify their operation. As many employers relied on either an agent or their software to complete their income tax and NICs calculations, they did not always understand the processes involved, making it more difficult for them to imagine what could be changed or improved. Furthermore, the means of dealing with income tax and NICs tended to be deeply entrenched, and employers were unlikely to consider changing their use of an agent.

The areas where there appeared to be most scope for simplification were around benefits and expenses, with employers not always sure how income tax and NICs applied to benefits, and struggling to complete the P11D. These tasks, as well as other irregular or complex tasks were the most commonly outsourced, so there seemed most likely to be scope to simplify these so they could be brought in house.

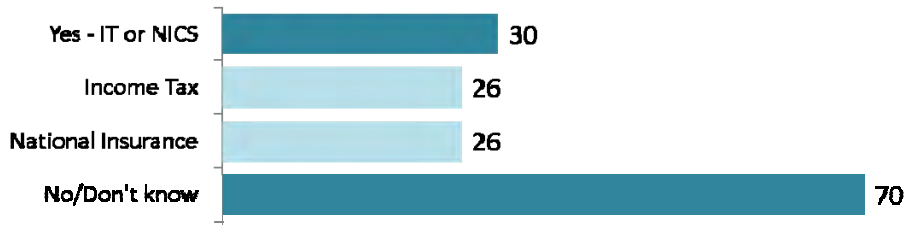
In general, employers were of the opinion that while there was some scope to simplify tasks, and this could help them to understand the systems involved in more detail, any changes would not necessarily reduce the burden of administering income tax and NICs.

### 4.2 Attitudes to the simplification of income tax and NICs

The majority of employers who outsource any income tax and NICs tasks said they would not bring the work in house even if the processes were simplified (Chart 4.1). This reflects the finding of the qualitative work that habits tended to be deeply entrenched, and employers were unlikely to consider changing their approach to administering income tax and NICs

**Chart 4.1 Whether simplification of income tax and NICs would allow tasks to be brought in house, or to save on in house costs**

**% who would bring tasks in house if they were simpler or less time consuming**



**% who believe in-house tasks could be simplified enough to save staff time/costs**



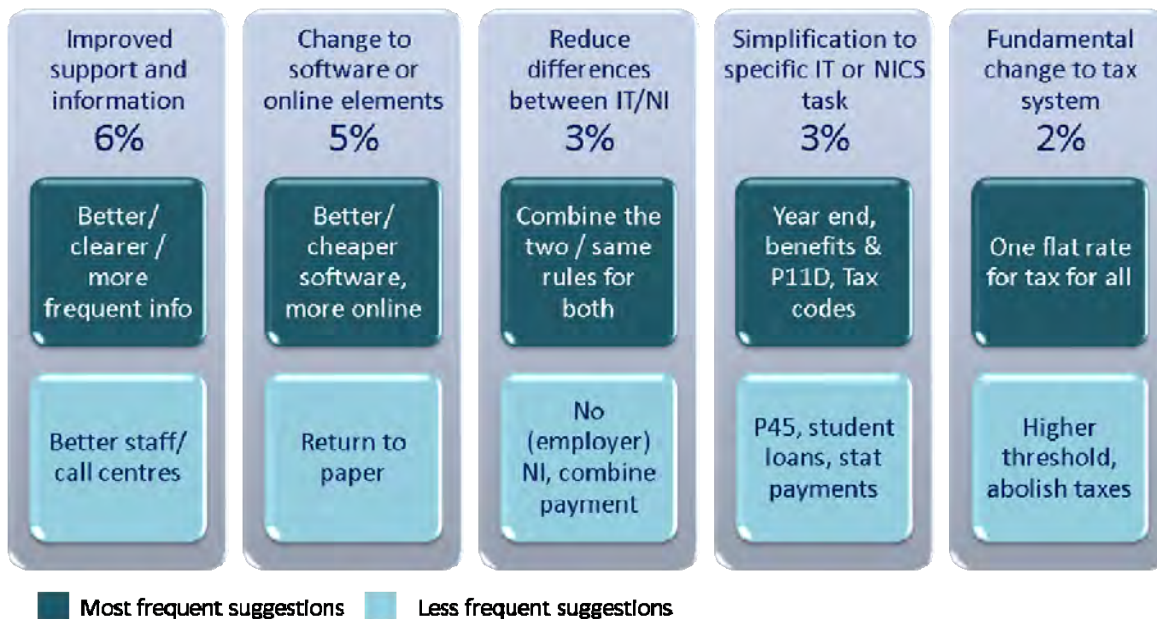
*Base: All using an agent (CHAN1): 791 ;All doing anything in-house (CHAN2):1418; All 'yes' at CHAN1/2(CHAN3) CHAN1. Are there any aspects of dealing with IT and NICs ... would consider doing in-house if it was simpler? CHAN2. Are there any aspects of IT and NI ... that could be simplified enough to save staff time or costs*

Smaller employers were slightly more likely to be open to bringing tasks in house if they were simpler (32 per cent with 1-9 employees, compared with 24 per cent of larger employers). Of the 30 per cent who reported that if tasks became sufficiently simple they might bring them in house, only 44 per cent could suggest something specific that would make the tasks simple enough to make this worthwhile.

Of the employers who currently conduct some or all tasks in house, even fewer reported that there were any areas for simplification, with 12 per cent believing that a change may save them staff time or money. This was more informed thinking, as 68 per cent of these employers suggested something specific that would help save costs. This, however, equates to only eight per cent of those who conduct any tasks in house.

Across the two questions, a total of 18 per cent of employers suggested a change that could reduce costs or help simplify tasks so that they could be brought in house. Of these, the main suggestions were a general 'improvement' of support and information provided (six per cent) and changes to the software and tools available (five per cent) (see Figure 4.2).

Figure 4.2: Specific suggestions for changes to reduce costs or bring tasks in house



Base: All respondents (1500)

CHAN3: What ... excluding the cost of paying NI/tax ... could be simplified enough to bring it in house or save on current in house staff costs?

Generally, employers did not suggest any fundamental change to the operation of income tax and NICs, but gave ideas for better tools, help and support, to make it easier for them to complete the tasks. Three per cent did suggest reducing the differences between income tax and NICs, but these ideas were fairly vague, with employers just asking for the two systems to be combined, and without going into detail as to how this would happen in practice. Others mentioned simplifying specific income tax or NICs tasks, and these tended to be more complex tasks such as year-end returns, benefits or P11Ds. Two per cent suggested fundamental changes to the tax system, such as one flat tax for everyone, or abolishing taxes altogether.

#### 4.2.1 Qualitative insight into simplification

The survey results mirror those of the qualitative research, which indicated that, in order to make payroll easier to manage, employers primarily wanted better tools, support and information. Fundamental changes to the income tax and NICs system were less of a priority if the tools and guidance were in place to address any problem areas. Employers suggested a range of improvement areas including:

- HMRC website - better navigation and signposting, together with simpler explanations;
- Telephone support service - ensure that call handlers have a broader knowledge base and can therefore act as a single point of contact; and
- Free HMRC tools – although the tools are available to any employer, HMRC states that they are most useful for employers with nine or less employees. Employers would like to see functionality improved so that larger employers would find the tools useful. Additional

services, such as an option to print payslips and the ability to access and reuse historical records would also enhance their value to employers.

*"Just provide clear information, like FAQs [...] very short, very punchy could be helpful."*  
(Employer, 1-4, London, all in house)

Aligning the Income Tax and NICs systems was a low priority for employers. If there were to be changes to the PAYE system they suggested changes that hinted at Real Time Integration - integrating payroll software, HMRC's records and the tax code system - as this would reduce over and underpayments by making the tax code system more responsive to pay and benefits in kind, and minimise employee queries.

Having discussed the idea of aligning income tax and NICs in various ways, employers indicated that this was intuitively sensible as it would reduce overall complexity, seen as a sensible thing to do in its own right, but they could not see realistically how this would feed through to them in terms of reduced burden.

*"It doesn't make any difference to me that they are separate issues because it's the computer that's dealing with it and the computer gets the updates."*  
(Employer, 1-4, London, uses agent for complex tasks)

*"Obviously there are differences between them, but with regards to working it all out it all runs quite smoothly as one."*  
(Employer, 5-9, Birmingham, uses agent for complex tasks)

However, there were some employers and agents that raised a concern about any integration of income tax and NICs because of the link between NICs and the funding of the state pension and public services such as the NHS. Whilst there was some scepticism that NICs contributions were used in this way, employers and agents recognised that there were technical, moral and political implications to merging the two systems.

*"We know that national insurance is more to pay for the NHS and towards peoples' pensions but employers sometimes think it's just another type of tax and why isn't it all one [...] you've got the employers national insurance on top [...] so they see that as another form of tax."*  
(Agent, sole-trader, London)

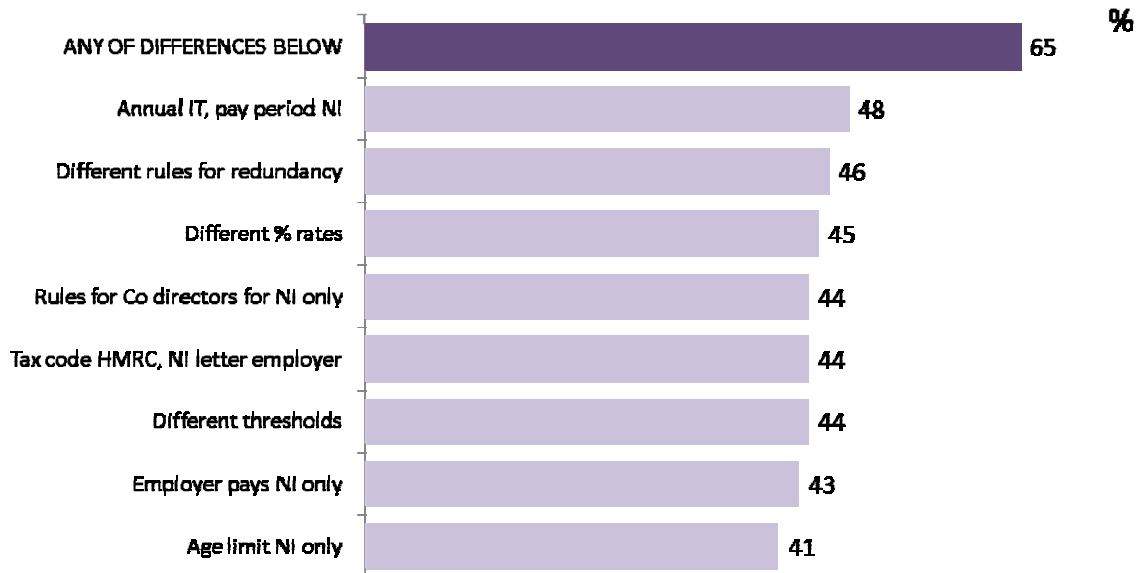
### 4.3 Impact of differences between income tax and NICs

The qualitative work suggested that employers did not really see income tax and NICs as two separate systems, so the approach used in the survey to evaluate the impact of differences on employers was to read out a list of the key differences, and ask whether each one made it more difficult to operate payroll or led to outsourcing. Two in three employers (65 per cent) reported that

## Change

at least one of these differences added to the burden, but no one of the differences asked about stood out as a particular issue for employers (Chart 4.3).

**Chart 4.3: Which (if any) differences add difficulty to operating payroll**

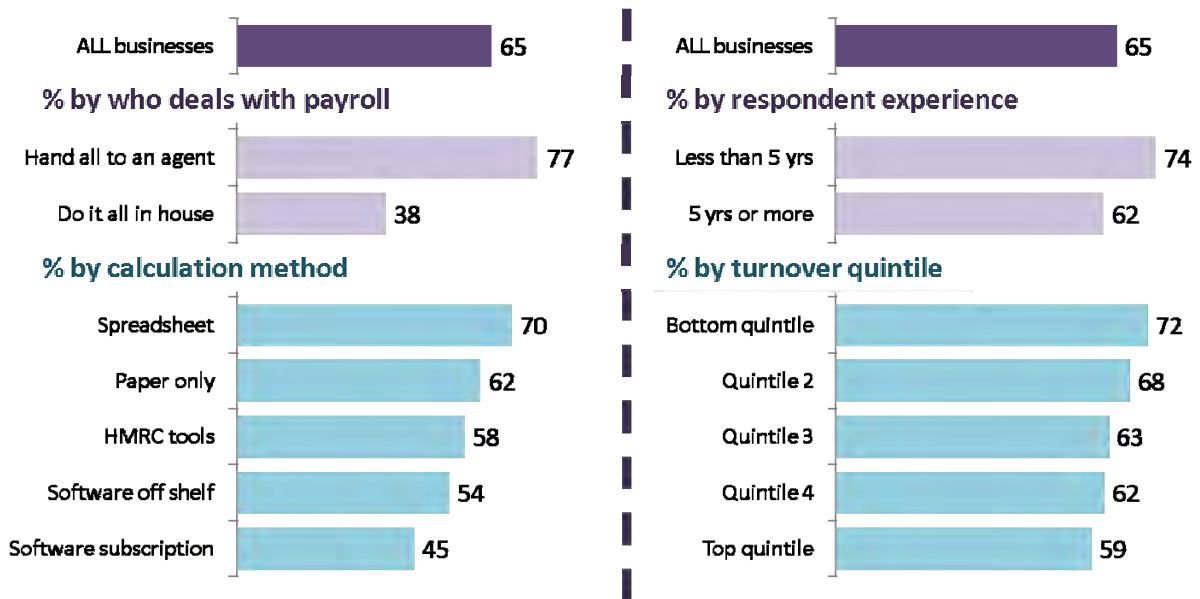


*Base: All respondents (1500)*

*CHAN4: Does this difference make it more difficult for you to operate payroll or give you a reason to pay someone else to deal with payroll?*

Those who outsource everything to an agent were far more likely to report one or more issues as a burden (77 per cent) than those who deal with everything in house (38 per cent - Chart 4.4).

**Chart 4.4: Proportion who perceive any difference as adding to the difficulty of operating payroll (by key demographics)**



*Base: All respondents (1500)*

*CHAN4: Does this difference make it more difficult for you to operate payroll or give you a reason to pay someone else to deal with payroll*

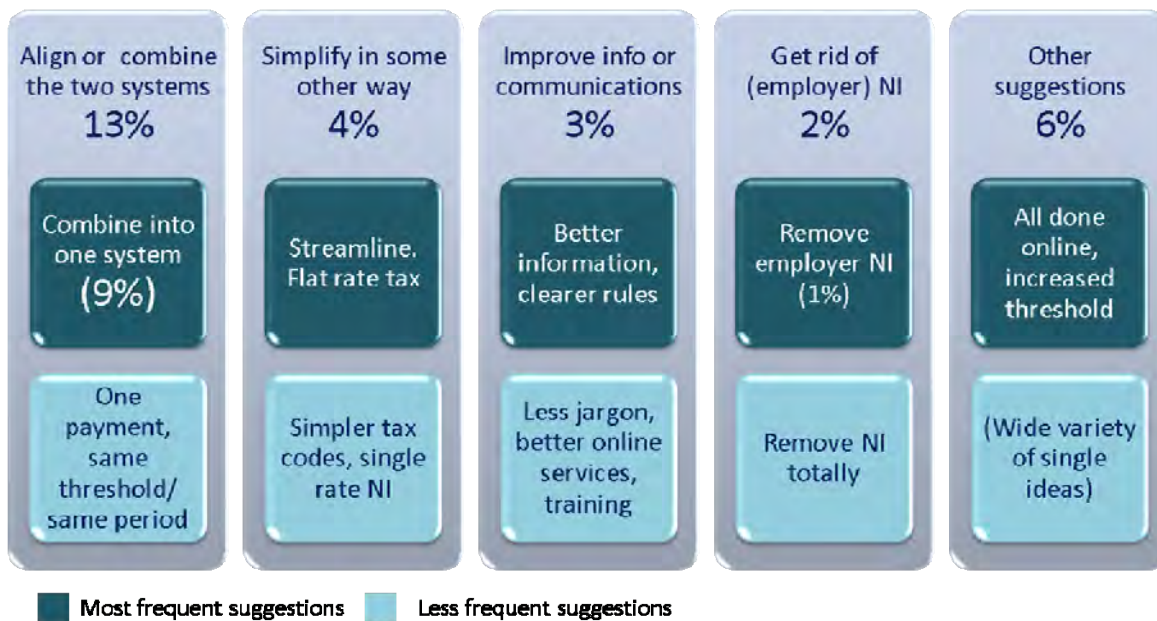
This is likely to be related to a fear of the unknown, as those who outsource everything may not have even realised there were so many differences until they were mentioned in the survey. Based on the qualitative work, employers would require considerable persuasion about the simplicity of any revised system, for them to bring the tasks in house.

Employers that use more low-tech methods to calculate payroll were also more likely to report that the differences between income tax and NICs add burden (70 per cent of those using a spreadsheet). This is likely to be an informed concern, as the employers using such methods would have more work to do in calculating both income tax and NICs, while those using software just have to input numbers and may not be aware of the differences. Less experienced and smaller employers were more likely to report that differences between income tax and NICs created difficulty for them. These are the employers that were more likely to use an agent, so this again may be linked to fear and lack of experience in dealing personally with the two systems.

#### 4.4 Ideas for changes to reduce the difference between income tax and NICs

When asked specifically what could be done to reduce the differences between income tax and NICs to help with administering payroll, 23 per cent of employers were able to suggest a change spontaneously. The main change suggested was to combine or align the system in some way, with 13 per cent mentioning this (nine per cent simply said to combine the two systems into one as shown in Figure 4.5).

**Figure 4.5: Spontaneous suggestions for changes to income tax and NICs to reduce costs or bring tasks in house**



*Base: All respondents (1500)*

*CHAN5: What could be changed to reduce the differences and that would help your business administer your payroll more easily?*

Other ideas were also relatively vague, with four per cent saying ‘just make it simpler’ and others just suggesting simplification of specific tasks without a clear idea about how this aligned the systems. A few (three per cent) suggested improving communications, supporting the themes arising in relation to more general improvements to the system. Employers with more experience of the income tax and NICs systems were more likely to be able to come up with ideas for simplifying the differences: 25 per cent of those who conducted all tasks in house came up with a suggestion, compared with 14 per cent of employers who handed everything to an agent. A similar trend emerged by complexity of tasks conducted, with those who conduct more complex tasks in house more likely to come up with suggestions (27 per cent) than those dealing with standard tasks only (19 per cent).

When asked for ideas about how to change the income tax and NICs system in the qualitative research, suggestions from employers were generally similar to those of the survey. However, one further area where employers thought that simplification could reduce burden was reducing the complexity of expenses and benefits in kind, by simplifying the income tax and NICs regime on these aspects of payroll.



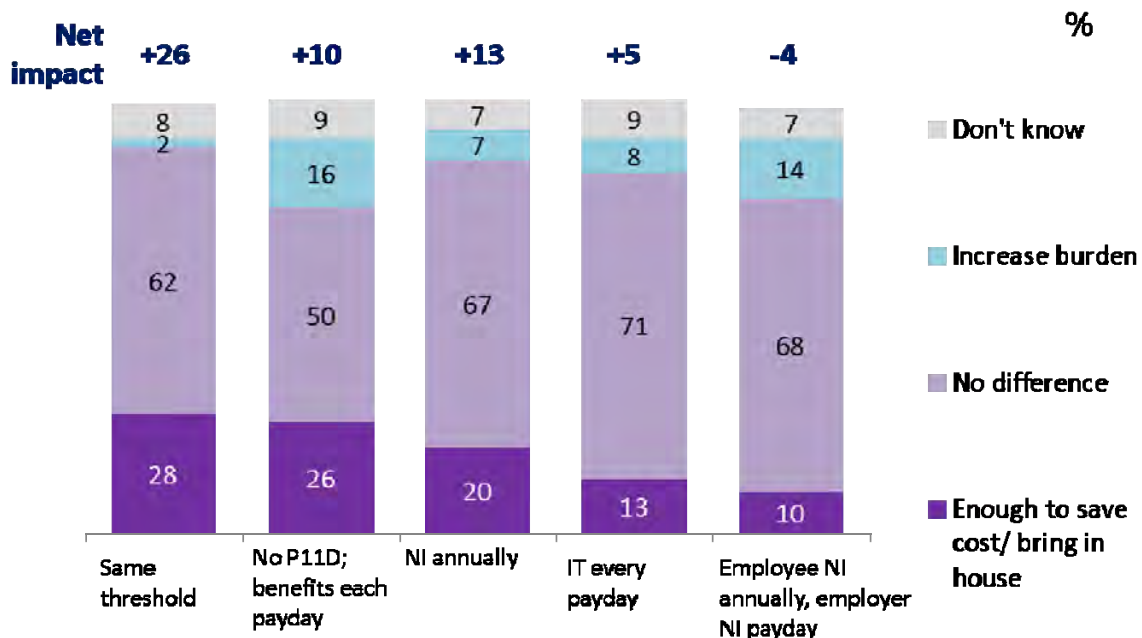
### 4.5 Reactions to suggested changes to reduce the differences

Since the qualitative research suggested that employers were unlikely to be able to suggest detailed changes spontaneously, five possible changes were read out and employers were asked for each one whether this would reduce or increase burden in the longer term. It should be noted that these only represent some possible changes, and not all possible change scenarios were tested. Those included in the research were:

1. Assessing National Insurance on an annual basis rather than just each payday, to match income tax
2. Assessing income tax only every payday independent of other employments or earnings throughout the year, to match National Insurance
3. Changing EMPLOYEE National Insurance to an annual basis, but leave EMPLOYER National Insurance, as it is now, just on a payday basis
4. Dealing with benefits in kind each pay day, and in the main annual tax return, getting rid of the annual P11D
5. Having the same thresholds for paying National Insurance and income tax.

Employers were most likely to believe that each of the suggestions offered in the survey would make no long term difference to their administration of payroll (Chart 4.6). The suggestion of aligning thresholds was most positively received by small employers, with 28 per cent reporting this would be a big enough change to save on costs or allow the business to bring payroll in house, and only two per cent believing this would increase the burden.

Chart 4.6: Perceived impact on burden from suggested changes



Base: All respondents (1500)

CHANG: In the long term would this save on the cost of administering payroll, make no difference or increase costs



The idea of getting rid of the P11D and dealing with benefits in kind each payday had a more mixed reaction, with 26 per cent of employers thinking it would reduce the burden but 16 per cent believing that this would actually increase the burden.

Employers were more positive about the idea of calculating NI annually than they were about calculating income tax on a payday basis in order to align the two, probably because calculating something only once a year rather than once every pay day makes logical sense to employers; however both of these options were viewed as not making any real difference to the burden of payroll tasks by over two thirds of employers. The only suggestion which had a negative net impact was keeping employer NI as dealt with every pay day but calculating employee NI annually: more employers believed that this would add to the burden than perceived that it would ease the burden.

In total, 40 per cent of employers perceived that at least one of the suggested changes would reduce their burden. This figure backs up the finding from the exploratory work, that many employers lack sufficient awareness of how the systems work to understand the impact of any change on time or costs. Employers who already do some or all tasks in house were much more likely to report that at least one of the changes may save on costs (38 per cent of those who do all tasks in house, 43 per cent of those who do some) than those outsourcing everything (22 per cent), probably since they are more familiar with the tasks, and so are more likely to be able to see where time can be saved or where tasks could be brought in house.

Employers carrying out non standard tasks (42 per cent), and those respondents who are in a financial role (45 per cent), were also more likely to believe making some changes would reduce burden, perhaps because they have more experience with the tasks. These employers were also more likely to have had ideas spontaneously about how to change the system as outlined in the previous section, reinforcing the finding that employers who have a reasonable level of experience with these tasks are more likely to believe that changes could be made to make the process simpler, while those who hand everything to an agent don't understand enough to see where changes could be made.

The survey only covered a range of possible changes, and it is possible that alternative suggestions would receive a more positive reception. Based on the qualitative research and survey findings, however, it seems likely that without a lot more detailed discussion of any change, most employers would find it hard to see the benefits.

#### **4.5.1 Qualitative insights into the reactions to suggested changes**

In line with the survey findings, the qualitative research found that in terms of reducing cost or burden, it was considered unlikely that any of suggested changes intended to align the income tax and NICs systems would have any real impact on employers that were using software to manage their payroll. As described above, payroll software already smoothes out the differences between the two systems and the burden associated with calculating and paying income tax and NICs was

considered minimal. Although employers indicated that some of the potential changes sounded intuitively sensible, it was difficult for them to anticipate any real savings in time or cost.

*"It seems sensible to me [...] but with software it makes no difference."*

(Employer, 10 -49, London, no agent)

*"In theory I agree with it, I'm not sure what difference it makes currently as the system just tells me what to deduct."*

(Employer, 1-4, Location, uses agent for complex tasks)

However, this was not necessarily the case for employers that were still calculating income tax and NICs manually using paper forms and tables if it meant they only had to carry out one set of calculations. Aligning income tax and NICs could potentially reduce calculation time. Given the increasing emphasis on migrating to digital processes, it may however be that these changes cannot be justified on this basis alone.

*"If it was amalgamated, we're still going to have statutory sick pay, we're still going to have [...] benefits in kind. We're just going to have a different way of dealing with it [...] If you were doing things manually of course it was different [...] you had to look up two sets of tables [...] but who does it manually these days?"*

(Employer, 1-4, London, no agent)

Although employers could not generally see any time and cost savings they did, however, see other benefits, particularly by making it easier for employees to understand and estimate deductions from their pay and in reducing queries from employees. Employers' preferences for bringing the income tax and NICs thresholds into line or calculating NI can be understood in this light.

In the next sections we discuss employers' responses to each of the changes in turn. The views of agents were also collected and on the whole these mirrored those of employers, although any differences or additional issues raised are highlighted below.

### Dispensing with the P11D

P11Ds were considered complex and time-consuming and as a result these were frequently outsourced to agents, with the exception of the larger employers. Consequently, this was the one change where employers could potentially envisage real time or financial savings, as simplification could mean that their agent's costs would decrease. In addition, as discussed above, the anxiety surrounding the complexity of benefits in kind and expenses discouraged small employers from offering these to their staff; the removal of the P11D could change their attitudes. Overall, employers responded most positively to this potential change because it appeared to reduce the cost, complexity and anxiety associated with this aspect of payroll.

## Change

However, there were conflicting views about whether providing benefits in kind information on a pay period basis would actually reduce burden. On the one hand, employers were concerned that this would require P11D submissions each pay day, thereby increasing the workload. On the other hand, by providing this information more regularly, employers believed they would become more familiar with the rules. In addition, submitting records on a pay period basis would minimise the risk of losing these or forgetting what benefits in kind employers had received. This was especially so for the very small employers.

*"You'd be doing it more often and you'd get to know which benefits were allowable and unallowable each week or month that you do the payroll."*

(Employer, 1-9, Milton-Keyes, uses agent for complex tasks)

*"Because you're calculating it and dealing with it when you do your payroll, you know what the situation is at that time [...] now at the end of year I have to remember or have kept records about what types of benefits people have had during the year."*

(Employer, 10 - 49, London, no agent)

These contradictory views go some way to explaining the survey responses to this change, in particular that this change had the second highest positive net impact, whilst also receiving the highest proportion of negative responses, with 16 per cent of employers saying that it would increase their burden.

Reducing over and underpayments was also a key anticipated benefit as employers expected that tax codes would be responsive to the information provided. Whilst this did not directly affect employers' workload, it would have a positive impact on their relationship with employees who reacted negatively to tax code changes which could result in large deductions.

The agents provided a more nuanced view, suggesting that the removal of the P11D would only have an effect where the value of a benefit in kind fluctuated each month. In these cases though, agents envisaged that records, such as receipts, would be required with the monthly submission and they anticipated difficulties collecting and processing all the information required from employers in time to run the payroll on a monthly basis. Where there was a fixed annual cost of a benefit spread across the year, such as a company cars or health insurance, providing the information on a monthly basis would be more straightforward; however, agents believed that the current system was already adequate in dealing with these in any case.

*"[It is] almost like doing 12 P11Ds [...] most of the benefits are for one year, like your car benefit [...] but you're paying for it every month [...] it's built into your tax code."*

(Agent, London)

### Using the same thresholds for Income Tax and NICs

As the different income tax and NICs thresholds are built into payroll software, employers reported that the impact of aligning the income tax and NICs thresholds on their workload would be negligible. However, employers said that intuitively this was a useful change because employees find it difficult to estimate their gross pay because the two systems use different thresholds. By aligning the thresholds it should be easier for employees to more easily estimate their pay.

*“At the moment you have so many more levels of NICs than you do Income Tax, too many figures in your head, although you just put it into SAGE.”*

(Employer, 1-9 employees, Milton Keynes, uses agent for complex tasks)

*“It won’t affect me at all, but it would make it more simple to understand how it is worked out ... at the moment it’s very hard to understand.”*

(Employer, 15-20, London, no agent)

### Calculating NI on an annual basis:

The concept of introducing a NICs code or incorporating NICs into the tax code was viewed favourably by employers and agents, primarily because NICs would be more stable for employees whose income fluctuated. Employers therefore believed this would reduce queries from employees, although employers said that the impact on their workload would be negligible.

Agents questioned whether calculating NI on an annual basis would give rise to the same fluctuations and problems as the tax code, resulting in over and underpayments at year end. This was said to impact on particular individuals who had more complex salary arrangements, such as fluctuating incomes, income from multiple sources or frequent job moves.

Agents also indicated that this change would remove a potential loophole by preventing salary manipulation by employers who would no longer be able to spread salaries across pay periods in order to avoid paying employer NICs.

### Employee NI paid annually / employer stays the same

Both employers and agents found it difficult to anticipate the impact of this change or even how it would work in practice. Consequently there was a knee-jerk response suggesting that it would increase the burden on them.

### Income tax on a payday basis:

This potential change to the income tax and NICs system caused most concern for employers and agents, because they anticipated that some individuals would be financially disadvantaged by the change as well as giving scope for tax avoidance. Employers and agents said that as it currently

stands the system of income tax codes was a trusted mechanism for levelling out income tax over the year and ensuring it was applied fairly according to employees' yearly earnings. They questioned whether some individuals would lose out, particularly those who only work for part of the year, as overpayments would not be accounted for in the system.

*"I think more people would lose than would gain."*

(Employer, 1-9 employees, Milton-Keyes, uses agent for complex tasks)

In terms of reducing workload, employers thought that the impact on them would be negligible as they already calculate and pay income tax for each pay period under the current the PAYE system. There may potentially be scope to reduce end of year pressures, if it were no longer necessary to tally payments to HMRC at year end as reconciliation would occur on a pay period basis. On the other hand though, if tax codes changed on a monthly basis, this had the potential to increase the burden on employers.

Agents questioned how the system would operate for individuals with multiple sources of income as there would potentially be scope to reduce their income tax liability by spreading their earnings across pay periods.

#### 4.5.2 Qualitative insight into likely impact on payroll burden

Reinforcing the survey findings, there was little indication in the qualitative research that employers believed that any of the changes, except dispensing with the P11D, would be beneficial to employers, although it might make income tax and NICs easier to understand, particularly for employees. Overall, it was considered likely that any potential changes to the income tax and NICs systems would have an imperceptible impact on their workload as the changes would be accommodated within the payroll software.

*"It will reduce your thought-load, the actual buttons you press, it wouldn't make much difference [...] It won't hurt your brain so much."*

(Employer, 10-49, London, no agent)

*"Once again it will be in the software. You will get an update and you will just do the update within the software."*

(Employer, 15-20, London, no agent)

Both employers and agents raised concerns about the potential costs of introducing change. Employers considered that change to the PAYE system involved a short term cost: any change would give rise to employee queries and therefore require employers to take some time learning more about the PAYE system and the likely questions they would be asked by employees. Therefore, there was an expectation that HMRC would provide information or guidance at the point of making the changes to help employers field questions, for example information leaflets to attach to payslips.

Change

Given the limited perceived benefits of introducing such changes, employers and agents were of the view that aligning the two systems in this way was not justified.

*“Any changes however small [...] when peoples’ finances are concerned [are] a massive concern.”*

(Employer, 10-24, London, all outsourced)

*“I don't think there's any benefit to anybody in changing the rules [...] I don't think there will be any great saving for anybody [...] it'll be just new rules for us to learn [...] the basics for us aren't that complicated.”*

(Agent, London)

*“It just sounds like more work for very little benefit.”*

(Employer, 1-4, London, uses agent for complex tasks)

As payroll software clearly takes much of the burden out of PAYE tasks, these responses indicate that a more effective way to reduce the burden of PAYE on employers may be through education, focussing on problem areas such as the rules about benefits in kind and expenses; and ensuring that employers have access to payroll software and are confident using it.

## 5. Discussion and conclusions

In summary, the programme of research does not report a clear demand for changes to align the income tax and National Insurance Contributions (NICs) systems for employers with under 50 employees, provides evidence that operational integration could face barriers among this group, and that a large scale education programme is likely to be needed ahead of implementation. The reasons for these conclusions are discussed further in this chapter.

The aim of any proposed changes to the systems was to further simplify the tax system for employers, reduce purely tax driven business decisions that currently result from anomalies between the two systems, increase fairness and transparency for employees, and reduce HMRC administration costs to the taxpayer. The discussion in this chapter focuses largely on the impact of simplification on employer burden as this was a key focus of the research. Changes may, of course, achieve the remaining aims, even if they do not have scope to reduce employer burden.

### 5.1 Lack of perceived burden from the income tax and NICs systems, or from differences between the two systems, related to a general lack of understanding of the systems

The exploratory research suggested that small employers did not perceive there to be a particular burden associated with the operation of income tax and NICs, relative to the other tasks a business has to deal with. Other pressures on the business, particularly business generation, solvency, securing finance, and paying invoices resulted in a much greater perceived burden. There was also evidence that statutory requirements such as employment law were more of a burden for some. While other tasks perceived as more burdensome are inevitably likely to be more time consuming than payroll, this does provide context for the perceived relative burden of dealing with income tax and NICs in the broader context of running a business. Further research would be needed to explore the burden relative to other statutory or Government imposed tasks.

The survey confirmed that income tax and NICs were perceived as a relatively small burden for small businesses, relative to other business tasks:

- it was rated at only 3.5 on a scale of 1 to 10 where 10 is the greatest possible burden, relative to other burdens on businesses
- no specific income tax or NICs task was perceived as a particularly burden by more than three in ten of those businesses dealing with it in house

## Discussion and Conclusions

There was also evidence from the qualitative research that small employers viewed income tax and NICs as part of the same system, and were not necessarily aware of the differences in their operation. On this basis, there was likely to be little or no perceived burden because of the differences. Indeed, the survey found that only eight per cent reported that the differences constituted a particular burden for their business. This was strongly related to the survey finding that 77 per cent of small businesses outsourced at least some of the process, and that those who do deal with tasks in house were most likely to use commercial software (30 per cent) or electronic HMRC tools (27 per cent). Qualitative exploration found that the use of outsourcing and software packages reduced small employers' need to understand the processes involved: they merely needed to know enough to enter or pass on a minimal amount of information each payday and at year end, and were happy to trust the software or agent to get things right.

The use of agents and software also means that employers do not need to spend a large amount of time or money on administering income tax and NICs processes each payday or at the end of the year. The survey confirmed the time spent in house was low (2.4 hours per payday, 7.1 hours at year end, on average) and that the costs of software were not high (an average of £286 for an off the shelf package, or £482 per year for a subscription). The qualitative work also suggested that the perceived cost of using an agent for income tax and NICs was fairly low, and just a small part of the costs of using an agent for other business tasks. On this basis it was likely to be hard for small employers to see how changes to the system could help reduce the costs to their business.

This was confirmed in the survey, where only 23 per cent could think of any ways to align the two systems in order to reduce burden or costs. The single largest suggestion (by 13 per cent) was to combine the two into one system, with no detail given about how this would work. Based on the qualitative research, this reflects the intuitive idea that bringing the systems together must be a good thing, rather than any understanding of what this would mean, or any ability to assess the impact on burden for their business.

There are some elements of operating the income tax and NICs systems that do present a relatively greater burden for small businesses, but these do not necessarily relate to the differences between the two systems. The qualitative work suggested that perceived complexity of a task is driven by a range of different factors depending on the employer, including familiarity, regularity and the need to make decisions. The qualitative research suggested that tasks more commonly perceived as complex did include those affected by differences between the two systems, although employers did not always realise that this was the case, and tended to focus on what they perceived as the intrinsic difficulty of specific tasks. These would include:

- the end of year returns – only done once a year and perceived as very involved,
- dealing with the income tax and NICs aspects of benefits and expenses - needing decisions e.g. over what is a taxable benefit, and



## Discussion and Conclusions

- dealing with the income tax and NICs aspects of statutory pay - an irregular task and employers seemed to be unclear about the rules for this, particularly the smaller employer.

Perhaps surprisingly, the survey found that no single task was a particular burden for more than 30 per cent of small businesses dealing with it, and while end of year returns and statutory returns were among the income tax and NICs related tasks most likely to be perceived as a burden, along with termination and redundancy payments, each was only a burden for around a quarter of those who dealt with them. Income tax and NICs for benefits and expenses were only a burden for 13 per cent of those who dealt with them in house. Given the level of outsourcing, and the minority involvement in dealing with statutory pay, benefits and terminations, this meant that each task was a burden only for a very small minority of small employers.

In fact, the single most reported burden was dealing with HMRC over income tax and NICs, which was selected by 27 per cent of small businesses as a particular burden. This is linked to the finding that, when asked to suggest improvements to the income tax and NICs system, survey respondents were most likely to suggest improvements to tools, support and communication rather than changes to the systems. This indicates a role for greater education but does not suggest the need for wholesale reform of the system for small employers.

## **5.2 Lack of perceived scope to reduce burden through bringing tasks in house or simplification of in house processes.**

It seems unlikely that aligning the operation of the two systems will lead agents to reduce the fee they charge employers for dealing with income tax and NICs. On this basis, the only way to reduce burden on businesses that outsource is to simplify the tasks to such an extent that they can be conducted in house more cheaply than they can be outsourced, using minimal resource.

As discussed above, most small employers outsource at least some of their income tax and NICs tasks. While use of an agent is mainly driven by a perceived lack of in house skills and resources and, in theory, simplification should reduce this barrier, the qualitative research suggests that this is unlikely. Use of an agent tends to be chosen as the safe and easy option, in the absence of in house skills and resource, and is not necessarily expensive enough to justify changing long-embedded habits. Fear of getting things wrong was a big driver of agent use in the qualitative research, and cost of using an agent, even if this would be greater than in house costs, may easily be justified by employers on this basis.

For those outsourcing only some tasks there may be barriers to bringing more in house. Twenty six per cent of those outsourcing some tasks only used an agent to check their workings. Given the fear of getting things wrong, simplification seems unlikely to change this approach. Seventy one per cent used an agent for the more complex tasks and this was higher at 81 per cent of those using paper based calculations. The use of low-tech methods of calculation could prove a barrier to bringing more complex tasks in house for a significant minority, even with simplification.

The majority of small employers with in house dealings use software or tools, and the qualitative research found that many rely on this, with little or no understanding of the underlying process. They already see the process of entering the necessary information as simple, so it is hard to see how simplification of the processes, which is likely to be hidden within software updates, would benefit these small employers.

On this basis it is unsurprising that small employers find it difficult to perceive how any changes would reduce costs or burden, either through spontaneous suggestions, or reaction to ideas for potential change. When presented with five potential changes few in the survey could perceive of any benefits for them. The survey only covered a range of possible changes, and it is possible that alternative suggestions would receive a more positive reception. The fact that those employers with more personal experience were more able to suggest or see the benefits of change does open the possibility that education could help more employers see how the changes would save costs or reduce burden.

### **5.3 Inertia and cost of change balanced against perceived benefits**

Habit and inertia could prove the greatest barriers to any change. The evidence from the qualitative work was that some employers shifted work from an agent to in house resource over time, as their business grew, but that most started their business using one approach (e.g. outsourcing) and did not see any reason to change this over time.

When discussing change in the qualitative research, there was also evidence that the perceived costs and stress of implementing change were likely to outweigh any perceived benefits of change for small employers. Based on the research, it seems unlikely that small employers would easily see sufficient benefit of any suggested changes without considerable effort to inform and persuade them.

On simple presentation of the key ideas within the survey, most employers were unable to see any benefits. Even within the qualitative research, where the ideas were discussed in much more detail, the suggestions were perceived as unlikely to have an impact on employers using payroll software or an agent. For the most part, the main perceived benefit of any suggested change was an increased ability to understand the system and explain it to employees: it may reduce the thought load but not necessarily the workload. This may not be sufficient incentive for small employers to welcome change. While it is possible that changes not included in the research could receive a more positive reaction from small employers, based on the research findings this seems unlikely. Without a lot more detailed discussion with small employers about any proposed change, most employers would still find it hard to perceive the benefits.

## 5.4 Conclusions

In conclusion, the programme of research does not report a clear demand for changes to align the income tax and National Insurance Contributions (NICs) systems for employers with under 50 employees, and suggests that such integration could face barriers among this group during any implementation phase

The two systems are largely viewed as one by small employers, and are not perceived as a particular burden, although tasks that are perceived as complex are reported to be a burden by a minority. What drives perceived complexity depends on the business, and although end of year returns and dealing with HMRC are more commonly perceived as problematic, few see even these as a particular burden. The qualitative research suggests that many employers are quite content not understanding how the two systems work, and happy to rely on software or an agent to get things right.

As a result small employers find it difficult to imagine how changes to align the operation of the income tax and NICs systems would help reduce their administrative burden, beyond helping them to understand the systems more fully. There is, in fact, more of a call currently to provide improved tools, support and information, and perhaps to simplify some of the specific tasks, than to integrate the two systems, although this may involve a role for education rather than changes to processes for some tasks. It is possible that further suggested changes would receive a more positive reaction than those included in the research, but based on the current research it seems unlikely that this would be achieved without considerable effort to inform and educate small employers.

Furthermore, change is unlikely to be an impetus to bring tasks in house, as use of an agent tends to be chosen as safer and easier, in the absence of in house skills and resource, and is not necessarily expensive enough to justify changing long-embedded habits. The use of low-tech methods of calculation could also prove a barrier to bringing more complex tasks in house for a significant minority. Changes for those using software are likely to be invisible. On this basis it is hard to see how any changes would be perceived as reducing costs or burden to most small businesses.

Any integration of NICs and income tax, therefore, is likely to face implementation barriers among small employers unless accompanied by a large scale education programme. Furthermore, it may not, in fact, be perceived as having achieved any real change, particularly for small employers who are reliant on an agent or commercial software package to operate income tax and NICs.

## 6. Appendix: Further Details on Method

An overview of the research method was given in Chapter 1. Additional details of the research method (particularly sampling) are included below for key elements of the research.

### 6.1 Exploratory interviews

We conducted 12, 60 minute, face-to-face depth interviews with small businesses to understand how employers manage their payroll process. In order to understand how the processes might differ, we talked to a wide range of businesses in terms of size, industry sector and whether they used agents for all, some, or none of the payroll tasks.

The exploratory sample comprised the following businesses:

	Agent use	Sample size; company type; payroll frequency				
12 depth interviews	All outsourced	1-4 ; Fashion designer; Monthly	1-4 Gift shop; Weekly			
	Partly outsourced	1-4; Online jewellery; Monthly	5-9 Builder; Weekly	5-9; Pest control; Weekly (Manual calculations)	10-24 Sourcing fashion; Monthly	25-49 Serviced offices
	All in house	1-4; Property management; Monthly	5-9; Estate agent; Monthly	5-9 Café Weekly	25-49 Estate agent; Monthly	25-49 Recruitment agency

The in-depth interviews included a detailed process-mapping exercise. This formed the start of the interview and involved respondents mapping out the tasks involved in their current payroll and Income Tax and NICs process and identifying the resource required to undertake each task and the points where any problems may arise.

## 6.2 Cognitive testing interviews

Concurrent to the quantitative pilot stage, cognitive depth interviews were conducted to test specific survey questions. We conducted 8 interviews with a range of employers; interviews lasting around 40 minutes. Respondents were recruited to the following quotas:

Cognitive Depth Interviews (8)					
Number of employees	Industry Sector	Use of Agent for payroll	Use of HMRC tools	Use of HMRC tools	Regular additions on payroll
1-4: 1	M&C: 1	No: 3	P11 Calc: 4	Weekly: 0	Yes: 8
5-9: 4	R&C: 1	Yes, all: 3	NICs Calc: 4	Monthly: 8	No: 0
10-24: 3	MS: 2	Yes: most: 2			

## 6.3 Survey method

IDBR sample was used, as it is the most robust sample frame of small employers who deal with income tax and NICs, since their sample is drawn from PAYE records.

A target sample design was produced to ensure sufficient coverage of larger employers (only 10 per cent of small employers have 10-49 employees) and of employers that do all of their income tax and NICs tasks in house (estimated at around 30 per cent based on existing research). Based on estimates of likely number lookup success rates and fieldwork response rates, a sample order was designed. This allowed for some overage, given the short timescale available, and uncertainty over levels of agent use.

A random probability sample of employers at enterprise level (the level of PAYE registration), with under 50 employees, excluding financial agents, was selected after stratifying by top level industry sector within size band. Sample was selected disproportionately by size to allow sufficient coverage of larger employers. Electronic number look up was used to find as many telephone numbers as possible (there was insufficient time for a full manual lookup process). Numbers were found for 33 per cent of records (this should have risen to around half with time for manual lookup. A sample was selected at random for issue to field.

	Records selected	Numbers found	per cent lookup success rate	Issued to field for interview
TOTAL	38,521	12904	33 per cent	8398
No of employees				
1-4	28,372	7224	25 per cent	5272
5-9	6,300	2923	46 per cent	1808
10-49	3,849	2757	72 per cent	1318

A subsample (in the same proportions) of 6,796 was issued to fieldwork initially, in case in house dealings turned out to be more prevalent than the expected 30 per cent. The remaining sample was issued when it became clear that the true figure was around 32 per cent.

Initially all employers were eligible for the interview, until around 1000 interviews had been achieved. For the remaining interviews, only employers who said they conducted all of their affairs in house were interviewed, to provide a boost of those not using an agent at all. The final data were weighted back to natural proportions, using population figures by size band from IDBR, and using estimates of the proportion using an agent based on the 3066 records screened in total during fieldwork. Achieved interviews, weighting targets and estimated 95 per cent confidence intervals for the final weighted sample are shown below.

	Estimated population	Estimated population per cent	Interviews achieved	Weighted target	Estimated 95 per cent CI
<b>TOTAL</b>	<b>1,769,792</b>	<b>100%</b>	<b>1500</b>	<b>1500</b>	<b>+/-3.5%</b>
1-4 emps, agent	1,021,157	57.7%	296	865	+/-5.7%
1-4 emps all in house	338,970	19.2%	369	287	+/-5.1%
5-9 emps, agent	145,768	8.2%	152	124	+/-7.9%
5-9 emps, all in house	87,963	5.0%	301	75	+/-5.6%
10-49 emps, agent	94,971	5.4%	107	80	+/-9.5%
10-49 emps, all in house	80,963	4.6%	275	69	+/-5.9%

The number of interviews with employers with under 5 employees who used an agent was below the level that would have been expected, as these respondents were less willing to take part in the interview (it seeming less relevant to them). This resulted in slightly heavier weighting than anticipated in the original design, but an overall confidence interval of +/-3.5 per cent was still achieved.

### Fieldwork

Fieldwork took place from the 21st November 2011 – 6th January 2012 and was conducted using CATI (Computer Assisted Telephone Interviewing). Interviews were conducted with the person in their company responsible for administering payroll (or at least dealing with the agent who deals with payroll on their behalf). An introductory letter was sent out on behalf of HMRC before the start of fieldwork to pre-warn respondents about the fieldwork and assure them that the research was genuine and confidential. The questionnaire was 20 minutes long on average.

The estimated response rate is 57 per cent. For records where eligibility was not known, this was estimated based on known eligibility from those screened (of 4,063 screened, 1500 were found to be eligible, giving estimated eligibility at 37 per cent). Further details of response are given below.

	Number	Estimated eligible @ 37 per cent	Estimated response rate
<b>Sample issued</b>	<b>8393</b>		
Non-working number	1279	-	
<b>Useable sample</b>	<b>7114</b>		
Not eligible not 1-49 emps)	1080	-	
Not eligible (used agent at boost)	1483	-	
Refusal/unable	1158	427	
Unresolved outcome	1893	699	
<b>Interviews</b>	<b>1500</b>	<b>1500</b>	<b>57 per cent</b>
<b>TOTAL estimated eligible sample</b>		<b>2626</b>	

## 6.4 Group discussions

We conducted two group discussions with employers and two group discussions with agents. Employers were selected to reflect a broad spectrum in terms of size, industry sector and the extent to which they used an agent. The key aim of the group discussions was to explore views about the following potential changes to the Income Tax and NICs systems:

1. Assessing National Insurance on an annual basis rather than just each payday, to match Income Tax;
2. Assessing Income Tax only every payday independent of other employments or earnings throughout the year, to match National Insurance;
3. Changing EMPLOYEE National Insurance to an annual basis, but leave EMPLOYER National Insurance, as it is now, just on a payday basis;
4. Dealing with benefits in kind each pay day, and in the main annual tax return, getting rid of the annual P11D;
5. Having the same thresholds for paying National Insurance and Income Tax.

The discussions were 90 minutes long, with employers and agents being recruited using free-find methods.

### Employer groups

	Size	Industry sector	Use of Agent
<b>Group 1</b>	1-9	Mix	All in house – 1 Some use of agent - 5
<b>Group 2</b>	10-49	Mix	Some use of an agent 4 All outsourced - 1

### Agents groups

	Size	
<b>Group 1</b>	Sole-trader	5
<b>Group 2</b>	Firm	6

### 6.5 Follow up depth interviews

We conducted twelve, 60 minute depth interviews with employers that had participated in the survey as a means of exploring in more depth employer's reactions towards changes to the Income Tax and NICs systems. Employers were selected to reflect positive and negative views about the potential changes to Income Tax and NICs systems.

	Changes would reduce burden	Changes would have no impact or increase burden
<b>All in house</b>	4	1
<b>Partially outsourced</b>	4	3



## SURVEY: CATI QUESTIONNAIRE

### INTRODUCTION

Good morning/afternoon/evening, my name is ..., and I am calling on behalf of TNS-BMRB, the independent social research company. We are carrying out a survey for Her Majesty's Revenue and Customs about dealing with payroll.

Please could I speak to the person who has responsibility for administering payroll within your business? NOTE: IF SAY PAYROLL DEALT WITH AT HEAD OFFICE/OTHER SITE WITHIN BUSINESS TAKE REFERRAL. THIS REFERRAL MUST BE WITHIN THE SAME ORGANISATION. DO NOT ACCEPT REFERRALS TO EXTERNAL ACCOUNTANTS ETC.

IF SAY HAND ALL OVER TO AN ACCOUNTANT/PAYROLL BUREAU/AGENT – ask to speak to the person that deals with the accountant/payroll bureau/agent

WHEN TALKING TO PERSON WHO DEALS WITH PAYROLL:

We are carrying out a survey for HM Revenue and Customs about administering payroll. Are you the best person to talk to about dealing with income tax and National Insurance? Is now a good time to ask you some questions?

IF NECESSARY: The interview should take around 15-20 minutes. It will be conducted in accordance with the rules of the Market Research Society. We guarantee that all your answers will be kept confidential. HM Revenue and Customs will not be able to identify any individual or business from their answers.

### INITIAL OUTCOME PRE SCREENER

- Yes – CONTINUE
- No, but want to take part – MAKE APPOINTMENT OR GENERAL CALLBACK
- No, don't want to take part – CLOSE AND CODE AS REFUSED
- Don't have any employees – CLOSE AND CODE AS INELIGIBLE
- Plus usual list of other outcome codes (e.g. not a business)

**PART 1 SCREENER****ASK ALL****SCR1****First of all, how many employees does your business have in total? (SC)****IF SAY HAVE MORE THAN ONE PAYROLL: this is the total number of employees across all the payrolls within your business****IF SAY MORE THAN ONE SIZE: this is the total number of employees across all sites for your business****READ OUT**

- No employees/ Sole trader – **CLOSE INTERVIEW (INELIGIBLE)**
- 1-4 employees
- 5-9 employees
- 10 – 24 employees
- 25 – 49 employees
- 50 or more employees – **CLOSE INTERVIEW (INELIGIBLE)**

**CLOSE SCRIPT:** Thank you for your time, but we only need to talk with employers with 1 to 49 employees.

**ASK ALL****SCR2**

**I want to know how your business deals with payroll in relation to income tax or National Insurance. This could include calculations each pay day, keeping records to feed into end of year returns, completing end of year returns, making income tax and NI payments and so on.**

**So – does your business use someone who is NOT an employee such as an accountant or payroll bureau, to deal with some or any of your income tax and National Insurance related payroll tasks, or do you do everything in house?**

**IF SAY USE SOMEONE ELSE: Do you hand everything over or deal with some income tax or NI tasks in house? ... (SC)**

- All NI and income tax tasks are handed over to someone outside of the business
- Some tasks are done in house and some handed to someone outside of the business
- All NI and income tax tasks are done in house
- DK

**AFTER THE FIRST 1000 INTERVIEWS, WE WILL CLOSE THE INTERVIEW FOR CODES 1 AND 2 AND FOR THE NEXT 500 INTERVIEWS, CONTINUE ONLY WITH THOSE WHO DO ALL OF THE TASKS IN HOUSE (CODE 3). WE WILL MONITOR RESPONSE AT THIS QUESTION IN THE FIRST 1000 INTERVIEWS AND IF LESS THAN 30 per cent DO ALL TASKS IN HOUSE, WE WILL CONSIDER ONLY CLOSING FOR THOSE WHO HAND EVERYTHING TO AN AGENT.**

**PART 2 DEALING WITH income tax AND NICs****ASK ALL**

Now I have a few questions about how you deal with payroll in your business ...

**DEAL1 How often do you pay your staff? Is it ...READ OUT (MC CODES 1 - 5)**

- Weekly
- Fortnightly
- Every four weeks
- Monthly
- Some other basis (specify)
- Don't know

**DEAL2 How many PAYE schemes does your business have? Is it one or more? (SC)**

- One
- More than one
- Don't know

**IF SCR2 = 3:** I know you have told me that you deal with everything in house, but different employers may be thinking about different tasks when they talk about National Insurance and income tax. I am going to read a list of various parts of the regular payroll process to find out how you deal with each one. It may be that you deal with all of them in house, but I just need to be sure. So ...

**IF SCR2 = 1:** I know you have told me that you hand everything over to someone outside of the business, but different employers may be thinking about different tasks when they talk about National Insurance and income tax. I am going to read a list of various parts of the regular payroll process to find out how you deal with each one. It may well be that you hand all of them over, but I just need to be sure. So ...

**IF SCRE2=2/DK:** For each of the following parts of the regular payroll process, please tell me whether you deal with all of it in house, or whether you use someone outside of the business to deal with some or all of each task. So, first of all ...

**ASK ALL**

**DEAL3** [item] **IF NECESSARY** Do you deal with this totally in house, or does someone outside of the business deal with some or all of it?

**IF NECESSARY:** In house means done by the owner or an employee of your business. Outside of the business means someone who is not an employee.

**(SC each item) DO NOT RANDOMISE**

1. Calculating the total amount of pay before income tax and National Insurance are deducted, for each employee, each pay day
2. Calculating the amount of income tax and National Insurance, for each employee, each pay day
3. Calculating the amount of National Insurance for company directors, each pay day
4. Producing payslips for employees

5. Paying income tax and National Insurance to HM Revenue and Customs each month or quarter
6. Producing information for the company accounts each pay day
7. Keeping records to feed into the end of year income tax and National Insurance returns
8. Completing the end of year returns – that is the P14 and P35 for HM Revenue and Customs and P60s for your employees
9. Dealing with any under or over-payment of income tax and National Insurance at the end of each year
10. Collecting information on new employees, to start their payroll process
11. Working out the National Insurance Table Letter for new employees or for existing employees if there is any change of circumstances
12. Dealing with in-year changes to employee Tax Codes
13. Dealing with in year corrections to National Insurance Contributions
14. Dealing with any employee queries about their income tax or National Insurance
15. Producing P45s for employees leaving the business

**For each item: READ OUT IF NECESSARY**

- All done in house
- Partly done within the business, partly outsourced
- All done by someone outside of the business
- **DO NOT READ OUT** No experience of this/Not applicable to business
- **DO NOT READ OUT** Don't know

**TEXT**      **There are other aspects of payroll that affect income tax and National Insurance that not all employers deal with. So...**

**DEAL4**      **Does your business provide any of the following for any of your employees? READ OUT. CODE ALL THAT APPLY (MC) RANDOMISE**

- Workplace pension scheme
- Business expenses
- Benefits in kind e.g. health insurance, company cars
- Salary sacrifice schemes e.g. childcare vouchers
- None of these
- Don't know

**DEAL5**      **And have you ever dealt with the following for your business... READ OUT. CODE ALL THAT APPLY (MC) RANDOMISE**

- Student loan repayments
- Statutory pay, for example sick pay or maternity pay
- Termination/Redundancy payments
- Paying migrant workers or international employees
- None of these
- Don't know

**IF DEAL WITH ANY AT DEAL4 OR DEAL5 (DEAL WITH ANY NON-STANDARD TASKS)**

**DEAL6** For each of those aspects of payroll that your business deals with, I want you to tell me how your business deals with them, in relation to income tax and National Insurance? Again – I want to know whether you deal with all of it in house, or whether you use someone outside of the business to deal with some or all of each task. So first of all ... **READ OUT (SC each item) FILTER TO SHOW ONLY THOSE INVOLVED IN AT DEAL4/5**

1. Workplace pension scheme
2. Business expenses
3. Benefits in kind e.g. health insurance, company cars
4. Salary sacrifice schemes e.g. childcare vouchers
5. Student loan repayments
6. Statutory pay, for example sick pay or maternity pay
7. Termination/Redundancy payments
8. Paying migrant workers or international employees

**For each item: READ OUT IF NECESSARY**

- All done within the business
- Partly done within the business, partly outsourced
- All done by someone outside of the business
- **DO NOT READ OUT** Don't know

**IF CODES 2/3 AT ANY ITERATIONS OF DEAL3 OR DEAL6 ASK DEAL7a & DEAL7b (USE AN AGENT AT ALL)**

**DEAL7a** You said you used someone outside of the business to deal with some or all of the payroll tasks I have asked about so far. Is this ... **READ OUT (MC) CODE ALL THAT APPLY**

- A payroll bureau
- A paid finance professional e.g. an accountant
- Friend or family with financial training
- Friend or family with no financial training
- Someone else (specify)

**IF CODES 2/3 AT ANY ITERATIONS OF DEAL3 OR DEAL6 (USE AN AGENT AT ALL)**

**DEAL7b** When you use someone outside the business, on what basis how do you ~~tend to~~ pay them for their help? **READ OUT (MC)**

- Agreed amount per week, month or year
- On a task by task basis
- Don't pay them/ just done as a favour
- An amount that depends on the number of employees
- Other (specify)
- Don't know

**IF CODES 2/3 AT ANY ITERATIONS OF DEAL3 OR DEAL6 ASK DEAL8 (USE AN AGENT AT ALL)**

**DEAL8** And why do you use someone outside of the business to deal with some or all of your payroll tasks? **DO NOT READ OUT (MC)**

- Worried about getting it wrong
- Not enough time/resource in house
- Don't have the skills to deal with the more complex issues
- It would take me much longer than it takes them
- We use them for other business finances, so may as well use them for this
- More cost effective/efficient to use someone else
- Something else (specify)

**IF CODE 2 AT ANY ITERATIONS OF DEAL3 OR DEAL6 ASK DEAL9 (DO ANY TASKS JOINTLY WITH AN AGENT)**

**DEAL9** For some of the payroll tasks I read out to you, you said that you did some of the work in house, with help from someone outside of the business. Which of the following best describes how this usually works? Do you ... **READ OUT (MC)**

- Do the work in house and hand it over to someone else to check it
- Do the straightforward elements in house, and get someone else to do the more complicated tasks
- Have some other arrangement (specify)
- Don't know

**IF CODES 1/2 AT ANY OF DEAL3 ITERATIONS 2-7, OR DEAL6 ITERATIONS 1-6 OR 8 ASK DEAL11a (DEAL WITH PAYDAY TASKS)**

**DEAL11a** Once the amount of pay before tax has been calculated for each employee each pay day, how much time do all of the additional tasks we have discussed take for each pay day?

**IF NECESSARY:** I want you to estimate the total number of hours it would take if only one person was to do all of the work.

**HINT:** MULTIPLY NUMBER OF PEOPLE BY NUMBER OF HOURS PER PERSON OR ADD TOGETHER HOURS SPENT BY EACH PERSON

**NOTE – If less than one hour enter as 1**

- Enter number of hours (range 1-350)
- Don't know

**IF CODES 1/2 AT DEAL3 ITERATION 8 OR 9 ASK DEAL11b (DEAL WITH ANNUAL TASKS)**

**DEAL11b** And how much time do you spend on the end of year income tax and NI tasks?

**IF NECESSARY:** I want you to estimate the number of hours it would take if only one person was to do all of the work.

**HINT:** MULTIPLY NUMBER OF PEOPLE BY NUMBER OF HOURS PER PERSON OR ADD TOGETHER HOURS SPENT BY EACH PERSON

**NOTE – If less than one hour enter as 1**

- Enter number of hours (range 1-350)
- Don't know

**IF CODES 1/2 AT ANY OF DEAL3 ITERATIONS 2/3/4/5/6/7/8/9//11/12/15 OR DEAL6 ANY ITERATION, ASK DEAL12**

**DEAL12** When dealing with payroll tasks within the business, which of the following methods do you use? Is it ... **READ OUT (MC) CODE ALL THAT APPLY**

- Manual workings, on paper e.g. P11 Deductions Working sheet (or equivalent) and manual tax/NI tables
- Paper P11 Deductions Working Sheet (or equivalent)
- Online HM Revenue and Customs PAYE Tax and National Insurance calculators
- Downloaded HMRC P11 Calculator
- A spreadsheet program, such as Excel
- An off-the-shelf software package you bought
- A software package that has been adapted for you, or that you get personal support with
- Some other way (specify)
- Don't know

**IF CODES 6/7 AT DEAL12 ASK DEAL13a AND DEAL13b (IF USE SOFTWARE PACKAGE)**

**DEAL13a** On what basis do you pay for the software package? **READ OUT (MC)**

- **JUST a one off cost to buy the software**
- **Monthly fee (in addition to any initial costs)**
- **Some other way (specify)**
- **Don't know**

**DEAL13b** ...

**IF DEAL13a = 1: How much did you pay for the software package?**

**IF DEAL13a=2: How much do you pay each month?**

**IF DEAL 13a=3: How much do you pay in total each year?**

- **Enter amount in pounds (range 0-10,000)**
- **Don't know**

**ASK ALL****DEAL14**

**How does your business make income tax and National Insurance payments to HM Revenue and Customs? READ OUT IF NECESSARY. (SC)**

**IF SAY PAY THROUGH BANK ACCOUNT ASK: Is that an electronic transfer, or using BACS?**

- Electronic transfer from your company's business bank account
- Direct Debit
- Cheque
- Over the counter at a bank/post office
- BACS OR CHAPS
- Debit or credit card
- Don't know as someone else does it for me
- Other (specify)
- Don't know

**DEAL15**

**If you needed information or guidance on any aspect of dealing with income tax or National Insurance for your business, where would you go? READ OUT IF NECESSARY. (MC) CODE ALL THAT APPLY**

- The person outside the business who deals with payroll tasks for me
- HM Revenue and Customs website
- HM Revenue and Customs helpline
- Business link website
- Online search
- Colleagues
- Someone or somewhere else (specify)

**PART 3 DIFFICULTIES / BURDEN / UNDERSTANDING**

**ASK ALL****DIFF1**

**EXCLUDING the cost of actually paying employers National Insurance or any other taxes, how great is the burden of dealing with income tax and National insurance relative to all the other things your business has to do? Please answer on a scale of 1 to 10, where 1 means income tax and NI involves minimal time or effort, and 10 means it is the thing that causes your business the greatest administrative burden, in terms of staff time, or costs of buying in external help. Enter number from 1-10**

- Don't know

**ASK ALL****DIFF3**

**I'm going to read out a list of areas some people find burdensome when dealing with income tax or national insurance. For each one, can you tell me whether you find it a particular burden in your business? (SC) RANDOMISE**

1. Differences in the way you calculate income tax and NICs **(ASK ALL)**
2. Payday calculations of income tax and NICs **(ASK IF DEAL3 income tax2 = 1/2)**
3. End of year returns (P35/ P14s) **(ASK IF DEAL3 income tax8 = 1/2)**
4. Working out the NICs table letter for employees **(ASK IF DEAL3 income tax11 = 1/2)**



5. P11Ds / Dealing with benefits/expenses **(ASK IF DEAL6 income tax2/3 = 1/2)**
6. Employees leaving or joining **(ASK ALL)**
7. Explaining tax code changes to employees **(ASK IF DEAL3 income tax14 = 1/2}**
8. Dealing with HM Revenue and Customs /trying to get help from HM Revenue and Customs **(ASK ALL)**
9. Employees contracting out of State Second Pension **ASK IF DEAL6 income tax1= 1/2)**
10. Directors National Insurance (NICs) **(ASK IF DEAL3 income tax3 = 1/2)**
- ~~11.~~ Statutory pay (e.g. sick pay, maternity pay) **(ASK IF DEAL6 income tax6= 1/2}**
- ~~12.~~ Student loan payments **(ASK IF DEAL6 income tax5= 1/2}**
- ~~13.~~ Termination/redundancy payments **ASK IF DEAL6 income tax7= 1/2}**

**For each item: (SC)**

- Yes
- No
- Don't know

**ASK ALL**

**DIFF5** How often do you realise that an error in calculating National Insurance Contributions has been made, for example an employee has had the wrong amount of National Insurance deducted from their pay? Is it ... **READ OUT UNTIL REACH THE RIGHT CODE (SC)**

- Most or all paydays
- At least every 5th payday
- At least every 10th payday
- At least once a year
- Less often
- This has never happened
- Don't know

**IF DIFF5 CODES 1-5 ASK DIFF4**

**DIFF4** What do you do if you realise an error has been made in calculating National Insurance? **DO NOT READ OUT (MC)**

- Tell someone outside of the business who deals with the finances, and leave them to deal with it
- Contact HM Revenue and Customs and let them know
- Correct it in your records
- Leave it until the year-end return and then correct it
- Nothing, until/unless HM Revenue and Customs contact me as ask you to correct it
- This has never happened to you
- Other (specify)
- Don't know

**UNLESS CODE 1 OR 6 AT DIFF4 ASK DIFF6 (if they would correct it, and wouldn't hand it to an agent) ASK DIFF6**

**DIFF6** And when you do make a correction to employee National Insurance from a previous payday, how easy do you find it to do this? **READ OUT (SC)**

- Very easy
- Fairly easy
- Fairly difficult
- Very difficult
- Don't know

**ASK ALL**

**DIFF6b** How easy do you find it to make a correction to income tax payments from a previous payday? **READ OUT (SC)**

- Very easy
- Fairly easy
- Fairly difficult
- Very difficult
- DO NOT READ OUT This has never happened
- Don't know

**ASK ALL**

**DIFF9** Which of the following best describes how well you could answer employee queries about their National Insurance? Would you say you ... **READ OUT,**

**IF NECESSARY:** We are now talking about National Insurance, only **(SC)**

- Could answer most employee queries without help
- Could explain the simple things, but would need help answering queries on some issues
- Would be unlikely to have enough knowledge to answer employee queries
- Something else (specify)
- Don't know

**ASK ALL**

**DIFF10** Which of the following best describes how well you could answer employee queries about their income tax? Would you say you ... **READ OUT,**

**IF NECESSARY:** We are now talking about income tax, only **(SC)**

- Could answer most employee queries without help
- Could explain the simple things, but would need help answering queries on some issues
- Would be unlikely to have enough knowledge to answer employee queries
- Something else (specify)
- Don't know

**IF DIFF9 = DIFF10 and DIFF9/DIFF10 NOT DK**

**DIFF 12** Would you be more confident answering employee queries about income tax or about National Insurance, or is there no difference in your confidence between the two?

- More confident about income tax
- More confident about National Insurance
- No difference
- Don't know

**ASK ALL****DIFF11**

**Would you be confident in explaining to an employee the impact that a change in their tax code will have on their pay? (SC)**

- Yes
- No
- **DO NOT READ OUT** It depends
- Don't know

<b>PART 4 CHANGES TO income tax AND NICs</b>
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**IF CODES 2/3 AT DEAL3, OR DEAL 6 (i.e. use an agent at all)****CHAN1**

**Are there any aspects of dealing with income tax or National Insurance that you currently pay someone outside of the business to deal with, that you would consider doing in house if it was simpler or less time consuming to deal with?(MC codes 1 and 2)**

**IF YES:** Is that to do with income tax, National Insurance, or both?

- Yes – Income tax
- Yes – National Insurance
- Yes – but don't know which
- No
- Don't know

**IF CODES 1/2 AT DEAL 3 OR DEAL 6 (i.e. do anything in house)****CHAN2**

**Are there any aspects of income tax or National Insurance that you deal with in house that you think could be simplified enough to save you staff time and costs? (MC codes 1 and 2)**

**IF YES:** Is that to do with income tax, National Insurance, or both?

- Yes – Income tax
- Yes – National Insurance
- Yes – but don't know which
- No
- Don't know

**IF YES AT CHAN1 or CHAN2****CHAN3**

**What, in relation to income tax or National insurance, EXCLUDING the cost of actually paying employers National Insurance or any other taxes, could be simplified enough, either to enable you to bring it in house, or to save on current in house staff costs? PROBE FULLY – How could it be simplified? (MC)**

- Open ended (type in)

- Don't know
- Nothing

**ASK ALL**

I am going to read out a number of differences between income tax and National Insurance. For each one tell me if it makes it **MORE** difficult or time consuming to operate your payroll, or is one reason you pay someone outside the business to deal with payroll. So ...

**CHAN4** [ITEM] Does this difference make it more difficult for you to operate payroll, or give you a reason to pay someone else to deal with payroll?

**READ OUT (SC EACH ITEM) RANDOMISE**

1. Different amounts of pay before income tax and NI are due
2. Different percentage rates for income tax and NI
3. Different National Insurance rules for Company Directors, but no difference for income tax
4. HM Revenue and Customs produces the Tax Code, the business works out the National Insurance code
5. Age limit on NI but not in income tax
6. income tax assessed on an annual basis, but NI worked out on a pay period basis e.g. monthly
7. Different rules for NI and income tax for redundancy payments
8. Having an employer element of NI but not for income tax

- Yes
- No
- DO NOT READ OUT Not aware of this difference
- Don't know

**ASK ALL**

**CHAN5** Still thinking about the **DIFFERENCES** between income tax and National insurance, what, if anything, do you think could be changed to reduce the differences, and that would help your business administer your payroll more easily? **PROBE FULLY. MC**

- Open ended
- Nothing
- Don't know

**ASK ALL**

I am going to read out some changes that other employers have suggested could be made to the income tax and National insurance systems. For each one I want you to tell me if, in the long term, you think this would be enough to enable you to bring tasks back in house, or save on staff costs, whether it would make no substantial difference, or if you think it would increase the cost burden of administering payroll. So first of all ...

**CHAN6 [ITEM] In the long term, would this save on the costs of administering payroll, make no difference, or increase costs? (SC EACH ITEM)**

1. Assessing National Insurance on an annual basis rather than just each payday, to match income tax
2. Assessing income tax only every payday independent of other employments or earnings throughout the year , to match National Insurance
3. Changing EMPLOYEE National Insurance to an annual basis, but leave EMPLOYER National Insurance, as it is now, just on a payday basis. **(ALWAYS ASK THIS AFTER ITEM 1)**
4. Dealing with benefits in kind each pay day, and in the main annual tax return, getting rid of the annual P11D **(ONLY ASK IF DEAL WITH BENEFITS AT DEAL 4)**
5. Having the same thresholds for paying National Insurance and income tax

**For each item: READ OUT IF NECESSARY**

- It would be enough of a change to bring payroll tasks back in house, or to save on current in house staff costs
- It would make no substantial difference
- It would increase the cost burden of administering the payroll
- Don't know

**PART 5 DEMOGRAPHICS****Take sector and turnover from sample if provided**

To finish off, just a few questions about your business. These will be used for analysis purposes only.

**ASK ALL**

**DEM1 For how long has this business been trading? READ OUT IF NECESSARY (SC)**

- Less than a year
- More than 1 up to 2 years
- More than 2 up to 5 years
- More than 5 up to 10 years
- More than 10 years
- Refused

**ASK ALL****DEM 2** Could you tell me what your position or job title is please? **DO NOT READ OUT. (SC)**

- Owner/ proprietor
- Company Secretary
- Chief Accountant/Finance Officer
- Company Accountant
- Finance manager/ Director
- Management Accountant
- Payroll or Deputy Payroll Manager
- Tax manager
- General manager
- Human resources/ personnel manager
- Supervisor
- Other (specify)
- Refused

**ASK ALL****DEM3** For how many years have you been responsible for payroll for any business? **READ OUT IF NECESSARY (SC)**

- Less than a year
- More than 1 up to 2 years
- More than 2 up to 5 years
- More than 5 up to 10 years
- More than 10 years
- Refused

**ASK ALL****DEM 5** HM Revenue and Customs may be conducting some further research on these topics in the future. Would you be happy for someone from TNS-BMRB to re-contact you and invite you to participate in this research?

- Yes
- No

**IF YES AT DEM5****DEM6** And would you be happy to allow TNS-BMRB to pass your contact details on to another research agency to re-contact you in relation to further research – this would be research on behalf of HM Revenue and Customs

- Yes
- No