



Research report

Capital Gains Tax Pre-Pilot Evaluation

Research to explore the impact of CGT pre-pilot letters on customer behaviour

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About Personal Tax Customer & Strategy

Personal Tax Customer & Strategy works (PT C&S) with colleagues in Personal Tax (PT) and across HMRC to help develop our approach to implementing HMRC's customer centric business strategy. We use customer insight to help PT design, deliver and operate services for individual customers which

- improve customer experience
- maximise tax yield
- serve willing and able customer at the lowest possible cost to them and us
- ensure that those who need help get the support they need, when they need it.

PT C&S also has a corporate role, to manage the relationship with the voluntary and community sector on behalf of HMRC

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Research requirement (background to the project)

As part of the 'Mass Personalisation' approach, HMRC aims to differentiate and tailor communications sent to customers, drawing on the five original HMRC customer segments - willing and able; willing but need help; unaware; potential rule breakers; rule breakers. PT C&S is leading HMRC's work on behavioural change.

One area of taxation in which mass personalisation may be utilised is Capital Gains Tax (CGT). Prior to undertaking a full-scale pilot of communication around CGT, a pre-pilot was carried out in August 2011 to test the approach, as part of which targeted letters were sent to approximately 100 people primarily from the 'willing' segments¹ who had sold property and were therefore potentially CGT liable. The actions of the test group and control group² were subsequently tracked. While the letters were broadly aimed at the 'willing', a minority in the pilot were in the 'unwilling' segments.

This small-scale qualitative evaluation sought to complement HMRC's quantitative analysis by providing greater depth of understanding in relation to CGT communications. Specifically the evaluation aimed to explore the impact of the pilot letters on customer experiences and behaviour, as well as to inform the main CGT pilot.

¹ The HMRC customer segmentation organises personal tax customers into five segments based on their abilities and attitudes towards tax – the five segments are Willing and Able; Willing but Needs Help; Unaware; Potential Rule Breakers; and Rule Breakers. The willing segment targeted in the pilot included: Willing and able; willing and need help. The segmentation was built on four key dimensions which were:

- awareness (of one's obligations);
- motivation (to comply with one's obligations);
- ability (to comply with those obligations);
- opportunity (to not comply).

² similar size group from the same segment **not** sent the letter.

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Main Findings

Key findings

- **Timing** - Receiving the letter closer to the date of sale is likely to increase the impact of the letter and reduce any negative impact on the HMRC brand.
- **Targeting** - The letter is 'on message' for the willing segment. However the impact was greatest for those with low levels of awareness, self-efficacy and financial capability - the 'financially inexperienced'.
- **Message** - The letter is spot on for those unaware of possible CGT liability and has the right tone and content to trigger action in this segment. There is an opportunity for the website to be improved to better support follow-through.

Sample profile

Three key customer clusters were identified in terms of financial capability – the 'financially savvy', those who had 'previously sold property' and the 'financially inexperienced'. The varying awareness, capability and needs of respondents meant that the letter arrived in quite different circumstances and was received accordingly.

The research identified four key behavioural influences impacting on responses to the letter:

- Awareness and self-efficacy - awareness of CGT and ability to confirm liability/non-liability and take appropriate action.
- Legitimacy - whether CGT was viewed as fair and therefore right to pay.
- Habit and previous experience – the extent of previous experience and ability to maintain current habits.
- Costs versus benefits - ability to evaluate the cost of paying/not paying CGT if liable.

Impact on behaviour and experience

The letter primarily impacted in four ways by: increasing awareness of CGT liability; increasing contact with HMRC; encouraging SA filing/payment; and influencing perceptions of the HMRC brand. The journeys experienced can broadly be seen as resulting in **positive, negative or neutral outcomes** according to the criteria of increasing SA filing/payment and checking CGT liability. Primarily the letter led to a neutral outcome - meaning the letter had a limited impact on respondents' views and behaviour. However, although the letter did lead to some negativity and unnecessary action, positive outcomes were clearly identified, with the letter prompting desired behaviour in three cases – one of which resulted in SA filing and £1000 payment of CGT. In addition to having a positive impact, the principle of sending out a letter of this nature was broadly supported.

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It should be noted that with this group, the letter could be seen as ‘preaching to the converted’, in so far as this ‘willing’ segment were predominantly financially-savvy customers who had already investigated their CGT liability/lack of liability and it is perhaps unsurprising that for many there was little discernable impact. The letter was found to be much more likely to impact in cases where customers were financially inexperienced and lacked financial capability and access to financial support. Other factors underpinning experiences included: perceptions of fairness/legitimacy of CGT; fear of getting caught; personal circumstances; and the timeliness of the letter.

Messaging

Overall, the letter was viewed as appropriate and **accurately targeted** at the willing segment – working well to encourage those with low levels of awareness, self-efficacy and financial capability to check their liability and lead them to other information sources where necessary, such as the website or helpline. Even when the letter was received by customers with high levels of awareness, it was mostly viewed positively and seen as necessary for encouraging tax compliance.

Experiences of the **website** (for those that were prompted to visit by receiving the letter) suggest that it is not currently supporting desired behaviour sufficiently for financially inexperienced customers, without further contact to the helpline. Given the complexity of CGT, it was felt that improving the website by tailoring content more specifically to meet the needs of the financially inexperienced group, could potentially cut down on contact with the HMRC helpline by reducing the need to gain further reassurance.

Interactions with the **helpline** were viewed positively. The helpline was seen by some as a useful medium for ‘double-checking’ CGT liability either on its own or after visiting the website. Receiving support from a ‘human voice’ was said to provide reassurance and this was found to be especially important in cases where CGT had emotive connotations, for example, where it came as a result of inheritance from a close relative.

Conclusions and recommendations

The letter appears to be reaching the right people with the right message and has been successful overall in targeting the willing segment. Differences in levels of financial capability significantly influence how HMRC contact is received, with the financially inexperienced members of the sample identifying the greatest impact. Additionally the timing of the letter and the personal circumstances of the property sale can be seen to affect success in terms of achieving desired behaviours and positive customer experiences.

Given the prevalence of financially capable respondents, this pre-pilot can be viewed as having a limited impact. However, with evidence of the intervention prompting desired behaviour amongst the less financially aware within the sample, such as SA filing and £1000 payment of CGT, the pre-pilot should also be seen as a success.

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The support function offered is very important for less confident customers and essential for maximising positive outcomes. Interactions with the **helpline** staff were viewed positively. In contrast, experiences of the **website** suggest that it is not currently supporting desired behaviour to its maximum potential.

Given the insight provided by the research, some areas to consider for future roll-out of mass personalisation would be: whether the return on investment outweighs the resourcing costs for this segment; the right balance of investment; and how resources can be maximised to reduce negative impacts and enhance positive outcomes. The research highlights a number of ways in which resources can be targeted more effectively in the main pilot. These include: timing – ensuring that letters are received as soon as possible after property sale and in enough time before the SA completion deadline; the website - improving the usability of the website pages on CGT to help support those most likely to need to use it; and considering ways to refine targeting further by, for example, seeking to exclude those regularly selling property and paying CGT, for whom a letter is very likely unnecessary.

Research Agency and when the research took place

The research was undertaken by TNS-BMRB during February and March 2012

Method, Data and Tools used

The research comprised a total of 20 qualitative telephone depth interviews (45-60 minutes) with customers within the 'willing' group.

The sample was organised according to:

- Test group (pilot customers who received a letter) and control group (customers within the same segment who did not receive a letter); and
- Those who filed an SA return and those who did not.