



HM Revenue
& Customs

Research Report

PAYE Online: PAYE and NI in a digital age

Qualitative research with PAYE customers

March 2014

PAYE Online***About Personal Tax Change (PT Change)***

PT Change is a Directorate within HM Revenue and Customs' (HMRC) Personal Tax (PT) line of business and is principally concerned with overseeing and bringing together for PT a Portfolio of Programmes which will help transform HMRC business, led by customer understanding.

The PT Change Portfolio will deliver all the changes to processes, structure and systems needed to deliver better services to our customers and enable savings from within Personal Tax.

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Research requirement (background to the project)

As part of the government's 2010 'Digital by Default' Strategy, HMRC is seeking to develop a range of flexible and secure digital services for its customers.

Rather than simply moving traditionally paper-based processes online, HMRC is seeking to improve its processes to make tax more transparent and ensure it is easier for taxpayers to meet their responsibilities. To this end, it was recognised that customer understanding is vital if PAYE and National Insurance Contribution (NIC) processes are to be redesigned around customer needs. To support this goal, this research sought specifically to generate understanding on how to re-design PAYE/NI processes to deliver improved customer experience in a digital age.

The research set out to provide HMRC with an increased understanding of PAYE taxpayers across three core areas:

1. Determine how well individuals understand tax and their tax obligations, including the current barriers and complexities to engaging with PAYE and National Insurance (NI).
2. Clarify current perceptions about their roles and responsibilities, including the respective roles of HMRC, the employer or pension provider and individual, and who they feel is ultimately responsible for ensuring the accuracy of their tax.
3. Assess customer willingness to engage with and take greater responsibility for their tax affairs via an online account, including which features would be valued or expected as part of this account and the role this account could play in helping individuals manage their tax obligations.

This research will be used to help redesign processes with the customer in mind, from a perspective of customer 'in', rather than HMRC 'out'. In doing so, it will make processes simpler and more efficient for individual taxpayers, thus enabling them to meet their tax obligations and manage their tax affairs through an online digital account.

When the research took place

This qualitative research programme was designed and carried out between November 2013 and January 2014.

Who did the work (research agency)

Quadrangle carried out all research and reporting activities involved, working in close collaboration with the HMRC project team.

PAYE Online**Methodology – Design, participants/sample and data collection**

The core methodological components for each phase are as follows:

Project set up and knowledge review:*Purpose:*

- To determine the optimum research plan, methodology and sampling strategy
- To review existing knowledge to help refine and focus the research aims

Activities:

- A knowledge audit of existing research and analysis from HMRC
- A workshop with key HMRC stakeholders to discuss the project background, key aims and outputs, and how the research will be used.

Activities focussed on understanding existing research around individuals' tax behaviour and the creation/use of digital channels to enable this.

Qualitative research:*Purpose:*

- To develop a deeper understanding of the degree to which individual taxpayers engage with and understand their tax, and how a digital platform could be used to facilitate future engagement

Data collection:

All interviews were conducted face-to-face and lasted up to one hour.

- 27 depth interviews amongst individuals who pay PAYE or who pay PAYE and Self Assessment (SA) and have contacted HMRC in the last 15 months with a tax query or issue. Sample was provided by HMRC.
- The sample was structured to ensure a mix of:
 - Query type (coding, under-payment, over-payment, and other)
 - Contact volume (the number of times HMRC was contacted)
 - Tax type (PAYE only or PAYE and SA)
 - Number of income sources (single or multiple incomes)
- Interviews took place in London, Birmingham, Leicester, Bristol, Cardiff, Manchester and Sheffield, to provide a geographic spread.

Interviews were semi-structured to focus on individuals' understanding of tax, their level of engagement with and perceived responsibility for their tax affairs, their reason for contacting HMRC, the journey through their tax issue, and response to the online tax account concept.

PAYE Online**Summary of key findings**

The research produced six key insights crucial to facilitating individuals' tax ownership:

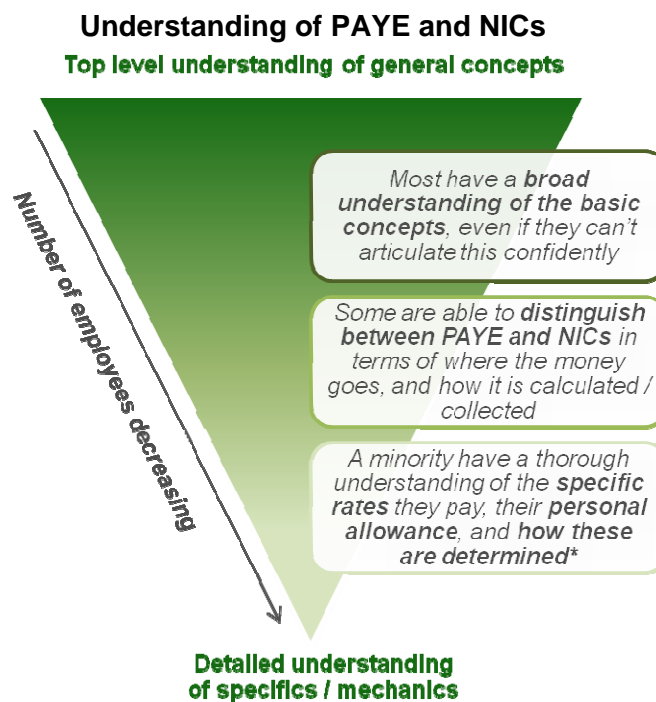
1. Individual knowledge of how tax works is limited. Whilst there is basic knowledge, few fully understand how their tax is calculated, what would make it change and how it would change.
2. Individuals are not engaged with their personal tax. Because tax is deducted at source, those paying PAYE typically see it as something dealt with by their employer or pension provider and, as a result, do not feel any need to engage with it. It is something that happens '*to them*'.
3. PAYE taxpayers do not generally recognise their role and responsibilities in managing their tax. Even when they have faced a problem or issue with their tax, they felt it was someone else's responsibility to manage it (e.g. HMRC, employer or pension provider).
4. Individuals do not feel equipped to deal with issues concerning their tax. They are confused by having responsibility for something they are not directly involved in and do not fully understand. This is heightened by unfamiliarity with the system and feeling overwhelmed when/if they do engage.
5. The concept of an online tax account is appealing. Individuals would welcome the reassurance that easy access to this information would bring and see online as being the natural platform for this.
6. Individuals have a clear idea of what they want from an online tax account, particularly: education about their tax and how tax works, a facility to check their details, and the opportunity to interact with HMRC digitally.

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Understanding of personal tax

There is a basic understanding of how tax works: that it is linked to earnings and taken at source by employers or pension providers. There is also an understanding that people pay a different amount of tax based on the amount they earn. Beyond this basic top-level understanding, knowledge of the *mechanics* of how tax works is limited, with few knowing what their tax code is or what it means.

Levels of tax knowledge are summarised by the follow diagram:



Beyond level of earnings, few are able to spontaneously name other circumstances that could impact the amount of tax they pay – and would only notice a change or issue with their tax if their net pay changed as a result.

Though knowledge is relatively basic, understanding of tax is often downplayed due to **lack of confidence** despite demonstrating a relatively high comprehension of how the system works at the top-level. This is exacerbated by a lack of familiarity with the system and language used by HMRC (tax ‘jargon’, which differs from everyday language) that drives uncertainty and frustration.

While **there is less understanding of how NICs work**, individuals are confident in *their* belief of what it is used for, e.g. to ‘services that benefit me’ like the NHS.

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Dealing with SA alongside PAYE often causes considerable confusion, particularly the first time this is experienced. Individuals often find themselves *having* to deal with SA due to circumstance rather than by design (i.e. entering SA following a specific event, rather than electing to enter SA itself), and as a result often feel unprepared for the responsibility. Individuals can also feel lost between the PAYE and SA systems – treated as though they are two different people. Furthermore, HMRC support and guidance for SA often assumes too much knowledge, making it of limited use to those new to SA.

There is a widespread attitude that tax is something ‘done to you’ by the government, which creates and reinforces a sense of ‘learned helplessness’, i.e. there is no point trying to understand something you ultimately have no control over. Before experiencing an issue or problem, few individuals have engaged with their tax – they’ve had no real need to do so. Because tax is deducted at source, it is trusted that ‘someone else’ is dealing with it on their behalf.

Roles and Responsibilities

Whilst having a clear understanding of the role HMRC and employers or pension providers play in personal tax, **individuals do not believe it is their personal responsibility to make sure the tax they pay is correct.**

When experiencing an issue or problem, individuals are surprised to find that not only do they have a critical role to play in correcting the issue, but they also have a *responsibility* to do so.

Post-experience, there is recognition that they should have some responsibility for their tax, which can lead to more active on-going engagement. However, this is not universal; having to deal with tax is often still met with frustration. The reasons for this are two-fold:

1. **Individuals feel ill-equipped to take responsibility for their tax.** Because tax is taken at source, individuals do not feel engaged with the process and often have to wait to see the impact of an issue (i.e. through a change in net pay or letter from HMRC) before they know anything about it. This lack of direct engagement with the process and limited ability to verify information makes it difficult to understand both why and how they *could* have a role in managing their tax affairs. A lack of understanding and low confidence exacerbates these perceptions.
2. **HMRC and/or the employer are considered the ‘tax experts’**, with HMRC felt to have an *undisputed* role in making sure tax codes are correct – though there is acknowledgement that HMRC rely on accurate information from employers or pension providers to make this possible. Employers are expected to ‘look after’ employees’ tax affairs, as an ‘agent equivalent’, due to their perceived expertise.

Individuals would **welcome greater transparency in the tax system and the ability to more easily manage their tax obligations.** Under the current system, individuals feel shut

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out of their tax affairs and this exacerbates their sense of 'helplessness' when faced with a problem. Greater transparency made possible through access to information could help address this problem. This information would be available through a quick, simple platform – ideally online – where they could verify personal details and ensure the right amount of tax is taken.

There is **interest in employers having a greater responsibility for supporting individuals** with their tax obligations – **but with clear limitations**. As employers are already felt to play a pivotal role in administering the collection of taxes, an enhanced role for the employer to help identify problems and resolve issues or queries is generally welcomed. However, few individuals are willing to share with their employer information that is not linked to their employment with that employer. Trust is a significant barrier to an enhanced employer role: while HMRC is seen as anonymous, an employer is not.

There are individuals who do not want to take ownership for their tax obligations and do not recognise their role in this at all, on the basis that this is a job for the 'experts' (HMRC and/or their employer). Even with access to information, they will struggle to see past this core belief.

Online Tax Account

The concept of **an online tax account is not radical to individual tax-payers**; rather it is a natural and welcome progression. Ultimately, it will increase access to information, which is considered a prerequisite to taking responsibility for tax affairs and a **clear advantage** on the current system.

Digital channels are often used in other sectors so an online account is considered the most obvious channel. Individuals are typically engaged online in other areas of their lives, making an online account easy to visualise – online banking is the leading reference point. Security is taken as a given for the online account, with the assumption that it would be at least as secure as online banking.

Individuals have a clear consistent view of what they would want from an online tax account:

- **Education:** the account provides an opportunity to better understand personal tax, through explanations of how tax is calculated, what is paid and why. Additional information on what individuals could claim as expenses or benefits would also be welcome.
- **Verification:** the account could provide an easy way for individuals to check their personal records, meaning they can verify their details and proactively raise issues as they arise. Individuals are particularly interested in verifying the information HMRC holds about their employment (including employer, salary and year-to-date earnings), personal and contact details, a list of current benefits or allowances, and an overview of their NIC payments. Historical records and the ability to print past documents would also be of interest.

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- **Interaction:** individuals would expect to be able to contact and communicate with HMRC through the online account, either by email or web chat.

Using the online account for the purpose of tax education would address the overarching issue individuals have with their tax: that they don't understand it enough to fully engage. Providing information on the mechanics of how tax works in the context of their own tax would allow individuals to engage in a more personally relevant way. This is particularly true for NICs, where the account could show how this links to an individual's pension, statutory leave, etc. With little understanding of how NICs impact on statutory entitlements, the online account could allow individuals to see their personal contributions and how this affects their entitlements, as well as give them the opportunity to pay extra if desired or needed.

SA individuals already have the experience of using an online account. However, joining up their accounts to make 'one person' would help individuals better manage their tax obligations across PAYE and SA. These individuals would also value the expansion of the current SA account capability, with the addition of a facility to record expenses throughout the year (ideally linked to their SA form), an ability to report wages on an ongoing basis and the option to pay their tax monthly, quarterly or annually as it suits them.

To maximise the take up of the online tax account, it must offer the level of sophistication individuals expect. In addition to the content outlined above, the design of the account is important and must satisfy three core principles to meet expectations:

- **Language:** must be clear, user-friendly and jargon-free. It should not assume knowledge and use plain English.
- **Ease of use:** should be built on clear navigation, with an obvious starting point or step-by-step process to guide individuals through HMRC interactions.
- **Visual appeal:** needs to be less text-heavy than current HMRC online resources (which are often difficult for individuals who invariably have limited tax knowledge) and to support the educational aim, information should be presented in an accessible, easy to digest format.

The online account will not be of interest or relevance to everyone – there are three key barriers to its use:

- **Access to online channels:** digital exclusion exists and is undoubtedly a barrier for some, but barriers to access can be a choice. It is more than not having a computer or access to the internet – a significant number are simply not comfortable online and choose not to use the internet in their day-to-day lives.
- **Ability to engage with HMRC:** some individuals simply 'shut down' when discussing their tax affairs. They struggle to understand it and, as a result, are not interested in engaging further – they ultimately do not want the responsibility of doing so.

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- **Security of information:** even amongst those able and willing to take responsibility for their tax obligations, not all are prepared to do so online due to security concerns about personal information.

Looking ahead

Engagement drives understanding of tax and yet in the current PAYE system, individuals find themselves engaging only through the lens of a problem or an issue. In such circumstances, the individual's lack of understanding of PAYE can be at the root of the problem and/or can get in the way of reaching a speedy resolution.

The Online Tax Account has the potential to make a positive change. If designed to balance functionality, ease of use *and* the ability to educate, it has the potential to create transparency in the personal tax system. The Account could also provide the platform for reframing engagement to move it from its current negative starting point to a neutral or perhaps even a positive position, and individuals will be better able to take responsibility for their personal tax.