



Compliance Perceptions Survey

Small and Medium Sized Enterprises and Individuals 2011

Iram Zahid

HM Revenue and Customs Research Report 195

Contents

Glossary	3
Executive Summary	4
1. Introduction	8
1.1 The Compliance Perceptions Survey	8
1.2 Hypothesis testing	9
2. Methodology	10
2.1 Survey design and sample	10
2.3 Question design	12
2.4 Weighting and reporting	13
2.5 Open questions	14
2.6 Cross tabulations	14
3. Fairness and the Burden of Complying	15
3.1. Fairness	15
3.2 Burden of complying	20
4. Attitudes towards Compliance	22
4.1 Perceived prevalence of income and corporation tax evasion	22
4.2 Acceptability of income and corporation tax evasion	24
4.3 Circumstances when evasion is acceptable	25
4.4 Acceptability of income tax evasion on cash earnings (individuals)	26
5. Perceived Chances of Detection	29
5.1 Income and corporation tax	29
5.2 Perceived chances of detection for self and others	31
5.3 VAT registered businesses	32
5.4 HMRC effort and perceived likelihood of being caught	32
6. Attitudes towards HMRC Sanctions	34
6.1 Awareness that tax evasion is a crime	34
6.2 Financial penalties for tax evasion	35
6.3 Sanctions and acceptability of tax evasion	37
6.4 Prosecutions for tax evasion	38
6.5 HMRC activity and effort	40
6.6 HMRC activity and perceived likelihood of being caught	43
6.7 Consequences for tax evasion	45
6.8 Reasons for complying	46
References	48
Appendix A: Survey Questions 2011	49
Appendix B: Survey Data 2011	65
Appendix C: SME sample breakdown 2011	82

Glossary

For the purpose of this research report the definitions below have been used.

SME	A business or company with less than 250 employees and a turnover equal to or less than €50 million or a balance sheet total equal to or less than €43 million.
Individuals	Employees, self employed and economically inactive persons.
Employee	A person who is hired to work for another in return for payment. The employer is responsible for deducting and paying tax and National Insurance contributions on behalf of employees.
Self-employed	Any individual who runs their own business and takes responsibility for its success or failure. Self employed individuals are responsible for their own tax and National Insurance contributions.
Income tax	A charge levied on income, subject to certain deductions, at a rate usually determined by the size of the income.
Corporation tax	A tax that must be paid by a corporation based on the amount of profit generated.
VAT	A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale.
Tax Evasion	Illegally avoiding paying taxes, failing to report, or reporting inaccurately. Tax evasion is different from tax avoidance, which involves manipulating tax law to gain an unintended tax advantage.

Executive Summary

1. Introduction

The Compliance Perceptions Survey (CPS) measures perceptions of tax compliance among Small and Medium Sized Enterprises (SMEs) and individuals. The CPS is made up of two separate surveys (SMEs and individuals). This report is the second in the series and presents results from both SMEs and individuals for 2011. Results from 2008-10 were published in 2011.

Research suggests that the main factors which affect compliance are economic deterrents (such as fines), social norms and perceptions about the fairness of the tax system and trustworthiness of collection authorities. The CPS aims to test these assumptions for taxpayers in the UK by identifying any associations between these factors and attitudinal compliance as well as capturing change over time

The CPS asks SMEs and individuals about the fairness and burden of compliance, the prevalence and acceptability of evasion and the possible consequences where evasion is detected. The survey is used by HMRC to inform the design of customer strategy and is part of the evidence base to assess performance of activities established following the 2010 Spending Review.

(Page 8)

2. Methodology

The survey questions were initially cognitively tested by the Personal Finance Research Centre (PFRC) based at the University of Bristol. Further testing of questions added to the 2011 survey was carried out by TNS-BMRB after they were commissioned to carry out the 2011 SME questionnaire. The survey questions are presented in **Appendix A**. The survey with individuals was carried out by the Office for National Statistics (ONS). Both surveys use a random probability design.

The SME and individuals survey were carried out over the 2011/12 financial year but are referred to as 2011 throughout the report.

(Page 10)

3. Fairness and Burden of Complying

Questions around the perceived fairness of the tax system and HMRC are asked mainly to allow the association between fairness and attitudes towards compliance to be tested.

- No association was found between the acceptability of tax evasion and (i) perceived fairness of income/corporation tax, or (ii) the perceived fairness of HMRC and acceptability of tax evasion.

(Page 15)

4. Attitudes Towards Compliance

Questions about the acceptability and prevalence of evasion are asked in order to investigate whether social norms, fairness and HMRC sanctions influence compliance behaviour.

- Ten per cent of **SMEs** felt corporation or income tax evasion amongst businesses was a major problem compared to 46 per cent of individuals who felt income tax evasion was a major problem.
- A large proportion of **SMEs** (93 per cent) stated that evasion was unacceptable.
- In 2011, 90 per cent of **individuals** stated income tax evasion was unacceptable compared to 86 per cent in 2008. This increase is statistically significant.
- Almost a quarter of **individuals** (24 per cent) agreed that a lot of people they know think its okay not to pay tax on cash earnings compared to almost twice as many who did not (46%).
- For **individuals**, there is an association between knowing people who think tax evasion is acceptable and thinking tax evasion is acceptable.

(Page 22)

5. Perceived Chances of Detection

These questions are asked to help understand the factors which affect perceptions of being caught.

- A large proportion of **SMEs** (69 per cent) said it was likely or very likely that businesses which regularly evaded paying income or corporation tax would be caught. In comparison, 83 per cent of VAT registered businesses said it was likely or very likely that SMEs regularly evading VAT would be caught.
- The majority of **SMEs** (87 per cent) said it was likely that regular under-declaration of liabilities would be detected by HMRC. Only 8 per cent considered such detection to be unlikely.
- **Individuals** are divided in their opinion as to whether regular income tax evaders are likely to be caught, with similar proportions stating that it is likely or unlikely that evaders will be caught (46 per cent).
- Similar proportions of **individuals** also felt that detection if they did not declare cash income was likely (45 per cent) and unlikely (47 per cent).
- The proportion of **individuals** stating it is likely they will get caught if doing cash in hand work has decreased significantly since 2008. Fifty per cent in 2008 compared to 45 per cent in 2011.

(Page 29)

6. Attitudes Towards HMRC Sanctions

These questions are asked to gauge SMEs and individuals awareness of HMRC's compliance effort and its association with chances of detection.

Penalties

- Over half of **SMEs** (56 per cent) agreed the financial penalties were sufficient to deter evasion, while 7 per cent disagreed. A significant proportion of the businesses (20 per cent) said they were unaware of what penalties could be imposed.
- Of the VAT registered **SMEs**, 69 per cent agreed the financial penalties for VAT evasion were sufficient to deter businesses from not declaring VAT properly, while 6 per cent disagreed. Fourteen per cent of the VAT registered businesses were unaware of what penalties could be imposed for VAT evasion.
- **Individuals** are less likely to agree than SMEs that financial penalties are sufficient to deter tax evaders. One possibility for this difference may be that individuals have less interaction with the tax system than SMEs.
- The most common cited consequences of tax evasion for **SMEs** and **individuals** were financial penalties and prison sentence.

Prosecutions

- The majority of **SMEs** (79 per cent) stated it was likely that SME evading tax would be prosecuted. Twelve per cent stated this was not likely.
- In comparison, significantly fewer **individuals** said it was likely people evading income tax would be prosecuted (60 per cent), whilst 36 per cent said this was not likely.
- The majority of **individuals** (93 per cent) stated they were aware that evading tax is a criminal offence which could result in a criminal record or going to prison.
- Forty per cent of **individuals** stated they agreed the chances of being prosecuted by HMRC were sufficient to deter people from regularly evading tax, whilst 37 per cent disagreed with this statement.
- Around a quarter of **SMEs** and **individuals** stated they had heard of a business/person who had been prosecuted by HMRC for evading tax.
- For **individuals**, the main source for hearing about prosecutions was the television or newspapers (68 per cent) followed by family, friends or word of mouth (18 per cent). Of the individuals that had heard about HMRC prosecutions, 10 per cent stated they had known someone personally who had been prosecuted.

HMRC effort

- Just under a third of **SMEs** (29 per cent) stated HMRC deals more firmly with businesses not paying the correct amount than a few years ago, with 5 per cent stating HMRC deals less firmly with SME. A significant proportion (34 per cent) did not know.
- In comparison, 39 per cent of **individuals** stated HMRC deals more firmly with taxpayers who don't pay the correct amount of tax than it did in the past, with 10 per cent stating HMRC was now less firm. Almost a quarter (24 per cent) of individuals did not know if HMRC was more or less firm with evaders now compared to the past.
- A large proportion of **SMEs** (27 per cent) did not know how much effort HMRC was putting into reducing income and corporate tax evasion among SME. Ten per cent of SMEs felt that HMRC was doing too much to reduce income and corporation tax evasion, whilst 18 per cent felt HMRC was doing too little. A further 45 per cent stated they thought HMRC was doing about the right amount.
- In comparison, 41 per cent of **individuals** stated HMRC was putting too little effort into reducing income tax evasion, 2 per cent stated too much effort, 27 per cent stated right amount of effort, and 30 per cent didn't know.

(Page 34)

7. Hypothesis testing

HMRC is interested in the drivers behind compliance and the relationship between compliance activity and perceptions of being caught. The survey is used to explore these by identifying any association between responses to certain questions.

1. There is an association between knowing people who think tax evasion is okay and personally believing tax evasion to be okay (for **individuals**). These questions are asked to help understand the effects of misperceived social norms on tax compliance. **(Page 27)**
2. A larger proportion of **individuals** stating HMRC dealt more firmly with evaders than in the past felt it was likely evaders would be caught compared to those stating less firmly. **(Page 32)**
3. For **individuals**, those that agree financial penalties are sufficient to deter tax evasion are more likely to perceive tax evasion to be acceptable compared to those that disagree. **(Page 37)**
4. **SMEs** and **individuals** who perceived HMRC to be doing too much or the right amount to tackle tax evasion were more likely to state evaders would be caught compared to those stating HMRC does too little. **(Page 43)**

1. Introduction

The Compliance Perceptions Survey (CPS) measures perceptions of tax compliance among Small and Medium Sized Enterprises (SMEs) in the United Kingdom (including Northern Ireland) and individuals in Great Britain. The use of surveys of this nature is recognised as good practice by the OECD. This report presents key findings for 2011.

1.1 *The Compliance Perceptions Survey*

HMRC plays a pivotal role in UK society as the tax administration and collection body. The Department safeguards the collection of revenue for the Exchequer to help reduce the deficit, to fund public services and to help families and individuals with targeted financial support. HMRC's goal is to reduce the tax gap and to ensure that our customers feel we provide them with a professional and efficient service.

The Compliance Perceptions Survey covers the areas of fairness and burden of compliance, the prevalence and acceptability of evasion, the possible consequences where evasion is detected, and the effect of social norms on perceptions towards tax compliance. The aim of the survey is to:

- further HMRC's understanding of the drivers of compliance behaviour and whether perceptions about economic deterrents, social norms and the fairness of tax influence reported acceptability of evasion;
- understand SMEs' and individuals attitudes towards, beliefs about, and perceptions of compliant and non-compliant behaviour;
- ascertain the perceived levels of non-compliance and levels of acceptability;
- identify the perceived risks (including the likelihood of investigation/prosecution or being caught) of non-compliant behaviour;
- understand the perceived consequences of investigation such as financial penalties;
- provide information on attitudes and beliefs which can be used to inform the development of future activities; and
- track change in attitudes over time.

The survey is also used by HMRC to inform the design of customer strategy and is used as part of the evidence base to assess performance against activities established following the 2010 Spending Review.

The survey is complemented by a qualitative study consisting of in-depth interviews with SMEs, focusing on attitudes to tax compliance and awareness of HMRC activity¹.

¹ This project sought to follow up the CPS findings using 40 qualitative depth interviews with SME respondents from the survey to explore areas of interest in greater depth. The views from the interviews may be typical of SMEs but cannot be generalised with any statistical certainty to this. This report has been published in parallel to the quantitative survey findings and can be referred to for more information.

1.2 Hypothesis testing

HMRC use the Compliance Perceptions Survey to test hypotheses developed from the academic literature which suggests that economic deterrents such as fines, social norms and perceptions about the fairness of the tax system and collection authorities all affect perceptions about the acceptability of evasion². HMRC also uses the CPS to identify any associations between perceived efforts of the department and perceptions around the consequences of tax evasion.

On the basis of this, HMRC has developed several hypotheses. These are:

- the perceptions that tax rates are unfair leads to a view that evasion is acceptable;
- the perceptions that HMRC is unfair in its dealings leads to a view that evasion is acceptable;
- the perceptions that evasion is prevalent leads to a view that evasion is acceptable;
- perceptions about the likelihood of being caught are related to the perceived acceptability of evasion;
- perceptions about the sanctions for evasion are related to the perceived acceptability of evasion;
- the perception evasion is prevalent leads to a view HMRC should deal more firmly with evaders;
- perceptions about the effort HMRC puts into compliance activity are linked to the perceived likelihood of being caught; and
- personal perceptions about the acceptability of tax evasion are related to the perceptions of others.

These hypotheses are tested using data from the CPS. Therefore some of the survey questions such as taxpayers' perceptions of the fairness of tax are asked primarily to allow HMRC to test these theories.

Based on analysis (contained within this report and the publication for 2008-10 data) which demonstrates that these associations are not significant, we have rejected some of these hypotheses and relevant questions in the CPS will be dropped for subsequent years.

² More details on the academic literature behind these hypotheses can be found in the 2008-10 CPS reports at <http://www.hmrc.gov.uk/research/cps-sme-report156.pdf> and <http://www.hmrc.gov.uk/research/cps-ind-report156.pdf>.

2. Methodology

This section provides an overview of the methodology used for both the SME and Individuals survey.

2.1 Survey design and sample

SME

HMRC commissioned TNS-BMRB to collect survey data from SMEs. Data were collected from a random probability sample of businesses for the financial year 11/12 (the survey is referred to as 2011 throughout the report). Data from 2011 cannot be compared with data from previous years of the survey, due to a change in the sample design³. Businesses were selected at the enterprise level, so that the same business was not included more than once in the sample.

SMEs were included in the survey if they satisfied the European Commission's definition of a Small and Medium Sized Enterprise. These are businesses with a turnover which is less than or equal to €50 million per annum, or a balance sheet which is less than or equal to €43 million. The total number of employees also cannot exceed 250⁴.

The sample of businesses was selected from HMRC's Self Assessment database and the Inter-Departmental Business Register (IDBR) maintained by the Office for National Statistics. Businesses from the IDBR were selected on the basis of enterprise size, region and industry. SMEs with a turnover of less than £15,000 per annum were not included in the survey to remove very small businesses from the sample.

SMEs were not asked if they had ever had contact with HMRC and were thus not excluded from the survey if they had little or no experience with paying tax. The survey findings may therefore include responses from some SMEs which have little or no interaction with HMRC. These respondents are included in the survey in order to measure attitudes across all SME which may give information about social norms within this population group.

Respondents were interviewed by telephone. If the respondent indicated that key business decisions were theirs alone, mainly theirs or shared equally with someone else, then they were asked to provide answers to the survey questions on behalf of the business. Survey respondents therefore have different levels of decision-making responsibilities, and this is likely to influence to which extent their responses reflect the business perspective as opposed to their personal views.

³ In 2008 and 2009, CPS questions were included on the GfK Omnibus surveys which collect data from a quota sample of 500 SMEs in two months of the year. HMRC included questions on two waves of the survey (June and September) in 2008 and 2009 to achieve a sample of 1000 businesses each year. In 2010, the Omnibus survey was discontinued so HMRC commissioned a bespoke survey using the same sampling methodology from GfK NOP. 850 businesses were interviewed.

⁴ The balance sheet criterion was not applied to the sample, only turnover and employee number. For more information about the description of a SME:

http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

Respondents who claimed no decision-making responsibility were screened out of the survey. Therefore all of the respondents had at least some responsibility for key business decisions (see ANNEX C for more information).

The achieved response rate for the 2011 CPS of SME was 51 per cent.

Individuals

HMRC commissioned the Office for National Statistics (ONS) to collect data from individuals. Questions were placed on the Opinions Survey⁵. Interviews are carried out face-to-face. The individuals included in the survey were drawn at random from the general population and included employees, self-employed and those that were economically inactive. The survey has collected CPS data from 2008 to 2011 on an annual basis. More detailed information for 2008-10 can be found in the previous individuals report⁶.

In order to achieve a larger number of self-employed respondents to facilitate sub-group analysis, additional booster samples of self-employed individuals were procured by HMRC. Data were collected from all individuals, including self-employed respondents, in September and October 2011. Additional self-employed respondents were recruited on a monthly basis from November 2011 to March 2012. These additional self-employed responses are not reported in the individual's data, but are reported separately if they are significantly different to individuals or employees results.

Data in the time series were collected in different months. Table 2.1 shows the months in which data were collected from individuals and self-employed respondents in each year of the survey.

Table 2.1: Individual Survey Data Collection

Year	Months Interviewed (and Sample Size)	
	Individuals	Self Employed Booster Samples
2008	July and August (2,172)	September to November (340)
2009	July and August (2,058)	September to November (322)
2010	August and September (2,093)	October to December (327)
2011	September and October (2,180)	November to March (530)

In December 2010, questions about taxpayers' perceptions of criminal prosecutions were piloted with 982 randomly selected individuals. These questions have now been included on the 2011 survey and are reported in Section 6.

The sampling frame used was Royal Mail's Postcode Address File, meaning only households which received fewer than 50 items of mail per day were included in the survey. This could include small businesses, so in order to achieve a sample of private individuals only the ONS screened out enterprises during interviews. One

⁵ This was formally the Omnibus Survey. Further information about the ONS Opinions Survey is available: <http://www.ons.gov.uk/ons/about-ons/who-we-are/services/opinions--omnibus--survey/opinions--omnibus--survey.html>

⁶ The 2008-10 reports were published separately for SME and Individuals, and can be found at <http://www.hmrc.gov.uk/research/cps-sme-report156.pdf> and <http://www.hmrc.gov.uk/research/cps-ind-report156.pdf>.

person aged 16 or over was selected at random per household and asked to provide responses to the survey questions based on their personal views alone.

In 2011, the achieved sample of respondents comprised 2,710 individuals, including the self-employed individuals interviewed in the booster sample. The average response rate across all months of the survey in 2011 was 60 per cent⁷.

As a result of the sampling methodology, data were collected from a representative sample of individuals from across Great Britain.

Individuals were not asked if they had ever had contact with HMRC and were therefore not excluded from the survey if they had little or no experience with paying tax. Individuals who were in employment and who paid income tax are included in the survey alongside economically inactive and unemployed individuals. The composition of the sample achieved in each year is shown in Table 2.2 below.

The survey findings therefore include responses from a significant proportion of individuals who may have limited personal experience of the tax system and little or no interaction with HMRC. These respondents are included in the survey in order to measure attitudes across society which may give information about social norms.

Table 2.2: Sample Composition (Seven Months) - Employment Status⁸

Year	Employment Status (International Labour Organization Definition) %			Total (n)
	In Employment	Unemployed	Economically Inactive and Unpaid Family Workers	
2008	56	3	40	2,512
2009	56	4	39	2,380
2010	54	5	41	2,420
2011	57	4	39	2,710

2.3 Question design

The Personal Finance Research Centre (PFRC) at Bristol University worked with HMRC on question design and testing to assess and improve the survey questions during the development stages of the survey. Additional questions asked in 2011 were tested in a similar way by TNS-BMRB. The questions and further details on question change are included in **Appendix A**.

⁷ This is the average response rate for the ONS Opinions Survey in 2011 for the months on which CPS questions were included. This does not show the response rate for individual questions. Details about the number of individuals refusing to answer each CPS question are available in Appendix B for the main survey questions.

⁸ See 2008-2010 CPS of Individuals report for more details

2.4 Weighting and reporting

SME

The reported SME results use weighted data, which have been adjusted for survey design and non-response. No time series information has been reported as data from 2008-2010 used a different sample design which does not allow for statistical comparison.

Percentages are rounded to the nearest whole percent. Numbers shown in tables may not sum to the totals due to rounding.

Respondents who refused to answer questions are excluded from the analyses.

Individuals

This report is largely based on responses collected from two full waves of the opinions survey. The individual's results consist of responses from employees, self employed and economically inactive individuals. However, where there are differences between different types of taxpayer, these are reported. In particular, where the evidence suggests that self-employed individuals and employees hold different attitudes, data comparing these two groups are presented.

- The self-employed results consist of responses from the self-employed individuals in the first two months of the survey along with self-employed booster waves.
- The employee results consist of responses from employees within the first two months of the survey.

For individuals, weighted data are used to calculate percentages. The ONS supplied HMRC with two bespoke weights, which adjust for survey design and non-response.

Data for the self-employed were collected from booster samples of self-employed respondents during additional months of the survey (see Table 2.2). Differences between the self-employed and employees may therefore potentially relate to variation in the timing of the interviews as well as differences in attitudes. In common with other findings, variation may thus be due to factors which have not been controlled for as well as to a direct association between employment status and attitudes.

Differences over time and between different groups of taxpayers are discussed in detail only if they are statistically significant. Where differences are discussed, we can be 95 per cent confident that the apparent dissimilarity is due to real change and difference rather than to chance⁹.

Unweighted base sizes are provided with each table or figure where the data are presented, and further information about base sizes can be found in **Appendix B**.

⁹ Tests for statistical significance and association were produced by data analysis programme SPSS. Confidence intervals for proportions for comparisons across years and between the self-employed and employed individuals were manually calculated, initially using a design effect of 1 to explore the data. Where statistically significant differences were found using this method, confidence intervals were re-calculated to incorporate design effects supplied by ONS, in line with their guidance. Using the design effects increased the width of the confidence intervals, allowing a more accurate test for statistical significance to be undertaken.

Percentages are rounded to the nearest whole percent. Numbers shown in tables may not sum to the totals due to rounding.

Respondents who refused to answer questions are excluded from the analyses.

2.5 Open questions

Five CPS questions on the Individuals survey and four on the SME survey are open questions where respondents volunteer an answer rather than choose from a series of available options. These questions use 'pre-codes' where interviewers classify participants' statements into a predefined list of codes or categories rather than record verbatim what has been said. If respondents' answers did not fit into one of these 'pre-codes', their full responses to the questions were recorded. Further information on the analyses of the re-coded data can be found in **Appendix B**.

2.6 Cross tabulations

HMRC have several hypotheses about perceptions of compliance which were tested using cross tabulations.

Cross tabulation analyses have been presented in the report where they add to the other findings presented. For the **SME** survey, tests for statistical significance and association were carried out using weighted data as the weighted base is set to be the same as the unweighted base. For the **individuals** survey, weighted data are reported but tests for statistical significance and association are calculated using unweighted data. Because of the complexity of the individual's survey sample design, it was considered impractical to use weighted data for test for statistical significance.

Respondents who answered 'don't know' to at least one of the questions of interest are excluded from cross tabulation analyses unless otherwise stated.

3. Fairness and the Burden of Complying

This section reports on questions from the CPS focusing on SMEs' and individuals' perceptions of the tax regime and HMRC. Academic literature suggests the perceived 'fairness' of the tax system may influence levels of compliance, with evidence suggesting that taxpayers are more willing to comply where tax revenue is used for a common or public good (Alm et al 1992). Therefore some of the survey questions such as taxpayers' perceptions of the fairness of tax are asked primarily to allow HMRC to test these theories.

3.1. Fairness

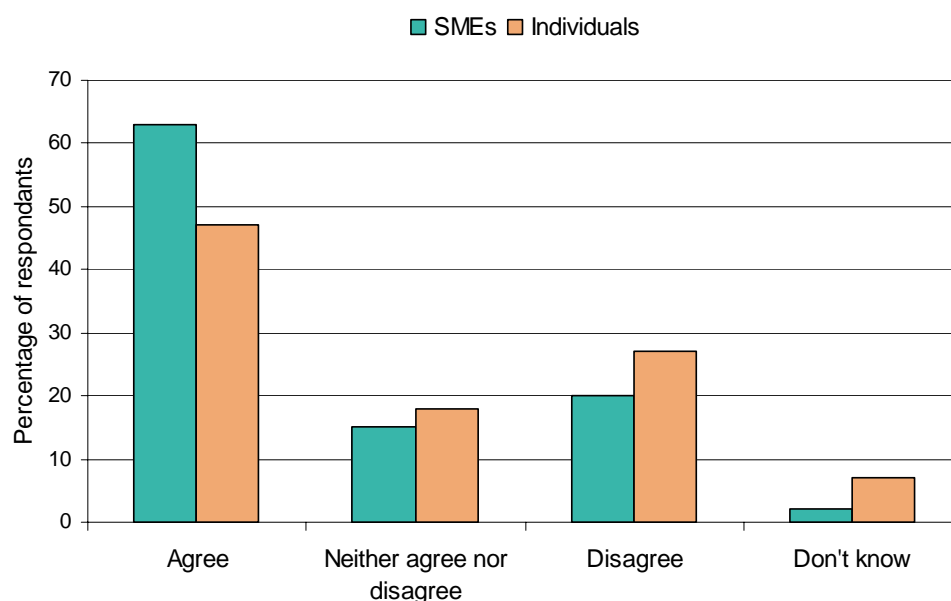
Income and Corporation Tax: SMEs and individuals

In 2011, the majority of **SMEs** (63 per cent) said that they felt the level of income or corporation tax their business paid was fair. A further 15 per cent neither agreed nor disagreed that the level of corporation or income tax they paid was fair, with 20 per cent disagreeing with the statement (**Figure 3.1**).

This compared with 47 per cent of **individuals** who felt the level of income tax they paid was fair. Around 18 per cent neither agreed nor disagreed that the level of income tax they paid was fair with 27 per cent disagreeing with the statement (**Figure 3.1**).

- A greater proportion of self-employed individuals agreed that the level of income tax they paid was fair than employees (58 per cent versus 48 percent).
- Conversely, a greater proportion of employees disagreed that that level of income tax they paid was fair compared to self-employed individuals (29 per cent versus 22 per cent).
- This may partly reflect a greater awareness about income tax among those who are self-employed.

Figure 3.1: Whether respondents agree the level of income/corporation tax paid is fair, 2011 (SMEs versus individuals)¹⁰



Weighted base: 1,005 SMEs

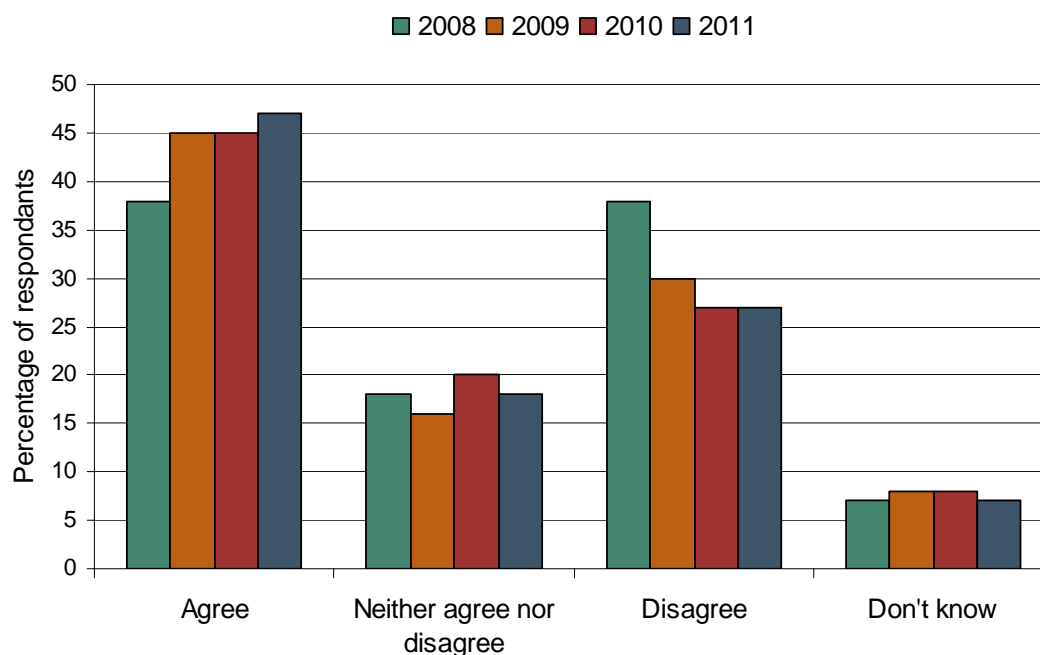
Unweighted base: 2,149 individuals

Individuals and income tax: change over time

There is some evidence that attitudes towards income tax have changed over time, with the percentage of individuals agreeing that the level of income tax they pay is fair rising from 38 per cent in 2008 to 47 per cent in 2011. Conversely, the percentage of individuals disagreeing that the level of income tax they pay is fair has fallen from 38 per cent in 2008 to 27 per cent in 2011 (**Figure 3.2**).

¹⁰ SMEs were asked about income and corporation tax, individuals were asked about income tax only.

Figure 3.2 Whether individuals agree the level of income tax paid is fair, 2008-2011



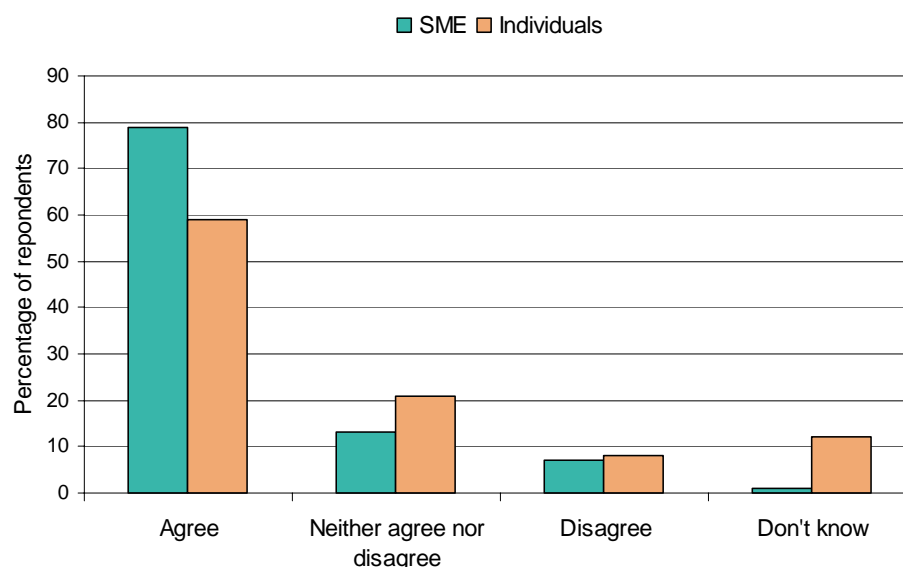
Unweighted base: 2,167 in 2008; 2,053 in 2009; 2,070 in 2010; 2,149 in 2011

Perceptions of HMRC: SMEs and individuals

In terms of impressions of HMRC itself, nearly four out of every five **SMEs** (79 per cent) agreed the Department treated them fairly in their dealings with them. This is compared to 7 per cent who disagreed with the statement and 13 per cent who neither agreed nor disagreed (**Figure 3.3**).

In comparison, 59 per cent of **individuals** agreed that HMRC treated them fairly, with 8 per cent disagreeing. A further 21 per cent of individuals neither agreed nor disagreed (**Figure 3.3**).

Figure 3.3 Whether respondents agree HMRC treats them fairly, 2011 (SME versus individuals)



Weighted base: 1,005 SMEs

Unweighted base: 2,149 individuals

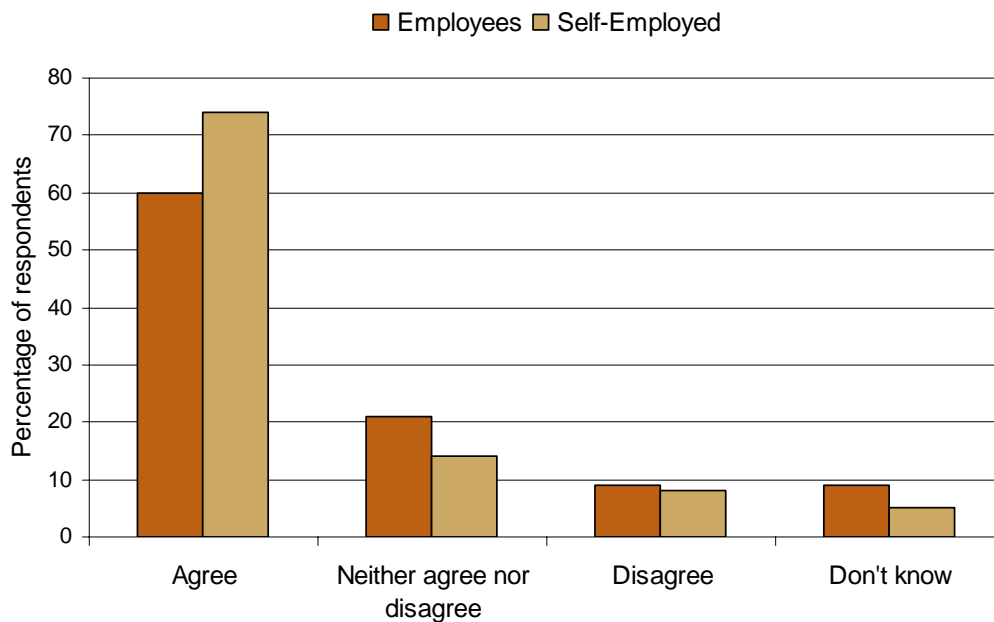
Individuals and HMRC: employment status and change over time

There are statistically significant differences between the attitudes of employed and self-employed individuals in how fair they feel HMRC is in its dealings with them. In 2011, 74 per cent of self-employed respondents agreed that HMRC treated them fairly compared to 60 per cent of employees.

This may partly reflect the greater degree of contact self-employed people have with HMRC in comparison to employees. A smaller proportion of self-employed individuals answered 'don't know' to the statement (5 per cent versus 9 per cent) (**Figure 3.4**).

This is supported by comparing perceptions of HMRC in terms of fairness in dealings with income tax payers who do and do not complete Self Assessment forms. In 2011, a greater proportion of current workers who completed SA forms felt HMRC was fair in their dealings with them compared to those who did not (74 per cent versus 57 per cent).

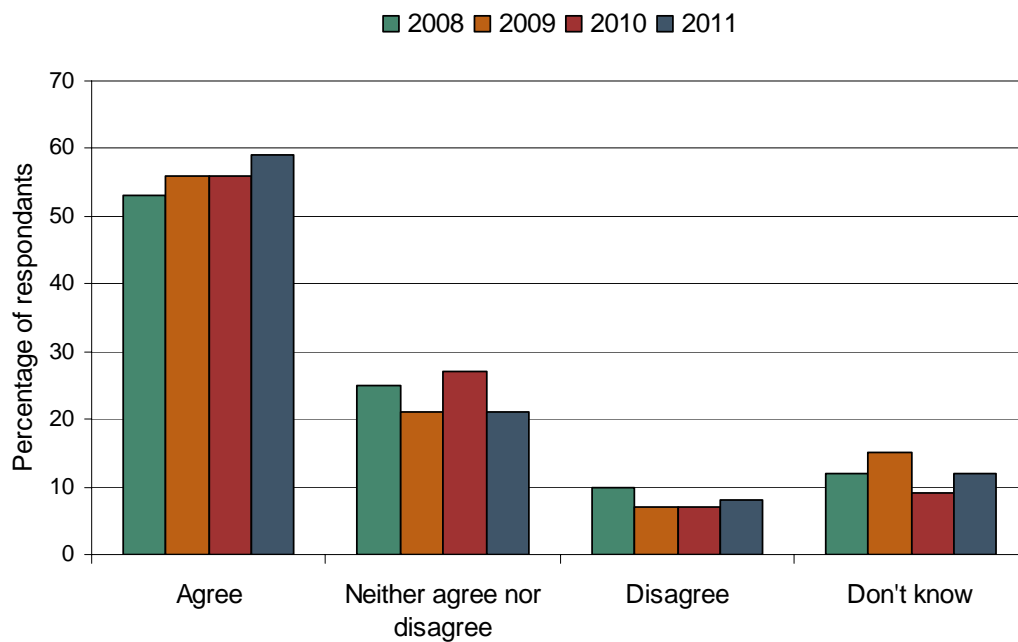
Figure 3.4 Whether respondent agrees HMRC treats them fairly, 2011 (self employed versus employees)



Unweighted base: 1,806 employees; 758 self-employed

The proportion of individuals stating HMRC treats them fairly has also increased significantly over time. In 2011, 59 per cent of individuals agreed HMRC treated them fairly compared to 53 per cent in 2008¹¹ (**Figure 3.5**).

Figure 3.5 Whether individuals agree HMRC treats them fairly, 2008-2011



Unweighted base: 2,166 in 2008; 2,055 in 2009; 2,072 in 2010; 2,149 in 2011

¹¹ The change from 2008 to 2011 is significant.

Fairness of income tax/HMRC and acceptability of tax evasion

There was no association between the perceived fairness of income/corporation tax and acceptability of tax evasion. There was also no association between the perceived fairness of HMRC and acceptability of tax evasion.

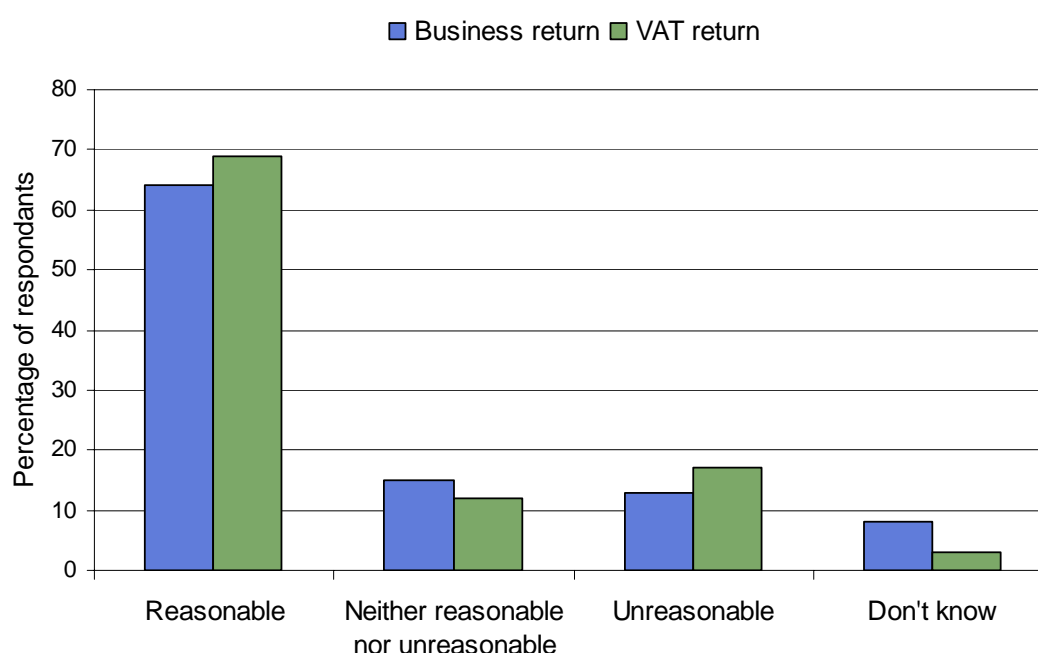
3.2 Burden of complying

SMEs

The majority of SMEs (64 per cent) felt the amount of time and effort their business spent completing a business tax return was reasonable, whilst 13 per cent found it to be unreasonable. 15 per cent stated neither reasonable nor unreasonable. **(Figure 3.6).**

Of the two-thirds of SMEs (64 per cent) who stated they were VAT registered, 69 per cent felt that the time spent completing VAT returns was reasonable, 17 per cent felt it to be unreasonable and 12 per cent stated neither. **(Figure 3.6).**

Figure 3.6 Whether time spent completing a business tax return and VAT return was reasonable, 2011 (SME)



Base: 1,004 SME's; 648 VAT Registered SMEs

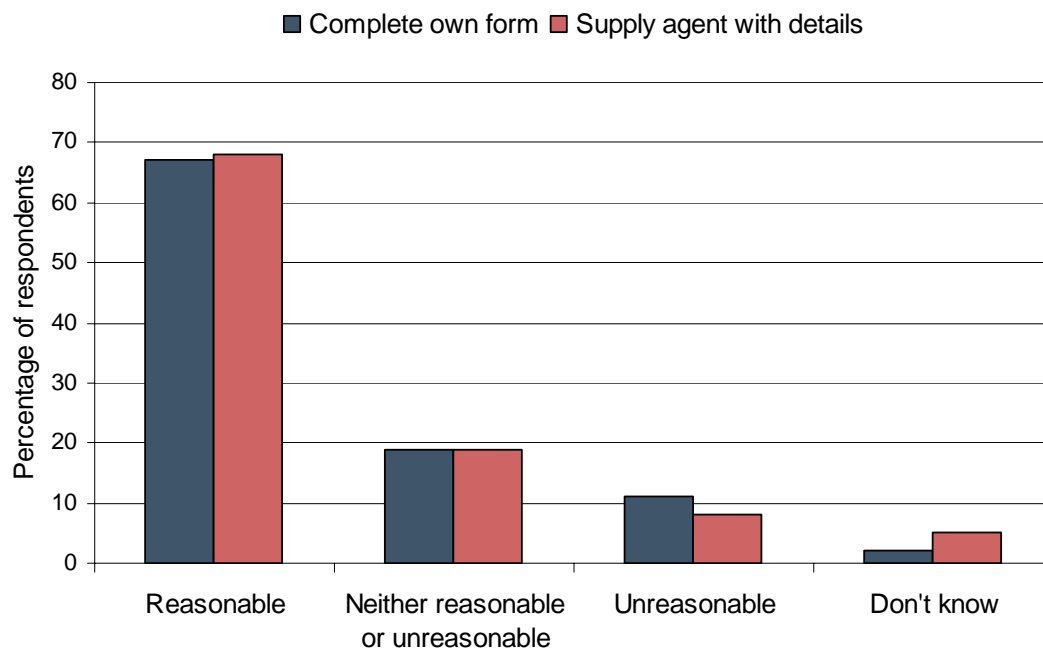
Individuals

Just over one in five individuals (21 per cent) stated that they needed to submit a Self Assessment form. The majority of these individuals did submit the form, with similar numbers choosing to complete the form themselves and asking an agent to complete it on their behalf. A small proportion of individuals (1 per cent) stated that they needed to complete a Self Assessment form, but did not do so.

The majority of those who completed their own Self Assessment forms felt that the amount of effort required was reasonable (67 per cent). Eleven per cent said it was unreasonable and 19 per cent stated neither.

An equal number of individuals supplying an agent with details to complete a Self Assessment form on their behalf found the time and effort of getting their forms completed to be reasonable (**Figure 3.7**).

Figure 3.7 Whether time spent completing SA form was reasonable, 2011 (Individuals)



Unweighted base: 248 complete own form; 185 supply agent with details

Within individuals, there has been no significant change over time in the perceived burden of completing a self-assessment form. Details of the time series for burden of complying can be found in **ANNEX B**.

4. Attitudes towards Compliance

This section describes attitudes towards compliance and evasion, in terms of prevalence and acceptability. It also describes situations in which tax evasion is seen to be acceptable and unacceptable.

4.1 Perceived prevalence of income and corporation tax evasion

SMEs and Individuals

Opinions in the sample were divided as to the prevalence of income or corporation tax evasion amongst **SMEs**. Survey participants were asked whether, in their view, income or corporation tax evasion among SMEs is a major, moderate or minor problem or not a problem at all¹². Overall, 10 per cent of SMEs felt corporation or income tax evasion among businesses was a major problem and 28 per cent said it was a moderate problem¹³. This compares with 36 per cent who said it was a minor problem and 10 per cent who felt tax evasion was not a problem at all.

Sixteen per cent of respondents did not know how much of a problem corporation or income tax evasion is amongst SMEs. Findings from the qualitative research carried out with SMEs suggest respondents found it extremely difficult to estimate wider prevalence of tax evasion, as the topic was considered to be a social taboo, and therefore little discussed.

In comparison, **individuals** are significantly more likely to state income tax evasion is a major problem (46 per cent). Thirty four per cent stated moderate problem, 10 per cent said minor problem and 2 per cent said not a problem at all (**Figure 4.1**).

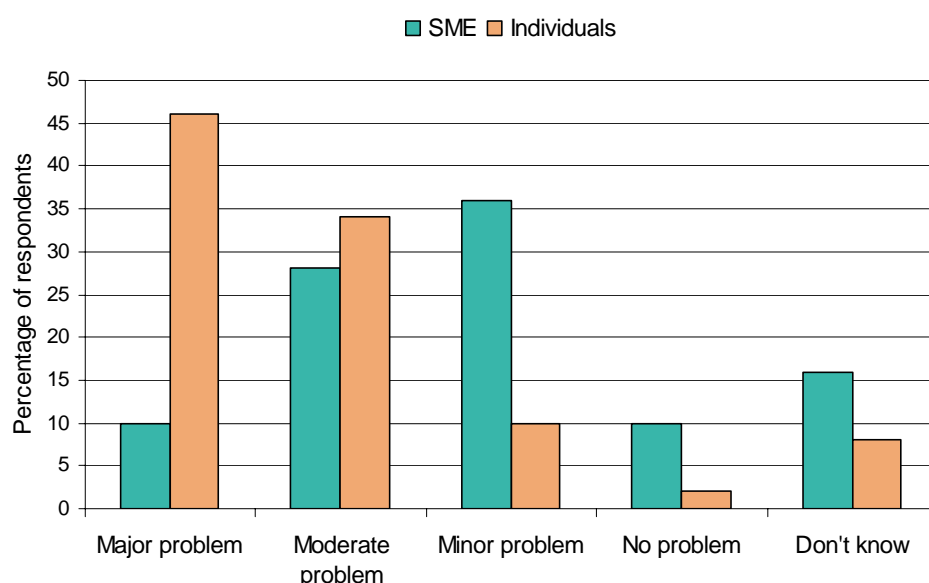
SMEs were also asked how widespread they felt income/corporation tax evasion was among SMEs¹⁴. Four per cent felt income/corporation tax was very widespread among SME, with a further 29 per cent believing it to be fairly widespread. This compares to 37 per cent who believed income/corporation tax evasion among SMEs was not very widespread and a further 10 per cent believing it not to be widespread at all.

¹² SME are asked about income and corporation tax; individuals are asked about income tax.

¹³ This question is used as a broad indicator of how much of a problem income tax evasion is perceived to be. It is possible respondents interpret the question in different ways. Cognitive testing suggested asking how widespread evasion is provides additional information around perceived prevalence.

¹⁴ This question will be asked on the individuals survey from 2012 onwards.

Figure 4.1: Whether income/corporation tax evasion is perceived to be a problem, 2011 (SMEs versus individuals)¹⁵



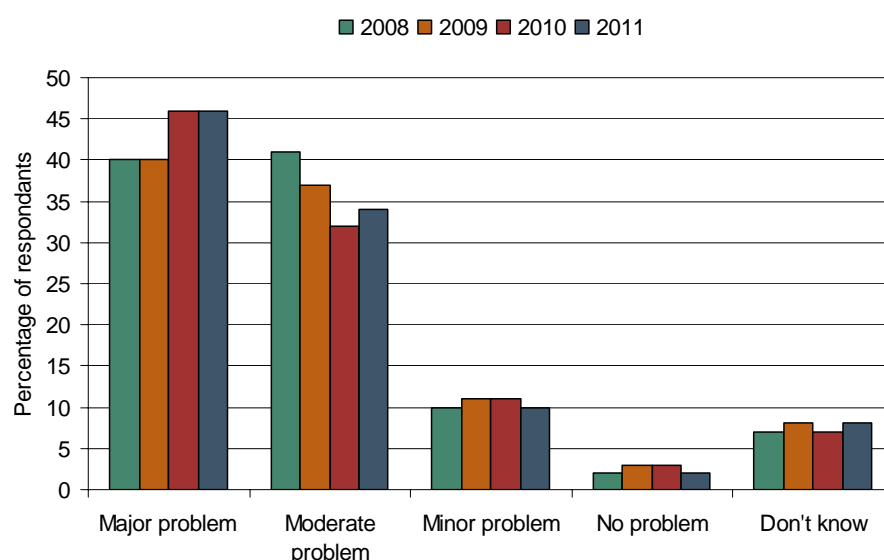
Base: 1,005 SMEs

Unweighted base: 2,149 individuals

Individuals: change over time

The proportion of individuals who felt tax evasion was a moderate problem has decreased significantly since 2008 and 2009. However, in 2011 there has been a slight increase in the proportion of people stating tax evasion is a moderate problem compared to 2010 (**Figure 4.2**). This change is not significant but indicates that the downward trend observed from 2008-10 has not been consistent.

Figure 4.2: Perception of prevalence of income tax evasion, 2008-2011 (individuals)



Unweighted base: 2,167 in 2008; 2,054 in 2009; 2,076 in 2010; 2,149 in 2011

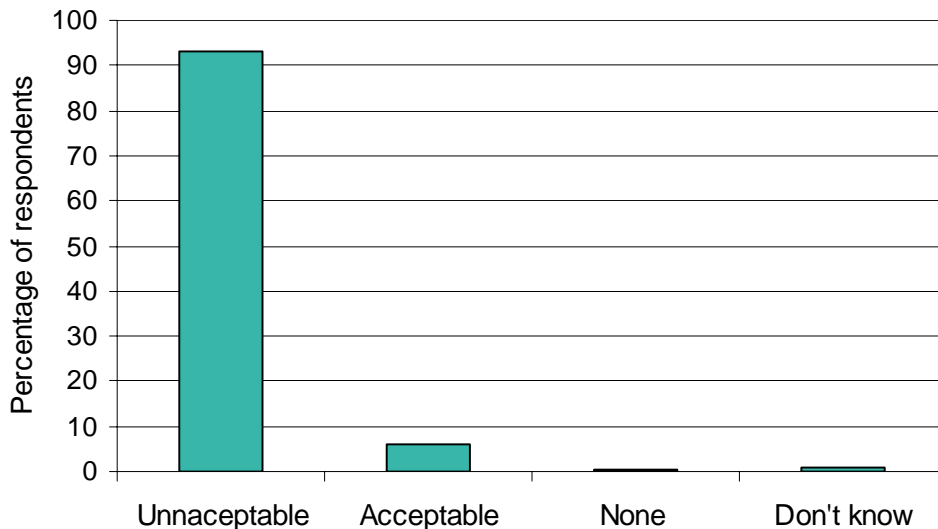
¹⁵ SMEs were asked about income and corporation tax while individuals were asked about income tax only.

4.2 Acceptability of income and corporation tax evasion

SMEs and Individuals

The majority of **SMEs** in the sample felt that income or corporation tax evasion was unacceptable. Overall, 93 per cent stated that evasion was either always or mostly unacceptable compared to 6 per cent who stated that income tax evasion was either always or mostly acceptable (**Figure 4.3**).

Figure 4.3: Whether income/corporation tax evasion is perceived to be unacceptable, 2011 (SME)



Base: 1,005 SMEs

The majority of **individuals** (90 per cent) also felt income tax evasion was always or mostly unacceptable. Five per cent stated it was always or mostly acceptable, and 3 per cent did not know.

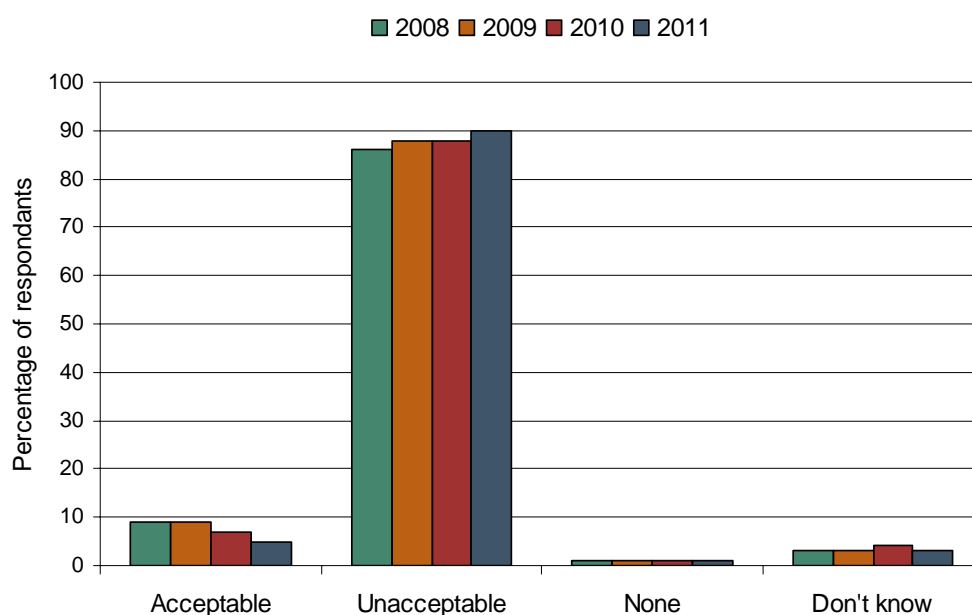
- There was evidence of a significant difference in attitudes between self employed individuals and employees.
- Overall, 88 per cent of self employed individuals stated tax evasion was unacceptable compared to 92 per cent of employees.

Individuals: change over time

There has been a significant decrease over time in the proportion of individuals stating income tax evasion is acceptable, falling from 9 per cent in 2008 to 5 per cent in 2011. In 2008, 86 per cent of individuals stated income tax evasion was unacceptable, rising to 90 per cent stating this in 2011 (**Figure 4.4**).

- The proportion of individuals stating tax evasion is always unacceptable has risen significantly from 57 per cent in 2008 to 69 per cent in 2011. This coupled with a decrease in individuals saying mostly unacceptable (but depends on the circumstances) could represent a shift towards firmer attitudes against tax evasion.

Figure 4.4: Perceived acceptability of income tax evasion, 2008-2011 (Individuals)



Unweighted base: 2,163 in 2008; 2,056 in 2009; 2,069 in 2010; 2,149 in 2011

4.3 Circumstances when evasion is acceptable

Those businesses and individuals stating tax evasion was mostly acceptable or mostly unacceptable were asked to provide further examples of these scenarios.

Among the **SME** respondents who originally stated tax evasion was mostly unacceptable but depended on the circumstances, 34 per cent went on to state that it was always unacceptable. Circumstances in which tax evasion would be unacceptable are presented in **Table 4.1**.

Table 4.1: Circumstances under which tax evasion would be unacceptable, 2011 (SME)⁻¹⁶

Circumstance	Percent of SME
It is always unacceptable	34
The company is successful/can afford to pay tax	19
The amount of money is large	12
Large corporate companies	8
Doing it for personal gain	4
Other	30
Total number of SME	143

These findings are in line with the responses given by SMEs in the CPS qualitative interviews. In particular, evasion was seen to be justifiable as a crisis response to save a failing business and as a response to external pressure. It was seen as most unacceptable when driven by greed.

¹⁶ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering 'don't know,' 'can't think of any' and invalid responses such as 'if deliberate or done in error'.

For **individuals**, the most frequently stated circumstance in which tax evasion would be acceptable was when a person could not afford to pay tax or was facing financial hardship (47 per cent) followed by when small amounts of money were involved (21 per cent) (**Table 4.2**).

Circumstances in which individuals stated tax evasion would be unacceptable¹⁷ are listed in **Table 4.3**.

Table 4.2: Circumstances under which tax evasion would be acceptable, 2011 (Individuals)¹⁸

Circumstance	Percent of individuals
A person cannot afford to pay tax/financial hardship	47
Small amounts of money involved	21
Evasion activity is short term/a one off	5
Taxes are unfair or unreasonable	4
A person is disadvantaged or vulnerable	3
Other	31

Unweighted base: 69 individuals¹⁹

Table 4.3: Circumstances under which tax evasion would be unacceptable, 2011 (Individuals)²⁰

Circumstance	Percent of individuals
A person can afford to pay tax/is wealthy	37
Large amounts of money involved	19
Evasion activity is long term/regular	19
Depends on the type of evasion	10
Depends on a persons occupation	6
Other	37

Unweighted base: 367 individuals²¹

¹⁷ Responses for when tax evasion would be acceptable are not given for SMEs due to small base sizes.

¹⁸ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know and can't think of any.

¹⁹ Very few respondents stated tax evasion was acceptable or mostly acceptable therefore base sizes for responses are very low. These percentages should be treated with caution. Don't know responses and refusals are excluded.

²⁰ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know and can't think of any.

²¹ Very few respondents stated tax evasion was unacceptable or mostly unacceptable therefore base sizes for responses are very low. These percentages should be treated with caution. Don't know responses and refusals are excluded.

4.4 Acceptability of income tax evasion on cash earnings (individuals)

The academic literature suggests that taxpayer behaviour may be influenced by the perceived views of peers and society. Taxpayers who believe that others are compliant and do not perceive evasion to be acceptable may be more inclined to comply than those who believe that evasion is socially acceptable (Wenzel 2005). HMRC is interested in exploring this social norms aspect of tax compliance by testing if personal views towards tax evasion are influenced by other people's views of tax evasion. Therefore individuals were asked for other people's views on tax evasion of cash earnings as well as their own.

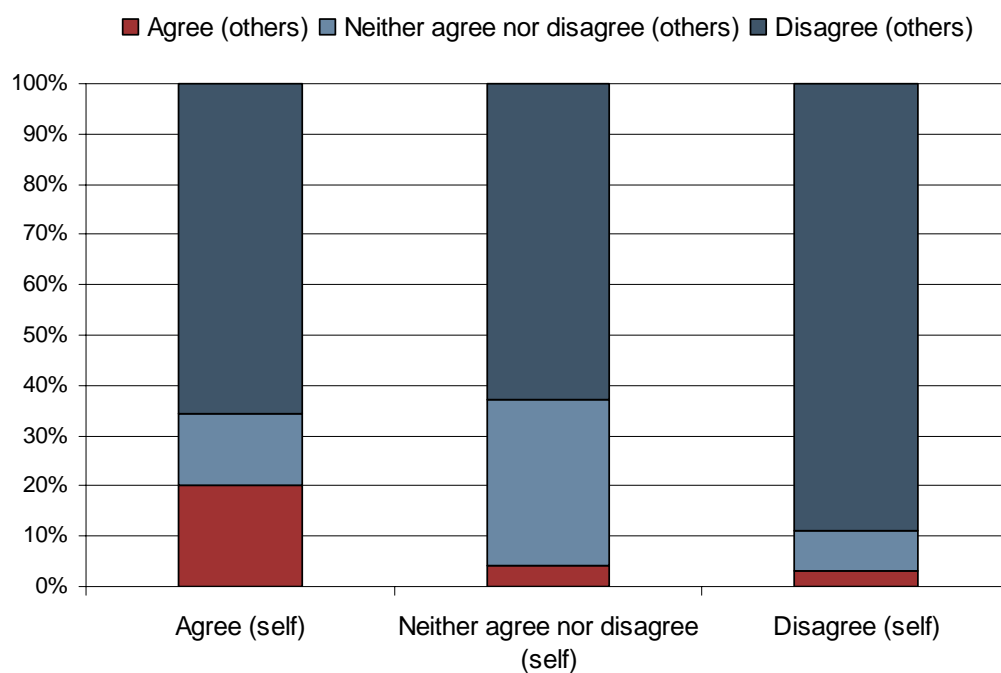
Almost a quarter (24 per cent) of **individuals**²² agreed that a lot of people they know think its okay not to pay tax on cash earnings. A further 21 per cent neither agreed nor disagreed and almost half (46 per cent) disagreed with the statement. Ten per cent of individuals did not know the answer to the question.

A smaller percentage (8 per cent) agreed that they personally thought it was okay to be paid in cash and to not declare it. A further 14 per cent neither agreed nor disagreed with this statement, while the majority (74 per cent) said that they did not think it was okay to be paid cash and not declare it on their tax return.

There is a significant association between perceptions that other people think tax evasion is acceptable and the belief that tax evasion is acceptable for oneself. Individuals stating they knew a lot of people who thought it was okay not to pay tax on cash earnings were twice as likely to state being paid in cash and not declaring it was okay. This was compared to those who said they did not know a lot of people who thought evading tax on cash earnings was okay (**Figure 4.5**).

²² These questions were only asked of individuals in 2011 but will be asked on the SME survey from 2012.

Figure 4.5: Association between others perceptions towards tax evasion and own perceptions, 2011 (individuals)²³



Unweighted base: 72 agree (others); 139 neither agree nor disagree (others); 725 disagree (others)

²³ The following statistical tests were applied to determine association: Chi Square: 127.047 (p<0.001); Cramer's V: 0.261

5. Perceived Chances of Detection

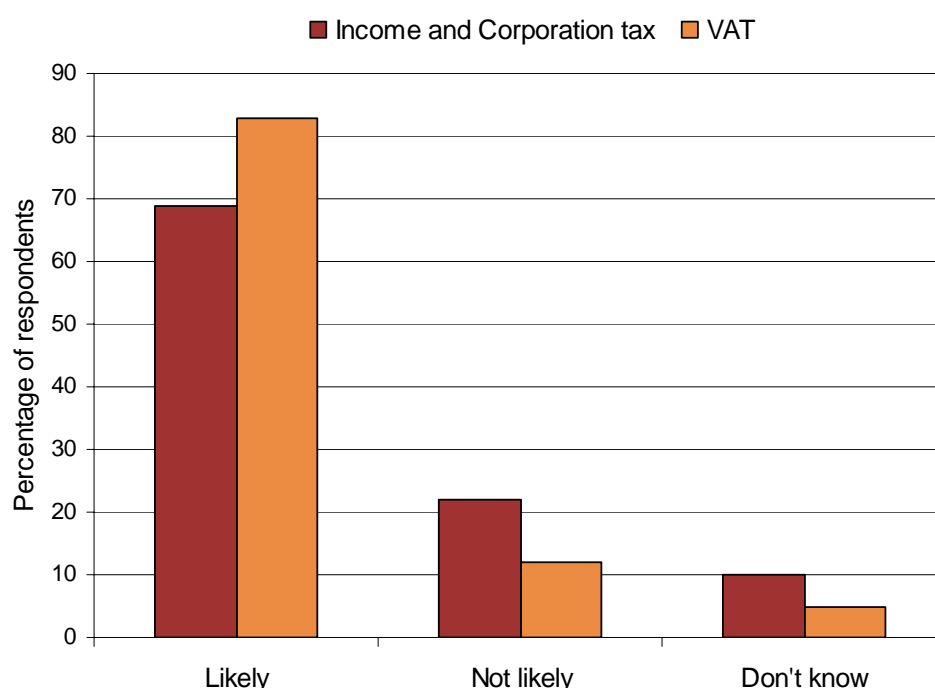
This section presents analysis of responses about individuals' perceptions of the likelihood of detection of non-compliance for income tax declarations and SMEs' perceptions of likelihood of detection for income or corporation tax and VAT declarations²⁴. HMRC is interested in how perceptions of being caught for evasion change over time, and the association between compliance effort and likelihood of detection risk for evasion.

5.1 Income and corporation tax

SMEs

Most SMEs felt it was likely that businesses evading tax would be caught. More than two in three (69 per cent) stated that it was likely or very likely that SMEs which regularly evaded paying income or corporation tax would be caught, compared to 22 per cent who felt it was unlikely or very unlikely. Approximately 10 per cent did not know whether or not it was likely a business regularly evading income or corporation tax would be caught (**Figure 5.1**).

Figure 5.1: Perceived likelihood of detection for SMEs regularly evading tax, 2011



Unweighted base: Corporation and Income Tax 1,005 SMEs; VAT 648 SMEs

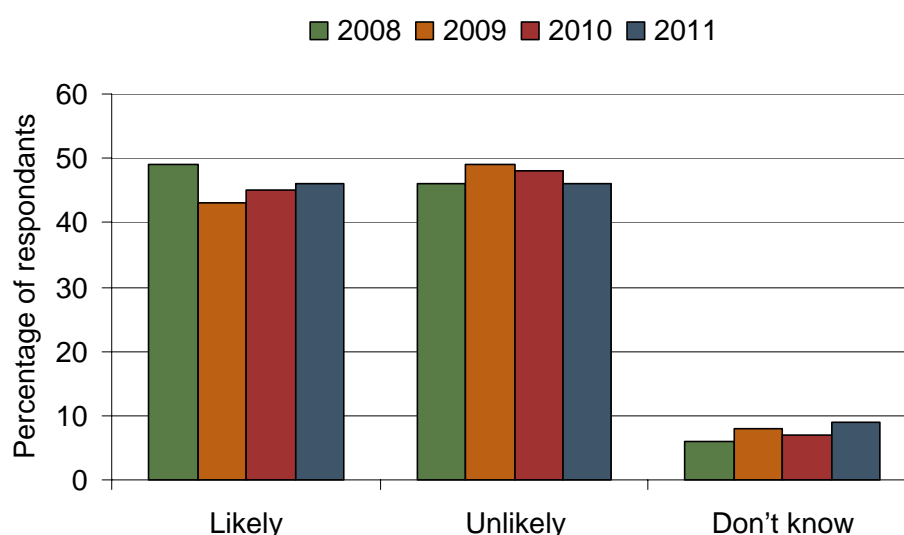
The vast majority of businesses also felt it was likely HMRC would find out if their business regularly under-declared its tax liability. Overall, 87 per cent said it was likely or very likely that regular under-declaration of liabilities would be detected by HMRC. This compares to 8 per cent who said such detection was unlikely or very unlikely. Four per cent did not know whether or not detection was likely.

²⁴ 648 of the SMEs were VAT registered and were therefore asked about their perceptions of the likelihood of detection for regular VAT non-compliance.

Individuals

Individuals were divided in their opinions as to whether regular income tax evaders were likely to be caught, with similar proportions of people saying that detection was likely and unlikely (46 per cent for both response categories). These results are similar to previous years (**Figure 5.2**).

Figure 5.2: Perceived likelihood of evaders being caught for regular tax evasion, 2008-2011 (individuals)



Unweighted base: 2,167 in 2008; 2,053 in 2009; 2,076 in 2010; 2,149 in 2011

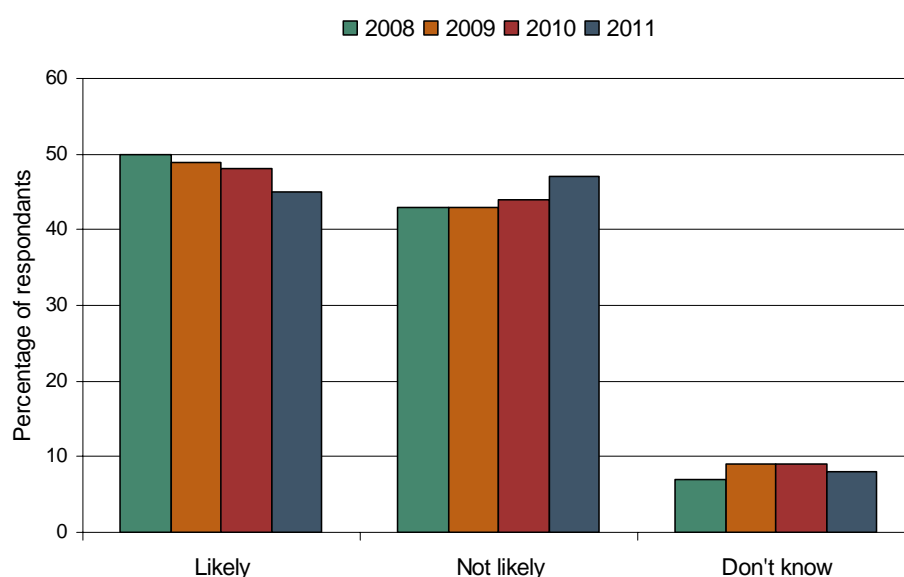
In addition to asking how likely respondents perceive the chances of detection to be for people in general, the CPS asks individuals whether it is likely or unlikely that they personally would be caught if they regularly did not declare cash income.

Opinions were divided about the likelihood of being caught personally for not declaring cash income on a regular basis. In 2011, 45 per cent stated it was likely that they personally would be caught if they regularly failed to declare cash income, but 47 per cent felt such detection was unlikely (**Figure 5.3**).

The proportion of individuals stating it is likely they would be caught for not declaring cash income has decreased significantly over time²⁵ (**Figure 5.3**).

²⁵ The proportion of individuals giving the 'likely' response in 2011 is significantly lower than in 2008 and 2009. The proportion of individuals who said that it is not likely they would be caught for evading tax on cash income has increased significantly from 43 per cent in 2008 to 47 per cent in 2011.

Figure 5.3: Perceived likelihood respondent will be caught for not declaring cash income, 2008-2011 (individuals)



Unweighted base: 2,167 in 2008; 2,054 in 2009; 2,076 in 2010; 2,149 in 2011

5.2 Perceived chances of detection for self and others

There is a statistically significant association between the perceived personal likelihood of detection for regular non-compliance, and the perceived likelihood of detection for others who frequently engage in evasion activities. This association can be found both among **SMEs (Figure 5.1)** and **individuals (Figure 5.2)**.

Table 5.1: Likelihood of being caught for regular tax evasion, 2011 (SMEs) ²⁶

% SMEs	Likely I would be caught	Not likely I would be caught	Total
Likely others would be caught	97	3	100
Not likely others would be caught	72	28	100
Total	91	9	100

Base (SME): 805 Likely I would be caught; 79 Not likely I would be caught

²⁶ Chi-square = 123.848 (p<0.001); Phi = 0.374

Table 5.2: Likelihood of being caught for regular tax evasion, 2011 (individuals)²⁷

% Individuals	Likely I would be caught	Not likely I would be caught	Total
Likely others would be caught	70	30	100
Not likely others would be caught	24	76	100
Total	47	53	100

Unweighted base (Individuals): 946 Likely I would be caught; 955 Not likely I would be caught

5.3 VAT registered businesses

As shown by **Figure 5.1**, of the 648 VAT-registered businesses in the sample, more than four out of five (83 per cent) stated that it was likely or very likely that **SMEs** regularly evading VAT would be caught. In contrast, 12 per cent of the 648 VAT registered businesses said it was unlikely or very unlikely that a SME regularly evading VAT would be caught with 5 per cent stating that they did not know.

The vast majority of the businesses that were VAT registered felt it was likely or very likely that HMRC would detect if their business regularly under-declared tax liability (91 per cent). This compared to 5 per cent who said detection was unlikely or very unlikely. A small number (4 per cent) did not know whether or not detection was likely.

5.4 HMRC effort and perceived likelihood of being caught

As part of the recent spending review activity, HMRC is interested in the perceptions held by SMEs and individuals around how much effort is being invested in detecting evasion and associated attitudes around the likelihood of being caught.

A larger proportion of **individuals** stating HMRC dealt more firmly with evaders than in the past felt it was likely individuals that evaded tax would get caught. This was compared to those that stated HMRC dealt less firmly with evaders than it used to²⁸ (**Figure 5.4**).

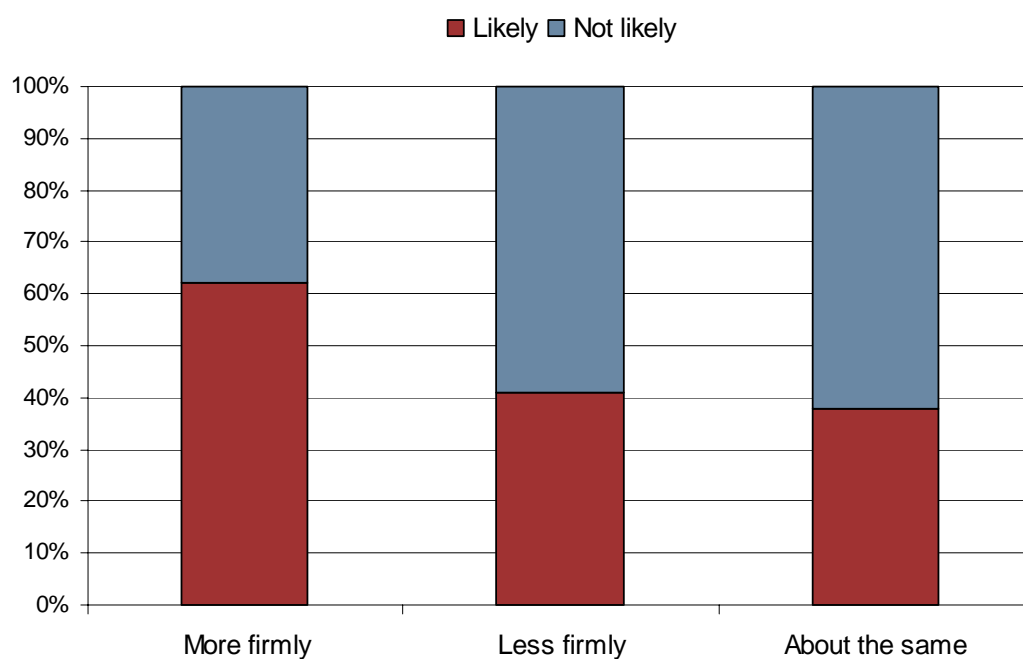
There is also an association between how firmly individuals believe HMRC deals with evaders compared to the past and the perceived likelihood of personally being caught for not declaring cash-in-hand work. A larger proportion of individuals that stated HMRC dealt more firmly with evaders stated it was likely they would get caught. This was compared to those that stated HMRC dealt less firmly with evaders²⁹.

²⁷ Chi-square = 427.044 (p<0.001); Phi = 0.474

²⁸ This association was not significant for SMEs

²⁹ Chi-square = 19.203 (p<0.001); Cramer's V = 0.160

Figure 5.4: Perception of how firmly HMRC deals with evaders compared to the past by perceived likelihood of being caught for regularly evading tax, 2011 (individuals)³⁰



Unweighted base: 370 likely; 387 unlikely

³⁰ Chi-square = 32.389 (p<0.001); Cramer's V = 0.207

6. Attitudes towards HMRC Sanctions

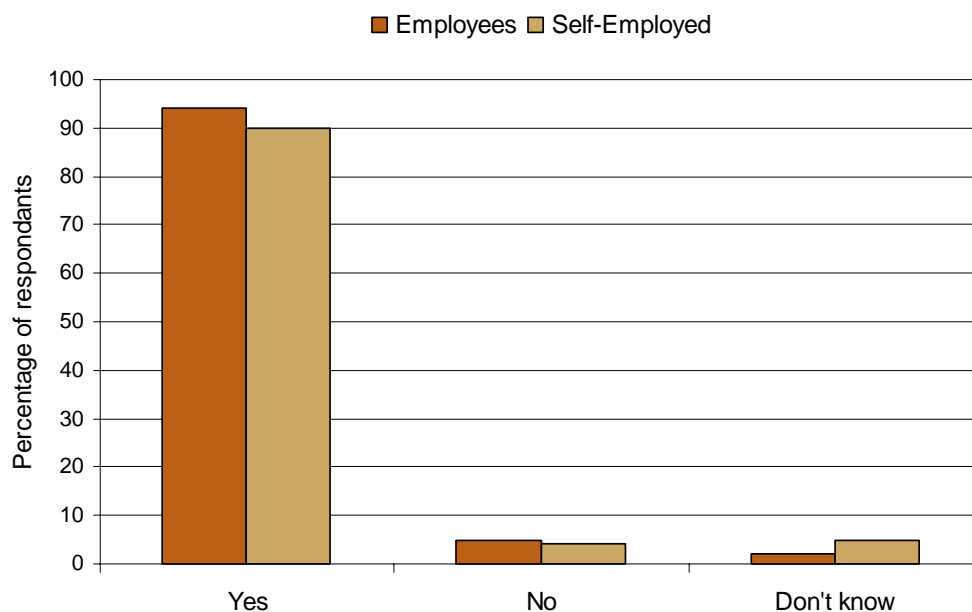
This section discusses attitudes towards HMRC sanctions for income and corporation tax evasion, which were asked of all the sampled businesses and individuals. For the 648 VAT registered companies, additional questions were asked to gauge attitudes towards sanctions for VAT evasion.

6.1 Awareness that tax evasion is a crime

In 2011, the majority of **individuals** (93 per cent) stated they were aware that evading tax was a criminal offence which could result in a criminal record or going to prison³¹. A small proportion stated they were not aware of this (4 per cent) with 2 per cent stating they did not know if they were aware tax evasion was a crime for which you could get a criminal record or go to prison.

- A significantly larger proportion of employees said they were aware tax evasion was a criminal offence for which you could get a criminal record or go to prison (94 per cent) compared to the self employed (90 per cent) (**Figure 6.1**).

Figure 6.1: Whether tax evasion is a criminal offence which could result in a criminal record or going to prison, 2011 (employees verses self employed)



Unweighted base: 891 employees; 637 self-employed

³¹ This question was not asked of SMEs in 2011 but will be asked in subsequent years.

6.2 Financial penalties for tax evasion

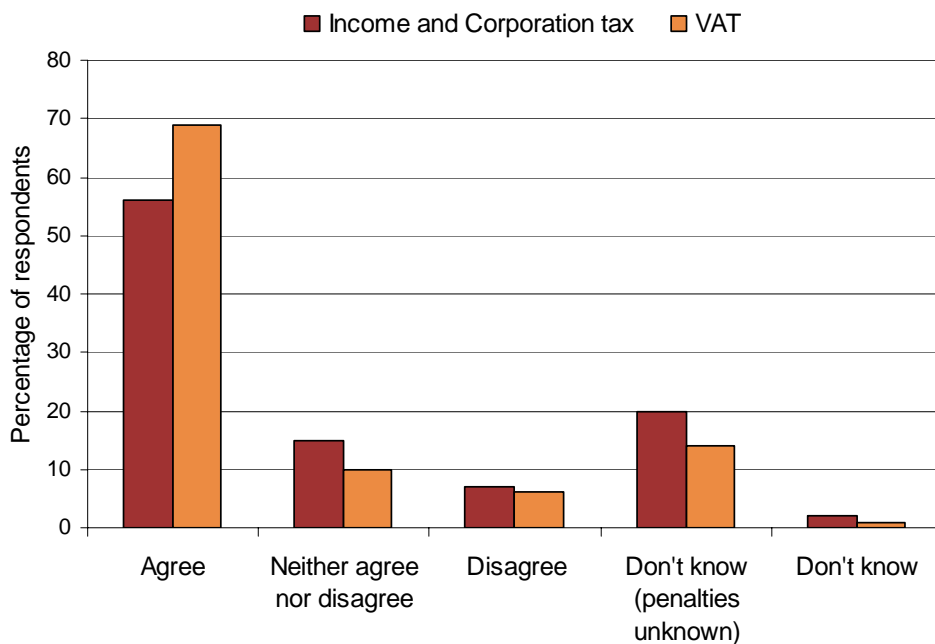
SMEs

More than half (56 per cent) of SMEs agreed that the financial penalties³² which could result if caught for evasion were a sufficient deterrent. A further 15 per cent of SMEs neither agreed nor disagreed with the statement with 7 per cent disagreeing with the statement. A significant proportion of the businesses (20 per cent) did not know whether the financial penalties were sufficient or not to act as deterrents because they were unaware of what penalties could be imposed. This is shown in **Figure 6.1** below.

The majority of the VAT registered businesses (69 per cent) agreed that the financial penalties imposed by HMRC for VAT evasion were sufficient to deter SMEs from evading VAT payments. A further 6 per cent disagreed with the statement, and 10 per cent neither agreed nor disagreed.

In 2011, 14 per cent of VAT registered SMEs said they did not know what the penalties for VAT evasion were with a further 1 per cent responding 'don't know' to the question for other reasons (**Figure 6.2**)

Figure 6.2: Whether financial penalties are sufficient to deter tax evasion, 2011 (SME)



Base: Corporation and Income Tax 1005 SMEs; VAT 648 SMEs

Individuals

Individuals were significantly less likely to agree than SMEs that financial penalties were sufficient to deter tax evaders. Almost a third, (31 per cent) agreed that the financial penalties for evasion were sufficient to deter potential tax evaders, whilst 29

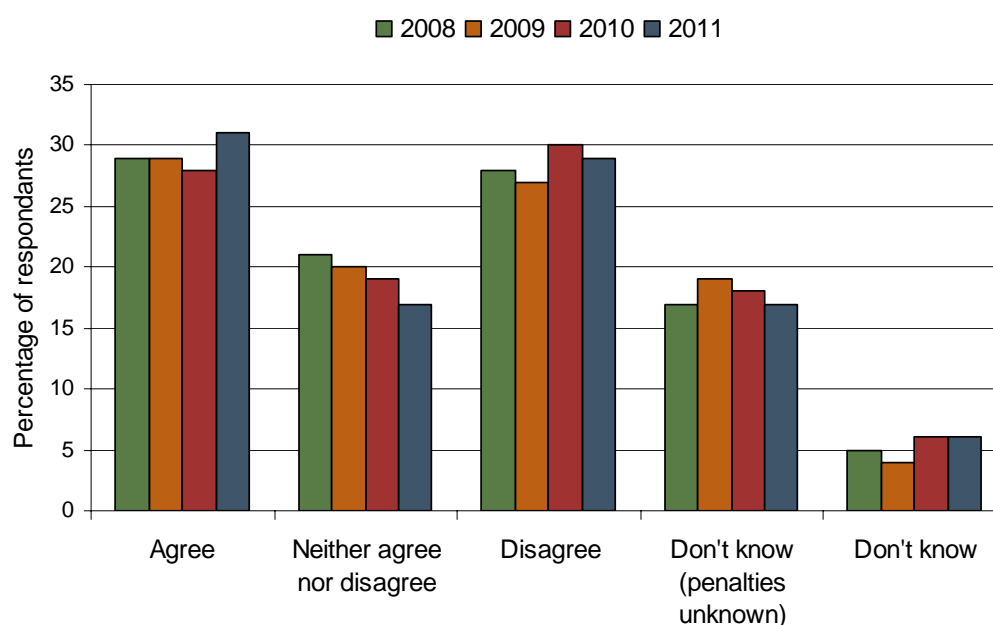
³² Qualitative research to test the CPS questions carried out by PFRC suggests that individuals view 'financial penalties' as the fines which can be imposed by HMRC or the courts following a successful prosecution for income tax evasion. Individuals also identify fines for late submission of SA forms or late payment as financial penalties.

per cent disagreed. A further 17 per cent neither agreed nor disagreed with the statement and 17 per cent stated they did not know what the penalties were.

There has been no significant change in the perception of financial penalties being sufficient to deter tax evasion between 2008 and 2011 (**Figure 6.3**).

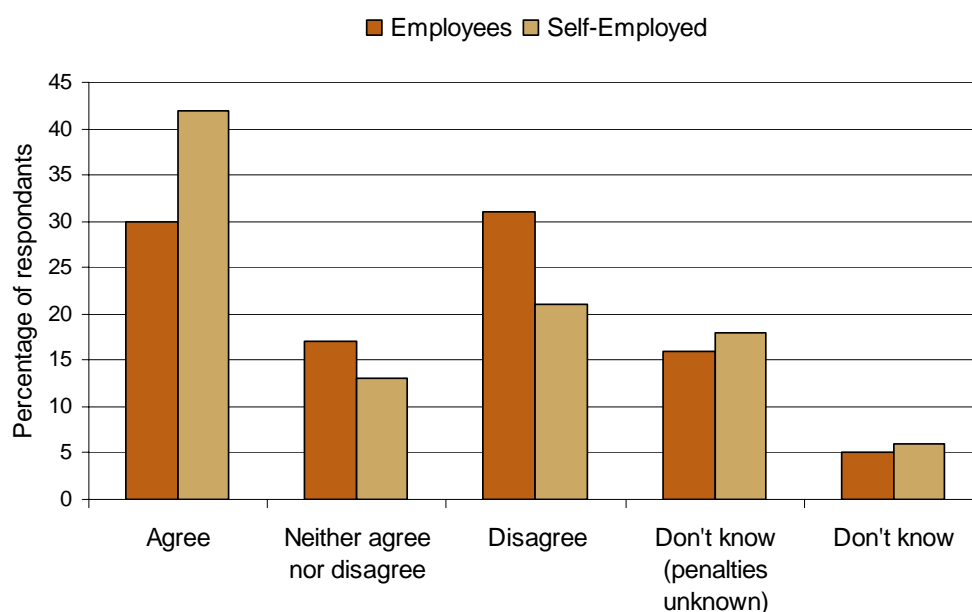
Self-employed individuals were more likely to state that the financial penalties associated with detection were sufficient deterrents than employees. In 2011, 42 per cent of self employed individuals felt that the financial penalties were sufficient to deter evasion compared to 30 per cent of employees. This may be due to the fact self-employed individuals have a greater interaction with the tax system and therefore more awareness of financial penalties (**Figure 6.4**).

Figure 6.3: Whether agree financial penalties are sufficient to deter regular tax evasion, 2008-2011



Unweighted base: 2,167 in 2008; 2,056 in 2009; 2,071 in 2010; 2,149 in 2011

Figure 6.4: Whether agree financial penalties are sufficient to deter regular tax evasion, 2011 (employees versus self-employed)



Unweighted base: 1,806 employees; 758 self-employed

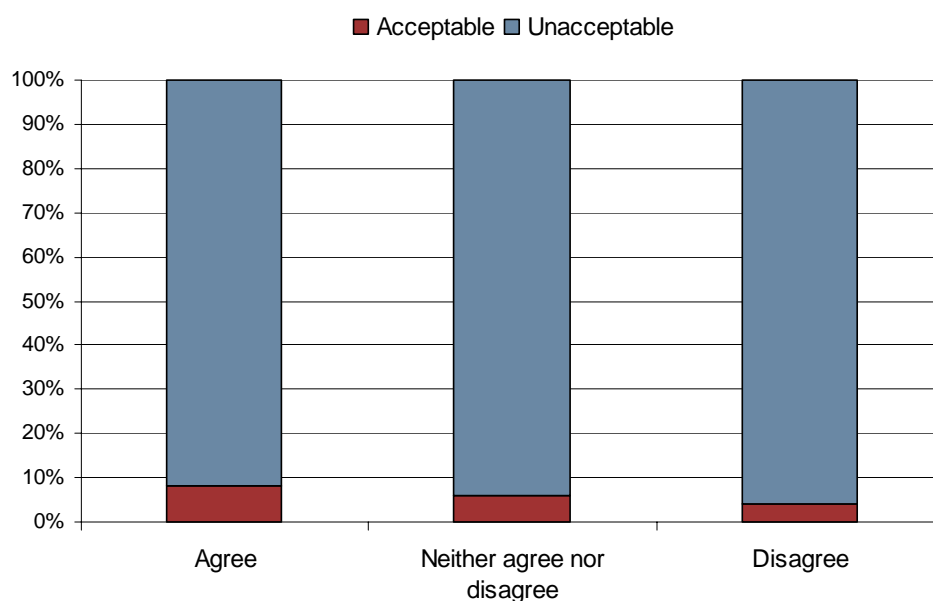
6.3 Sanctions and acceptability of tax evasion

There is some suggestion in the academic literature that economic deterrents such as fines affect perceptions about the acceptability of evasion.

For **individuals**, there is a significant association between the perception that financial penalties are sufficient to deter tax evasion and the acceptability of evasion³³. Those that agree financial penalties are sufficient to deter tax evasion are almost twice as likely to perceive tax evasion to be acceptable compared to those that disagree financial penalties are sufficient to deter tax evasion (**Figure 6.5**).

³³ This association was not significant for SMEs

Figure 6.5: Perception that financial penalties are sufficient to deter tax evasion by perceived acceptability of evasion, 2011 (Individuals)³⁴



Unweighted base: 95 acceptable; 1,538 unacceptable

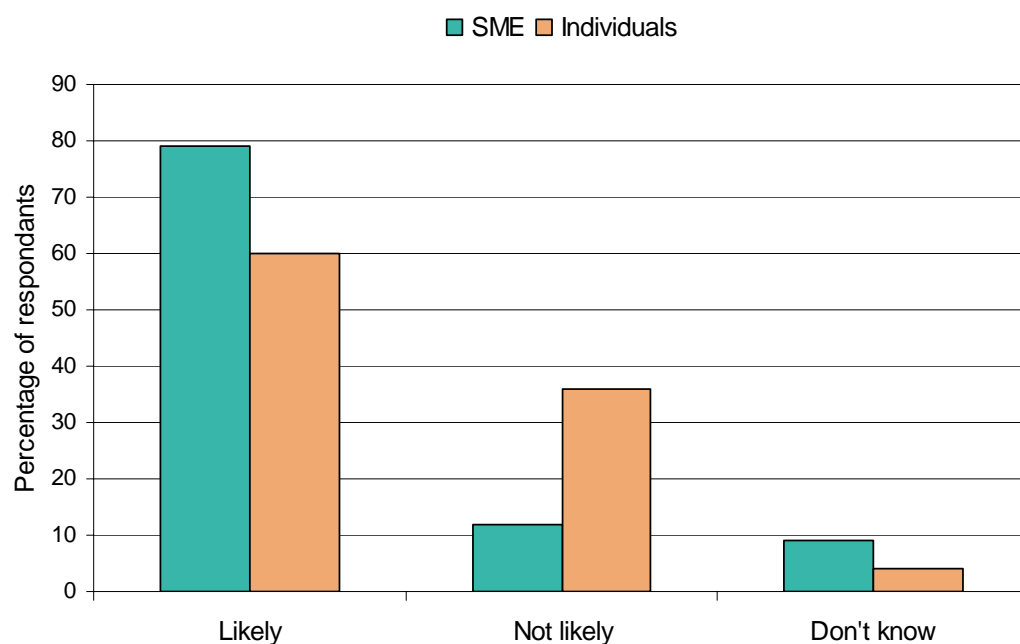
6.4 Prosecutions for tax evasion

The majority of **SMEs** (79 per cent) said that it was likely that SMEs evading tax would be prosecuted with a further 12 per cent stating that prosecution was not likely.

In comparison, significantly fewer **individuals** said it was likely that people evading income tax would be prosecuted (60 per cent). A further 36 per cent said this was not likely (**Figure 6.6**).

³⁴ Chi Square: 8.471 (p<0.05); Cramer's V: 0.072

Figure 6.6: Perceived likelihood of prosecution for those regularly evading income/corporation tax, 2011 (SME versus Individuals)³⁵



Base: 1,005 SMEs

Unweighted base: 975 individuals

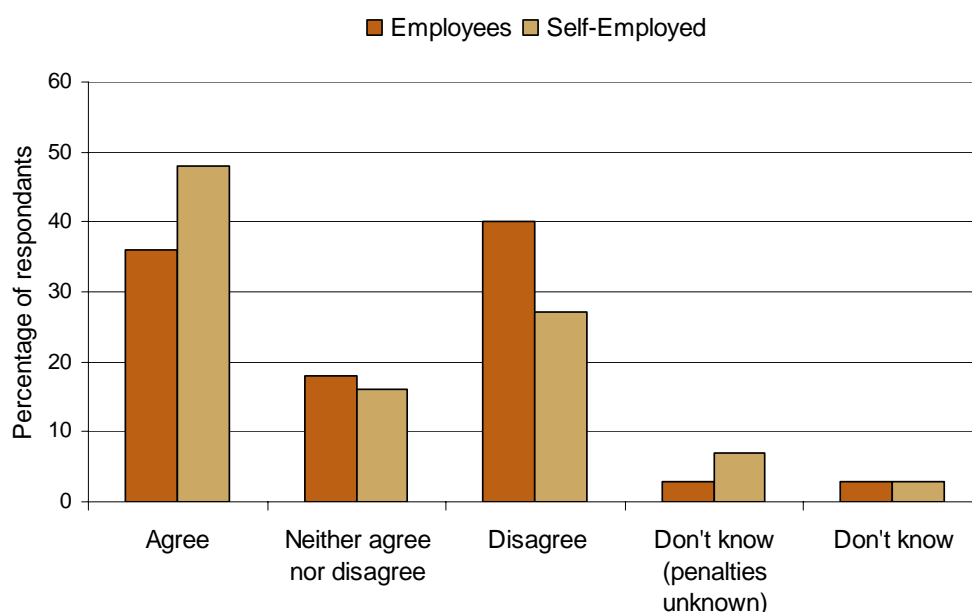
Opinion among **individuals** was divided as to whether they felt the chances of being prosecuted by HMRC were sufficient to deter people from regularly evading tax³⁶. Thirty six per cent said that they agreed the chances of being prosecuted by HMRC were sufficient to deter people from regularly evading tax with 37 per cent disagreeing with the statement. A further 18 per cent neither agreed nor disagreed that the chance of prosecution was sufficient to deter regular evasion. A small proportion stated they did not know (3 per cent) with a further 5 per cent stating they did not know because they did not know what the penalties were.

There was a significant difference in the responses given by employees and the self-employed about the extent to which criminal prosecutions would deter regular evasion. A larger proportion of the self-employed agreed that the chances of being prosecuted were sufficient to deter people from regularly evading tax than employees (48 per cent versus 36 per cent). Again, this may be due to the greater interaction self-employed individuals have with the tax system compared to employees (**Figure 6.7**).

³⁵ SMEs were asked about income and corporation tax whilst individuals were asked about income tax only.

³⁶ This question was not asked of SMEs in 2011 but will be asked in subsequent years.

Figure 6.7: Whether the chances of being prosecuted are sufficient to deter income tax evasion, 2011 (employees versus self-employed)



Unweighted base: 889 employees; 631 self-employed

6.5 HMRC activity and effort

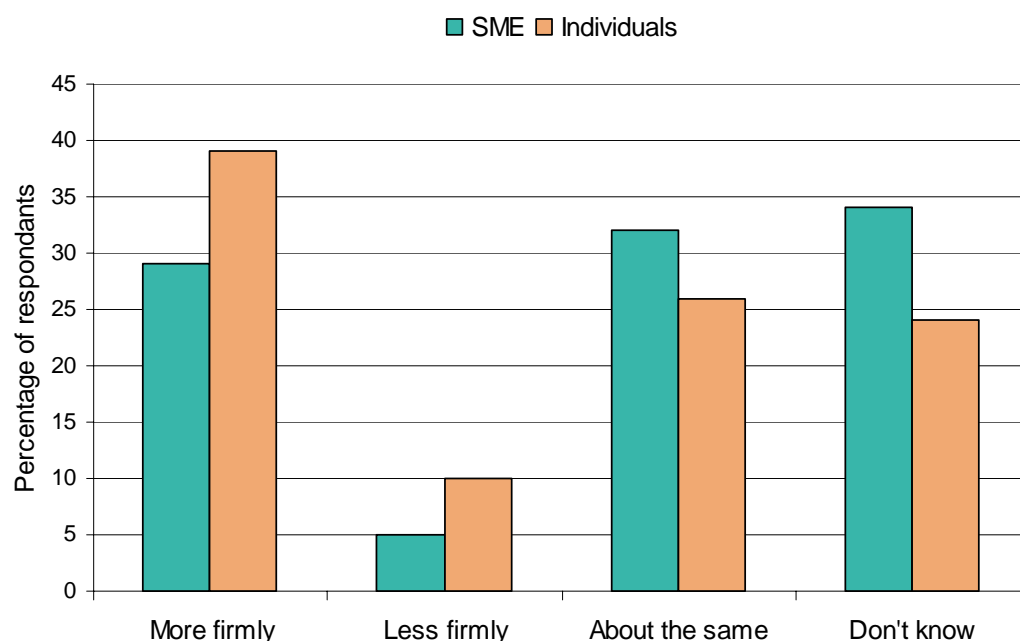
Firmness of HMRC Activity: SMEs and Individuals

SMEs and individuals³⁷ were asked whether they felt HMRC deals more firmly or less firmly with businesses/individuals that do not pay the correct amount of tax than the Department did a few years ago. A significantly larger proportion of **individuals** said that HMRC deals more firmly with evaders now compared to **SMEs** (39 per cent versus 29 per cent). A significantly larger proportion of **SMEs** stated HMRC treats evaders the same as it did in the past compared to **individuals** (32 per cent versus 26 per cent) (**Figure 6.8**).

A significant proportion of **SMEs** (34 per cent) and **individuals** (24 per cent) did not know whether HMRC dealt more or less firmly with those paying the incorrect amount of tax compared to a few years ago.

³⁷ This question was asked in October only

Figure 6.8: Whether HMRC deals more firmly or less firmly with SME/taxpayers that don't pay the correct amount of tax than it did a few years ago, 2011, (SME Vs. Individuals)



Base: 1,004 SMEs

Unweighted base: 1,048 individuals

HMRC Effort: SMEs and Individuals

SMEs and individuals were also asked how much effort they thought HMRC was putting into reducing tax evasion.

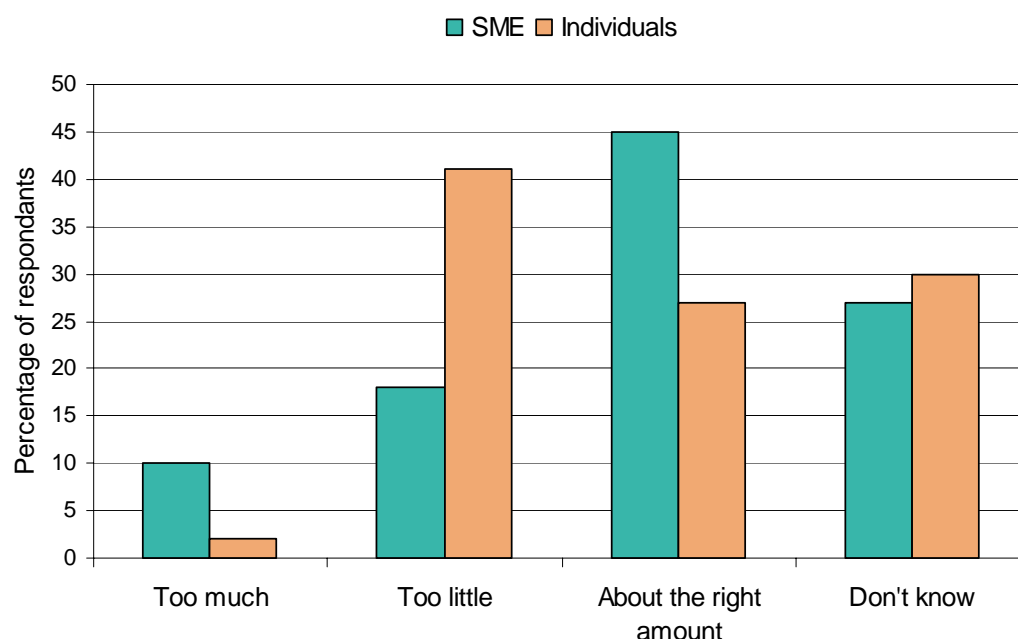
Overall, 10 per cent of **SMEs** felt that HMRC was doing too much to reduce income and corporation tax evasion, while 18 per cent felt HMRC was doing too little. A further 45 per cent stated they thought HMRC was doing about the right amount.

The qualitative study suggests that some businesses believe that focussing resources on SMEs to increase tax revenues was counter productive as it yielded little additional revenue while driving some SMEs out of business. It was felt that time and resource would be better spent pursuing large businesses and multinationals.

A large proportion of SMEs (27 per cent) did not know how much effort HMRC was putting into reducing income and corporate tax evasion among SME. This uncertainty around the effort HMRC puts into tax evasion was also visible in the qualitative study commissioned by HMRC, with respondents showing low levels of awareness of HMRC initiatives aimed at tax evasion.

The responses from **individuals** differed significantly, with 2 per cent of individuals stating HMRC was putting too much effort into reducing income tax evasion. A large proportion (41 per cent) stated HMRC was putting too little effort with a further 27 per cent stating HMRC was putting in the right amount of effort into reducing income tax evasion. A similar proportion to the SMEs did not know how much effort HMRC was putting into reducing income tax evasion (**Figure 6.9**).

Figure 6.9: How much effort HMRC is putting into reducing income/corporation tax evasion, 2011, (SME verses. Individuals)³⁸



Base: 1,001 SMEs

Unweighted base: 1,048 individuals

Awareness of prosecutions

In 2011, 25 per cent of **SMEs** stated they had heard of a business which had been prosecuted by HMRC for evading tax. Seventy-four per cent had not heard of a business that had been prosecuted, and a further 1 per cent stated they did not know whether they had heard of any business being prosecuted by HMRC.

In-depth interviews with SMEs suggested that most awareness of businesses being prosecuted was predominantly for high profile cases involving large companies and evasion of significant sums³⁹. Only a small minority of interviewees felt it was likely that a SME regularly evading tax would be identified and prosecuted. Some respondents also stated they felt other businesses would not be deterred by having heard of prosecutions for tax evasion unless the examples they saw were of SMEs similar to their own businesses. This was based on 40 depth interviews, of which few respondents had stated they were aware of prosecutions in the survey. In comparison the survey found 79 per cent of SMEs felt it was likely that SMEs evading tax would be prosecuted

Analysis of survey data showed no evidence of an association between having heard of a business which had been prosecuted and the perceived likelihood of being prosecuted for tax evasion.

The level of awareness of prosecutions was similar among **individuals**, with 24 per cent stating they had heard of someone who had been prosecuted for tax evasion.

³⁸ SMEs were asked about income and corporation tax whilst individuals were asked about income tax only.

³⁹ Respondent's answers in the survey were followed up in more detail in the qualitative interviews.

Seventy-five per cent of individuals had not heard of a business that had been prosecuted.

For **individuals**, the main source for hearing about prosecutions was the television or newspapers (68 per cent) followed by family, friends or word of mouth (18 per cent). A further 14 per cent heard about prosecutions for tax evasion through their work or job. Of the 230 individuals that gave a response, 10 per cent stated they had known someone personally who had been prosecuted⁴⁰ (**Table 6.1**).

Table 6.1: Sources for hearing about prosecutions, 2011 (individuals)⁴¹

Source	Percent of individuals
TV/papers	67
Family/friends/word-of-mouth	18
Through work/job	14
Know someone personally	10
Aware people can be prosecuted, can't think of a specific case	3
Social networking sites	1
Others	1

Unweighted Base: 230⁴²

6.6 HMRC activity and perceived likelihood of being caught

The data suggests there is a relationship between the perceived effort HMRC puts into compliance activity and the perceived likelihood of being caught. A larger proportion of **SMEs** which perceived HMRC to be doing too much or the right amount to tackle tax evasion said that evaders were likely to be caught compared to those which perceived HMRC to be doing too little (**Figure 6.10**).

There is also evidence of this relationship between perceptions of HMRC activity and the likelihood of being caught among **Individuals**. People who perceived HMRC to be doing too much or the right amount to tackle tax evasion were twice as likely to state that evaders would be caught compared to those stating HMRC does too little⁴³.

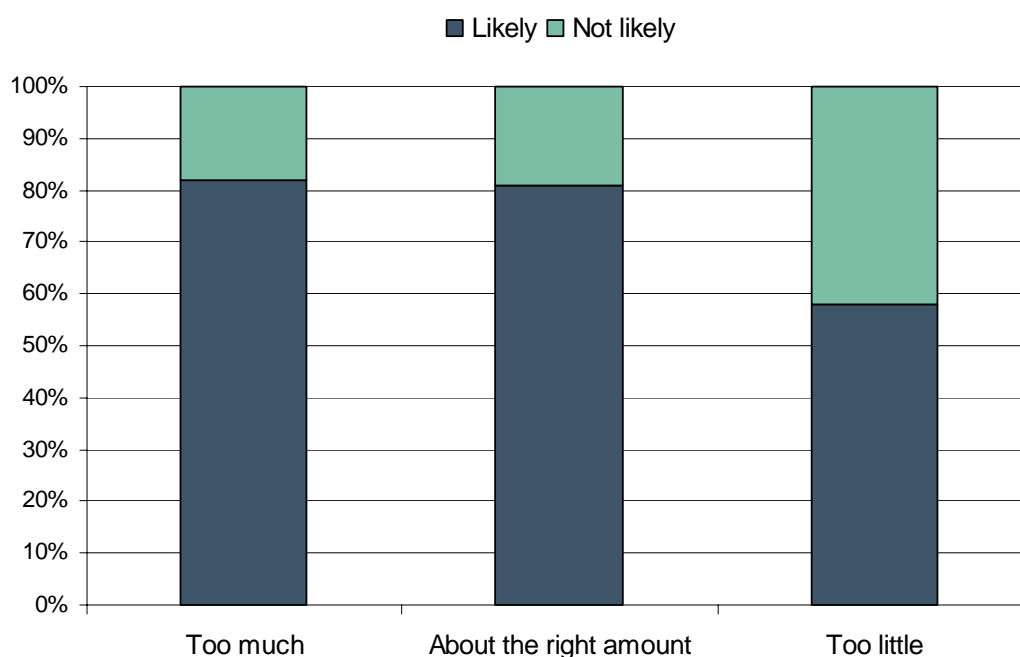
⁴⁰ This question was not asked of SMEs in 2011 but will be asked in subsequent years.

⁴¹ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know, and can't think of any.

⁴² Only data from October is used, as individuals were not asked this question in September

⁴³ Chi Square: 71.626 (p<0.001); Cramer's V: 0.319

Figure 6.10: Perceived effort HMRC put into catching tax evaders by perceived likelihood of other evaders caught, 2011 (SME)⁴⁴



Base: 524 likely; 169 not likely

There is also evidence of an association between the perceived effort which HMRC is putting into tax evasion and beliefs about the likelihood of being caught personally for evading tax among **individuals**. A larger proportion of individuals who perceived HMRC to be doing too much or the right amount to tackle tax evasion stated that they were likely to be caught compared to those who perceive HMRC to be doing too little⁴⁵.

⁴⁴ Chi Square: 38.429 (p<0.001); Cramer's V: 0.235

⁴⁵ Chi Square: 19.633 (p<0.001); Cramer's V: 0.168

6.7 Consequences for tax evasion

SMEs and individuals were asked what consequences could result if they were caught evading income or corporation tax. This was to gauge awareness of different HMRC sanctions. Respondents could give more than one answer to the question⁴⁶.

SMEs

A total of 83 per cent of businesses could name a consequence for evading tax. Overall, 15 per cent of SMEs said that they could not think of or did not know another consequence and 1 per cent said there were no consequences.

Almost two thirds of the SMEs which could name a consequence mentioned that financial penalties (65 per cent) could result in detection of tax evasion. There is some evidence that the possibility of being caught and prosecuted also resonated as potential consequences if caught for evasion among businesses. In 2011, 38 per cent mentioned the possibility of a prison sentence and 2 per cent stated that a criminal prosecution could result from evasion (**Table 6.2**).

Table 6.2: Consequences for income/corporation tax evasion 2011 (SME)⁴⁷

Consequence	Percent of SMEs
Financial penalties	65
Prison sentence	38
Loss of reputation among customers, suppliers and other businesses	23
Would go out of business/cease to trade	21
Bad publicity	14
Negative impact on ability to expand business or start up another business	8
Others ⁴⁸	6
Kept under scrutiny by HMRC	2
Criminal prosecution	2
Negative impact on credit records	2
Difficult to find suppliers	1
Have to pay it all back	1

Base: 839 SMEs

Individuals

The most common cited consequences of tax evasion by individuals were also financial penalties (60 per cent) and prison sentences (60 per cent). A further 31 per cent of individuals stated a criminal record could result from being caught for tax evasion (**Table 6.3**).

⁴⁶ See Section 2.5 for further details about how these data has been analysed.

⁴⁷ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know, can't think of any and no consequences.

⁴⁸ Others includes all responses which were mentioned by less than 1 per cent of the sample

Table 6.3: Consequences for income tax evasion 2011 (individuals)⁴⁹

Consequence	Percent of individuals
Financial penalties	60
Prison sentence	60
Criminal record	31
Social stigma	18
Embarrassment	17
Financial problems	12
Negative impact on job prospects	11
Negative impact on credit record	8
Negative impact on ability to start up in business	7
Others ⁵⁰	8

Unweighted base: 856⁵¹

6.8 Reasons for complying

SMEs and individuals were asked the main reason they would not evade income or corporation tax.

Table 6.4: Reasons why you would not evade income/corporation tax, 2011 (SME and individuals)

Consequence	Percentage of SMEs	Percentage of Individuals
Because of the penalties or consequences I could face	24	11
Because it is immoral	13	17
Because it is illegal	16	37
The probability or likelihood of being caught	11	9
Because it is unfair to other taxpayers	8	17
Honest/ethical organisation	13	-
No reason why I wouldn't regularly evade tax	4	0
No opportunity to/cannot evade tax	-	2
Others ⁵²	10	8

Base: Individuals 985⁵³; SMEs 2020⁵⁴

⁴⁹ Respondents could give multiple answers to this question. Percentages therefore do not sum to 100 and should not be combined. Responses exclude those answering don't know, can't think of any and no consequences.

⁵⁰ Others includes all responses which were mentioned by less than 1 per cent of the sample, except where the response was pre-coded, supplied by HMRC as a particular consequence of interest, such as difficulty in finding suppliers.

⁵¹ Only responses from the October module were used to calculate percentages due to a change in wording of the question compared to September.

⁵² Others includes all responses which were mentioned by less than 2 per cent of the sample.

⁵³ Excludes 20 SMEs who refused to answer or answered 'don't know' to this question.

⁵⁴ Excludes 130 individuals who refused to answer or answered 'don't know' to this question.

Extrinsic motivators⁵⁵ were frequently mentioned as reasons why the sampled businesses and individuals would not evade tax. Among the **SMEs** which gave reasons for not evading tax, 23 per cent said they would comply because of the penalties or consequences which could follow evasion and 11 per cent said they would not evade tax because of the probability of being caught. This compares to 10 per cent of **individuals** who stated they would not evade due to the penalties or consequences which could follow evasion and 8 per cent said they would not evade tax because of the probability of being caught (**Table 6.4**).

Among the intrinsic motivators for paying tax among **SMEs**, 13 per cent said they would not evade tax because to do so would be immoral and 16 per cent stated that they would not evade tax because it was illegal. A further 8 per cent of SMEs said tax evasion was unfair and 13 per cent said they would not evade tax because they were honest. In comparison, 17 per cent of **individuals** said they would not evade tax because it would be immoral and 37 per cent stated they would not evade because it was illegal. A further 17 per cent said it would be unfair to other taxpayers (**Table 6.4**).

⁵⁵ Extrinsic motivators are drivers which are imposed on the individual or organisation which can change their behaviour. These include fines and other penalties such as criminal prosecution. Intrinsic motivators are internal to the individual or organisation, and relate to identity. They include the desire to satisfy conscience.

References

Alm, J. et al (1992), 'Estimating the Determinants of Taxpayer Compliance with Experimental Data', *National Tax Journal*, 45 (1), pp 107-114

Wenzel, M. (2005), 'Misperceptions of Social Norms about Tax Compliance: From Theory to Intervention', *Journal of Economic Psychology*, 26, pp 862-883

Appendix A: Survey Questions 2011

A.1 Introduction

This appendix presents the main CPS questions for 2011 for individuals and SMEs. Not all questions were asked in both surveys. There are also some question wording differences between the individuals and SME survey.

Some question wording was changed for the individual's survey compared to previous years, along with the addition of new questions. These changes were applied to October modules onwards, with the September module remaining the same as previous years. This was to allow HMRC to detect any significant changes as a result of survey change. The questions presented below are those asked in October 2011 to March 2012. The September module questions can be found in the appendix of the 2008-2010 CPS report of individuals. Where question wording has changed from previous years, this has been indicated in bold.

The data collected are presented in Appendix B.

A.2 Survey Format and Questions – Individuals

CPS individuals survey questions were consistent between 2010 and September 2011. However, questions were added and some slight wording changes were introduced to Opinion Survey modules running from October 2011 to March 2012. This was to check if changes in survey responses occurred as a result of adding questions, to ordering difference in questions and slight wording change⁵⁶. Results for individuals use combined data from September and October modules, unless otherwise stated.

Open questions

Five CPS questions on the Individuals survey and four on the SME survey are open questions where respondents volunteer an answer rather than choose from a series of available options. These questions use 'pre-codes' where interviewers classify participants' statements into a predefined list of codes or categories rather than record verbatim what has been said. If respondents' answers did not fit into one of these 'pre-codes', their full responses to the questions were recorded.

These questions asked:

- What penalties, other than financial, individuals who are caught for income tax evasion may face;
- Why the respondent does not evade income tax;
- In which circumstances would tax evasion be acceptable;
- In which circumstances would tax evasion be unacceptable;
- Where the respondent heard about prosecutions for tax evasion.

For these questions, the open responses were checked. Where answers could appropriately be classified into one of the predefined lists of categories, this correction was made.

⁵⁶ Analysis was carried out to look at differences in responses between the September and October 12 data. The close similarity in the responses suggests the September and October module can be combined for analysis.

Introduction 1

The next set of questions are about tax compliance. The questions are being asked on behalf of HM Revenue and Customs.

I would like to remind you that all of your responses will be treated as confidential and not attributed to you.

Question 1 (MBQ_7)

Please tell me whether you agree or disagree with the following statement:

The level of income tax I pay is generally fair.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 2 (MBQ_8)

As you may know, HM Revenue and Customs (formed by the merger of the Inland Revenue and HM Customs and Excise) is the government agency that is responsible for collecting taxes. Please tell me whether you agree or disagree with the following statement:

HM Revenue and Customs treats me fairly in my dealings with them.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 3 (MBQ_9)

Can I check, did you submit a self assessment tax return (an income tax return) in the last year?

Please prompt.

- (1) Yes, I submitted a tax return myself
- (2) Yes, but an accountant/adviser/agent submitted it on my behalf
- (3) No, I did not submit a tax return, but I should have
- (4) No, I did not submit a tax return as I didn't need to

Question 4 (MBQ_10) – asked if respondent answered (1) to Question 3

Thinking about the amount of time and effort you personally spent completing your income tax return or self assessment form, would you say this was...

Running prompt

- (1) reasonable,
- (2) neither reasonable nor unreasonable,
- (3) or unreasonable?
- (4) Don't know (Spontaneous only)

Question 5 (MBQ_11) – asked if respondent answered (2) to Question 3

Thinking about the amount of time and effort you personally spent providing the information required by the person who completed your income tax return or self assessment form, would you say this was...

Running prompt

- (1) reasonable,
- (2) neither reasonable nor unreasonable,
- (3) or unreasonable?
- (4) Don't know (Spontaneous only)

Introduction 2

The next questions are about income tax evasion. By income tax evasion, we mean deliberately not declaring all the income that should be declared for tax purposes. For example, if someone works cash-in-hand and does not declare this money for tax purposes.

Question 6 (MBQ_12)

In your view, do you think that income tax evasion is...

Running prompt

- (1) a major problem,
- (2) a moderate problem,
- (3) a minor problem,
- (4) or not a problem at all?
- (5) Don't know (Spontaneous only)

Question 7 (MBQ_N1)

In your view, do you think HM Revenue and Customs is currently putting too much, too little or about the right amount of effort into reducing income tax evasion?

Running prompt

- (1) Too much
- (2) Too little
- (3) About the right amount
- (4) Don't know (Spontaneous only)

Question 8 (MBQ_13)

How likely would you say it is for people who regularly evade paying income tax to get caught?

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (Spontaneous only)

Question 9 (MBQ_14)

Suppose you regularly did some cash-in-hand work and did not declare this money for tax purposes. How likely do you think it is that HM Revenue and Customs would find out about this?

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (Spontaneous only)

Question 10 (MBQ_N2)

Please tell me to what extent you agree or disagree with the following statement.

A lot of people I know think its okay not to pay tax on cash earnings

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 11 (MBQ_N3)

Please tell me to what extent you agree or disagree with the following statement.

I think it's okay being paid in cash for a job and then not declaring all of it on you tax return

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 12 (MBQ_N4)

Do you think that HM revenue and Customs deals more firmly now with taxpayers who do not pay the correct amount of tax than it did in the past?

- (1) More firmly
- (2) Less firmly
- (3) About the same
- (4) Don't know (Spontaneous only)

Question 13 (MBQ_16)

I'm going to read out a statement and I would like you to tell me whether you agree or disagree with it.

The financial penalties HM Revenue and Customs can impose are sufficient to deter people from regularly evading income tax?

If the respondent just states that they do not know, clarify whether they do not know because they don't know the penalties or do not know for any other reason and then code the right option.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know - other reason (Spontaneous only)
- (7) Don't know because don't know penalties (Spontaneous only)

Question 14 (MBQ_17M)

What are the possible consequences for people caught evading income tax, especially where it becomes public knowledge?

Do not prompt on response options. Record spontaneous answers against response options.

Code all that apply

- (1) Social stigma
- (2) Embarrassment
- (3) Negative impact on job prospects
- (4) Negative impact on credit record
- (5) Negative impact on ability to start up in business
- (6) Financial penalties
- (7) Financial problems
- (8) Criminal record
- (9) Prison sentence
- (10) No consequences
- (11) Other (Please Specify)
- (12) Don't know/ Can't think of any

Question 15 Specify (MBQ_Spec1)

Please specify other consequence(s) for people caught evading income tax

Please write in all other responses.

Collected as text data.

Question 16 (MBQ_19)

Please tell me which of the four statements comes closest to your own views about income tax evasion.

Please record respondent's own view rather than what they think the society believes.

- (1) It is always acceptable
- (2) It is mostly acceptable (but depends on the circumstances)
- (3) It is mostly unacceptable (but depends on the circumstances)
- (4) It is always unacceptable
- (5) None of these
- (6) Don't know (Spontaneous only)

Question 17 (MBQ_19bM)

Can you tell me about the circumstances when you think income tax evasion would be acceptable? – *asked if respondent answers (2) to Question 12*

Please note tax evasion is defined by HMRC as a deliberate activity; therefore it cannot be coded as accidental.

Do not prompt on response options. Record spontaneous answers against response options.

Code all that apply

- (1) When a person cannot afford to pay tax/financial hardship
- (2) When small amounts of money are involved
- (3) When the evasion activity is short term/a one off
- (4) Depends on a person's occupation
- (5) When a person is disadvantaged or vulnerable (e.g. elderly or disabled)
- (6) When taxes are unfair or unreasonable
- (7) Other (please specify)

Question 18 (MBQ_19cM)

Can you tell me about the circumstances when you think income tax evasion would be unacceptable? – asked if respondent answers (3) to Question 12

Please note tax evasion is defined by HMRC as a deliberate activity; therefore it cannot be coded as accidental.

Do not prompt on response options. Record spontaneous answers against response options.

Code all that apply

- (1) When a person can afford to pay tax/is wealthy
- (2) When the amount of money is large
- (3) When the evasion activity is long term/regular
- (4) Depends on a person's occupation
- (5) Depends on the type of evasion
- (6) Other (please specify)

Question 19 Specify (MBQ_19Spec)

Can you tell me about the other circumstances when you think income tax evasion would be acceptable? – asked if respondent answers (2) to Question 12

OR

Can you tell me about the other circumstances when you think income tax evasion would be unacceptable? – asked if respondent answers (3) to Question 12

Collected as text data

Question 20 (MBQ_20)

And can you tell me the main reason why you wouldn't regularly evade income tax?

Do not read out but prompt for one main reason if necessary.

- (1) Because it's illegal
- (2) Because of the penalties/consequences I could face
- (3) Because it is unfair to other taxpayers
- (4) Because it is immoral
- (5) The probability/likelihood of being caught
- (6) Other (Please specify)
- (7) Don't know

Question 21 Specify (MBQ_Spec2) – asked if respondent answered (6) to Question 13

Please specify other reason(s) why you wouldn't regularly evade income tax

Collected as text data.

Introduction 3

The next questions are about penalties for tax evasion.

Question 22 (MBQc_1)

Are you aware that people who evade paying tax are committing a criminal offence, and could get a criminal record or go to prison?

A criminal offense is defined as breaking UK law.

Tax relates to the tax paid to HMRC, such as income tax, corporation tax and VAT. Not council tax or car tax.

- (1) Yes
- (2) No
- (3) Don't know
- (4) Refusal

Question 23 (MBQc_2b) – asked if respondent answered (1) to Question 22

How likely would you say it is for people who regularly evade paying income tax to be prosecuted.

- (1) Very likely
- (2) Quite likely
- (3) Not very likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Question 24 (MBQc_3)

How far do you agree with the following statement 'the chances of being prosecuted by HM Revenue and Customs are sufficient to deter people from regularly evading tax'?

If the respondent just states that they do not know, clarify whether they do not know because they don't know what the criminal penalties are or they do not know for any other reason.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree or disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know because I don't know the criminal penalties (spontaneous only)
- (7) Don't know, for any other reason (spontaneous only)

Question 25 (MBQc_4)

Have you heard of anyone who has been prosecuted by HM Revenue and Customs for evading tax?

- (1) Yes
- (2) No
- (3) Don't know
- (4) Refusal

Question 26 (MBQc_4b)- *asked if respondent answered (1) to Question 25*

Where did you hear about people being prosecuted for evading tax?

Sources can be all forms of communication, whether media or friend/family. Do not prompt on response options. Record spontaneous answers against response options.

Code all that apply.

- (1) On TV/papers
- (2) Social networking sites
- (3) I know them personally
- (4) From family/friends/word-of-mouth
- (5) Through work/job
- (6) I am aware that people can be prosecuted for tax evasion but do not know about a specific case
- (7) Other (please specify)
- (8) Don't know/can't remember
- (9) Refuse

Question 27 (MBQc_4bSpec)- *asked if respondent answered (1) to Question 25 and (7) to question 26.*

Please specify where you heard about people being prosecuted for evading tax.

A.3 Survey Format and Questions – SMEs

Introduction 1

I would now like to ask you about your views on taxation. I would like to stress once more that all of your responses will be treated as confidential and not attributed to you.

Question 1 (FAIR1)

As you may know, HM Revenue and Customs is the government agency that is responsible for collecting taxes. Please tell me whether and to what extent you agree or disagree that HM Revenue and Customs treats your business fairly in your dealings with them.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)
- (7) Refused

Question 2 (FAIR2)

The next question is about the direct taxes you or your business pays on its profits. This will be income tax if you are self-employed or corporation tax if your business is incorporated.

Please tell me whether you agree or disagree that the level of income or corporation tax that your business pays is generally fair.

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know (Spontaneous only)

Question 3 (FAIR3)

Thinking about the amount of time and effort your business spends completing its business tax return, would you say this was...

If asked, a business tax return could be a corporation tax return, partnership return or the self-employed pages of an income tax return.

Running prompt

- (1) reasonable,
- (2) neither reasonable nor unreasonable,
- (3) or unreasonable?
- (4) Don't know (Spontaneous only)
- (5) Refused (Spontaneous only)

Introduction 2

The next questions are about your views on tax evasion. By tax evasion, we mean deliberately not declaring all the business income tax that should be declared for tax purposes or deliberately overstating costs for income or corporation tax.

Please keep in mind we are interested in your opinions and there are no right or wrong answers. Please also remember that your responses will be kept in the strictest confidence and it will not be possible to identify you or your business in the results that we report to HM revenue and Customs.

Question 4 (CTEV1)

In your view, do you think that income or corporation tax evasion among small and medium sized businesses is...

Running prompt

- (1) a major problem,
- (2) a moderate problem,
- (3) a minor problem,
- (4) or not a problem at all?
- (5) Don't know (Spontaneous only)

Question 5 (CTEV1b)

In your view, how widespread do you think income or corporation tax evasion is among small and medium sized businesses> Is that...

Running prompt

- (1) Very widespread
- (2) Fairly widespread
- (3) Not very widespread
- (4) Not widespread at all
- (5) Don't know (Spontaneous only)

Question 6 (CTEV2)

Do you think HM Revenue and Customs is currently putting too much, too little or about the right amount of effort into reducing income and corporation tax evasion among the small and medium sized businesses?

Running prompt

- (1) Too much
- (2) Too little
- (3) About the right amount
- (4) Don't know (Spontaneous only)

Question 7 (CTEV3)

How likely would you say it is for small and medium sized businesses that regularly evade paying income or corporation tax to get caught? Would you say it is...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (Spontaneous only)

Question 8 (CTEV4)

Suppose your business regularly under-declared its income or corporation tax liability. How likely do you think it is that HM Revenue and Customs would find out about this? Would you say it was...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (Spontaneous only)

Question 9 (CTEV6a)

I'm going to read out a statement and I would like you to tell me whether you agree or disagree with it.

The financial penalties HM Revenue and Customs can impose are sufficient to deter small and medium sized businesses from regularly evading income or corporation tax? Do you...

Running prompt

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know - other reason (Spontaneous only)
- (7) Don't know because don't know penalties (Spontaneous only)

Question 10 (CTEV6b)

What are the possible consequences for businesses caught evading income or corporation tax, especially where it becomes public knowledge?

Do not read out. Probe fully.

Code all that apply

- (1) Difficult to find suppliers
- (2) Bad publicity
- (3) Loss of reputation among customers, suppliers, other businesses
- (4) Negative impact on credit record
- (5) Negative impact on ability to expand business start up another business
- (6) Financial penalties
- (7) Kept under scrutiny by HMRC
- (9) Prison sentence
- (10) Would go out of business/cease to trade
- (11) No consequences
- (12) Can't think of any
- (10) Other (Please Specify)
- (11) Don't know

Question 11 (CTEV7)

I am going to read out four statements. Please tell me which of them comes closest to your own views about income or corporation tax evasion.

Running prompt

- (1) It is always acceptable
- (2) It is mostly acceptable (but depends on the circumstances)
- (3) It is mostly unacceptable (but depends on the circumstances)
- (4) It is always unacceptable
- (5) None of these
- (6) Don't know (Spontaneous only)

Question 12 (CTEV8a) – asked if respondent answers (2) to Question 11

Can you tell me about the circumstances when you think income tax evasion would be acceptable?

Probe fully

- (1) Fully open ended
- (2) Don't know

Question 13 (CTEV8b) – asked if respondent answers (3) to Question 11

Can you tell me about the circumstances when you think income tax evasion would be unacceptable?

Probe fully

- (1) Fully open ended
- (2) Don't know

Question 14 (CTEV9)

And can you tell me the main reason why you wouldn't regularly evade income or corporation tax?

If say it's because it's wrong probe for clarity: In what way is it wrong?

- (1) Because it's illegal
- (2) Because of the penalties/consequences I could face
- (3) Because it is unfair to other taxpayers
- (4) Because it is immoral
- (5) The probability/likelihood of being caught
- (6) Because I'm honest
- (7) There is no reason why I wouldn't regularly evade tax
- (8) Other (specify)
- (9) Don't know

Question 15 (CTEV10)

Do you think that HM revenue and Customs deals more firmly or less firmly now with small and medium businesses that do not pay the correct amount of tax than it did a few years ago? Is that...

Running prompt

- (1) More firmly
- (2) Less firmly
- (3) About the same
- (4) Don't know (Spontaneous only)

Question 16 (CTEV11)

How likely would you say it is for small and medium sized businesses that regularly evade paying income tax to be prosecuted?

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not very likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Question 17 (CTEV12)

Have you heard of any businesses that have been prosecuted by HM Revenue and Customs for evading tax?

- (1) Yes
- (2) No
- (3) Don't know

Question 18 (VAT1)

Can I check, is your business registered for VAT?

- (1) Yes
- (2) No
- (3) Don't know

Question 19 (VAT2) – asked if respondent answers (1) to Question 18

Thinking about the amount of time and effort your business spends completing its VAT returns, would you say this was...

Running prompt

- (1) Reasonable
- (2) Neither reasonable nor unreasonable
- (3) Unreasonable
- (4) Don't know (spontaneous only)

Question 20 (VAT3) – asked if respondent answers (1) to Question 18

How likely would you say it is for small and medium sized businesses that regularly evade paying VAT to get caught? Would you say it is...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not very likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Question 21 (VAT4) – asked if respondent answers (1) to Question 18

Suppose your business regularly under-declared its VAT liability. How likely do you think it is that HM Revenue and Customs would find out about this? Would you say it was...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Question 22 (VAT6) – asked if respondent answers (1) to Question 18

I'm going to read out a statement and I would like you to tell me whether you agree or disagree with it.

The financial penalties HM Revenue and Customs can impose are sufficient to deter small and medium sized businesses from regularly evading paying VAT? Do you...

- (1) Strongly agree
- (2) Agree
- (3) Neither agree nor disagree
- (4) Disagree
- (5) Strongly disagree
- (6) Don't know because don't know penalties (Spontaneous only)
- (7) Don't know - other reason (Spontaneous only)

Question 23 (VAT7)

How likely would you say it is for small and medium sized businesses that regularly evade paying VAT to be prosecuted? Is that...

Running prompt

- (1) Very likely
- (2) Quite likely
- (3) Not likely
- (4) Not at all likely
- (5) Don't know (spontaneous only)

Appendix B: Survey Data 2011

B.1 Introduction

This appendix presents responses to the main CPS questions asked in 2011 for the SME and individuals survey. Responses from 2008-10 are also presented where appropriate. A complete set of responses for 2008-10 can be found in the previous 2008-10 reports⁵⁷.

Percentages are based on weighted data to correct for sample design and non-response. Respondents who refused to answer the question are excluded from the analyses. Information about the unweighted number of respondents who refused to answer each question is given in each table.

Data from the 2011 individuals survey has been presented for individuals, employees and the self-employed.

Weighted bases are rounded to the nearest 10,000. Weighted percentages are rounded to the nearest whole percent. Numbers may sum to 99 or 101 per cent due to rounding.

B.2 Survey Output - Individuals

Table B.1: Whether agree the level of income tax I pay is generally fair (Question 1)

Response	Percentage of Individuals			
	2008	2009	2010	2011
Strongly agree	4	5	7	6
Agree	34	40	38	41
Neither agree nor disagree	18	16	20	18
Disagree	27	22	19	21
Strongly disagree	10	8	7	7
Don't know (spontaneous)	7	8	8	7
Weighted base (millions)	47.65	48.03	47.70	48.03
Unweighted base	2,167	2,053	2,070	2,149
Number of refusals	5	5	23	31

Response	Percentage	
	Employees 2011	Self Employed 2011
Strongly agree	6	8
Agree	42	50
Neither agree nor disagree	18	17
Disagree	22	16
Strongly disagree	7	6
Don't know (spontaneous)	4	3
Weighted base (millions)	39.14	4.75
Unweighted base	1,806	758
Number of refusals	21	8

⁵⁷ <http://www.hmrc.gov.uk/research/cps-sme-report156.pdf>
<http://www.hmrc.gov.uk/research/cps-ind-report156.pdf>.

Table B.2: Whether agree HMRC treat me fairly in their dealings with me (Question 2)

Response	Percentage of Individuals			
	2008	2009	2010	2011
Strongly agree	5	6	10	8
Agree	48	50	45	51
Neither agree nor disagree	25	21	27	21
Disagree	7	6	5	6
Strongly disagree	3	2	2	2
Don't know (spontaneous)	12	15	9	12
Weighted base (millions)	47.64	48.11	47.76	48.03
Unweighted base	2,166	2,055	2,072	2,149
Number of refusals	6	3	21	31

Response	Percentage	
	Employees 2011	Self Employed 2011
Strongly agree	8	11
Agree	52	63
Neither agree nor disagree	21	14
Disagree	6	5
Strongly disagree	2	3
Don't know (spontaneous)	9	5
Weighted base (millions)	39.14	4.75
Unweighted base	1,806	758
Number of refusals	21	8

Table B.3: Completed self assessment tax return (Question 3)

Response	Percentage of Individuals			
	2008	2009	2010	2011
I submitted a tax return myself	10	12	11	11
An accountant/adviser/agent submitted it on my behalf	9	9	10	9
I did not submit a tax return, but I should have	1	1	1	1
I did not submit a tax return as I didn't need to	79	77	78	79
Weighted base (millions)	47.47	48.06	48.36	48.57
Unweighted base	2,162	2,052	2,085	2,165
Number of refusals/don't knows	10	6	8	15

Response	Percentage	
	Employees 2011	Self Employed 2011
I submitted a tax return myself	10	30
An accountant/adviser/agent submitted it on my behalf	5	43
I did not submit a tax return, but I should have	1	2
I did not submit a tax return as I didn't need to	84	25
Weighted base (millions)	39.36	4.83
Unweighted base	1,812	764
Number of refusals/don't knows	15	2

Table B.4: Whether effort spent completing own self assessment return was reasonable (Question 4)

Response	Percentage of Individuals			
	2008	2009	2010	2011
Reasonable	60	68	62	67
Neither reasonable nor unreasonable	17	14	23	19
Unreasonable	20	12	14	11
Don't know (spontaneous)	3	6	1	2
Weighted base (millions)	4.75	5.80	4.89	5.55
Unweighted base	217	230	201	248
Number of refusals	0	0	3	1

Response	Percentage	
	Employees 2011	Self Employed 2011
Reasonable	64	73
Neither reasonable nor unreasonable	21	14
Unreasonable	13	11
Don't know (spontaneous)	1	2
Weighted base (millions)	3.90	1.46
Unweighted base	178	230
Number of refusals	0	0

Table B.5: Whether effort providing agent with information for self assessment return was reasonable (Question 5)

Response	Percentage of Individuals			
	2008	2009	2010	2011
Reasonable	68	71	72	68
Neither reasonable nor unreasonable	19	14	15	19
Unreasonable	9	9	9	8
Don't know (spontaneous)	4	5	4	5
Weighted base (millions)	4.37	4.44	4.76	4.18
Unweighted base	202	176	200	185
Number of refusals	0	0	3	2

Response	Percentage	
	Employees 2011	Self Employed 2011
Reasonable	63	75
Neither reasonable nor unreasonable	22	16
Unreasonable	11	6
Don't know (spontaneous)	4	4
Weighted base (millions)	1.93	2.01
Unweighted base	87	302
Number of refusals	1	6

Table B.6: Perceived prevalence of income tax evasion (Question 6)

Response	Percentage of Individuals			
	2008	2009	2010	2011
A major problem	40	40	46	46
A moderate problem	41	37	32	34
A minor problem	10	11	11	10
Not a problem at all	2	3	3	2
Don't know (spontaneous)	7	8	7	8
Weighted base (millions)	47.65	48.09	47.90	48.03
Unweighted base	2,167	2,054	2,076	2,149
Number of refusals	5	4	17	31

Response	Percentage	
	Employees 2011	Self Employed 2011
A major problem	48	46
A moderate problem	34	32
A minor problem	10	11
Not a problem at all	2	3
Don't know (spontaneous)	7	8
Weighted base (millions)	39.14	4.74
Unweighted base	1,806	757
Number of refusals	21	9

Table B.7: Perceived effort HMRC puts into reducing income tax evasion (Question 7)

Response	Percentage		
	Individuals 2011	Employees 2011	Self Employed 2011
Too much	2	2	3
Too little	41	43	41
About the right amount	27	27	28
Don't know (spontaneous)	30	29	29
Weighted base (millions)	48.15	39.87	3.94
Unweighted base	1,048	889	632
Number of refusals	15	11	7

Table B.8: Perceived likelihood of being caught for regular income tax evasion (Question 8)

Response	Percentage of Individuals			
	2008	2009	2010	2011
Very likely	10	9	10	10
Quite likely	39	34	35	36
Not likely	39	41	39	37
Not likely at all	7	8	8	8
Don't know (spontaneous)	6	8	7	9
Weighted base (millions)	47.65	48.08	47.90	48.03
Unweighted base	2,167	2,053	2,076	2,149
Number of refusals	5	5	17	31

Response	Percentage	
	Employees 2011	Self Employed 2011
Very likely	9	12
Quite likely	35	33
Not likely	39	35
Not likely at all	8	9
Don't know (spontaneous)	8	11
Weighted base (millions)	39.14	4.75
Unweighted base	1,806	758
Number of refusals	21	8

Table B.9: Perceived likelihood I would be caught for not declaring cash-in-hand work (Question 9)

Response	Percentage of Individuals			
	2008	2009	2010	2011
Very likely	21	22	19	15
Quite likely	29	26	29	30
Not likely	33	33	32	33
Not likely at all	11	10	12	14
Don't know (spontaneous)	7	9	9	8
Weighted base (millions)	47.65	48.11	47.90	48.03
Unweighted base	2,167	2,054	2,076	2,149
Number of refusals	5	4	17	31

Response	Percentage	
	Employees 2011	Self Employed 2011
Very likely	15	16
Quite likely	30	29
Not likely	34	30
Not likely at all	14	16
Don't know (spontaneous)	7	9
Weighted base (millions)	39.14	4.75
Unweighted base	1,806	757
Number of refusals	21	9

Table B.10: A lot of people I know think it's okay not to pay tax on cash earnings (Question 10)

Response	Percentage		
	Individuals 2011	Employees 2011	Self Employed 2011
Strongly agree	3	3	6
Agree	20	21	22
Neither agree nor disagree	21	21	18
Disagree	34	35	33
Strongly disagree	12	11	12
Don't know (spontaneous)	10	8	9
Weighted base (millions)	48.15	39.87	3.94
Unweighted base	1,048	889	632
Number of refusals	15	11	7

Table B.11: I think it's okay being paid in cash for a job then not declaring all of it on my tax return (Question 11)

Response	Percentage		
	Individuals 2011	Employees 2011	Self Employed 2011
Strongly agree	1	1	1
Agree	7	6	8
Neither agree nor disagree	14	15	11
Disagree	52	53	55
Strongly disagree	22	22	22
Don't know (spontaneous)	4	3	3
Weighted base (millions)	48.15	39.87	3.94
Unweighted base	1,048	889	632
Number of refusals	15	11	7

Table B.12: Perception of how firmly HMRC deals with taxpayers who evade compared to the past (Question 12)

Response	Percentage		
	Individuals 2011	Employees 2011	Self Employed 2011
More firmly	39	40	34
Less firmly	10	11	8
About the same	26	27	30
Don't know (spontaneous)	24	22	29
Weighted base (millions)	48.15	39.87	3.94
Unweighted base	1,048	889	632
Number of refusals	15	11	7

Table B.13: Whether agree the financial penalties are sufficient to deter regular evasion (Question 13)

Response	Percentage of Individuals			
	2008	2009	2010	2011
Strongly agree	5	6	6	4
Agree	24	24	22	26
Neither agree nor disagree	21	20	19	17
Disagree	21	21	22	23
Strongly disagree	7	6	8	6
Don't know because I don't know the penalties (spontaneous)	17	19	18	17
Don't know – other reason (spontaneous)	5	4	6	6
Weighted base (millions)	47.65	48.13	47.74	48.03
Unweighted base	2,167	2,056	2,071	2,149
Number of refusals	5	2	22	31

Response	Percentage	
	Employees 2011	Self Employed 2011
Strongly agree	5	7
Agree	25	35
Neither agree nor disagree	17	13
Disagree	25	16
Strongly disagree	6	5
Don't know because I don't know the penalties (spontaneous)	16	18
Don't know – other reason (spontaneous)	5	6
Weighted base (millions)	39.14	4.75
Unweighted base	1,806	758
Number of refusals	21	8

Table B.14: What are the possible consequences for being caught for tax evasion (Question 14)

Response	Percentage	
	Individuals 2011	
Social stigma	16	
Embarrassment	15	
Negative impact on job prospects	10	
Negative impact on credit record	6	
Negative impact on ability to start up business	6	
Financial penalties	50	
Financial problems	10	
Criminal record	26	
Prison sentence	48	
Other – please specify	7	
Don't know/can't think of any (spontaneous)	17	
No consequences	1	
Weighted base (millions)	100	
Unweighted base	1,048	
Number of refusals	15	

Table B.15: Perceived acceptability of tax evasion (Question 15)

Response	Percentage of Individuals			
	2008	2009	2010	2011
It is always acceptable	3	2	3	2
It is mostly acceptable (but depends on the circumstances)	6	6	4	3
It is mostly unacceptable (but depends on the circumstances)	29	27	25	21
It is always unacceptable	57	61	64	69
None of these	1	1	1	1
Don't know (spontaneous)	3	3	4	3
Weighted base (millions)	47.58	48.13	47.63	48.03
Unweighted base	2,163	2,056	2,069	2,149
Number of refusals	9	2	24	31

Response	Percentage	
	Employees 2011	Self Employed 2011
It is always acceptable	2	2
It is mostly acceptable (but depends on the circumstances)	3	5
It is mostly unacceptable (but depends on the circumstances)	21	25
It is always unacceptable	71	63
None of these	1	1
Don't know (spontaneous)	3	3
Weighted base (millions)	39.14	4.75
Unweighted base	1,806	758
Number of refusals	21	8

Table B.16 Main reason for not evading income tax (Question 16)

Response	Percentage of Individuals			
	2008	2009	2010	2011
Because it is illegal	34	34	33	35
Because of the penalties/consequences I could face	9	9	10	10
Because it is unfair to other taxpayers	16	12	13	16
Because it is immoral	14	14	13	16
The probability/likelihood of being caught	13	13	13	8
Other (please specify)	10	13	12	10
Don't know (spontaneous)	5	6	5	5
Weighted base (millions)	47.60	48.10	47.60	48.03
Unweighted base	2165	2054	2068	2,149
Number of refusals	7	4	25	31

Table B.17: Are you aware evading tax is a criminal offence for which you can get a criminal record or go to prison (Question 21)

Response	Percentage		
	Individuals 2011	Employees 2011	Self Employed 2011
Yes	93	94	90
No	4	5	4
Don't know (spontaneous)	2	2	5
Weighted base (millions)	48.50	40.00	3.99
Unweighted base	1,054	891	637
Number of refusals	9	9	1

Table B.18: Perceived likelihood of being prosecuted for regular income tax evasion (Question 22)

Response	Percentage		
	Individuals 2011	Employees 2011	Self Employed 2011
Very likely	18	19	23
Quite likely	42	40	38
Not likely	32	33	30
Not likely at all	4	5	4
Don't know (spontaneous)	4	3	5
Weighted base (millions)	44.75	37.25	3.58
Unweighted base	975	829	583
Number of refusals	7	3	5

Table B.19: Whether agree the chances of being prosecuted are sufficient to deter regular evasion (Question 23)

Response	Percentage		
	Individuals 2011	Employees 2011	Self Employed 2011
Strongly agree	6	7	11
Agree	30	30	36
Neither agree nor disagree	18	18	16
Disagree	32	34	23
Strongly disagree	5	6	4
Don't know because I don't know the criminal penalties (spontaneous)	5	3	7
Don't know – other reason (spontaneous)	3	3	3
Weighted base (millions)	48.15	39.87	3.93
Unweighted base	1,048	889	631
Number of refusals	15	11	7

Table B.20: Have you heard of anyone who has been prosecuted by HMRC for evading tax (Question 24)

Response	Percentage		
	Individuals 2011	Employees 2011	Self Employed 2011
Yes	24	24	28
No	75	75	70
Don't know (spontaneous)	2	1	2
Weighted base (millions)	48.50	40.00	3.99
Unweighted base	1,054	891	637
Number of refusals	9	9	1

Table B.21: Where did you hear about these prosecutions (Question 25)

Response	Percentage of cases		
	Individuals 2011	Employees 2011	Self Employed 2011
On TV/papers	67	68	63
Social networking sites	1	1	0
I know them personally	10	9	15
From family/friends/word-of-mouth	18	19	21
Through work/job	14	14	8
Aware that people can be, but don't know of a specific case	3	2	2
Other (please specify)	1	1	2
Weighted base (millions)	11.49	9.52	0.96
Unweighted base	230	193	161
Number of refusals	0	0	0

B.3 Survey Output - SME

Table B.22: Whether agree HMRC treats the business fairly, (Question 1)

Response	Percent of SMEs
Strongly Agree	16
Agree	63
Neither Agree nor Disagree	13
Disagree	4
Strongly Disagree	2
Don't Know	1
Unweighted base	1,005
Number of refusals	0

Table B.23: Whether agree level of corporation tax is generally fair, (Question 2)

Response	Percent of SMEs
Strongly Agree	9
Agree	54
Neither Agree nor Disagree	15
Disagree	15
Strongly Disagree	5
Don't Know	2
Unweighted base	1,005
Number of refusals	0

Table B.24: Effort SME spends completing corporation tax return, (Question 3)

Response	Percent of SMEs
Reasonable	64
Neither Reasonable Nor Unreasonable	15
Unreasonable	13
Don't Know	8
Unweighted base	1,003
Number of refusals	2

Table B.25: Perceived prevalence of corporation tax evasion, (Question 4)

Response	Percent of SMEs
A Major Problem	10
A Moderate Problem	28
A Minor Problem	36
Not a Problem at all	10
Don't Know	16
Unweighted base	1,003
Number of refusals	2

Table B.26: Perception of how widespread income/corporation tax evasion is among SME, (Question 5)

Response	Percent of SMEs
Very widespread	4
Fairly widespread	29
Not very widespread	37
Not widespread at all	10
Don't know	19
Unweighted base	1,005
Number of refusals	0

Table B.27: Perceived effort HMRC puts into reducing income/corporation tax evasion, (Question 6)

Response	Percent of SMEs
Too much	10
Too little	18
About the right amount	45
Don't know	27
Unweighted base	1,001
Number of refusals	4

Table B.28: Perceived likelihood of detection for regular corporation/income tax evasion, (Question 7)

Response	Percent of SMEs
Very Likely	19
Quite Likely	49
Not Likely	20
Not Likely at all	2
Don't Know	10
Unweighted base	1,005
Number of refusals	0

Table B.29: Whether it is likely HMRC will detect if your business regularly under-declared it's income or corporation tax liability, (Question 8)

Response	Percent of SMEs
Very Likely	41
Quite Likely	46
Not Likely	7
Not Likely at all	1
Don't Know	4
Unweighted base	1,004
Number of refusals	1

Table B.30: Whether agree the financial penalties are sufficient to deter corporation/income tax evasion, (Question 10)

Response	Percent of SMEs
Strongly Agree	11
Agree	45
Neither Agree nor Disagree	15
Disagree	5
Strongly Disagree	2
Don't know because I don't know the penalties	20
Don't know	2
Unweighted base	1,005
Number of refusals	0

Table B.31: Possible consequences when income/corporation tax evasion is detected, (Question 11)

Consequence	Percent of SMEs
Difficult to find suppliers	1
Bad publicity	11
Loss of reputation among customers, suppliers and other businesses	19
Negative impact on credit record	1
Negative impact on ability to expand business or start up another business	7
Financial penalties	55
Kept under scrutiny by HMRC	2
Prison sentence	32
Would go out of business/cease to trade	17
Criminal prosecution	2
Have to pay it all back	1
No consequences	1
Can't think of any	3
Other	4
Don't know	12
Unweighted base	1,002
Number of refusals	3

Table B.32: Perceived acceptability of corporation tax evasion, (Question 12)

Response	Percent of SMEs
It is always acceptable	2
It is mostly acceptable (but depends on the circumstances)	4
It is mostly unacceptable (but depends on the circumstances)	22
It is always unacceptable	71
None of these	>1
Don't know	1
Unweighted base	1,005
Number of refusals	0

Table B.33: Reasons why evasion may be acceptable, (Question 13)

Circumstance	Percent of SMEs
Companies who have financial problems	18
Deliberately avoiding paying taxes	10
Under no circumstances	5
Others	27
Don't know	42
Unweighted base	37
Number of refusals	1

Table B.34: Reasons why evasion may be unacceptable, (Question 14)

Circumstance	Percent of SMEs
It is always unacceptable	22
Large corporate companies	5
If the company is successful	12
The amount of money is large	8
If the company is going through financial difficulties	10
Doing it for personal gain	3
Deliberate/done in error	18
Others	13
Don't know	18
None/never	3
No answer	>1
Unweighted base	218
Number of refusals	0

Table B.35: Reasons business would not evade corporation/income tax, (Question 15)

Consequence	Percent of SMEs
Because it is illegal	16
Because of the penalties or consequences I could face	23
Because it is unfair to other taxpayers	8
Because it is immoral	13
The probability or likelihood of being caught	11
Honest/ethical organisation	13
No reason why I wouldn't regularly evade	4
Possible loss of reputation or respect	1
Have to pay, duty or just wouldn't evade taxes	1
No need to/not worth the trouble	2
Would not know how	1
Others	5
Don't know	2
Unweighted base	1,004
Number of refusals	1

Table B.36: Does HMRC deal more or less firmly with evaders than a few years ago, (Question 16)

Response	Percent of SMEs
More firmly	29
Less firmly	5
About the same	32
Don't Know	34
Unweighted base	1,004
Number of refusals	1

Table B.37: Likelihood SME evading tax would be prosecuted, (Question 17)

Response	Percent of SMEs
Very Likely	32
Quite Likely	47
Not Likely	11
Not Likely at all	1
Don't Know	9
Unweighted base	1,005
Number of refusals	0

Table B.38: Heard of any businesses prosecuted by HMRC, (Question 18)

Response	Percent of SMEs
Yes	25
No	74
Don't Know	1
Unweighted base	991
Number of refusals	14

Table B.39: Business is VAT registered, (Question 19)

Response	Percent of SMEs
Yes	64
No	36
Don't know	0
Unweighted base	1,005
Number of refusals	0

Table B.40: Effort spent completing VAT returns, (Question 20)

Response	Percent of SMEs
Reasonable	69
Neither reasonable nor unreasonable	12
Unreasonable	17
Don't know	3
Unweighted base	677
Number of refusals	0

Table B.41: Perceived likelihood of detection for SMEs evading VAT, (Question 21)

Response	Percent of SMEs
Very Likely	38
Quite Likely	45
Not Likely	11
Not Likely at all	1
Don't Know	5
Unweighted base	677
Number of refusals	0

Table B.42: Perceived likelihood of detection if your business regularly evaded VAT, (Question 22)

Response	Percent of SMEs
Very Likely	52
Quite Likely	39
Not Likely	5
Not Likely at all	0
Don't Know	4
Unweighted base	677
Number of refusals	0

Table B.43: Whether agree financial penalties are sufficient to deter VAT evasion, (Question 23)

Response	Percent of SMEs
Strongly Agree	19
Agree	50
Neither Agree nor Disagree	10
Disagree	5
Strongly Disagree	1
Don't know because I don't know the penalties	14
Don't know	1
Unweighted base	677
Number of refusals	0

Table B.44: Perceived likelihood SME evading VAT will be prosecuted, (Question 24)

Response	Percent of SMEs
Very Likely	35
Quite Likely	46
Not Likely	10
Not Likely at all	2
Don't Know	6
Unweighted base	677
Number of refusals	0

Appendix C: SME sample breakdown 2011

Table C.1. Respondent decision-making

Key Decision Responsibility	Percent of SMEs
Respondent's alone	50
Mainly the respondent's	16
Shared equally between the respondent and someone else/others	34
Unweighted base	1,005

Table C.2. Size of the Business (number of employees)

Business Size	Percent of SMEs
1	37
2-4	35
5-9	11
10-19	7
20-24	1
25-49	4
50-99	3
100-199	2
200-249	>1
Unweighted base	1,005

Table C.3. Region in which Business Situated

Region	Percent of SMEs
North East	4
Yorkshire	7
North West	9
East Midlands	7
West Midlands	7
East Anglia	5
Greater London	9
South East	20
South West	13
Wales	6
Scotland	8
Northern Island	4
Don't know	>1
Unweighted base	1,005

Table C.4. Business Sector

Sector	Percent of SMEs
Manufacturing/Production	9
Retail/Wholesale/Distribution	14
Professional/Business Services	26
Catering/Leisure	7
Motor Trades/Transport	5
Construction	20
Agriculture/farming	7
Care/medical	3
Education	2
Other	7
Don't know	>1
Unweighted base	1,005

Table C.5. Business Turnover

Turnover	Percent of SMEs
£15,000 or more but under £50,000	35
£50,000 or more but under £68,000	10
£68,000 or more but under £100,000	12
£100,000 or more but under £250,000	16
£250,00 or more but under £500,000	8
£500,000 or more but under £1 million	5
£1 million or more but under £10 million	10
£10 million or more but under £42 million	2
Don't know/refused	2
Unweighted base	1005