



## *Research report*

# HMRC Business Education

## Understanding barriers to education of SMEs

**Business Customer & Strategy**

**June 2011**

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## Understanding barriers to education of SMEs

### *About Business Customer & Strategy (BC&S)*

Business Customer & Strategy is part of Business Tax, and is responsible for developing HMRC's programme of SME customer research.

The goal of BC&S is to make customer understanding a reality by providing colleagues insight into our customers' attitudes, needs and behaviours. This enables HMRC to develop business tax strategies through customer understanding, so that we can design better products, processes and services which meet our customers' needs.

BC&S aims to maximise business customer compliance for HMRC at best cost for both HMRC and the customer, and so support HMRC's strategic objectives to ensure that businesses pay the right amount of tax, whilst at the same time improving customers' experience and the overall UK business environment.

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## Understanding barriers to education of SMEs

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

As part of HMRC's review of its business education programme, there was a need to inform HMRC's thinking on how best to use business education as a means to both:

- effectively deliver relevant support to those businesses that need it
- understand how delivery of that support could be achieved as efficiently as possible.

This research was developed as a strand of the on-going SME segmentation project. The SME Compliance Segmentation was developed in 2009 to create an attitudinally-based compliance segmentation of SME businesses, and to provide a market representative view of SMEs' interactions with HMRC and their attitudes towards fulfilling their tax obligations.

The research sought to understand whether or not businesses felt the processes they currently needed to adopt were overly complex and whether simplification or other such criteria might be a more successful means to reduce overall errors and increase compliance to ensure they submit the right tax at the right time.

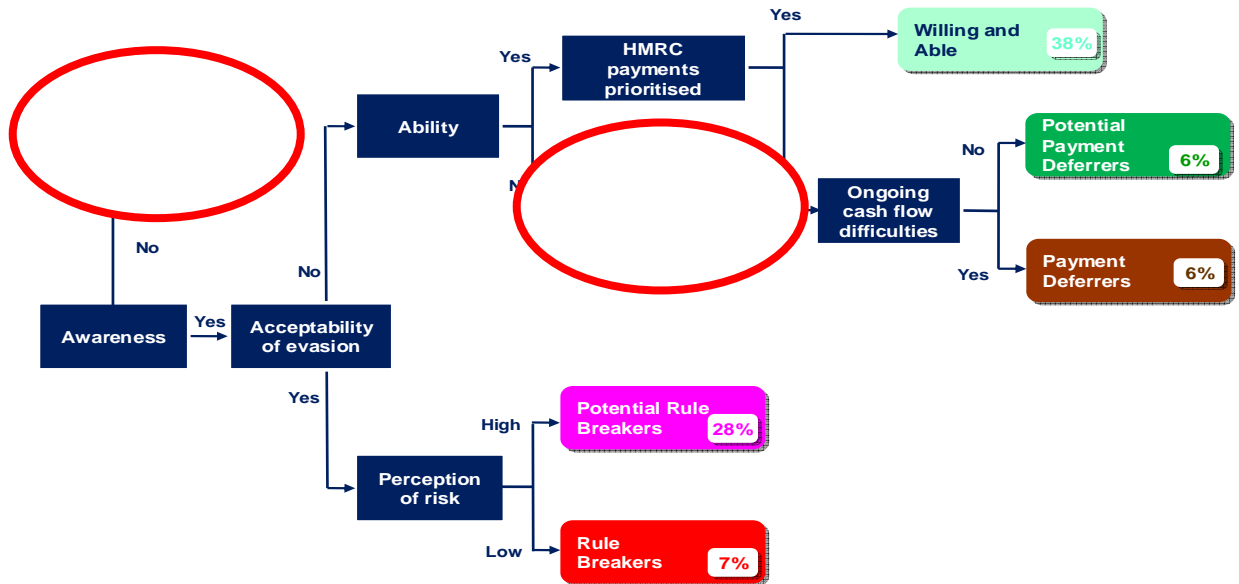
To gain this insight, the research focused upon the least informed and the least educated segments produced by the SME Segmentation work (see figure 1) which enables us to better understand how Willing But Needs Help and Unaware segments can be educated to increase their chances of developing into Willing & Able businesses

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The key objectives of this research were to understand:

- Why businesses do not feel the need to invest in up-skilling to more easily meet their obligations to HMRC;
- Perspectives on the relative importance of errors/ reducing errors;
- Attitudes towards and approaches to record-keeping;
- How the business ensures its staff are able to do what they need to do to comply accurately with their obligations;
- Where businesses go for support/ training;
- What support/ training do they feel is missing/ HMRC should provide;
- Potential appetite for self-service learning (e.g. online);
- The need/ appetite for F2F education events;
- Barriers to businesses learning/ up-skilling (financial, time etc.).

## Understanding barriers to education of SMEs



*Figure 1*

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

The research was conducted by Quadrangle.

### *When the research took place*

The research took place between March and April 2011 with fieldwork from 25<sup>th</sup> March – 12<sup>th</sup> April.

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

A qualitative approach was identified as the most appropriate method to be bolted on to the ongoing SME Segmentation work. Thirty depth interviews were conducted with SME businesses that had all been trading for less than six years, based on the hypothesis that HMRC has the greatest chance of influencing newer businesses. Interviews were one hour in length collected predominantly through face to face means, taking place across four locations: London, Leeds, Manchester and Nottingham.

- The sample was predominantly made up of businesses that had been previously put into the 'Unaware' and 'Willing but Need Help (WbNH)' segments as part of the SME Segmentation, given the focus of the project being on those most in need of business education.

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- Those from the ‘Willing and Able (W&A)’ segment were also included in order to understand the differences between the segments and help demonstrate how to transfer learning from businesses who are ‘getting it right.’

### Breakdown of sample:

Segment	
Unaware	6
WbNH	16
W&A	8
Age of business	
Less than 3 years	14
3-6 years	16
Number of employees	
Sole trader/ partnership (1-2)*	13
3-12	5
12+	12

## *Main Findings*

The findings can be split into three main themes to meet the overall research objectives

1. Attitudes to meeting HMRC obligations by segment.
2. Attitudes to support and training.
3. Barriers to businesses learning or up-skilling.

### 1. Attitudes to meeting HMRC obligations by segment.

**SMEs’ ability to fulfil HMRC obligations is strongly related to the level of their business acumen or experience.**

#### The Unaware

*The Unaware segment are generally start up businesses or sole traders who have a low ability to fulfil the required HMRC obligations.*

- They have no hindsight and little foresight and so do not prioritise or plan but adopt an ad hoc approach to dealing with financials and tax.
- They are more concerned with ‘doing the business’ without understanding that management of financials is core to a successful business.

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## Understanding barriers to education of SMEs

- The same ad hoc approach is undertaken when using accountants. They show a resistance to using an accountant due to the cost implications, which are often used at the last minute due to lack of planning.
- Whilst accepting their responsibility for accuracy, they do not invest in any independent means of quality control for checking for errors. They rely on their own double checking and recognise their vulnerability to errors

### **Recommendations for HMRC:**

Within this group, help is least sought at the time it is most required, at the business start up. Specific help is needed for this group to understand the benefits of keeping good records and the importance of not leaving things to last minute. HMRC can help by promoting the importance of being prepared for fulfilling tax obligations, right from start up.

#### The Willing but Need help

*The Willing but Need Help (WbNH) segment have some ability to fulfil their HMRC obligations as they are 'commercially' aware but recognise the limits of their ability and seek help to redress this deficit.*

- Those in this segment tend to be more established or expanding SMEs with a growing experience of tax and financial management.
- This group are aware of their inability to fulfil HMRC obligations and are actively seeking the knowledge and support to ensure they do things correctly.
- To supplement this experience they use an accountant on an ongoing basis for advice and help or for processing tax obligations such as; financial administration and record keeping.
  - The accountants' role is as a mentor or trainer to ensure 'quality control'.

### **Recommendations for HMRC:**

WbNH are seeking knowledge on how to do things correctly, HMRC can facilitate this through promoting HMRC training.

#### The Willing and Able

*The Willing and Able (W&A) segment are typically established, larger SMEs with experience of running and managing a business.*

- This group are aware of their HMRC obligations and have the ability to meet them through their more developed business acumen. This ensures the business has the necessary expertise for tax and financial management from start-up.
- Previous experience is the difference here as they understand how complicated finances can be and so understand the need for accurate record keeping.
- They possess a better understanding of what planning can be done internally and therefore an increased ability to anticipate requirement for external professional help and allow time accordingly.

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## Understanding barriers to education of SMEs

### 2. Attitudes to support and training.

#### **There is a need to raise awareness of HMRC's training and education**

*The link between HMRC and training is very weak as SMEs do not see HMRC's role in supporting businesses and are not aware whether there is any training specifically for them.*

- Formal external training within SMEs is very rare, with very few attending courses designed for business start up, this has varying affect depending on their previous business experience.
- Most SMEs have a realistic perception of their ability to fulfil HMRC obligations but vary in their application and investment to ensure they are sufficiently skilled.
- HMRC is typically used sporadically as a resource for specific information and queries rather than for formal training.

#### **Recommendations for HMRC:**

The Unaware would welcome guidance from HMRC on how to set-up and maintain a basic record keeping system however many of them are not currently aware of HMRC training.

The WbNH would welcome support from HMRC when seeking information on how to undertake tasks for the first time e.g. how to do VAT online.

There is a definite opportunity for HMRC to outsource training to third parties, as long as they are a genuinely recognised body and HMRC provides endorsement and assurance of their integrity and quality.

#### Types of training

Face-to-face training, whilst valued, is not automatically the preferred delivery method. There are many benefits of face-to-face training such as;

- Having things explained in person,
- Having the opportunity to ask questions relevant to their own businesses,
- Having the opportunity to learn from other business attending the training.

For many SMEs, this face to face training is a 'nice to have', where the personal touch cannot always be justified in terms of cost and time away for from the business.

- To alleviate this it is important for HMRC to engage SMEs' interest in training as an investment, not only for easier fulfillment of tax obligations, but for sound and more efficient financial management of the business.

#### **Recommendations for HMRC:**

Online learning is easier and more convenient for many as it allows instant access at their own pace at their own convenience.

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## Understanding barriers to education of SMEs

- There is a clear opportunity here for HMRC to develop training to satisfy SMEs' needs for full and clear information on what to do and how to do it so that they do not feel the need to resort to the Helpline for additional help and support.

### Communication

Emails are the preferred means of communication for many business, many SMEs would welcome more emails from HMRC as long as they are timely, relevant and specific. Emails of particular interest include;

- Newsletters,
- Updates of any changes to tax thresholds or laws,
- Notifications of upcoming deadlines,
- Information relevant to the individual business.

### **Recommendations for HMRC:**

HMRC needs to ensure that communications are specific to SMEs' ability and level of business experience.

### 3. Barriers to businesses learning or up-skilling

#### **Cost and time are cited as the key barriers preventing the uptake of training or up-skilling.**

Cost is a key barrier for most businesses as money is an issue, this is especially evident for;

- Small newly formed businesses.
- Businesses at times of recent growth.
- Businesses who feel that training should be free

Time is problematic for some due to;

- Lack of availability on training dates.
- An inability to justify a whole day out of the business to undertake the training.

That said many businesses can clearly recognise the benefits of training for better meeting their tax obligations.

- SMEs that lack prioritisation of training generally have a lack of understanding of the benefits that investing in training can have upon their businesses.
- HMRC can help promote these benefits presenting the argument that tax efficiencies equal business efficiencies.

Typically the HMRC website is the first port of call for SMEs who require support however the website is problematic for most SMEs to navigate meaning that they struggle to:

- Find the information they are looking for,
- Make sense of the information once they find it,



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- Understand exactly what to do and how to do it.

### **Recommendations for HMRC:**

HMRC needs to make self-help support more accessible and easy to understand, this will help mitigate the default to the HMRC helpline.

- As different SMEs require different levels of support HMRC could provide sign-posting to Business Link and other resources for additional help.

### *In summary*

Having explored the attitudes of businesses towards meeting HMRCs obligations and their need for additional training, HMRC are now able to identify those who require additional support and how these requirements can best be met.

It is important for HMRC to focus on:

- New SME businesses which have not had any previous experience in setting up businesses, to help develop good habits right from the start up.
- Engaging SMEs in the benefits of training for them as a business.
- Making self-help through the website more accessible with clear sign-posting to other helpful resources.
- Ensuring that all communications are specific to SMEs' ability and level of business experience.

Through introducing these changes HMRC will be able to effectively deliver relevant support to those businesses that need it and in turn reduce overall errors and increase compliance to ensure that SMEs submit the right tax at the right time.