

**Her Majesty's Revenue and Customs (HMRC) Qualitative
research with SMEs aware of prosecutions**

**TNS BMRB Final Report
HMRC Research Report 258**

July 2013



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Summary

Introduction and approach

Her Majesty's Revenue and Customs (HMRC) commissioned TNS BMRB to conduct a qualitative follow-up study to the Compliance Perceptions Survey, which tracks attitudes towards complying with tax obligations over time. The research aimed to test HMRC's assumptions about the deterrent effect of criminal prosecutions for those who become aware of them, and explore wider views on prosecutions, social networks and compliance behaviour. The target population were Small and Medium-sized Enterprises (SMEs).

Methodology

The research adopted a purposive approach, targeting respondents with an untypically high level of awareness and knowledge of cases of evasions, investigations and prosecutions.

- Stage 1: 156 survey re-contacts who had claimed awareness of prosecutions were briefly interviewed using an advanced screening questionnaire. The aim was to recruit eligible respondents to Stage 2 and explore the nature of their awareness and knowledge of prosecutions.
- Stage 2: comprised 13 discussion groups, each made up of one respondent and one or two close friends and associates with whom they discussed tax affairs. This provided an opportunity to discuss tax issues in an informal and discursive environment. The findings of the research are discussed below.

Stage 1 Findings ¹

- Respondents identified different sorts of prosecution, both local and high profile cases
- Just over 60% thought the case that they were referring to was high profile and nationally reported, and only 30% referred to an example of an individual not an organisation.
- Most people (56%) were glad to see the prosecution happening, and 60% thought people they spoke to were also glad. Respondents were asked whether hearing about the prosecution influenced their views on evasion. 28% thought that 'HMRC is doing more to tackle evasion' after they heard.
- There was evidence of messages about prosecutions being spread. Half the respondents discussed the prosecution with someone else – and 30% with someone at work

¹ Sample size = 142.

- 90% could define (correctly) a 'prosecution for evasion', though the cases they referred to were not always clearly a prosecution
- After hearing about the prosecution, 10% thought that evaders were more likely to get caught or prosecuted — and 28% concluded that HMRC was doing more to tackle evasion.
- Only 9% thought that prosecutions were increasing – unsurprising, as the initiative is at an early stage
- Researchers found that nearly half the respondents were thinking of other things (audits, avoidance etc) and not prosecutions – this implies investigations are being mistaken for, or conflated with, prosecutions.

Stage 2 Findings are structured by the four key research questions, below.

RQ 1: How tax payers became aware of criminal prosecutions for evasion

Prosecutions were predominantly heard about through word of mouth, and spread by sharers and influencers – information-seeking individuals within a close, trusted network who were particularly engaged in local or current affairs.

Generally, cases were discussed that were

- current;
- where respondents knew the person involved;
- if it related to their own profession or sector; and
- if it was a local case.

Beyond this, higher profile cases were discussed for entertainment and if they provoked strong or politicised views.

Respondents were clear that they did not discuss tax affairs with a wider circle of people, as they would not presume to know about other people's values or behaviour in relation to tax compliance. However, their close acquaintances, as reflected in the triads (discussion groups of three respondents), were trusted and assumed to share common assumptions and interests.

RQ2: Whether and how messages about criminal prosecutions are spread

Respondents were clearly interested in discussing cases of prosecutions for tax evasion, and these messages were spread around their social network. The nature of respondents' discussion differed according to who they spoke to:

- gossip was common when a case was local knowledge and there was little information on the details
- the tone and quality of discussion among closer friends was more detailed.

Individuals close to the evader and 'sharers and influencers' had the most knowledge of the case, recounting how the evader had operated, the process of investigation, and the sum of penalties and length of sentence.

Those who personally knew the evader had the greatest insight into the process of the investigation (mainly civil, but occasionally criminal investigations) and the personal impact on the individual concerned. Their focus and interest tended to be the relative loss to that person or business, which had a strong impact on their own views. Respondents felt this information would deter others. Damage was felt to have been caused in three ways –

- through the prevention of trading and the negative experience of investigation;
- the reputational damage and loss of profile; and
- the penalty itself (mainly in civil sanctions).

Local gossip about local cases was common among wider local networks. While most respondents were clear that evasion and detection had occurred, the actual result of the investigation was often blurred. Sometimes evasion, avoidance, investigation and prosecution were confused. In this context, reactions to the case were driven by condemnation of the business, based on views about the business's social and local responsibility to be tax compliant and to be fair in competing with others for business.

Large-scale or highly complex cases were perceived as far less relevant to respondents' own lives. Respondents were interested in the 'story' as a point of entertainment but not related to themselves, so this was unlikely to influence their views on the threat of detection.

The 'type of evader' was important to how the case was discussed. Respondents distinguished between

- clear-cut criminal cases;
- wealthy individuals motivated by greed;
- cash-in-hand trades where evasion was deemed to be standard practice; and
- cases of suffering businesses and smaller amounts.

This affected their feelings towards the cases and influenced the content and tone of conversations. Small sums evaded by people with cash flow problems were most closely identified with and leniently judged.

RO3: Awareness and knowledge of prosecution levels

Overall, there was a very low awareness of an increase in prosecutions, while the chances of detection and prosecution were thought extremely low. However, given this research was conducted at an early stage in HMRC's initiative, this may be expected to increase. In a couple of cases, an inability to gauge the chances of detection supported risk-taking, as being caught was simply 'bad luck'. This contrasts with more representative SME views -

83 per cent of VAT registered businesses said it was likely or very likely that SMEs regularly evading VAT would be caught, and 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 unlikely².

RQ4: Deterrent effects of prosecutions for evasion

There was perceived to be a deterrent effect of prosecutions on compliance behaviour, which varied by 'type' of evader. Respondents felt hardened criminals and cash-in-hand evaders could not be deterred, but 'potential rule breakers' could.

For 'potential rule breakers', the most powerful deterrents were seen to be:

- Hearing about somebody they knew - the most powerful deterrent, for the reasons discussed above – insight into the disruption to business, and loss of reputation.
- Hearing about local examples played on awareness of the humiliation and reputational damage (as above) - reminded individuals of the associated stigma.
- Hearing about someone in their sector prompted fears of a more general clampdown, as well as a scare, and point of comparison.
- Finally, the size of the penalty in prosecuted cases was powerful information, as it shaped respondents' understanding of the impact that detection and prosecutions had on evaders. *Whether this appeared to function as a deterrent depended on the size of the penalty relative to the amount of money that had been evaded.* However, the research also found that respondents mistook investigations for prosecutions because they lacked information on outcomes, but were deterred by these cases also.

During triads, researchers used a range of press cuttings³ reporting recent prosecutions to identify which elements of information were significant. Overall:

- the clippings lacked personal relevance to respondents
- the perception that some evaders gained from their actions undermined deterrent effects
- Respondents were interested in seeing the length of the prison sentence and the amount evaded, as well as the details of the case for entertainment.
- Respondents were also more sympathetic to cases where they disagreed with the tax policy, such as complex VAT rules and Inheritance Tax.

Conclusions

² HMRC Research Report No 195: Compliance Perceptions Survey, Small and Medium Sized Enterprises and Individuals, 2011. HMRC, 2012.

³ Titles: 'Garlic smuggler flees conviction for £2m ginger fraud', 'The curious case of the Chinese garlic smuggler', 'Multi-million pound gold-smuggling tax dodger jailed', 'Bradford man part of £176m VAT scam', 'Second Vantis tax advisor jailed over £70m charity tax fraud', 'I will survive! Accountant in £5m celebrity tax scam taunts Revenue and Customs with lyrics to disco classic', 'Millionaire property developer fined for tax evasion.'

While acknowledging the very limited sample size, and the deliberate nature of the research, these findings support some of HMRC's assumptions regarding deterrent effects. Information about prosecutions for tax evasion was being picked up, and shared among acquaintances and closer associates and friends. Cases involving people known personally were passed on by word of mouth, with more detailed information shared among a tighter circle of acquaintances, while cases involving other professional were discussed by professional acquaintances. Gossip operated as a powerful force for information sharing in smaller communities and towns, with local 'scandals' being discussed quite openly among a wider network.

While those who knew the evader had a detailed knowledge of the case, within local gossip there was often ambiguity around the outcomes of an investigation. This resulted in investigations being mistaken for, or conflated with, prosecutions in popular discussion. The likelihood of prosecutions overall was assumed very low, as were the chances of detection.

Deterrent effects were expected to be strongest among individuals or businesses who were considering evading, or who had only evaded 'small' amounts, as they were liable to fear the humiliation of detection and to hold broadly 'compliant' views. For these individuals, hearing about someone they knew was considered the most powerful deterrent. Local examples were useful deterrents in reminding them of the reputational damage of investigations, while hearing about someone in their sector was generally taken to indicate a general 'clampdown' and directly increased risk of detection.

1. Introduction

Research background

Under its spending review 2010 settlement, HMRC was allocated an additional £917m to fund increased Enforcement & Compliance activity across the UK. As a result of this increase in activity, HMRC has committed to generating an additional £7bn per annum in tax revenue for the UK Exchequer by 2014/15. As part of this work, HMRC is increasing the number of prosecutions for tax evasion it undertakes in partnership with the UK's prosecution services. The findings from this research will help HMRC understand more about SME views and responses to prosecutions for evasion.

One of the rationale for increasing prosecutions is based on the assumed deterrence effect of criminal prosecutions for those who become aware of prosecutions. This rationale assumes that those who learn about prosecutions are subject to a deterrent effect – through the communication and dissemination of this information and its impacts through professional and personal networks. A further and wider deterrent effect is also assumed from press coverage – as other taxpayers become aware of prosecutions via newspapers, television, radio or other channels.

HMRC already held contact data from the Compliance Perceptions Survey of respondents who had stated an awareness of prosecutions and agreed to re-contact. In 2011/12, approximately a quarter of SMEs thought they had heard of another business being prosecuted for evasion. By re-contacting these respondents, this research constituted an opportunity to examine HMRC's underlying assumptions about networks, indirect effects; and the way in which awareness is gained and disseminated.

Aims and objectives

The objectives for the project were to undertake in-depth research with SME customers previously interviewed as part of HMRC's Compliance Perceptions Survey and with an awareness of criminal prosecutions for tax evasion.

As described above, HMRC's assumptions about the deterrence effect of prosecutions are:

1. HMRC increases prosecutions for tax evasion in the mass market
2. SMEs become aware of prosecutions either directly or through press coverage
3. SMEs discuss prosecutions within their taxpayer networks
4. This awareness is disseminated outwards through these taxpayer networks

5. This increased awareness drives attitudinal change – SMEs think there is a greater risk of getting caught
6. This in turn drives behavioural change – SMEs become more compliant because they fear getting caught

This research indirectly tested assumptions 2, 3, 4 and 5.

There were two key aims to this research – to:

- test HMRC’s assumptions about the deterrence effect of criminal prosecutions for those who become aware of prosecutions (outlined above); and
- explore wider views on prosecutions, social networks and compliance behaviour.

More specifically, the main stage of research explored four research questions (RQs):

1. how people (SMEs) become aware of criminal prosecutions for tax evasion;
2. how messages about criminal (SME) prosecutions are spread;
3. awareness of the prosecutions happening and potentially increasing;
4. the extent to which awareness of prosecutions impacts SME compliance behaviour; and exploratory views about what (about prosecutions) does / could have deterrent effects.

The report is structured to answer each research question (RQ) in turn.

Approach

Stage 1 of the research comprised a screening questionnaire with Compliance Perceptions Survey sample claiming awareness of prosecutions. Of 330 sampled, 156 interviews were achieved. The purpose of this stage was to gather high-level data on the nature of SME awareness of prosecutions and the deterrent effect; to cognitively test CPS questions on SME awareness of prosecutions; and to function as a recruitment screener for Stage 2 respondents. A data grid was provided to HMRC in January 2013 for their own analysis.

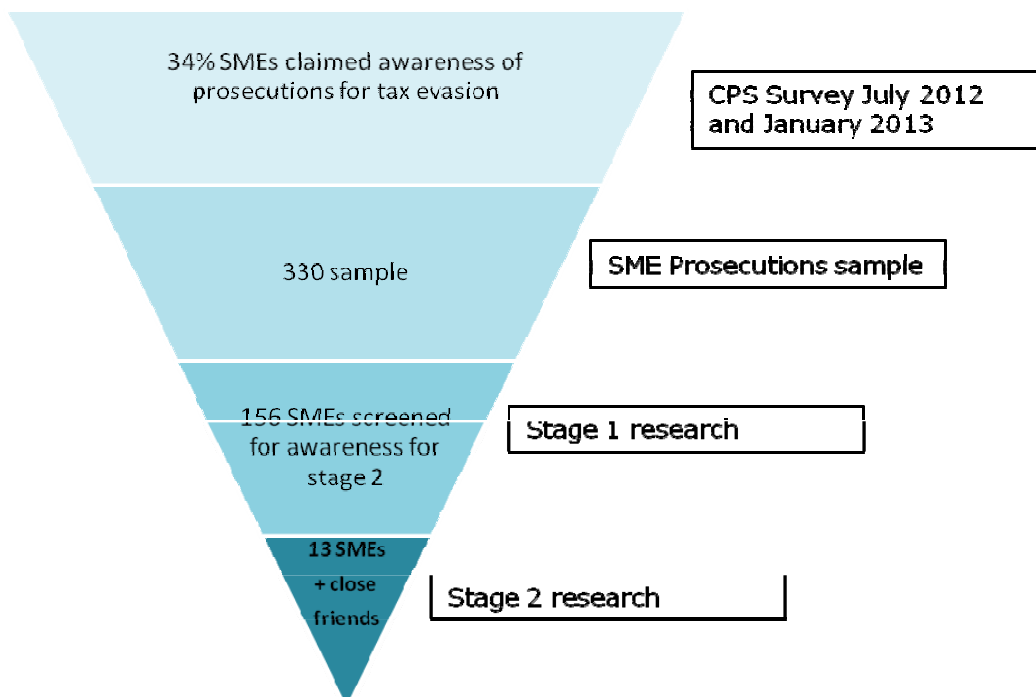
Stage 2 of the research entailed 13 triad discussions comprising one individual drawn from the screening exercise and two (or occasionally one) of their close associates, across a range of industries and drawn from around the UK. Interviews were purposively selected with SMEs who demonstrated knowledge and awareness of prosecutions. The purpose was to explore how SMEs regard prosecutions and their deterrent effect, looking at how social groups discuss and share information relating to evasion. Fieldwork was conducted in February 2013.

Further details of the methodology and lessons for future research can be found in the Appendix in Section 8 of the report.

2. Findings from Stage 1

This section reports on a short, focused quantitative telephone survey of those respondents aware of prosecution who agreed to re-contact from the CPS survey. The questionnaire was primarily undertaken for methodological reasons - to identify and recruit respondents eligible for Stage 2. The questionnaire also aimed to establish the nature of respondents' awareness and what this was based on, as well as to cognitively test two questions from the Compliance Perceptions Survey. The findings discussed below were analysed by HMRC following receipt of a full data grid of all survey responses.

156 respondents were interviewed, from a sample of 330, of which 142 were analysed⁴. Please note: the sample was limited and biased, as it selected for those responding to the first survey, who were aware of prosecutions and who agreed to participate in further research. It can therefore be inferred they were more willing to engage, and more knowledgeable, and the results are not representative of the SME population. The sample table of respondents can be found in the Appendix.



⁴ Incomplete interviews were not analysed.

2.1 The nature of awareness of prosecutions

Respondents identified different sorts of prosecutions; only 30% referred directly to a 'high profile/national' person example. Most respondents (56%) were glad to see the prosecution happening, and 60% thought people they spoke to were also glad. Respondents were asked whether hearing about the prosecution influenced their views on evasion. 28% thought that 'HMRC is doing more to tackle evasion' after they heard. Half discussed the prosecution with someone else – and 30% at work.

90% could define (correctly) a 'prosecution for evasion', but researchers were not convinced that they went on to discuss a prosecution in every case (see below).

Nobody identified 'their evader' as an 'organised criminal/fraudster' – which implies they did not consider the crime to be very serious. A small minority (10%) were annoyed with HMRC when they heard about the prosecution. Respondents spoke a lot about 'big business getting off the hook' and HMRC being heavy handed with small business.

After hearing about the prosecution, only 10% thought that evaders were more likely to get caught or prosecuted – but 28% concluded that HMRC is doing more to tackle evasion.

45% did not remember speaking to anyone else about the prosecution, but 51% did.

Only 9% thought that prosecutions were increasing – this is unsurprising given the short period of increased activity by HMRC and may be anticipated to rise, as the initiative continues across the UK.

Researchers suspected nearly half were thinking of other things such as avoidance, not prosecutions.

The survey exercise may suggest that attitudes towards high profile cases of avoidance reported in the media, HMRC and recent events are relevant to understanding responses to prosecutions and any deterrent effects.

2.2 Cognitive testing

The questionnaire tested two questions from the CPS survey:

"Have you heard of any businesses that have been prosecuted by HMRC for evading tax?" (Exact wording)

"Where did you hear about business/ individual being prosecuted for evading tax?" (Exact wording)

There were no comprehension issues with the questions themselves. As noted above, 90% of respondents correctly understood the definition of a criminal prosecution for tax evasion. However, when discussing the case itself, respondents were not always clear about the outcome of the 'investigation', and researchers suspected these respondents were referring to civil investigations rather than criminal prosecutions. No respondents made a distinction between 'civil' and 'criminal' investigations. In some

cases, upon further reflection respondents themselves realised they had indeed been referring to an investigation which researchers understood to be civil or, in a few cases, an inquiry. This suggests that the figures on 'awareness' of prosecutions are likely to be overstated, and respondents are not giving sufficient consideration to the example they have in mind, before responding. This was even more likely where respondents discussed several examples. This is supported by results from recent waves of the Compliance Perceptions Survey, where 34% of SMEs claimed an awareness of prosecutions⁵.

⁵ CPS survey January 2013, and July 2012

3. How people become aware of criminal prosecutions for tax evasion (RQ1)

In answer to RQ1, how people become aware of criminal prosecutions for tax evasion, this section explores how social networks discussed and shared information about their tax affairs, and how they became aware of prosecutions.

Please note: it is highly unlikely that most respondents were aware of local examples of prosecutions, or knew somebody who had been prosecuted. As respondents did not make a distinction between a civil and a criminal investigation, researchers made inferences as to the type of example being discussed.

3.1 Relationships and discussion of tax affairs

As mentioned, HMRC assumed that SMEs become aware of prosecutions either directly or through their taxpayer networks. With the caveat of small sample sizes, this research provides evidence this occurred within this group – also reflected in Stage 1 findings. Respondents were clear that they did not discuss tax affairs with a wider circle of people, as they would not presume to know about other people's values or behaviour in relation to tax compliance. Friends' approaches to tax affairs were also considered a sensitive issue, and many respondents were conscious of not offending others by appearing 'preachy'. When asked whether they would talk to a friend who they were aware was evading if they were aware of local prosecutions occurring, care in broaching the issue was still important.

"I don't want to be the person who has an issue with it." (Design consultants)

However, their closer friends, as reflected in the triads, were trusted and assumed to share common assumptions and interests.

Within this sample, the nature of respondents' relationships within the group affected how tax issues were discussed. There were several types of relationship among SMEs:

- Couples and extended families, with linked professional interests and concerns: shared the strongest normative views and assumptions
- Close friends who were trusted to discuss and debate issues, but did not necessarily hold the same views
- Previous or current particularly trusted colleagues with common interests: shared information and advice without inhibition.

In a couple of cases, one respondent was not a SME – in all others, the groups comprised of SMEs. They would help each other with advice and information about what they were doing themselves, in relation to their incomes and interpretation of tax rules on a regular basis. Those respondents in industries with sociable wider

networks – musicians and taxi drivers – felt that news travelled across these networks very rapidly. But the nature of the discussion of this information differed according to how close they were to the person they were speaking to.

“What’s the threat of being grassed up, I don’t think there is one when everyone is in the same boat as you.” (Musician)

3.2 How people hear about prosecutions

Respondents learned of prosecutions primarily by word of mouth, although there were several routes through which they picked up information about tax affairs and cases of evasion. These are described below.

Certain individuals were particularly well informed of current affairs and displayed a much keener interest in these stories. These can be described as **‘sharers’ and ‘influencers’**: people who read up and shared information among their friends or to their partner or family. They demonstrated knowledge of many more factual details than others in the groups, who were less inclined to seek this information out, to understand or to retain it. Their views were often influential and listened to; though the issues raised could be debated and others did not always take the same view as them.

An artist working in a large city interacted with many well-known galleries, and tutored art students on entering the industry as freelancers. He was interested in buyers’ and galleries’ approaches to tax, and liked to know the recent practices among those around him. He shared his understanding of recent events and interesting examples with fellow artists – both to inform students, but also with closer friends when discussing how to manage relationships with clients and reflecting on other artists’ evasion of tax in some cases.

Local gossip among acquaintances was a common way to hear of local civil or criminal investigations of potential evaders, but also where news of civil or criminal sanctions could be heard. Most respondents heard of local cases through gossip, more widely shared in looser social networks. News was passed quickly around others local to the area, as people repeated and passed on what others had told them

A cash-and-carry in a small town was viewed by other local businesses as having offered suspiciously low prices, which was known to have created resentment at unfair competition. The firm was prosecuted for evasion, although respondents were unsure of the exact outcome. Respondents were sure that HMRC had been ‘tipped-off’ by other locals. Recently, under a harder economic climate for local businesses, respondents believed businesses were more frequently informing on suspected evaders. *“There’s always been competition but it’s affecting people more now and there’s more tip-offs...it’s not fair that people get away with it.” (Retail)*

Local press was also a key source of stories, which ‘sharers and influencers’ tended to pass on to others by word of mouth. **National press** was the source of knowledge on high-profile scandals, read in part for entertainment.

4. How messages about criminal prosecutions are spread (RQ2)

In answer to RQ2, this section explores how messages about criminal prosecutions were spread. It discusses when cases were shared, the nature of discussion and respondents' level of knowledge of cases, then explores how respondents' views on 'types' of evader influenced their discussions. Overall, as shown in section 4.1, the findings supported HMRC's assumptions that SMEs discuss prosecutions within their taxpayer networks and that this awareness is disseminated outwards through these taxpayer networks. Section 4.2 discusses the nature of discussions and knowledge. These findings support the assumption that, in certain cases within this sample, increased awareness drives attitudinal change, and an increased sensitivity to the risk of getting caught.

4.1 When a case is shared

Generally, cases were discussed that were current, where respondents knew the person involved, if it related to their own profession or sector, and if it was a local case. Beyond this, higher profile cases were discussed for entertainment and if provoking strong or politicised views – discussed below.

Naturally, 'news' concerned **current or recent cases**. Respondents struggled to recall examples of what they considered to be prosecutions more than a year ago, unless they concerned a friend or relative particularly close to them.

In many examples, respondents had **known the person involved in a civil investigation and sanction, though very rarely for criminal cases** (the former could be mistaken for the latter). Cases involving people known personally were always passed on by word of mouth, within a tighter circle of people, and more closely guarded if the individual was a friend or close in some way. Whether the respondent related to and empathised with the evader clearly shaped the nature of the discussion.

A pub landlord's father was sanctioned 25 years ago for undeclared income. £17,000 had to be paid back over 4 years. The records had been waterlogged so this could not be disproved. This was not discussed very much by the landlord other than in passing. This was an unpleasant drawn out process for his father, which affected his health and cost even more in accountant fees. (*Researcher assumed this was a civil case*)

Information on civil or criminal sanctions were shared where they **related to the respondent's own profession or sector**. For cases involving other professionals they are aware of, in their professional network, respondents talked with colleagues they trusted and were familiar with.

Someone within a professional network of musicians was caught for suddenly earning large sums of money and not declaring it. This case was debated in terms of how the

evader was caught (either through HMRC noticing he was earning more money, or completely at random). *"I presume he only got caught though because he got selected for audit, not because he earned more money. If he hadn't been selected for audit, they would never know, would they?"* (Musicians) *(Researcher assumed this was a civil case)*

Local gossip on local cases: Overall, 'local gossip' was seen to play the strongest role in the spread of stories across a wider, looser network of acquaintances. Gossip had a particularly powerful hold in small towns, and local cases that caused a 'scandal' were discussed quite openly among a wide network. Any news of local indiscretion, such as tax evasion by a business, was expected to be rapidly shared. This was commonplace as casual conversation between acquaintances, although respondents were sometimes unsure why they passed information on so automatically. Scandals about tax were, as with other news, a subject of general interest.

"People came over and said, 'Have you heard...?', so I ended up saying myself – 'Have you heard...'" (Retail)

These types of case were generally passed on by word of mouth. In larger scale cases this was also supported by local press coverage, such as those involving more sophisticated and longstanding schemes. Examples in this research included scrap metal cases and mobile phone carousels – both examples of local criminal prosecutions.

"Being in the taxi trade, if there is anyone locally brought up in the Daily Echo I will generally know someone who knows someone. I am from such a huge family and have a huge network of friends, so if someone is caught in the area for tax evasion I will know something of them." (Taxi driver)

Higher profile cases were shared with friends and acquaintances if they provoked strong views or interest. Less commonly, sharers and influencers introduced cases from the wider press. These were less likely to be remembered in detail by others.

4.2 The nature of discussion and levels of knowledge

The nature of discussion and respondents' knowledge depended on their relationship to the evader and the case. Responses and reflections differed according to whether they knew and related to the evader personally, if it was local gossip about a local case, or if it was a high-profile or large-scale case. The variation in insights and messages shared are explored below.

4.2.1 Those who knew the evader personally

These respondents had the greatest insight into the process of the investigation (whether civil or criminal) and the personal impact on the individual concerned. In most cases, respondents did not specify or know whether the case was dealt with through a civil or criminal process. Regardless, with this depth of knowledge, their focus and interest tended to be in discussing the relative loss and impact to that person or business. Losses and damage to the individual were felt to have been caused in three ways – through the prevention of trading and unpleasant experience during the investigation; the reputational damage to social and professional profile; and the civil or criminal sanction itself – discussed below.

The **prevention of trading during the investigation** (whether civil or criminal) was the point of real concern. Respondents reflected that they had been concerned about how the evader would support their family, being unable to trade for an unknown period of investigation. They discussed the difficulty and stress this would cause if it happened to them, in relation to both civil and criminal investigations.

There was surprise at **how invasive the investigation process was**. Respondents remembered that the rigours of HMRC's demands and the stress this caused the evader were significant. They felt the process had been quite very difficult as well as very time-consuming in terms of the work required to make any records or papers available.

"I think initially it was a shock wasn't it that they'd seized all of his products and how is, all of his goods and how is he supposed to, I mean he's got twins and a wife...and a lovely big house and stuff, how's he supposed to support that? How's he supposed to support his family if they're going to take all their stock away?" (Technology)

The **reputational damage** both civil and criminal prosecutions had done was also a key issue for two groups. Individuals conscious of living within a tightly-knit community, e.g. small town or suburban area, remarked on how humiliating it would be. Respondents thought that locally spread gossip and judgement of tax evaders was generally damning, and could ruin the individual's social and professional life. The worst punishment for evasion was therefore considered to be living or working within a community that would judge you irrevocably afterwards.

"I think the threat is if you're caught, a small trader like us, your business is finished." (Building services)

Those who worked in sectors where an individual's personal identity was a core part of their **professional credibility**, such as fine art, were highly aware that a **future career would be jeopardised** by a criminal prosecution for evasion. Their own name was their hallmark, and stayed with them. Respondents were therefore clear that a criminal case would end their careers. Unlike businesses that could change their name, they believed a prosecution for evasion would ruin their future career prospects in the long term.

"...because within our sector a good name goes a long way and your name is you, so you are your brand" (Arts)

Those who knew the evader personally also tended to know the **details of the civil (or occasionally criminal) sanctions incurred**, and it evoked strong feelings. Where respondents liked and related to the evader, the size of penalty was generally considered devastating and a serious deterrent. The penalty was viewed as disproportionately harsh for the level of evasion and was recognised to have caused the individual at least some hardship to repay.

Other respondents who knew an individual/ business but did not like them tended just to be glad to see they had been caught. Their discussions focused on resenting the unfairness of the evader's gain through doing wrong. For this group, any financial penalty was considered fully deserved.

Sharers and influencers also had more detailed recall, with quite extensive knowledge of the case and a better awareness of the distinction between case types. How the evader had operated and the details of the scheme were recalled. How they were eventually detected, the process of the HMRC investigation, the criminal investigation, and the sum of criminal penalties or length of sentence were also recalled. A high level of detail was also circulated to others.

4.2.2 Local gossip on local cases

Among wide local networks, discussion tended to be based on a variety of information, publicly available or recently shared. While most respondents were clear about the fact of evasion, a period of investigation and sometimes of a punishment of some kind, several elements of cases were blurred. **The distinction between civil and criminal investigations was never discussed, and the result of the investigation was often blurred.** In discussing cases of high profile avoidance, evasion and avoidance were also confused by some respondents. Sometimes, evasion, avoidance, investigation and prosecution were confused.

Those with only 'gossip' level awareness sometimes conflated civil investigations with criminal prosecutions. They took any penalty, or sign the individual had evaded, to be a conviction – given that the individual had received a punishment. In a number of examples, investigations (of some kind) were subject to gossip and interest, but respondents were sometimes unsure whether these cases resulted in prosecutions. In these cases, researchers suspected that civil investigations were being discussed. Where criminal prosecutions were considered certain, the outcome of the prosecutions was rarely so – other than where the respondent was a close acquaintance.

"The person was relatively well known in the community and I got the impression that it was more that aspect...but it was the association with the fact that they were relatively well known in the community rather than the size of the sentence, or the fact that HMRC had been proactive of raising media awareness about it." (ex-Local government)

The important information appeared to be that the individual had (probably) been evading. In this research, a number of examples were initially introduced as criminal prosecutions, which were later identified as civil investigations with unknown outcomes. This was significant as it may signal that the effect of this knowledge, and the decision to spread it at the local level, was the same – discussed further in section 6.2.4. Where respondents involved in gossip had the information on the details of the civil or criminal penalty, it was subject to a lot of interest. It is therefore likely respondents do not ever learn this, rather than that they did not remember it. In most of these cases the amount the individual had evaded and the penalty they received was not known, so respondents did not have the opportunity to reflect on this. An example of this kind is given below.

"They were investigated quite thoroughly, it was accounts going back seven years, and it was gossip that went around... I know she was closed for a few days when they came in...I don't know what the outcome was, she doesn't have the business anymore though⁶." (Retail)

⁶ Respondent was not aware whether they were referring to a civil or criminal investigation

Hearing about local businesses that had been sanctioned for evasion (whether through a civil or criminal process) **most often provoked moralising**. Respondents expressed shock, indignation, and a lowered estimation of those concerned. This was based on beliefs about a business's social responsibility to be tax compliant. In some cases, respondents were annoyed at their having had an unfair competitive advantage; and resentment that they took what others didn't.

4.2.3 High profile and large-scale cases

A number of respondents had only taken an interest in a case of evasion **as a point of curiosity and entertainment**. Often reported in the national press, the 'story' of the case drew them in because it involved either a well-known brand or individual. This resulted in a changed public perception of them.

"Well it was probably Sky Sports News is probably where it was first thought that they may go into administration due to not paying VAT, I think quite a lot was owed and they were trying to negotiate for quite a while to try and make a settlement, but HMRC refused as far as I'm aware to say that they weren't going to accept it and that put the company Glasgow Rangers into administration." (Commercial contract cleaning)

Where the mode of evasion was reported as part of the coverage, respondents could be **engaged by the audacity, scale and complexity** of the operation. The story of the 'slip-up' - how HMRC detected and investigated the evaders – was part of respondents' interest and even enjoyment of cases of this kind.

4.3 'Types' of evader in cases discussed

This section explores the moral spectrum of 'acceptability' respondents described. Respondents did not consider all examples of evasion to be as bad as each other. Instead, they clearly described 'types' of evader and circumstances of evasion. These were: clear-cut criminal examples; wealthy individuals motivated by greed; cash-in-hand trades where evasion was standard practice; and examples of suffering businesses and smaller amounts⁷ (misconceived as being subject to prosecution). This affected their feelings towards the examples and the content and tone of their conversations, as discussed below. This was also relevant to their views on deterrent effects, which is discussed in section 6.

Across all examples discussed, respondents felt that **evading a large sum of money was more 'wrong' than evading a small sum**. A small amount was seen to have far less damage to the public purse, and to be evaded by poorer individuals or businesses that 'needed' it more. This is relevant because it determined whether they related to and empathised with the individual, and how they felt about the size of the financial penalty.

"People see things that are immoral and illegal as two sides of the same coin...but with tax I don't see it the same way." (Design consultants)

4.3.1 Clear-cut criminals

Examples that demonstrated clear criminal intent and coordination were seen as part of 'organised crime' and a 'criminal element' that carried a very particular connotation. For example, a second-hand car dealer was found not just to have undeclared income,

⁷ Although participants conflated these groups, HMRC is very unlikely to punish the latter group.

but to have dealt in stolen cars as well. They were assumed to operate without social values or a code. Their behaviours and depth of involvement in a 'criminal underworld' was seen as clearly separate from the 'fudging' behaviour of some small businesses in cash-in-hand trades. As discussed in previous research, this behaviour involved deferring payment or skimming small amounts of tax off on a regular basis, and was assumed commonplace⁸. By contrast, 'criminal' individuals were not felt to share any values with most tax payers. Respondents had no sympathy for, did not relate to, and sought stringent criminal penalties for this group but felt they were not caught often enough.

"I doubt if they [HMRC] have even scratched the surface...it's almost like a parallel universe we're in, we pay tax and insurance, and the parallel one where they don't, where they don't have any commitment to community." (Shipping)

4.3.2 Wealthy and motivated by greed

Overlapping with 'criminal' evaders, larger companies and wealthy individuals who evaded for further profit and enrichment were the **furthest from respondents' own 'worlds'** and most clearly disliked. 'Stealing from the public purse' by the wealthy, when struggling businesses 'played fair', **provoked a sense of injustice**, and there was no identification with the motivations, or sympathy with the evaders. Many respondents referred to both tax avoidance from high profile examples, and tax evasion, during these discussions. They saw them as morally equivalent, though most respondents were aware of the legal distinction between avoidance and evasion. Cases where evaders used accountants and complex rules to evade caused particular annoyance, because using power (knowledge, wealth) to evade was impossible for most small businesses. This was seen as an example of 'the rich get richer' – increasing social inequality.

"I do feel that I have a lot of personal morality invested in this. When I hear of a bigger local business that I know makes an awful lot of money that isn't paying its tax, and I sell penny sweets for a living and I pay my tax – it's disheartening, that's not fair, it's as simple as that." (Retail) (Researcher understood respondent to be discussing evasion in this example, rather than avoidance)

4.3.3 Standard industry practice

In industries trading cash-in-hand such as construction, sole trader 'handyman' jobs, and the arts, **evasion was assumed the professional norm**. While sanctions (researchers suspected these were civil) were reported in several of these trades, there was little surprise and no condemnation of the individuals involved. There were mixed views on whether this made it acceptable to evade, but it was agreed to be 'less bad', case by case, than 'criminal' or 'wealthy' individuals and companies. In a few cases, this was supported by the view that businesses in these trades were pressured to evade tax to keep prices competitive and stay in business. Supplementing low wages by partially withholding earnings, while paying tax on others, was also accepted by some respondents. This was because it was a norm

⁸ HMRC Research Report No 196: Compliance Perceptions Survey, Qualitative follow up research with Small and Medium Enterprises. TNS BMRB for HMRC, 2012.

within the industry, was not an 'unfair advantage' to others and was not expected to be large sums.

"It's difficult being a builder because being paid in cash is rife and...if a builder doesn't follow that way of accepting jobs they will be out-priced. It makes their proposition less viable when giving quotes. It's a kind of catch-22." (Design consultants)

However, this was not accepted by other respondents who felt HMRC needed to target this group and 'crack down' on this practice.

"Why isn't the Inland Revenue doing more on these people, because they never seem to – you never see it on TV." (Shipping)

4.3.4 Suffering businesses and/or small amounts

Small sums being evaded by people with cash flow problems or where it was a business norm were **most closely identified with and leniently judged**. Most respondents were sympathetic to businesses that evaded due to cash flow problems, being motivated to keep the business afloat. Individuals were then 'pushed' into evading by difficult trading circumstances.

"Let's think about a window cleaner. It's a difficult thing morally, just because things are a bit tight for him - he makes £300 a day, but he tells the tax man he makes £250 a day. Yes it's wrong, but it doesn't anger me nearly as much as Starbucks." (Retail)

Related to this, many respondents discussed investigations and (what they considered or guessed to have been) prosecutions where **they believed the evader had made accidental mistakes**. Researchers suspected these cases were civil, though respondents did not specify. Even for repeated mistakes, evasion was not thought deliberate but to have resulted from ignorance of complex tax rules. Respondents strongly empathised with these examples. Their views may have been based on misconceptions about the kinds of case that would be pursued by HMRC to a prosecution. This supported the misconception among several groups that being investigated and found to have evaded was a possibility for many honest businesses, and therefore unfair - or at least 'bad luck' rather than justified.

It should be noted that these perceptions **stemmed from very low awareness of the process of civil investigations, criminal investigations and how decisions relating to sanctions were made**. However, this lack of clarity fed the misconception that a business could be prosecuted for evasion that was not entirely deliberate.

Several stories were used to illustrate the idea businesses were 'guilty until proven innocent', and fines (and mistakenly, prosecutions) were more common for those without money to afford a defence. Respondents did not make the distinction between civil and criminal cases. A pub landlord's father had been heavily penalised for evasion, and paid back £17,000 over 4 years – in what researchers understood to be a civil example. Records were described as being waterlogged, which contributed to the decision to fine. The son (respondent) was later fined £4,000, initially expected to be £47,000, for not paying sub-contractors at source. He claimed he had been unaware of the rules relating to this. As a result, he spoke to friends to advise them on how to avoid falling foul of these rules. He felt he had been treated unfairly as he lacked the knowledge or legal support to avoid paying fines. *"They go to a sole trader who doesn't have the finance to protect himself with all his accountants and legals, and he'll just pay up."* (Building services)

Other respondents with less direct knowledge were mistaken in thinking that HMRC might pursue cases to prosecution, where the circumstances of evasion could suggest the individual had accidentally rather than deliberately evaded.

"I would hope it [prosecution] is for someone that's deliberately doing black market work; prosecution for a company that's going through hard times isn't the right way to do, as all it's going to do is dissolve that company and put in question the future of the employers and so on." (Commercial contract cleaning)

5. Awareness and knowledge of prosecution levels (RQ3)

In answer to RQ3, 'awareness of prosecutions happening and potentially increasing', this section explores the perceived frequency of prosecutions and evasion more generally. Overall, though respondents were aware of criminal prosecutions, there was a very low awareness of an increase in prosecutions. The chances of detection and prosecution were thought extremely low, although rising with higher sums and longer periods of evasion. In a couple of cases, this inability to gauge the chances of detection supported risk-taking, as being caught was considered a question of 'bad luck'. This is discussed in further detail below.

Given the research was conducted at an early stage in HMRC's initiative it is unsurprising that there was very **low spontaneous awareness of an increase** in prosecutions. The idea of prosecutions increasing was slightly intimidating to some, and laudable to others, but not a cause for concern. A very small minority of 'sharers' had learned through news articles that prosecutions had increased, but this was inconsistently described.

Respondents appeared to have **little considered the likelihood of prosecution** prior to this research, and struggled to gauge the likely proportion of evaders prosecuted or the total currently evading. They did not expect to hear of prosecutions for small business evasion in the wider press. It was considered a very minor story, only known if it was very local or part of the same sector - for example, businesses did not expect to hear of cases in other London suburbs or in other towns.

"Yes, so I think sometimes if it is local information then it can make you more aware. I guess the difficulty is with a lot of business these days is that it's not always local. I mean with my business I deal with people from all over London and outside and so that's not so relevant. If it was a local business then yes, that probably would have quite an impact" (Technology)

Across groups, respondents **concluded that the chances of detection and prosecution were extremely low** and they did not consider this to have changed in recent years. They reasoned that evasion was the norm in cash-in hand industries and extremely difficult to trace, while the HMRC resource required to pursue cases was prohibitive. They also assumed evasion would have increased as a necessity for business survival in recent years. The economic downturn, associated cash flow issues and difficulties securing loans for small businesses were reasons for this. All respondents knew of people around them who were evading and had not been caught, which supported the assumption that evasion at a small scale was extremely commonplace. HMRC was also believed to have undergone staff cuts which implied reduced resource available to pursue investigations. However, other respondents countered that tax collection was likely to have risen as a priority for government

under the current economic climate. The likelihood of a prison sentence was considered even lower. It was assumed to be extremely uncommon and a 'last resort' for HMRC as it cost the state but did not bring return of revenue.

The chances of detection were thought to rise for persistent evaders taking higher risks. Respondents also assumed evaders' changes to income/ behaviour when ceasing to evade could trigger detection, which locked them in these habits.

In a few cases, respondents suggested **that an evader could be 'lucky' or 'unlucky'**, and detection was not a calculated risk. This justified their view that evaders chose to evade regardless of the consequences. They saw a lack of consistency in HMRC's approach to civil and criminal investigations and the outcomes of detections as a justification. This notion of a non-calculable risk drove a rationale for small-scale evasion among respondents who admitted to not paying full tax. As they felt they had no way to ascertain the risk of being investigated by HMRC, they chose to ignore it.

Despite knowing a fellow musician who had recently been fined (unsure if criminally prosecuted) for evasion, respondents assumed the rate of detections was low given the prevalence of evasion in the industry. They did not feel they had any way of assessing whether they may be at a high or low risk of being investigated, other than rumours that investigations occurred only rarely. They therefore chose to continue regardless, justified by the sense that they needed the money. *"My perception of it is that the chances of getting investigated are pretty low, so why not take the chance? Because he's the only person I know, and I'm surrounded by self-employed people doing their own tax returns and declaring their own expenses, with me being one of them for several years now. I've never been investigated - apparently the average is once in every seven years."* (Musicians)

6. Deterrent effects (RQ4)

This section explores RQ4, the extent to which awareness of prosecutions impacts SME compliance behaviour; and exploratory views about what (about prosecutions) does or could have deterrent effects. This relates to HMRC's assumption that increased awareness drives attitudinal and then behavioural change, as SMEs think there is a greater risk of getting caught. The research provides indirect evidence on these assumptions, as respondents discussed their own reactions to prosecutions, and their views on what other businesses likely to evade would be deterred by. Respondents expected some 'types' of evader to be more amenable to deterrent measures than others, and the ways that 'potential rule breakers' were influenced by information is discussed below. Respondents' reactions to press clippings covering prosecutions are also explored, to help illustrate why the type and proximity of a case is a crucial factor in deterrent effects.

6.1 'Types' of evader and deterrent potential

Respondents believed the deterrent effect of prosecutions on compliance behaviour varied by 'type' of evader. Respondents felt hardened criminals and cash-in-hand evaders could not be deterred, but 'potential rule breakers' were liable to influence. The reasons for these views are outlined below.

'Clear-cut criminals' or hardened evaders were expected to continue regardless. They were seen to operate with a different set of values, lacking the sense of shame and humiliation that most people associated with evasion. Their assessments about whether to evade were seen to depend purely on a cost-benefit assessment of the income to be gained relative to the penalty. According to a few respondents, 'criminals' were characterised by a recklessness and disregard for consequences. Unless the penalty system changed (both civil and criminal aspects), respondents did not expect their behaviour to alter in response to news of prosecutions among people around them.

Cash-in-hand evasion was thought impossible to police, intrinsic to certain trades and unlikely to change. As the low amounts associated with non-declaration of income were felt less wrong and untraceable, there was considered nothing to deter people.

It was **potential or small-scale rule-breakers – suffering businesses evading small amounts** - who respondents considered most amenable to deterrent measures. This included acquaintances seen as **'on the fence'**, particularly those who may have recently felt pushed into evading. This group were thought likely to be influenced by awareness of prosecutions.

"It depends – if you're in a bad way yourself, if you're struggling and thinking about evading, something might put you off." (Commercial contract cleaning)

Respondents often saw themselves within this category of person. Being driven by different motivations to the 'criminal' element, they were expected to hold broadly compliant values, and to be seen to do so by others. They therefore **feared embarrassment and humiliation the most**. Without having seriously considered the consequences of their actions, respondents expected that being branded an evader would be extremely damaging. This was expected have much further-reaching consequences than these businesses were likely to have appreciated.

"You get somebody who for one reason or another, he sets off with the best intentions...gets in maybe a bit of financial difficulty, so he fiddles a little bit. And then it gets a little bit out of hand." (Building services)

6.2 Deterrent effects for potential rule-breakers

As discussed above, deterrent effects were perceived strongest for occasional rule-breakers and potential rule-breakers. Within the sample, several respondents reported occasional rule-breaking. However, all respondents discussed the impact that awareness of prosecutions had on their own feelings about getting caught for evasion. Across respondents, a few types of case stood out as strongly changing their perception of the risks of evasion. Hearing about somebody they knew, about local examples, about somebody within their sector, and about a high penalty, were all considered to have the most impact on them and on potential evaders – explored below.

6.2.1 Hearing about someone you know

This was widely considered to be the most powerful deterrent, for the reasons discussed above – insight into the disruption to business, and loss of reputation. It was only seeing it happen that respondents felt they knew how difficult and damaging the experience was. As discussed, respondents referred to both civil and criminal investigations in these discussions.

"They [HMRC] turned his life upside-down...it [the investigation] caused a lot of stress in his life." (Mechanics)

Respondents felt it was not worth risking a big fine, and tarnishing the name of the business for a small amount of money. This was supported by the cases of friends and associates who had been detected evading but were gossiped about, which tended to be relatively smaller sums than those covered in the press. A few respondents described the behavioural impact of making them more careful to keep accounts in order. This minority view tentatively supports HMRC assumptions on the deterrence effect of prosecutions - that attitude and behaviour are influenced by awareness of prosecutions. More broadly, it supports the assumption that social networks discuss known evaders, whether involved civil or criminal investigations.

6.2.2 Hearing about local examples

This played on awareness of the humiliation and reputational damage (as above), which reminded individuals of the associated stigma. Naming the business in local press therefore increased the disadvantage of being found out, as it broadcast this information beyond immediate networks. Local reputation was critical to many industries in small towns. It also implied HMRC were targeting that area. For a number of respondents, 'naming and shaming' in the local media was considered the most powerful deterrent.

"If I read that a taxi driver was done for tax avoidance and if it was in the local paper it would have a huge effect. All my mates would be talking about it." (Taxi driver)

Cases that were local and relevant to the individuals' own circumstances were highly influential. By contrast, national and general cases were not expected to impact behaviour as they did not raise the perceived risk that HMRC was focusing attention on them.

"As soon as you have some personal connection to it, whether it's someone you know or a business that's local to you, that's the big thing for me." (Retail)

6.2.3 Hearing about someone in the same sector or line of work

This prompted fears of a more general clampdown, as well as a scare, and point of comparison. Seeing what the evader had been doing highlighted whether a business's own activity was close to criminality.

"HMRC are catching up on us...Anybody who's in your line of business, be it a plumber or a heating engineer, if they're in your hometown and they get prosecuted, you'd think, Christ, and you'd look at it quite carefully. And hopefully you're not making the same mistake yourself. That's the way you'd look at it." (Building services)

A taxi driver had delayed paying tax on PAYE for two years and received a fine for HMRC. More recently, a fellow taxi-driver told him he had been fined £10,000 for non-payment of taxes. He was not aware of whether the case went to court. He felt that if he had learned of this at the time he was choosing not to pay tax, it would have served as a warning and changed his behaviour. It is highly unlikely this was a criminal prosecution, but respondents were unclear about this detail.

"Had I heard this then, I would have been down there the next day getting it sorted." (Taxi driver)

6.2.4 Learning about the court imposed fine

The size of the court imposed fine in prosecuted cases was powerful information, as it shaped respondents' understanding of the impact that detection and prosecutions had on evaders. **Whether this appeared to function as a deterrent depended on the size of the fine** relative to the amount of money that had been evaded. However, the research also found that respondents mistook both civil and criminal investigations for prosecutions because they lacked information on outcomes, but were deterred by these cases also. These issues are discussed below.

The question of **whether the court imposed fine was appropriate - meaning both proportionate and functioning as a deterrent - was a point of real interest** to respondents. Many had not had opportunities to compare the amount evaded and the size of fine given before. They felt an appropriate penalty would deter an individual from evading, from a cost-benefit financial perspective. This would mean they ended with far less than they had before, so evasion would not have been 'worth it' financially.

During triads, researchers used a range of press cuttings reporting recent prosecutions and invited respondents to read and discuss them. This exercise ensured respondents discussed criminal prosecutions, rather than civil investigations. The aim of the exercise was to identify what messages made respondents sit up and take

notice, and why certain information felt most significant. The information given in press cuttings about criminal sanctions supplemented respondents' own knowledge. In the press cuttings, respondents judged the court imposed fine to be either unfairly swingeing or not going far enough – but for small business examples, they did deter. In cases where respondents knew the evader (not press clippings), evading was never seen to have been 'worth it'. The costs to the individual or business had been too high and the court imposed fine or custodial sentence was therefore considered a strong deterrent.

In the rare instances this was not the case, the 'lesson' that the individual took was to be more careful. However, in several press cuttings, the evader gained large sums and appeared motivated by 'greed' yet was penalised with smaller losses, so evasion had been 'worth' the cost to the evader. Respondents assumed that from a cost-benefit perspective, the person had still gained – which irked them.

Reactions to information in the press cuttings on prison sentences were mixed. Overall, respondents felt the deterrent power of a prison sentence was diminished because they assumed the term given was rarely fully served. For a 'criminal' who was not concerned by reputation, a short sentence was also thought preferable to financial penalties. For example, while some respondents were surprised by the length of prison sentence for amount evaded, such as 9 years for £100, 000⁹, others reasoned that a criminal would still gain financially if they served a short term rather than pay the fine.

"I've got one here it's about smuggling garlic of all things and it's £9,000 of unpaid duty, he's got six years in jail for it, which I think that's a bit much." (Retail)

However, the 'local gossip' cases showed that some of the most powerful deterrent effects were through gossip about investigations likely to be civil. As discussed, in several 'local gossip' cases, civil investigations were being mistaken for prosecutions. This was partly as they lacked any information on sanctions so were unsure of how far the case progressed and what the outcome was. This served to multiply the perception of increased detections and penalties, and the network effect appeared to be the same. Respondents related to the local case and believed it was a deterrent to others. The investigation (whether civil or criminal) was itself the main source of gossip, with stigma and humiliation, local loss of credibility and the inability to trade being considered powerful deterrents.

6.3 Wider examples in the press

Overall, the press clippings used in the research lacked personal relevance to respondents, and the perception that some evaders had gained from their actions undermined deterrent effects. The severity of the criminal sanction and how evaders were detected were points of general interest, while respondents' own attitudes to the tax being evaded also influenced how much they identified with the evader. These issues are detailed below.

The press cuttings were felt to **lack impact or personal relevance** because of the scale and profile of the cases, and the large amount being evaded. While they were considered interesting stories, respondents do not relate to them, particularly those involving higher earning individuals/ businesses. Instead, they were seen as examples

⁹ Press clippings – see Appendix

of a clear-cut criminal or individual motivated by greed and respondents therefore condemned the evaders' behaviour. They felt these feats of daring or clever scheming were outside their own worlds and on a larger criminal scale. They suggested this detracted from any potential deterrent effect. Instead, a number of the cuttings increased the perception that evasion was 'worth it' and richer respondents were not punished proportionately – though this was not true for all the clippings.

Respondents assumed that the evader judged the relative risk of getting caught, and the relative harshness of the likely sanction, against the potential gains of evading. In the press cuttings shown, respondents **felt the evader had made the right decision** (in terms of risk). The cases did not prove to them that the evader would be deterred by a sanction - with the exception of the 'garlic smuggler' case.

"It makes you wonder if these people are just weighing up the fine and prison sentence, and see it as part of the risk associated." (ex-Local Government)

The severity of **the penalty, and how evaders were detected, were the main points of interest** in the press cuttings discussed, being areas fewer respondents had direct information about. Their main interest was in the sophistication of the 'scams', the large sums acquired and the comparative size of the criminal sanction. However, this was not considered directly relevant or applicable to their own lives.

Responses were also **coloured by attitudes towards the tax** discussed in the story, which in some cases increased respondents' empathy with the evader. For example, views on the complexity of VAT and disagreement with Inheritance Tax made them more sympathetic to these cases. For inheritance tax, several respondents empathised with a motivation to attempt to avoid it.

"It is not as clear-cut as you would expect it to be...I disagree with Inheritance Tax" (Mechanics)

VAT was felt too complex and therefore easy to fall foul of. They thought that mistakes or deliberate errors were more understandable than with other Taxes. Even though cases were clearly deliberate, respondents felt the penalty to be harsh. In a few cases, the example prompted discussions about the perceived complexity of VAT. VAT and other rules were seen to damage the logic of HMRC's requirements, which damaged the credibility of their actions against businesses. When framed as barriers to compliance, the tone of conversation moved towards justifications for non-compliance. However, these responses should be interpreted with caution, and it should be noted that respondents did not fully justify deliberate evasion. Rather, they made connections between frustration at the challenge of complying with complex rules, and what they saw as the potential to make mistakes that could be interpreted as deliberate by HMRC. This prompted some identification with and reduced culpability for the case at hand.

7. Conclusions

There are implications from this research for HMRC's programmes, in relation to both increasing prosecutions and other activity.

How SMEs become aware of criminal prosecutions for tax evasion (RQ1): Tax payers generally become aware of criminal prosecutions for tax evasion by word of mouth. Local or trade press was also a key source of stories for a range of businesses, while the national press was the source of 'gossip' and discussion of higher profile stories. This supports the assumption that SMEs become aware of prosecutions directly or through press coverage.

How messages about SME prosecutions are spread (RQ2): The assumption that SMEs discuss prosecutions within their taxpayer networks, and that this awareness is disseminated outwards through these taxpayer networks, is also supported. 'Sharers and influencers' were individuals with stronger knowledge of current affairs, and clearly identified in spreading information published in the local and national press. For cases involving people known personally, messages were spread by word of mouth. More detailed information was shared among a tighter circle of acquaintances, and cases involving other professionals tended to be discussed by professional acquaintances.

Gossip operated as a powerful force for information sharing in smaller communities and towns, and local scandals and other commonly known cases were discussed quite openly among a wider network. While those who knew the evader had a detailed knowledge of the process of (civil or criminal) investigation, local gossip was more ambiguous around the outcomes. This resulted in civil investigations being mistaken for, and conflated with, prosecutions.

Awareness of prosecutions happening and potentially increasing (RQ4): respondents were aware of prosecutions and interested in them, though the likelihood of prosecutions overall was assumed very low, as were the chances of detection. There was no awareness of a rise – unsurprising given the small increase at the time of the research.

The extent to which awareness of prosecutions impacts SME compliance behaviour; and exploratory views about what (about prosecutions) does / could have deterrent effects (RQ4): Deterrent effects on attitude and behaviour were expected to be strongest among individuals or businesses who were considering evading, or who had only evaded 'small' amounts. These individuals were thought liable to fear the humiliation of detection and to hold broadly 'compliant' views. Hearing about someone they knew was therefore considered the most powerful deterrent. Local examples were useful deterrents in reminding them of the reputational damage of either civil or criminal investigations. Finally, hearing about

someone in their sector was generally taken to indicate a general 'clampdown' and directly increased risk of detection.

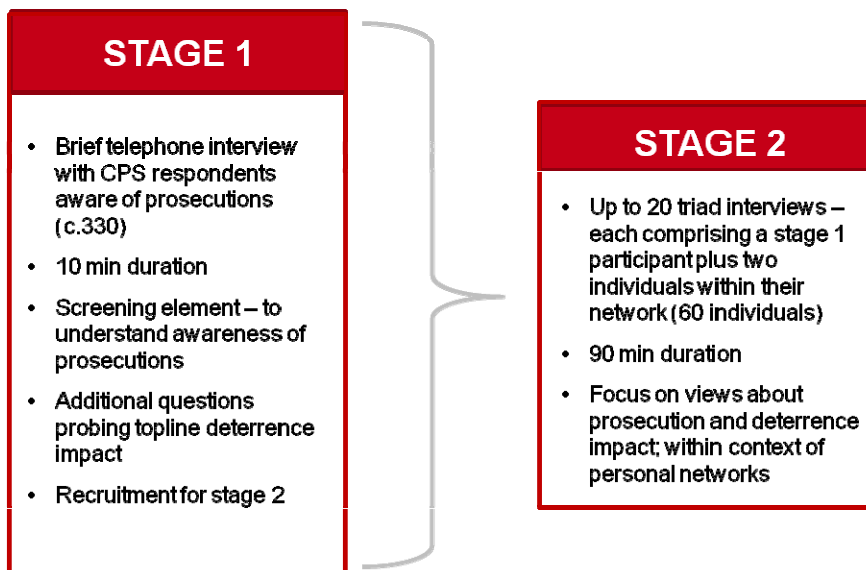
It is worth considering the relevance of these findings for HMRC-generated press coverage, and there are several potential areas for focus. Respondents are interested in seeing that large fines do lead to evaders losing income overall. The insight into the impacts on credibility and reputation had a strong effect on those close enough to evaders to see this. Local and sector-specific examples clearly had the most weight. Finally, the impact that the investigation itself had, due to unknown trading gaps, was a strong point, though rarely known or considered.

8. Appendix

8.1 Approach

The central challenge for the research was in how to reach people with relevant experience within the sample, and avoid reliance on hypothetical ideas. However, as the study relied upon responses to the CPS survey that had been undertaken up to a year ago, it was anticipated that the awareness of those in the sample may have changed since the previous research. Those previously aware of high level prosecutions should have a propensity for higher engagement with press reportage, and may therefore also be aware of new press coverage on SME prosecutions.

The team implemented an iterative design which gathered high level data from many respondents, then honed in to work with a small range of individuals well placed to explore the nature of deterrence in a lot more detail. By combining elements of quantitative and qualitative methodology, the approach aimed to make best use of the valuable survey sample already available. The diagram below provides an overview of the approach.



Stage one comprised an advanced screening questionnaire of the whole sample of SME respondents interviewed in the Compliance Perceptions Survey who claimed they were aware of prosecutions (circa 330 people).¹⁰ The aims of this stage were three-fold; to:

- gather high-level data on the nature of respondent awareness of prosecutions and the deterrent effect;
- cognitively test the survey questions on respondent awareness of prosecutions; and
- function as a recruitment screener for 20 respondents in Stage two

Screening questionnaires were undertaken by freelance Research Associates with expertise in qualitative research. Interviews were undertaken by phone, and comprised a combination of closed and open (pre-coded) questions. This stage distinguished between those who were just aware of prosecutions attracting national media coverage or have a general, non-specific awareness of prosecutions, and those with a more specific and developed awareness, such as of local or trade-specific prosecutions. It tested the assumption (developed in previous HMRC research¹¹) that SMEs are deterred by prosecutions which they feel to be relevant to them but less so by prosecutions which attract national, high profile coverage. It indicated which respondents were able to discuss these local or trade-specific prosecutions. It also gathered information on how they heard about this, and its effect on their views. For those who were only aware generally, or aware of high-profile, national prosecutions, researchers asked questions about how this knowledge impacted their views and behaviour; to test whether there is a deterrent effect in reading high-level, national press about prosecutions (perhaps of high wealth individuals or large businesses).

Those with a stronger and more detailed knowledge were asked a further few questions to gain more detail of the nature of their awareness. Of 156 respondents interviewed, 35 showed the level of knowledge and awareness of prosecutions that was sought. These 35 individuals were then invited to participate in a second stage of research, and arrangements made to re-contact those who were willing. The request for respondents to find two companions was not mentioned.

Stage 2 Recruits were re-contacted and asked to recruit two companions with whom they discussed tax affairs, were tax payers, would (ideally) be business owners and had a close relationship to participate in a 'triad' group discussion. A letter on HMRC headed paper was sent to respondents to confirm their participation and to reassure them about the aims and the nature of the research.

13 face-to-face discussions were achieved in total. As instructed, each triad contained a respondent from the sample, selected for their experience, knowledge and interest in the issues discussed. The criteria were broadened slightly during recruitment due to sample attrition. They were accompanied by two (or occasionally one) individual(s)

¹⁰ When asked, 26% of SMEs answering the CPS thought they had 'heard of another business being prosecuted for tax evasion' (date and sample size).

¹¹ HMRC Research Report No 196: Compliance Perceptions Survey, Qualitative follow up research with Small and Medium Enterprises. TNS BMRB for HMRC, 2012.

within their friendship/business network. Each respondent in the triad was incentivised with £50 for themselves or a charity of their choice.

Stage two explored how SMEs regard prosecutions and their deterrent effect, looking in particular at how social groups discuss and share information relating to evasion. The strength of the triad mode of discussion was in combining intimacy and informality with a discursive forum, in which respondents were encouraged to debate and discuss issues between themselves. This allowed researchers to explore real taxpayer networks in action.

Researchers probed where relevant but mainly aimed to enable on-topic sharing of views between them. They established which examples of prosecutions respondents all knew best, or worked with a generic set of examples they were most interested in. If respondents were not aware of the same example/s, the key respondent was asked to refer back to the example they discussed during the screening interview and recount this to the other respondents. If respondents were unable to recall any detail here, press clippings covering recent prosecutions were used instead.

Fieldwork was conducted in February 2013. Interviews were structured using a topic guide, and lasted approximately 90 minutes.

All interviews were digitally recorded, transcribed and analysed using Matrix Mapping, TNS-BMRB's proprietary method of analysing qualitative material.

Sample table (stage 2)

Interview	No. of interviewees	Profession / industry of key contact	Relationship of other interviewees
1	X 3	Physiotherapy	Business Associates Physiotherapists
2	X 3	Ex - Local Government	Business Associates
3	X 2	Arts	Business Associates
4	X 3	Building Services	Business Associates Electricians
5	X 2	Taxi Driver	Business Associates
6	X 3	Technology	Friend – IT Consultant Relative – Policeman
7	X 3	Design Consultants	Business Associates

8	X 2	Shipping	Business colleagues - Logistics
9	X 3	Retail	Business Associates
10	X 2	Commercial Contract Cleaning	Husband – in business together
11	X 3	Mechanics	Business Associates
12	X 3	Musicians	Business Associates
13	X 3	Retail	Relatives in business – care home + another

Lessons for future research

There were several clear findings that the team would recommend to others conducting similar research in future, outlined below.

Overall, the approach succeeded in achieving both the depth of knowledge and candour in discussions of prosecutions that was sought. Researchers were surprised by the level of knowledge respondents displayed and by their proximity to recent cases reaching prosecution.

It was unsurprising that many respondents expressed reservations about participating in the research due to fears about the risks of incrimination. Formalised, comprehensive and repeated assurances to respondents were therefore essential to successful recruitment.

There was a high level of attrition of eligible and willing recruits taken from stage 1, which may be attributed to several factors. The iterative research design allowed for break points for HMRC to undertake risk reviews, which were necessary given the sensitivities and potential reputational risks associated with the project. However, this created a break between the screening questionnaire, and re-contact two weeks later to request respondents find two companions and to arrange the triad. Over half the potential recruits then refused to participate, stating they felt they had done enough or could no longer find the time. It is likely that some respondents were discouraged by the burden of recruiting two respondents, which had not been conveyed during the screening process. Some respondent fatigue was expected, but this may have been lower if respondents had been given full information about the triad requirement at the outset, and had not experienced a two week gap between contacts.

Discussion Guide

HMRC SME Prosecutions

TRIADS DISCUSSION GUIDE

Aims: to

- Explore wider views on prosecutions, networks, compliance behaviour and any awareness of a shift in HMRC's prosecutions programme; including:
 - How people become aware of criminal prosecutions for tax evasion
 - How messages about criminal prosecutions are spread
 - Awareness of the prosecutions happening and potentially increasing
 - The extent to which awareness of prosecutions impacts SME compliance behaviour
 - Exploratory views about what (about prosecutions) does / could have deterrent effects

Protocol:

- About the research: this piece of work is for HM Revenue and Customs to help them explore the influence of prosecutions on understandings and behaviour
- TNS BMRB is an independent research agency working on behalf of HMRC
- Length of discussion group: 90 minutes
- Confidentiality and anonymity: their participation in and contributions to the research are kept strictly confidential, and they will not be identified to HMRC
- Refer to your other briefing documentation to handle queries about the research, HMRC or anonymity etc.

Introductions and background (10 mins)

Aim: *To explore respondents' relationships and how they interact with each other*

Researcher note: *Throughout the discussion, encourage the triad to discuss the issues amongst themselves. Probe where relevant but mainly aim to enable on-topic sharing of views between them*

- Establish how respondents know each other.

- Establish why each of the two additional participants were chosen for the discussion –
 - How frequently they talk about finance and tax
 - If they feel that the way they talk is representative/common
 - If they talk to other contacts like this or if it is unusual
 - What determines whether they are willing to talk to people about these issues
- Spontaneous, and probe:
 - Workplace, have previously worked together or have common colleagues
 - Work in the same sector?
 - Through social networks
 - Any connections with family
- Explore working and/ or socialising environments for interaction
 - How they keep in touch, when do they see each other. Spontaneous, and probe
 - Where they meet
 - What types of events

How frequently they talk or see each other

- Explore shared interests and priorities
 - Professional interests – if so, what
 - Leisure and hobbies
 - Explore whether they assist each other e.g. offering professional or personal advice, just good company and entertainment, etc
 - Establish extent of shared network: how many people they know in common, and how 'close' this (business, finance and tax) network is

Understanding of evasion (5 mins)

Aim: To gauge respondents' understanding of evasion

- Clarify/ check – what evasion is in as much detail as possible Explore interpretations of tax evasion and grey areas, including respondents' understanding of the difference between prosecutions and audits, and between avoidance and evasion *Researcher – do not correct respondents' views, even if they are wrong.*

Awareness of prosecutions (10 mins)

Aim: Using the example/s of prosecution that respondents are most interested in, gain a detailed understanding of how they became aware of prosecutions, how and to what extent messages were spread, and any impacts this had on their attitudes and compliance behaviour

- Ask respondents to recall the examples of prosecutions they know about
 - Explore the extent of their awareness of different examples
 - How familiar they are with any particular examples

Researcher note: Establish which example respondents know best, or work with a generic set of examples they are most interested in, and focus on that in the following section. If respondents are not aware of the same example/s, ask the key respondent to refer back to the example they discussed during the screening interview and recount this to the other respondents. If respondents are unable to recall any detail here, use the press clipping instead

- Ask respondents to recount how they heard about the case. Spontaneous, and probe if necessary:
 - From who/ what source
 - In what context. E.g.
 - On TV/ papers
 - Social networking sites
 - I know them personally
 - From family/ friends/ word-of-mouth
 - Through work/ job
 - Local press
 - Ask respondents if they discussed the case with anyone. Spontaneous, and probe if necessary:
- What, if anything, makes prosecutions worth talking about with others = or not
 - With which people
 - With each other
 - With a wider network
- **Researcher note:** Only complete this section if they are able to recount details – if not move on.

- What happened – ask respondents to recount everything they know about how the person had been evading, how they were caught, how the case proceeded and what the outcome was. Spontaneous, and as required, probe:
 - What the evader had been doing – how they were evading
 - What actions were they taking
 - How long had they been evading for (roughly if remembered)
 - How much money had they acquired illegally (roughly if remembered)
 - How they were detected
 - How they were caught – by somebody else?
 - What the penalty and outcome of the case was
 - Whether it was a fine or a custodial sentence
 - How ‘serious’ it was – any details about the nature of the penalty
- Did it seem likely to them that the person would have been caught for these actions
 - Were they surprised they were prosecuted?
 - Reasons for their views
 - Were they surprised that they were prosecuted for criminal activity?
 - Were they surprised by the outcome and penalty
 - Reasons for their views
- Overall reflections - what they think of this incident. Spontaneous, and probe:
 - What were their reactions overall. Spontaneous, and probe:
 - How did it make them feel
 - About tax evasion
 - About criminal prosecutions
 - Probe all ideas and encourage group to discuss amongst themselves
 - Effect on behaviour: explore whether the incident affected their behaviour in any way and if so, how
 - If not, why not

Explore whether it affected the behaviour of others within their social/professional network

- If so who it affected, and how
- If not, why not
- What particular aspects of the case/ reflections on the case stick with them, or are particularly interesting to them. Spontaneous, and encourage group to discuss amongst themselves. Then probe specifically on:
 - Detection – how they were caught/ the fact they were caught
 - Prosecution – pursuit of the case
 - Penalty – i.e. feelings about the level of the penalty
 - Publicity around the case
 - What this suggested about HMRC's approach
 - What this suggested about other people's likely behaviour
- What were people saying at the time
 - Amongst themselves – i.e. within the triad, to other people
 - In wider network
 - How widely was it discussed, in their experience
- If not covered already – Explore affect on behaviour: explore whether the case/ reflections affected their behaviour in any way and if so, how
 - If not, why not
- Explore whether it affected the behaviour of others within their social/professional network
- If so who it affect, and how
- If not, why not?

Likelihood of prosecutions (10 mins)

Aim: *To explore respondents' awareness of evasion and prosecutions in more depth, particularly within their network; and to explore the perceived chances of detection and prosecution*

Researcher note: *Reassure and remind respondents that we are not interested in anyone's names, or business – we are just talking generally.*

- Briefly explore any other examples of evasion and prosecution respondents are aware of
 - Any other examples of prosecutions that they know about
 - Any other examples of people evading that they know about

- Any examples they know of where people weren't prosecuted
- Generally speaking, how often they feel people get caught like this
 - Has that changed at all, over time
 - Explore awareness of anyone who has been audited

How the experience would compare with being prosecuted for tax evasion

Perceptions of deterrent effects (15 mins)

Aim: *To identify what messages make respondents sit up and take notice, and why certain information feels most significant – from press clippings.*

Researcher note: *Introduce press cuttings stimulus*

- Taking the various press cuttings, allow respondents to leaf through and discuss.
 - High profile national press/ local press
 - Fine/ custodial sentence/ length of sentence
 - Type of trade: obvious criminal activity/ fraudulent business activity
 - Large sums evaded/ small sums evaded

Researcher note: *Monitor which items respondents pay attention to, and what they say. Then probe:*

- Explore what respondents think is most interesting about the information. Spontaneous, and probe:
 - What, if anything, is surprising or contrary to assumptions
 - Reasons for this
 - Why is it relevant/ important
 - How respondents feel about the information – e.g. glad to see it, angered, concerned
 - Reasons for this
- Comparing examples: why they selected that case over the others
 - Reasons other examples are less interesting/ relevant
- Overall reflections: How could these examples affect how other people think about evasion. Spontaneous, and then probe:
 - Thinking about people they know or those they consider most likely to evade *Researcher: emphasise we would like them to refer to those they would consider likely to evade (i.e. 'rule breakers')*

- Would it make any difference to them
- If so, in what way
 - Deterrent
 - To be more careful
 - How
- Reasons why/ why not

Vignette (15 mins)

Aim: *The vignette explores how people rate the relevance of prosecution to their own/ evaders' lives and behaviour*

Researcher note: *If respondents have discussed examples of people they know who have been evading, use this with the following vignette (don't repeat the first name: say 'the person you mentioned')*

VIGNETTE [RESEARCHER TO READ OUT]: *Your friend has been evading for a number of years and someone has just been prosecuted in their industry. What information that you heard or saw would ring alarm bells that made you worry about them?*

- Explore all respondents' spontaneous ideas and suggestions
 - What would prompt respondents to worry
 - Reasons for these views
- Probe views on whether the following factors would influence them - *Would you worry, or think about telling your friend if* (researcher read out and probe on examples below):

You saw in the paper that a mini-cab driver (someone in relevant sector) had been prosecuted in the same city/ this area

You heard from a friend that someone in the same trade/sector had been prosecuted

Would you be worried

Why/why not

Through discussion, probe whether the following factors could influence their friend's decision:

- Learning that people in the local area had been prosecuted
 - Example of when that might become a trigger and when it wouldn't

- Learning that people in their sector (nationally) had been prosecuted
 - Example of when that might become a trigger and when it wouldn't
- Seeing that people's names were being published and publicised after prosecution
 - Reasons for this
- The size of the penalty – amount of money and chance of a prison sentence
 - Example of when that might become a trigger and when it wouldn't
- Learning that HMRC were increasing prosecutions by five fold
 - Reasons for this

Assessing deterrent effects (defined by respondents) (10 mins)

Aim: *To consolidate the discussion and distil respondents' views on which messages and which mediums (channels) are the most significant deterrents*

Researcher, explain that we would like to re-cap on some points covered earlier in the discussion in order to reach a full consensus on deterrent effects.

Thinking about the people in the examples we have discussed, what are the most powerful messages that would influence their behaviour?

Explore spontaneous views on what the most important deterrent messages are. Spontaneous, and then probe:

Hearing people in their sector are getting caught at all

Learning about the way of getting caught – what could make a difference to this (e.g. any factors that would increase or decrease the severity of treatment)

Hearing cases were being pursued to court

Hearing about the level of the penalty, e.g. custodial sentence and the possibility of prison

Prosecutions publicity in the media – learning that people's names and details were shared

Reasons for this

HMRC-sponsored publicity (advertising) – try to identify which campaign/example they are talking about if you can¹².

¹² The two most prominent examples in the evasion/compliance area are a series of posters/online/ATM machines/radio showing a pair of menacing eyes peering through or around ripped paper (radio –

Explore what channel is most significant to people: does it make any difference where people hear information from. Spontaneous, and probe:

- On TV/ papers
- Social networks
- From family/ friends/ word-of-mouth
- Through work/ job

Local press

Why – explore in depth

Views on norms around evasion and prosecution (10 mins)

Aims: *To establish respondents' perceptions of social norms around tax evasion and more specifically prosecutions -, and where they see themselves on this 'spectrum' of attitudes*

- Ask respondents to describe the range of situations where they think people are evading
 - What do they think influences people's decisions to evade
 - How common do they think prosecution for tax evasion is
 - In their sector
 - In their local area
 - Is the number of people being prosecuted changing – if so, how and why
- (*Researcher use your own words*) Within your business industry, what's most people's attitudes to prosecution – and how does this affect their likelihood to comply, or evade
 - Probe respondent to suggest the range of behaviours, and most common behaviours
 - Where do they see themselves in relation to this – where do they sit on the spectrum – typical, more or less compliant

Reasons for their views

Other issues (5 mins)

Pick up on other areas raised in discussion

Thanks and close

footsteps) – “We’re closing in on undeclared income”. And posters/radio/leaflets encouraging specific trades to ensure that their tax affairs are in order – i.e. plumbers, electricians, tutors and offshore.

Stimulus: Press clippings

STIMULUS 1 (BBC): Garlic smuggler flees conviction for £2m ginger fraud

STIMULUS 2: The curious case of the Chinese garlic smuggler

STIMULUS 3: Multi-million pound gold-smuggling tax dodger jailed

STIMULUS 4: Bradford man part of £176m VAT scam (Telegraph and Argus)

STIMULUS 5: Second Vantis tax adviser jailed over £70m charity tax fraud

STIMULUS 6: I will survive! Accountant in £5m celebrity tax scam taunts Revenue and Customs with new lyrics to disco classic

STIMULUS 7: Millionaire property developer fined for tax evasion

Stage 1 sample grid

Please note: this is based on an initial CPS sample of 330.

Variable	Screening																		Total
Region	Scotland	South West	West Mids	South East	East Mids	North West	Yorkshire	Wales	Greater London	East Anglia	North	Northern Ireland	n/a	n/a	n/a	n/a	n/a	n/a	
Number in Region	17	23	12	28	12	16	11	8	10	5	6	8							156
Variable																			Total
Sector	Agriculture/farming	Care/medical	Care home	Catering/leisure	Guest house	Creative industry	Sailing school	Construction	Electrical	Education	Manufacture/production	Design	Elec engineer	Shipping	Motor trades/transport	Professional/business services	Retail/wholesale/distribution	other	
No in sector	11	1	1	7	1	1	1	31	1	2	7	1	1	1	4	56	20	9	156
Variable																			Total
Turnover	£15,000 or more but under £50,000	Under £50,000	Under 50k	£50,000 or more but under £68,000	£68,000 or more but under £100,000	£100,000 or more but under £250,000	£150,000 - £500,000	£250,000 or more but under £500,000	£500,000 or more but under £1m	£1m or more but under £10m	£10m or more but under £42m	Refused/Dont know							
No in turnover band	54	1	1	16	21	26	1	16	6	8	4	2							156