



IFF Research

An exploration of the benefits of agent toolkits and SME education

HMRC Research Report Number 239

December 2012

Rob Warren
Mark Samuel
Christoph Körbitz
Andrew Skone James



Disclaimer

The views in this report are the authors' own and do not necessarily reflect those of HM Revenue & Customs.

© Crown Copyright 2013

Copyright in the typographical arrangement and design rests with the Crown. This publication may be reported free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright with the title and source of the publication specified.

Published by HM Revenue and Customs, February 2013

www.hmrc.gov.uk



Contents

Executive summary	6
1.1. Introduction	6
<i>SMEs</i>	6
1.2. Awareness and use of HMRC education and tax agents	6
1.3. Knowledge and understanding of tax affairs	7
1.4. Understanding tax requirements	7
1.5. Good practice and tax management	7
1.6. Contact with HMRC	8
1.7. Benefits of education	8
<i>Agents</i>	9
1.8. Agents' use of the toolkit	9
1.9. Awareness of HMRC's services and requirements	9
1.10. Agents' working practices	9
1.11. Benefits of the toolkit	10
2. Introduction	11
2.1. Background, aims and objectives	11
2.2. Sampling and methodology	12
2.3. Reporting	12
Part A: Survey of SMEs	13
3. Profile of businesses surveyed	14
3.1. Introduction	14
3.2. Employment status and size of businesses	14
3.3. Sector	14
3.4. Annual Turnover	14
3.5. Years trading	14
3.6. Tax registration	15
3.7. Overall profile	16
4. Awareness and use of HMRC Education and tax agents	17
Chapter summary	17
4.1. Introduction	17
4.2. Use of education	18
4.3. Reasons for not using HMRC or other educational material	18
4.4. Use of agents	19
5. Knowledge and understanding of tax affairs	21
Chapter summary	21
5.1. Introduction	21
5.2. Knowledge of specific tax requirements: SA	21
5.3. Knowledge of specific tax requirements: PAYE	22
5.4. Knowledge of specific tax requirements: VAT	23
5.5. Overall knowledge of tax requirements	24
6. Understanding tax requirements	26
Chapter summary	26



6.1.	Introduction	26
6.2.	Understanding certain tax affairs	26
6.3.	Awareness of meeting obligations to HMRC	28
6.4.	Ability to meet obligations to HMRC	29
7.	Good practice and tax management	30
<hr/>		
	Chapter summary	30
7.1.	Introduction	30
7.2.	Record keeping	30
7.3.	Online assistance for SA submissions	31
7.4.	VAT behaviour	32
7.5.	PAYE behaviour	32
8.	Contact with HMRC	33
<hr/>		
	Chapter summary	33
8.1.	Introduction	33
8.2.	Level of contact with HMRC	33
8.3.	Reasons for contact with HMRC helpline or tax office	34
9.	Benefits of education	36
<hr/>		
	Chapter summary	36
9.1.	Introduction	36
9.2.	Changes to businesses	36
9.3.	Further steps	36
9.4.	Impact on confidence with tax obligations	37
	Benefits of HMRC or other education programmes to SMEs	38
	Part B: Survey of agents	39
<hr/>		
10.	Profile of agents surveyed	40
<hr/>		
10.1.	Introduction	40
10.2.	Employment status	40
10.3.	Size of business	40
10.4.	Length of time established	40
10.5.	Overall profile	40
11.	Agents' use of the toolkit	41
<hr/>		
	Chapter summary	41
11.1.	Introduction	41
11.2.	Attendance of specialist agents' workshops	41
11.3.	Accessing the toolkit	42
11.4.	Use of the toolkit, purpose of use, and frequency of use	42
11.5.	What audience the toolkit is reaching	43
11.6.	Extent to which toolkit workshop attendance is associated with toolkit use	43
12.	Awareness of HMRC's services and requirements	44
<hr/>		
	Chapter summary	44
12.1.	Introduction	44
12.2.	Agents' awareness of HMRC's services and requirements	44
12.3.	Summary of agents' awareness of HMRC's services and requirements	45
12.4.	Agents' awareness of the Government Gateway	46



13. Agents' working practices	48
Chapter summary	48
13.1. Introduction	48
13.2. Keeping up to date with tax legislation	48
13.3. Reviewing clients' tax returns	49
13.4. Approach taken to clarify unfamiliar tax areas or calculations	51
13.5. Experience of difficulties with tax returns	51
14. Benefits of the toolkit	53
Chapter summary	53
14.1. Introduction	53
14.2. Impact of the toolkit on agents' working practices	53
14.3. Measuring concrete outcomes of using the toolkit	54
14.4. Understanding the barriers to using the toolkit	55
Impact of HMRC toolkit use on agents	56
15. Appendix A - Response rate calculation	57
15.1. Response rates	57
16. Appendix B - Survey of SMEs	58
17. Appendix C - Survey of Agents	61



Executive summary

1.1. Introduction

- 1.1.1. HM Revenue and Customs (HMRC) has devoted considerable resource to providing educational services and materials to assist Small and Medium-sized Enterprises (SMEs) and tax agents¹ in reducing error and improving voluntary compliance. The aim of these educational programmes was to support businesses with preparing their tax returns, helping them to get it right and reducing the burden of completing tax returns. In addition, the programmes were also aimed at generating benefits for HMRC by reducing the additional costs associated with identifying and rectifying errors in tax returns.
- 1.1.2. With these issues in mind HMRC commissioned IFF Research to conduct two surveys which look at:
- the behaviour, as well as the knowledge and understanding of tax affairs, of **newly registered SMEs**, in particular those SMEs who had not engaged with HMRC educational products when this offer was made previously, so as to gauge general levels of skills in dealing with tax issues; and
 - to measure the extent to which **tax agents**² have used the agent toolkit³ and to assess the benefits of using the toolkit on their understanding of HMRC's services and requirements and their ability to prevent error and ensure compliance.
- 1.1.3. A total of 516 SMEs and 1,440 agents participated in the respective surveys.

SMEs

1.2. Awareness and use of HMRC education and tax agents

- 1.2.1. The majority of newly registered businesses (85%) (which stated that they were not interested in taking part in one of HMRC's education programmes) had not used HMRC or other educational material in the previous 12 months.
- 1.2.2. A small proportion of businesses (6%: 29 out of 518) had used HMRC online training tools.
- 1.2.3. These newly registered businesses commonly did not use education because they were unaware that the educational material existed (50% of businesses which had not used HMRC or other educational material said this). Additionally a lack of time (41%) and the ease with which businesses could phone up HMRC to resolve queries (39%) were commonly cited

¹ Tax agents are individuals or organisations which are formally authorised by an individual or a business to deal with HMRC on their behalf. Dealing with HMRC could involve advice or assistance with filing in the tax return, reviewing the return or even preparing and submitting returns on behalf of the business. An agent can be a professional, such as an accountant or tax consultant, or a family member or friend.

² These tax agents had signed up to use the HMRC Agent Account Manager Service. HMRC set up a UK-wide team of Agent Account Managers (AAMs) to help tax agents and advisers to deal with the department more effectively. The AAM team offers a range of services, such as providing speakers for agent events and meetings, invitations to HMRC Learning Together educational events, and a streamlined process called the Agents' Issue Resolution Service to resolve ongoing problems more quickly.

³ HMRC has produced a range of agent toolkits, which are aimed at helping and supporting tax agents and advisers. See: www.hmrc.gov.uk/agents/prereturn-support-agents.htm



reasons for not taking up education. Around one-third of businesses (32%) reported that they had not taken up education as their agent covered most of their tax related issues.

- 1.2.4. Nearly half of all businesses (48%) used an agent, either a professional agent (29%) or friend / family member (20%), to help them with their tax obligations.
- 1.2.5. Businesses which had not used HMRC or other educational material were more likely to use an agent (51% compared to 29% of those which had used education), as were businesses with a higher turnover (£15,000 or more) and those which had registered for VAT or Pay As You Earn (PAYE).
- 1.2.6. Around half of all businesses that used an agent (52%) reported that their agent both prepared and submitted their tax returns. Businesses which used agents to prepare and submit their returns tended to have a lower level of awareness of their tax obligations to HMRC.

1.3. Knowledge and understanding of tax affairs

- 1.3.1. Knowledge across topics relating to tax affairs was very varied amongst the surveyed SMEs who had not previously engaged with HMRC educational products. Overall, six in ten businesses (59%) answered at least three of five 'true-false' questions about tax arrangements correctly. A far smaller proportion (6%) answered all five questions correctly.
- 1.3.2. Businesses which had used HMRC or other educational material were more likely to answer at least three of the questions correctly.
- 1.3.3. While around three-quarters of businesses (74%) answered correctly that businesses could not claim expenses for a car for both business and private purposes, only a third of businesses (34%) answered correctly that entertaining clients was not allowable for claiming business expenses. Businesses were on the whole far less knowledgeable about tax affairs relating to PAYE and VAT.

1.4. Understanding tax requirements

- 1.4.1. Businesses which had used HMRC or other educational material tended to be more likely to report that they understood the various tax requirements covered.
- 1.4.2. Businesses were most likely to report an understanding of what documents they needed to keep in relation to their tax return (80%), and how to separate business and personal expenses (79%).
- 1.4.3. Businesses were less sure about issues relating to VAT and payroll, such as understanding how to register as an employer with a PAYE scheme (41% of businesses registered for PAYE reported understanding this aspect of their tax affairs).
- 1.4.4. Over three-quarters of businesses (77%) reported that they were aware of their tax obligations to HMRC.⁴ Businesses which had used HMRC or other educational material were more likely to report awareness.

1.5. Good practice and tax management

⁴ 77% of businesses gave a score of six to nine out of nine, which, according to HMRC's definitions, classed them as being 'aware' of their tax obligations.



- 1.5.1. Almost all businesses (95%) reported that they kept records of all receipts to help them complete their tax returns.
- 1.5.2. Over six in ten (63%) had enrolled online so that they could submit their Self Assessment return online.
- 1.5.3. Businesses were less likely to use other forms of electronic assistance for handling their tax affairs however. For example, one-quarter (23%) used the HMRC email reminders service to remind them when their SA submissions were due while one-fifth of businesses registered for VAT (21%) processed and sent out VAT invoices electronically.
- 1.5.4. Businesses which had used HMRC or other educational material were more likely to have enrolled online and have taken up the HMRC email reminders service.
- 1.5.5. Businesses registered for PAYE were slightly more likely to follow 'good practice' measures relating to PAYE: half reported that they recorded all payment and deductions on employees' payroll.

1.6. Contact with HMRC

- 1.6.1. Around six in ten businesses (58%) had contacted the HMRC helpline or tax office in the previous 12 months. The majority of businesses which had done so made contact only once or twice in that period (76%).
- 1.6.2. Businesses which had not used HMRC or other educational material were not more likely to have contacted HMRC.
- 1.6.3. The most common reason for contacting the HMRC helpline or tax office in the previous 12 months was to find out how to register for a specific tax, which is not surprising as the sample was taken from newly registered businesses. Confirmation that they were doing the right thing and registering as self employed were also commonly cited reasons.

1.7. Benefits of education

- 1.7.1. As part of this work only a small number of businesses surveyed (15%: 78 out of 516) had received any training and little information was collected on the type of education received by businesses so no firm conclusions can be drawn about the impact of specific SME education initiatives.
- 1.7.2. On the one hand, indications are that this SME education tended to reach businesses which were already taking steps to manage their tax affairs. For example, six in ten businesses which had received education (63%: 49 out of 78) had already updated their business records on a frequent basis prior to receiving the education, while half had already formally reviewed how records were kept in their business.
- 1.7.3. At the same time, there is tentative evidence of positive multiplier effects in that nearly one-quarter of businesses (23%: 18 out of 78) which had received education in the previous 12 months stated that they had recommended education tools to colleagues or other businesses after receiving the education.
- 1.7.4. Also, the benefits of SME education are evident in that around four-fifths of businesses (79%: 62 out of 78) which had received education in the previous 12 months felt more confident in dealing with their tax obligations after receiving this education. A further seven in ten (72%: 56 out of 78) reported feeling more confident about completing their businesses' tax returns.



Agents

1.8. Agents' use of the toolkit

- 1.8.1. Just under half (47%) of agents reported having used the toolkit, either for work or training purposes or both. This proportion is similar across different types of agents (large / small agents, recently / long established, or particular employment status).
- 1.8.2. Toolkit use is associated with higher levels of awareness of HMRC's services and requirements, as well as with keeping up to date via HMRC's tax update newsletters.
- 1.8.3. Nine in ten (91%) reported using the toolkit for work purposes, and two in five (39%) for training purposes. Three in ten (29%) stated they used the toolkit at least once a month.
- 1.8.4. Only about one in ten had attended a workshop but attendance was positively associated to take up and use of the toolkit.

1.9. Awareness of HMRC's services and requirements

- 1.9.1. When asked a series of awareness questions, virtually all agents knew about the late submission penalty for Self Assessment (SA) and two-thirds knew how long businesses need to keep SA records for. Three in five had a correct understanding of the Real Time Information (RTI) programme; and one in five were aware of HMRC's 'Agent Update' newsletter.
- 1.9.2. Larger agents, agents employed by a business, and agents subscribing to tax update newsletters were more likely to exhibit greater awareness.
- 1.9.3. Agents' awareness that the Government Gateway now covers online services with regard to SA, Corporation Tax, VAT and PAYE was relatively high (70%+).
- 1.9.4. Toolkit users exhibited greater awareness of HMRC's services and requirements compared to non-users.

1.10. Agents' working practices

- 1.10.1. At least 80% subscribed to tax newsletters or received updates from professional bodies as well as using HMRC website so as to keep up to date with tax legislation.
- 1.10.2. Three-quarters (76%) of agents reported using their own internal checklists to review returns, two in five stated using other tools (41%), and one in five used checklists within the HMRC toolkit (20% – in particular younger and smaller agents).
- 1.10.3. When facing an unfamiliar tax area or calculations agents were asked what steps they would take on a regular basis. Three in five (59%) reported taking the approach of consulting a tax manual or reference in the first instance or on a regular basis, half (51%) said they would visit HMRC's website, and half (50%) would contact a third party organisation.
- 1.10.4. Difficulties in getting clients to improve their record keeping was a frequent problem reported by one-quarter (24%) and a further half (51%) said that this happened sometimes. One-quarter (26%) reported they sometimes have to estimate some of the information on a clients' tax return due to lack of data.



1.10.5. Toolkit users were more likely to subscribe to HMRC newsletters, and to newsletters in general; they were also more likely to use HMRC's website frequently as a means of keeping up to date with tax legislation.

1.11. Benefits of the toolkit

1.11.1. Agents reported a variety of benefits derived from using the toolkit, including helping them to identify risks (66%) and keeping them up to date with tax legislation (48%).

1.11.2. As a result of using the toolkit about half (45%) stated that they had made changes to at least one client tax return.

1.11.3. Two in five (43%) toolkit users had downloaded or used further HMRC tools for agents.

1.11.4. A similar proportion (45%) had recommended the toolkit.

1.11.5. The most important barrier to using the toolkit reported by agents was that their internal processes already covered all the areas in the toolkit. However, one-quarter (27%) stated they were simply not aware of the toolkit.



2. Introduction

2.1. Background, aims and objectives

- 2.1.1. HM Revenue and Customs (HMRC) commissioned IFF Research to conduct an independent evaluation into the impact of their education programmes on tax compliance, attitudes and behaviour of Small and Medium Enterprises (SME) and tax agents.
- 2.1.2. At present **SMEs** account for about half of the total tax gap. Any steps that can be taken towards ensuring that SMEs are more likely to get their dealings with HMRC right – be it through taking more care or having better understanding of the requirements or even through making more use of agents – could therefore result in compliance cost savings and a reduction in the tax gap.
- 2.1.3. As a result, HMRC has a programme of business education aimed at SMEs such as online seminars (webinars). HMRC has also conducted a large-scale outbound telephony exercise offering education over the phone to businesses that have recently started up.
- 2.1.4. **Tax agents** are individuals or organisations which are formally authorised by an individual or a business to deal with HMRC on their behalf. The role of tax agents is central to HMRC's efforts to improve tax compliance and reduce error.
- 2.1.5. As part of HMRC's wider approach to improving tax compliance, which is focused on help and support to ensure that returns are correct, HMRC has produced a range of agent toolkits with input from agents, which are aimed at helping and supporting tax agents and advisers. In support of this toolkit, HMRC has rolled out a programme of workshops designed to educate and inform agents about the toolkit.
- 2.1.6. With these issues in mind HMRC commissioned IFF Research to conduct two surveys to look at:
- the behaviour, as well as the knowledge and understanding of tax affairs, of **SMEs**. The research with SMEs focuses mainly on those which stated that they were not interested in taking part in one of HMRC's education programmes⁵; and
 - to measure the extent to which **tax agents** have used the toolkit and to assess the benefits of using the toolkit on their understanding of HMRC's services and requirements and their ability to prevent error and ensure compliance.

⁵ When contacted as part of the outbound telephony exercise.



2.2. Sampling and methodology

- 2.2.1. The surveys comprised 516 quantitative telephone interviews with SMEs and 1,440 with agents, conducted between 12th March and 14th May 2012.
- 2.2.2. HMRC provided IFF with named contact details for 1,355 SMEs and 2,485 agents. As noted above, all SMEs had stated that they were not interested in taking part in one of HMRC's education programmes when contacted as part of an outbound telephony exercise. Agents were split between those who had reported having taken part in an HMRC education workshop event⁶ (user of education) and those that had not (non-user of education), as shown, with response rates, in Table 2.1.⁷
- 2.2.3. HMRC were unable to supply IFF with contact details of SMEs which had taken part in the recent educational telephony exercise and these businesses were therefore not included in the survey.

Table 2.1: Sample profile

	Audience type		
	SMEs	Agents (User of education)	Agents (Non-User)
Interviews achieved	516	601	839
Total sample	1,355	997	1,488
Response rate	43%	60%	58%

- 2.2.4. The construction of the survey questionnaires involved an extensive period of development which included discussions with HMRC, cognitive interviews with SMEs and agents and a pilot telephone survey.
- 2.2.5. Cognitive interviewing involved ten face-to-face interviews (five with SMEs and five with agents) and subsequently 142 pilot interviews were carried out in a rolling pilot (33 with SMEs and 109 with agents) in March.
- 2.2.6. Following this development work the final main stage questionnaires lasted an average of 12 minutes (SMEs) and 10 minutes (agents) and fieldwork was conducted using CATI.

2.3. Reporting

- 2.3.1. The remainder of the report is divided into two parts: Part A (chapters 3 to 9) reviews the findings of the survey of SMEs, while Part B (chapters 10 to 14) looks at the findings of the survey of agents.
- 2.3.2. Where meaningful differences between sub-groups emerge, they are highlighted in the commentary. Throughout this report, all differences indicated are significant at the 95% confidence level unless otherwise stated.

⁶ Participation in education is not the same as actual use of the toolkit (although the group of agents who had participated in the workshop were exposed to the toolkit during that event)

⁷ Appendix A shows how the response rates were calculated, according to HMRC prescriptions.



- 2.3.3. Data in some tables and charts may not add to 100% due to rounding. Also where data elements have been combined, for example adding “strongly” and “tend to” agree together to generate a net “agree” figure, the individual elements may not sum to the combined figure due to rounding.

Part A: Survey of SMEs



3. Profile of businesses surveyed

3.1. Introduction

- 3.1.1. This chapter profiles the 516 SMEs that participated in the research study; their key 'firmographic' variables are outlined below. The sample was selected from businesses newly registered with HMRC.

3.2. Employment status and size of businesses

- 3.2.1. Virtually all respondents to the survey (96%) were self employed while a large proportion of businesses (86%) were sole traders. One in ten businesses surveyed (10%) employed two to four staff while a further 3% employed five or more staff.

3.3. Sector

- 3.3.1. Businesses were classified according to HMRC's SME industry sector classification. Construction was the most common sector among businesses surveyed (23%), followed by Health and Social Work (13%).
- 3.3.2. Owing to the low numbers of businesses in each sector, they were assigned a broader categorisation to facilitate analysis. Table 16.1 in Appendix B details this categorisation as well as the proportions of businesses in each sector.

3.4. Annual Turnover

- 3.4.1. Most businesses surveyed had a relatively low turnover: six in ten (61%) had an annual turnover of less than £15,000.⁸
- 3.4.2. The mean turnover across all businesses surveyed (excluding those which refused or were uncertain) was £26,350.

3.5. Years trading

- 3.5.1. All SMEs were newly registered to HMRC, however when asked about operating time in the survey a range of answers were given. Nearly two-thirds (64%) of businesses said they had been in operation for a year or less, one-quarter (23%) for one to two years and one in eight (12%) for two years or more.

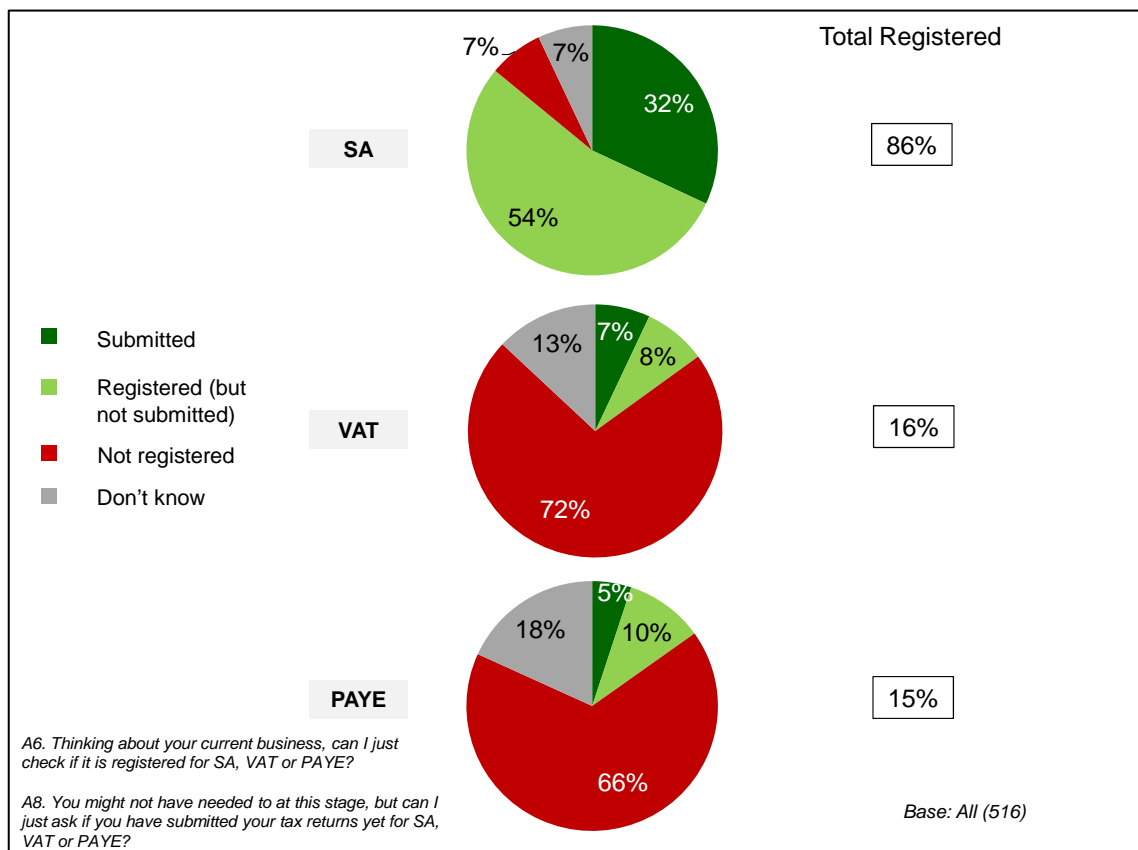
⁸ Please see Table 16.2 in Appendix B showing the distribution of businesses by annual turnover



3.6. Tax registration

- 3.6.1. Most businesses (86%) stated that they had registered for SA, while the proportions of those businesses which had registered for VAT (16%) and PAYE (15%) were much lower. Those businesses with two or more employees were more likely to have registered for both VAT and PAYE than sole traders.⁹
- 3.6.2. When businesses were asked whether they had actually gone on to submit a tax return, the proportions were far lower for each tax compared to the proportions of businesses which had registered for the same tax. Figure 3.1 illustrates the proportions of businesses which had registered for and/or submitted tax returns for each tax.

Figure 3.1: Proportion of businesses which said they had registered for and/or submitted their tax returns¹⁰



- 3.6.3. One-third of all businesses surveyed (32%) had submitted a tax return for SA. This compared with 7% of businesses which had submitted their tax return for VAT and 5% for

⁹ Around a third of businesses with two or more employees had registered for VAT or PAYE (both 35%) compared to around one in eight of sole traders (13% and 12% respectively).

¹⁰ This is based on recall. All SMEs in the survey were newly registered.



PAYE. Businesses which had been operating for less than a year were significantly less likely to have submitted tax returns.¹¹

3.6.4. It is worth noting the high proportions indicating they were not sure whether they had registered for these taxes, which perhaps indicates a lack of awareness of tax obligations among this cohort of businesses.¹²

3.6.5. It must also be noted that all self employed workers should register with HMRC and complete an SA form. Only 88% of self employed businesses recalled that they had registered for SA when asked during the survey.

3.7. Overall profile

3.7.1. Cross analysing these key variables shows that:

- Sole traders were more likely to have a lower turnover and to have spent fewer years trading than those businesses which had more than one employee, for example: 92% of businesses with an annual turnover of less than £15,000 were sole traders, compared to 78% of businesses with a turnover of £15,000 or more, while 89% of businesses which had been in operation for a year or less were sole traders compared to 81% of businesses which had been operating for more than a year.
- Businesses in the Public services sector were more likely to have a turnover of less than £15,000 (73% compared to 61% overall), while businesses in the Construction and distribution sector were more likely to have a high turnover (£15,000 or more) than those in other sectors (46% compared to 32% overall).

¹¹ While 21% of businesses which had been operating for less than a year had submitted an SA tax return, this proportion was 51% among businesses which had been operating for a year or more. There was a similar pattern for those businesses which had submitted VAT returns (5% compared to 11%).

¹² 'Don't know' responses over tax registration: SA (7%); VAT (13%); PAYE (18%).



4. Awareness and use of HMRC Education and tax agents

Chapter summary

- Amongst all surveyed businesses – which were businesses that had declined the original offer of education when contacted by phone at an earlier stage – the majority (85%) had not used HMRC or other educational material in the previous 12 months – although as those surveyed were new registrations they may have intentions to do this in the future.
- Fifteen percent reported having used HMRC or other educational material. Making use of such education was defined by attendance at an HMRC training workshop or webinar, attendance at any training course on tax not organised by HMRC or the use of HMRC educational online training tools.
- A small proportion of newly registered businesses (6%: 29 out of 518) had used HMRC online training tools.
- The most common reasons for not using education were being unaware that the educational material existed, not having enough time and the ease with which businesses could phone up HMRC to resolve queries.
- Around one-third of businesses (32%) reported that they had not taken up education as their agent covered most of their tax related issues.
- Nearly half of all businesses (48%) used an agent, either a professional agent (29%) or friend / family member (20%), to help them with their tax obligations.
- Businesses which had not used any educational material, and those with a higher turnover were more likely to use an agent.
- Around half of all businesses that used an agent (52%) reported that their agent both prepared and submitted their tax returns. As might be expected, these businesses tended to have a lower level of awareness of their tax obligations to HMRC.

4.1. Introduction

- 4.1.1. A key area of interest throughout the study was whether businesses had used any education tools or received training relating to tax affairs.
- 4.1.2. While the starting sample of SMEs comprised those who had stated that they were not interested in participating in HMRC telephony education exercise, this did not necessarily mean that they had not received other forms of tax education before taking part in the survey. This section explores the extent to which those SMEs surveyed had received education.¹³
- 4.1.3. Another indicator of businesses' awareness of and compliance with their tax obligations is their use of tax agents. This section also looks at the extent to which the SMEs surveyed had used agents and how they had used them.

¹³ See the 'Use of education' section at 4.2.1. for a definition of 'HMRC or other educational material'.



4.1.4. In order to assist the analysis of businesses, a 'best practice' index was created to group businesses into three categories ('good', 'average' and 'poor') denoting their knowledge and awareness of certain tax requirements.¹⁴

4.2. Use of education

4.2.1. The majority of newly registered businesses (85%) had not used HMRC or other educational material in the previous 12 months (some businesses would have been registered for less than 12 months so may not have had time to take up education if they intended to do so). In order to be classed as having used HMRC or other educational material, businesses had to have done at least one of the following in the previous 12 months:

- Attended an HMRC training workshop;
- Attended an HMRC online seminar;
- Used any of the HMRC educational online training tools;
- Attended any training course on tax not organised by HMRC.¹⁵

4.2.2. There were no significant differences by 'firmographics' apart from by sector. Businesses in the Construction and distribution sector were far less likely to have used HMRC or other educational material than businesses in other sectors (5% compared to 15% overall). Businesses in the Finance and business services sector were however far more likely to have used such educational material (30%).

4.2.3. Businesses which had used HMRC online training tools (6%: 29 out of 516) were asked what topics these covered, however the base size was too small to conduct further analysis.

4.3. Reasons for not using HMRC or other educational material

4.3.1. Businesses which had not used HMRC or other educational material were asked why they had decided not to do so.

4.3.2. Exactly half of all businesses which had not used HMRC or other educational material reported they were not aware that these existed.

4.3.3. Businesses which had a 'poor' best practice index were more likely than average to report that they were not aware HMRC or other educational material existed (58% compared to

¹⁴ The groupings were devised using the following questions:

- Do you use an agent, such as an accountant, tax consultant or family member for example, to assist you or advise you on your business' taxes?
- Correct answers to true-false questions in knowledge section
- Do you keep records of all receipts to help you complete your tax returns?
- To what extent do you agree or disagree that the business understands what it needs to do to meet its obligations to HMRC?

¹⁵ Table 16.3 in Appendix B shows the proportions of businesses which engaged with HMRC or other organisations for education or learning purposes.



50% overall). Businesses which had not contacted HMRC in the previous 12 months were also more likely to cite lack of awareness as a reason (58%).

4.3.4. A lack of time (41%) and the ease with which businesses could phone up HMRC to resolve queries (39%) were also commonly cited reasons for not having used HMRC education or other educational materials.

4.3.5. Around one-third of businesses (32%) reported that they had not used the educational materials as their agent covered most of their tax related issues. Another way of looking at this is to say that 62% of businesses with an agent said that they did not use education because their agent takes care of all their tax affairs.¹⁶

4.4. Use of agents

4.4.1. Nearly half of all businesses (48%) used an agent in some sort of capacity to help them with their tax obligations. Three in ten businesses (29%) used a professional agent such as a tax consultant or an accountant while a further one in five (20%) used a friend or family member.

4.4.2. Businesses which had not used HMRC or other educational material were far more likely to use an agent (51% compared to 29% of those which had used education), indicating perhaps that businesses which made use of agents were less likely to perceive a need for education.

4.4.3. The association between use of education and use of agents was reinforced by examining businesses in the Construction and distribution sector. Six in ten of these businesses (61%) used an agent, which also tied in with the low proportion (5%) which had used educational material.

4.4.4. Businesses with a higher turnover (£15,000 or more) were also more likely to use an agent (60%). In line with this, if a business was registered for VAT or PAYE they were also more likely (65% and 69% respectively) to use an agent, indicating an association between the extent of tax obligations and the perceived need for assistance.

4.4.5. There were a number of differences between the profiles of businesses using a professional agent and those using a friend or family member. Businesses with a higher turnover, more years in operation, greater employee numbers and those registered for VAT or PAYE were more likely to use a professional agent.¹⁷ Indeed, businesses with a lower turnover (less than £15,000) were more likely to use a friend or family member.¹⁸

4.4.6. The level of involvement agents had in businesses' tax affairs varied. Around half of all businesses that used an agent (52%) reported that their agent both prepared and submitted their tax returns. In such instances, the agents in question tended to be professionals rather than family members or friends acting as agents.¹⁹

¹⁶ Figure 16.1 in Appendix B shows the top ten reasons for not having used HMRC or other educational material.

¹⁷ Businesses more likely to use a professional agent (than a friend or family member) included those with: a turnover £15,000 or more (49% vs. 19% less than £15,000); more than one employee (45% vs. 27% sole traders); more than one year in operation (34% vs. 26% a year or less); and those registered for VAT and PAYE (both 51%).

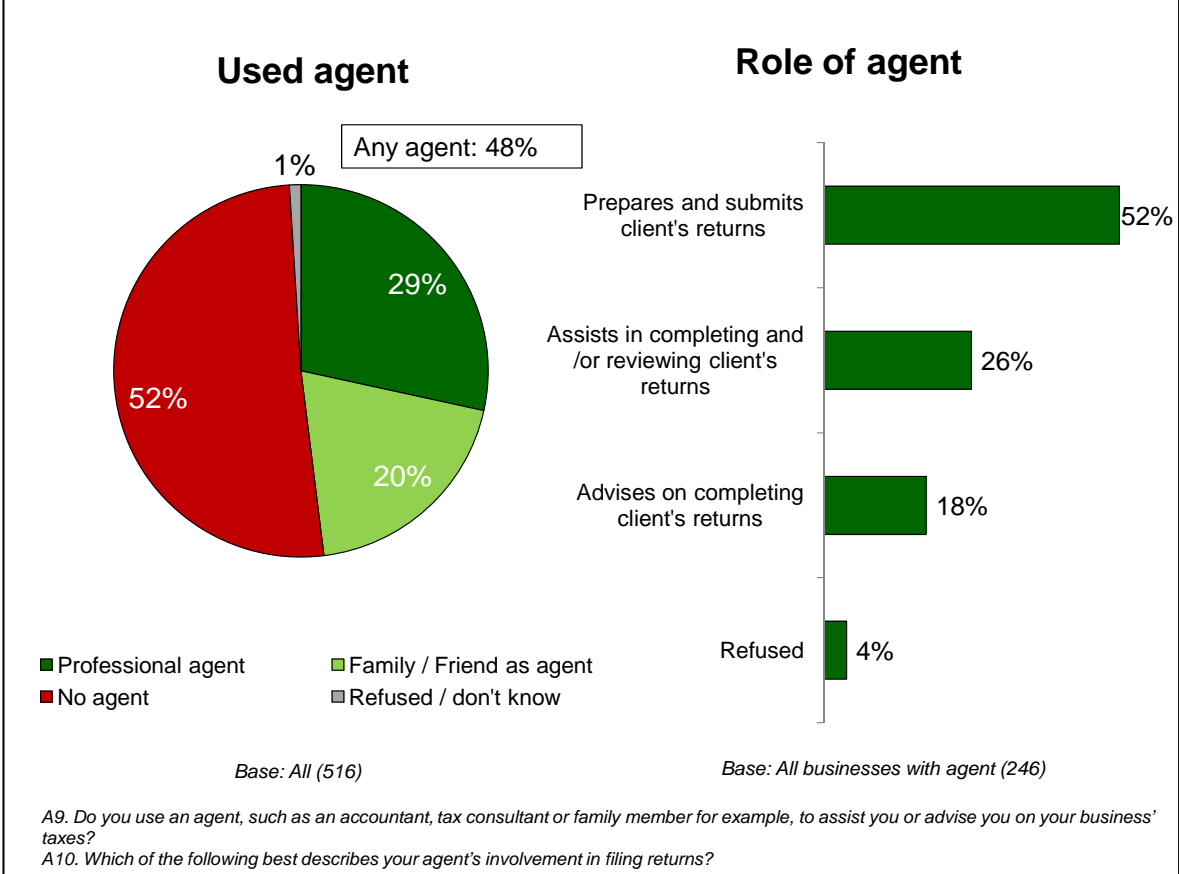
¹⁸ 22% compared to 13% of businesses with a higher turnover (£15,000 or more).

¹⁹ 67% of businesses which used professional agents had their agents prepare and submit their tax returns compared to 28% of businesses which used a family members or friend acting as an agent (28%).



4.4.7. One-quarter of businesses that used an agent (26%) reported that their agent assisted them in completing and/or reviewing the returns while a further one in five (18%) reported that they used their agent for advice on completing their returns.

Figure 4.1: Proportion using agents and involvement of agents



4.4.8. A low level of awareness of businesses' tax obligations to HMRC was linked to higher proportions of businesses using agents to prepare and submit their returns (70% compared to 47% with a high level of awareness).

4.4.9. Sole traders appeared less likely to give agents such a comprehensive role in their tax affairs: 47% of sole traders used agents to prepare and submit their tax returns compared to 75% of businesses with more than one employee.



5. Knowledge and understanding of tax affairs

Chapter summary

- Knowledge across topics relating to tax affairs was very varied and could have been influenced by the length of time the business had been operating (they were newly registered businesses) and whether their tax affairs were dealt with by an agent. While around three-quarters of businesses (74%) answered correctly that businesses could not claim expenses for a car for both business and private purposes, only a third of businesses (34%) answered correctly that entertaining clients was not allowable for claiming business expenses.
- Businesses were on the whole far less knowledgeable about tax affairs relating to PAYE and VAT, although six in ten businesses (63%) answered correctly that employers were required by law to keep records.
- Overall, six in ten businesses (59%) answered at least three of five 'true-false' questions about tax arrangements correctly.
- A far smaller proportion (6%) answered all five questions correctly. Businesses which had used HMRC or other educational material were more likely to answer at least three of the questions correctly. The length of time trading and whether or not an agent was used was not influential.

5.1. Introduction

- 5.1.1. Businesses were asked a number of questions to assess their knowledge and understanding of certain tax requirements. The sample was drawn from newly registered businesses, some of which would not have had time to take up training. Others that were making use of an agent are likely to need less knowledge themselves.
- 5.1.2. A series of 'true' or 'false' questions were used in this knowledge section, covering aspects such as expenses, payroll and VAT requirements. In addition further questions were asked to those businesses which had registered for VAT and PAYE, either as a 'true' or 'false' scenario or as a multiple choice. 'Don't know' answers were treated as 'incorrect' throughout.
- 5.1.3. This chapter covers the responses to these questions at an individual level as well as at an overall level, examining the total proportion of questions answered correctly by businesses.

5.2. Knowledge of specific tax requirements: SA

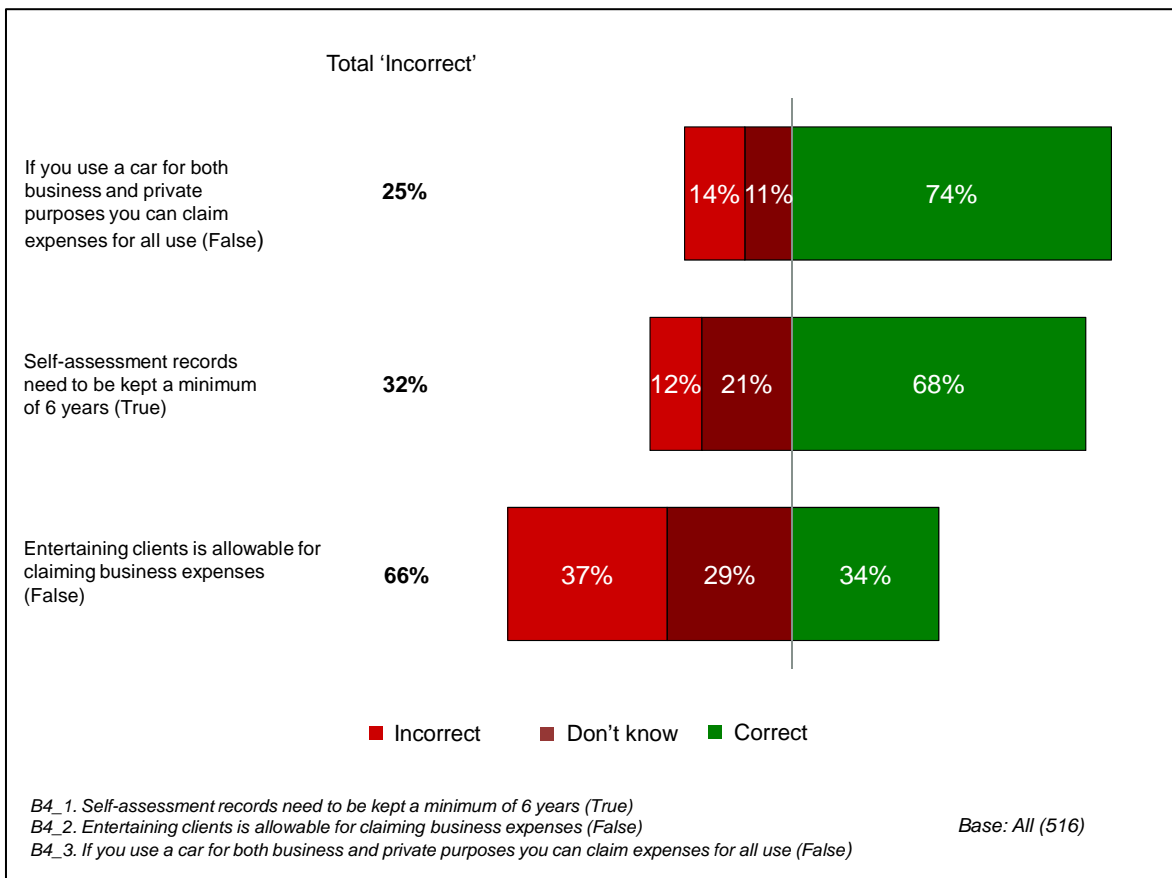
- 5.2.1. All businesses were asked three 'true-false' scenario questions relating to SA. Around three-quarters of businesses (74%) answered correctly that businesses could not claim expenses for a car for both business and private purposes while a similar proportion (68%) correctly answered that SA records needed to be kept for a minimum of six years. A far lower proportion of businesses (34%) correctly answered that entertaining clients was not allowable for claiming business expenses.
- 5.2.2. Compared to other 'true-false' scenarios there was a low proportion of businesses (11%) which stated 'don't know' to the statement, 'If you use a car for both business and private purposes you can claim expenses for all use', illustrating that businesses were fairly confident about this area of their tax affairs. Four-fifths of businesses (80%) which reported



an understanding of how to separate between business and personal expenses answered correctly here²⁰.

- 5.2.3. A higher proportion of businesses were unsure about the length of time SA records needed to be kept (21% stated 'Don't know'). While businesses which reported that they understood what documents they needed to keep in relation to their tax return were more likely to answer correctly²¹ (72% answered correctly compared to 52% of businesses which reported that they did not understand so well), still 28% of such businesses answered incorrectly here.
- 5.2.4. Although a low proportion of businesses (34%) knew that entertaining clients was not allowable for claiming business expenses, businesses which had used HMRC or other educational material were far more likely to correctly answer (54%) in this scenario.

Figure 5.1: Knowledge of SA requirements



5.3. Knowledge of specific tax requirements: PAYE

- 5.3.1. Businesses were less like likely to answer questions about PAYE correctly. Six in ten businesses (63%) correctly answered that employers were required by law to keep records

²⁰ Please refer to paragraph 6.2.4 for further detail on the proportion of businesses which stated that they understood how to separate between business and personal expenses.

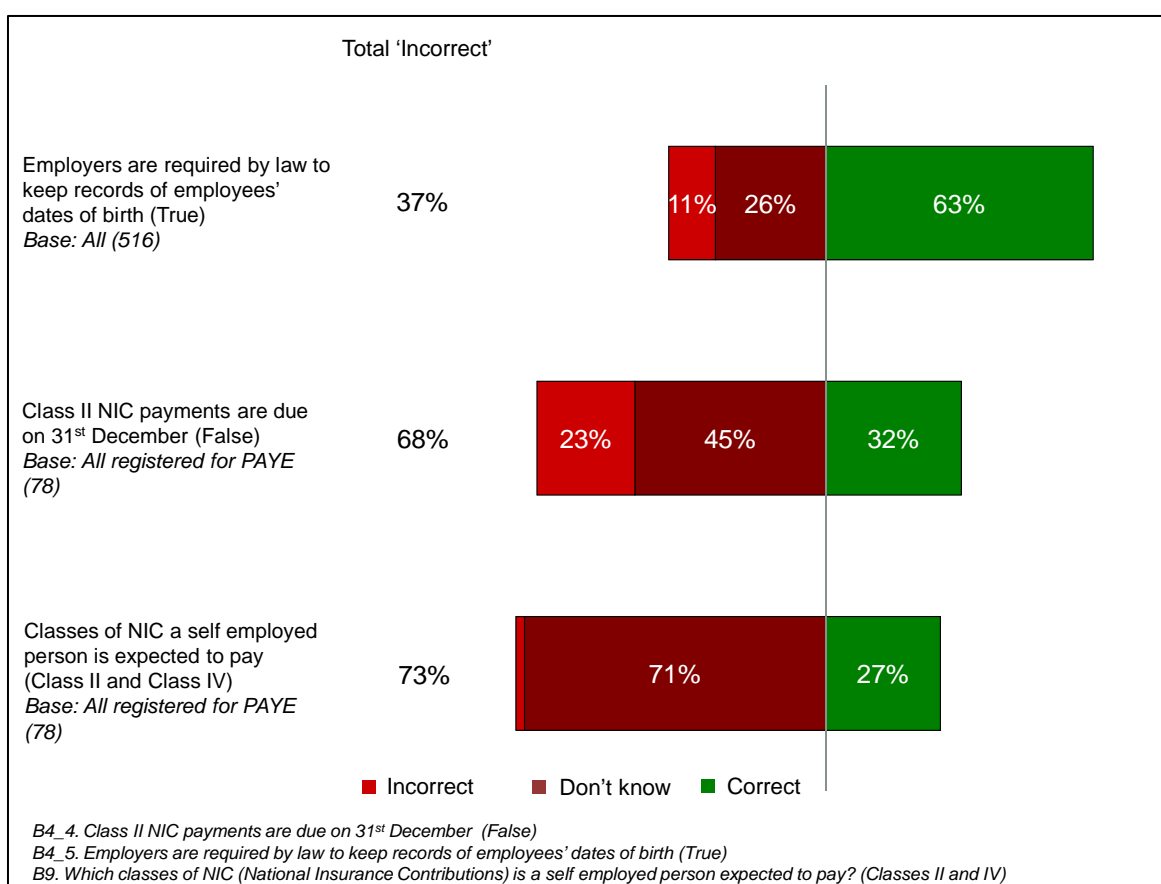
²¹ Please refer to paragraph 6.2.3 for further detail on the proportion of businesses which stated that they understood what documents they needed to keep in relation to their tax return.



of employees' dates of birth. Interestingly businesses which had registered for PAYE were no more likely to answer correctly about keeping records of employees' dates of birth.

- 5.3.2. Businesses which had registered for PAYE were also asked about the Class II NIC payment date and the classes of NIC a self employed person was expected to pay.²²
- 5.3.3. One-third of businesses (32%: 25 out of 78) correctly answered that 'Class II NIC payments are due on 31st December' was a false statement.
- 5.3.4. Around one-quarter of businesses registered for PAYE (27%: 21 out of 78) correctly answered that a self employed person is expected to pay either Class II or Class IV NIC. Seven in ten (71%: 55 out of 78) stated they did not know the answer.

Figure 5.2: Knowledge of PAYE requirements



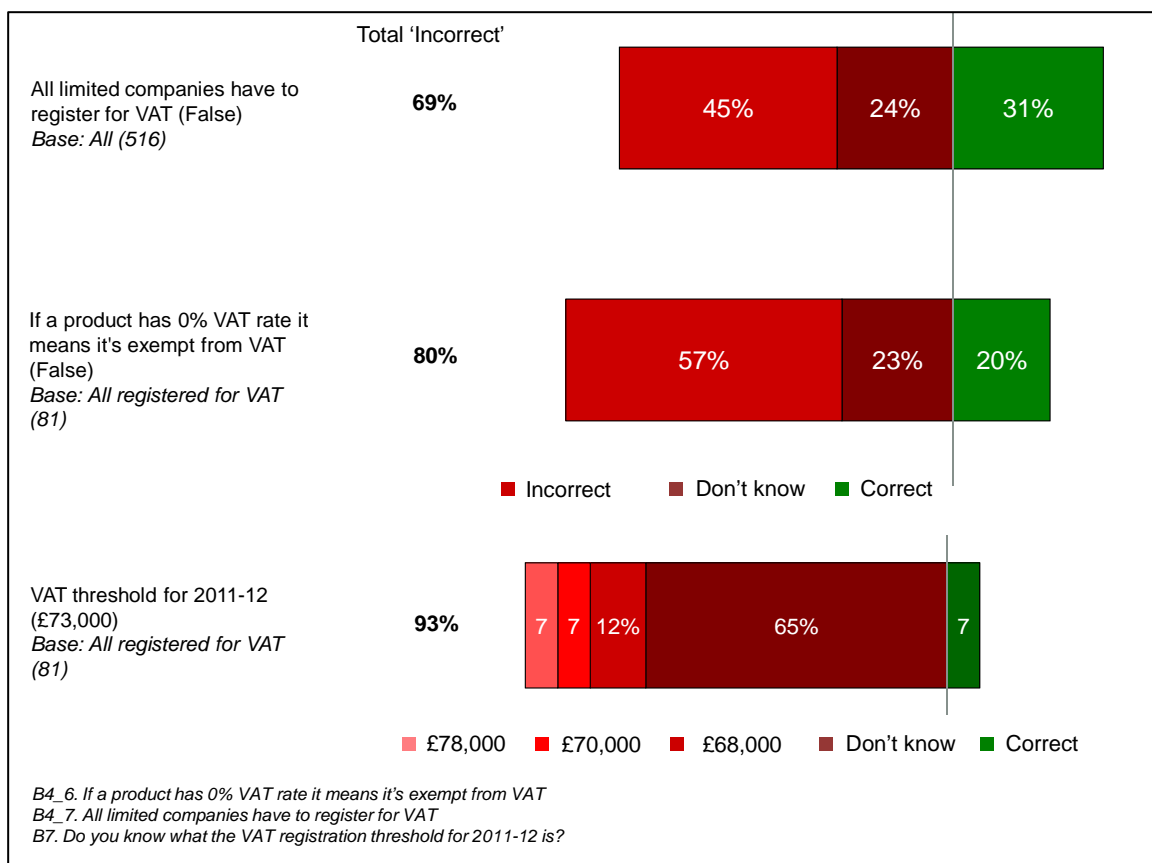
5.4. Knowledge of specific tax requirements: VAT

- 5.4.1. Knowledge was far lower regarding VAT requirements than both SA and PAYE requirements. Three in ten businesses (31%) correctly answered that not all limited companies had to register for VAT. Indeed nearly a half (45%) thought that all limited companies did have to register.

²² NIC (National Insurance Contributions) is a tax paid by all employees, employers and the self-employed. A classification system is used, split into Classes I-IV, and defined by employment type and income to determine the amount an individual is charged.

- 5.4.2. A large proportion of businesses which had registered for VAT (60%) incorrectly thought all limited companies had to register for VAT, higher than the proportion which had not registered for VAT (42%). Half (49%) of businesses which had received the HMRC or other educational material answered correctly compared to three-tenths (28%) of businesses which had not.
- 5.4.3. Businesses which had registered for VAT were also asked about VAT exemption and the VAT registration threshold for 2011-12.
- 5.4.4. Nearly six in ten businesses (57%: 46 out of 81) incorrectly stated that if a product had 0% VAT rate it was exempt from VAT. One-fifth (20%: 16 out of 81) of businesses correctly stated that this was false.
- 5.4.5. Respondents were given four different monetary options of the VAT registration threshold for 2011-12. A small proportion of businesses registered for VAT (7%: 6 out of 81) correctly answered £73,000. 'Don't know' was the most common incorrect answer given (65%: 53 out of 81), while £68,000 was the most commonly mentioned of the remaining monetary options (12%: 10 out of 81).

Figure 5.3: Knowledge of VAT requirements



5.5. Overall knowledge of tax requirements

- 5.5.1. Responses to the following questions, asked of all respondents, were combined to generate a measure of businesses' level of knowledge, or 'knowledge index':



- Self-assessment records need to be kept for a minimum of 6 years (True);
- Entertaining clients is allowable for claiming business expenses (False);
- If you use a car for both business and private purposes you can claim expenses for all use (False);
- Employers are required by law to keep records of employees' dates of birth (True);
- All limited companies have to register for VAT (False).

5.5.2. Overall, six in ten businesses (59%) answered at least three 'true-false' questions correctly out of five questions asked to all businesses in the knowledge section, although a far smaller proportion (6%) answered all five questions correctly.

5.5.3. Table 5.1 shows the proportions of businesses answering correctly across all five questions, as well as the average number of questions answered correctly. It also illustrates how the 'knowledge index' has been defined into three categories: Poor (0-1 correct answers), Medium (2-3 correct answers) and Good (4-5 correct answers).

Table 5.1: Overall proportion of correct answers to knowledge questions and knowledge index definition

Number of correct answers in knowledge section	Proportion	Knowledge Index	Proportion
<i>Base: All businesses (516)</i>			
	%		%
0 correct answers	6	Poor	18
1 correct answer	11		
2 correct answers	23	Medium	54
3 correct answers	31		
4 correct answers	22	Good	28
5 correct answers	6		
Mean number of correct answers	2.7		

- 5.5.4. Most 'firmographic' differences (such as number of employees, turnover and years trading) did not affect the average score achieved by businesses. (As these were newly registered businesses we would not expect years trading to be important). Indeed, the use of agents did not appear to significantly affect the average score either, suggesting that a reliance on agents neither improved nor reduced businesses' knowledge of certain tax regulations. Although, as mentioned previously (para 4.4.8), a low level of awareness of businesses' tax obligations to HMRC was linked to higher proportions of businesses using agents to prepare and submit their returns.
- 5.5.5. Businesses that did record significantly higher average scores were those which said they had used HMRC or other educational material, those which were aware of what they needed to do to meet their obligations to HMRC and those which were in the Finance and business services sector.²³

²³ Businesses which had used education gave on average 3.2 correct answers (vs. 2.6 among those which had not used education). Businesses that reported to be aware of their obligations to HMRC gave 2.9 correct answers (vs. 2.2 of those with a low awareness) and Finance and business services sector businesses gave 3.5 compared to 2.7 overall.



6. Understanding tax requirements

Chapter summary

- Of the newly registered businesses in this survey, most businesses reported understanding what documents they needed to keep in relation to their tax return and how to separate between business and personal expenses (80% and 79% respectively).
- The perceived level of understanding about how penalty systems worked was lower although businesses which did not use an agent reported a far greater understanding of how these penalty systems worked.
- There was a relatively low perceived level of understanding around making claims for capital allowance while businesses were also unsure about issues relating to VAT and payroll.
- Businesses which had used HMRC or other educational material tended to be more likely to report that they understood the various tax requirements covered in this chapter.
- Over three-quarters of businesses (77%) reported that they were aware of their tax obligations to HMRC. Businesses which had used HMRC or other educational material were more likely to report awareness.

6.1. Introduction

6.1.1. To further measure businesses' understanding of their tax affairs and requirements, businesses were asked how well they understood various taxes that applied to their business.

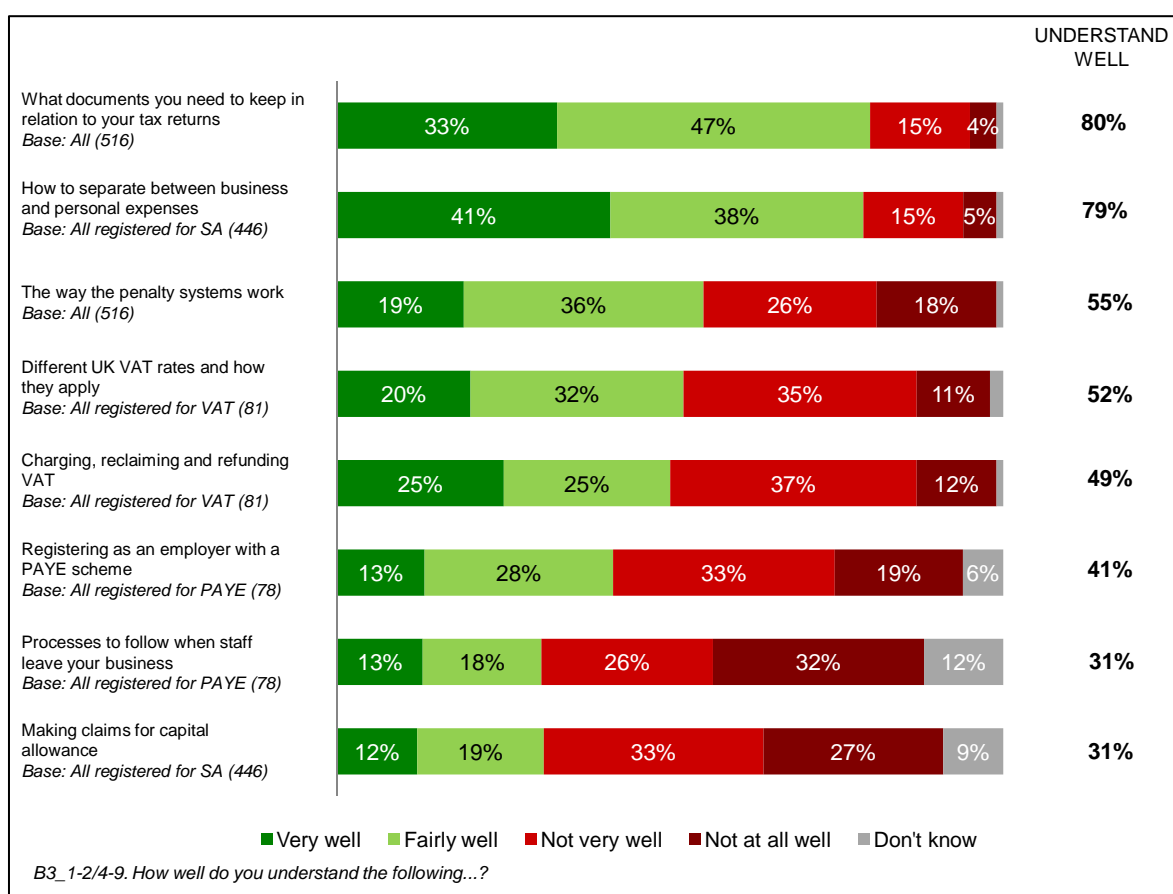
6.2. Understanding certain tax affairs

6.2.1. Businesses appeared most certain about the documents they needed to keep in relation to their tax return and how to separate between business and personal expenses. There was much less clarity around claiming for capital allowances and aspects relating to payroll. Figure 6.1 sets out the level of understanding for each question asked (this was their perceived knowledge).

6.2.2. Among those questions asked of all, or most (i.e. those registered for SA), various subgroups emerged as being more likely to report a higher level of understanding. These were businesses which:

- Used HMRC or other educational material;
- Had a 'good' knowledge index (this occurred in all cases except understanding claims for capital allowance);
- Stated that they were aware of their tax obligations to HMRC; and
- Operated in the Finance and business services sector (businesses in the Construction and distribution sector commonly had a lower level of understanding).



Figure 6.1: Level of perceived understanding of certain tax affairs

- 6.2.3. Four-fifths of businesses (80%) reported understanding what documents they needed to keep in relation to their tax return, while only one-third in total (33%) reported understanding very well. There was a far greater perceived level of understanding among sole traders than those businesses with two employees or more (82% vs. 70%).
- 6.2.4. Businesses registered for SA were asked how well they understood how to separate between business and personal expenses. It was this area of taxes where the highest proportion of businesses reported a good level of understanding: 41% of businesses registered for SA reported understanding this very well (79% understood very or fairly well). Businesses with a higher turnover were more likely to report that they understood this distinction.²⁴
- 6.2.5. The perceived level of understanding about how penalty systems worked was far lower. Only one in five businesses (19%) reported that they understood this area very well (55% understood very or fairly well). Interestingly, businesses which did not use an agent reported a far greater understanding of how the penalty systems worked (61% compared to 48% of businesses which had used an agent).
- 6.2.6. There was a relatively low perceived level of understanding around making claims for capital allowance, the only other question here put to a high proportion of businesses (those

²⁴ 86% of businesses with a turnover of £15,000 or more understood how to separate between business and personal expenses compared to 76% of businesses with a turnover less than £15,000.

registered for SA): around one in eight (12%) reported that they understood this area of their tax affairs very well (31% understood very or fairly well).

- 6.2.7. Businesses registered for VAT were asked how well they understood the different UK VAT rates and how these were applied, and the processes behind charging, reclaiming and refunding VAT. Around half of businesses (52% and 49% respectively) reported that they understood these areas well.
- 6.2.8. Businesses were less sure about issues relating to payroll. Of those businesses registered for PAYE, four in ten (41%) reported that they understood how to register as an employer with a PAYE scheme and three in ten (31%) reported understanding processes to follow when staff left their business. Indeed, almost one-third (32%) stated they did not understand such processes at all well.

6.3. Awareness of meeting obligations to HMRC

- 6.3.1. Businesses were asked to rate their understanding of what they had to do to meet their obligations to HMRC. They were asked this question on a nine point disagree-agree scale. This question measured businesses' subjective judgement of their awareness and should not be used as a precise measure for their actual level of understanding.
- 6.3.2. On the whole businesses were confident that they knew what to do to meet their obligations to HMRC. Over three-quarters (77%) reported that they were aware of their tax obligations to HMRC.²⁵
- 6.3.3. Businesses which had used the HMRC or other educational material were significantly more likely to report awareness of their tax obligations to HMRC (86% aware compared to 76% which had not used education). In general the use of agents had no significant impact, although businesses which used agents to prepare and submit their tax returns were less aware of their obligations to HMRC.²⁶
- 6.3.4. Businesses which had a better knowledge index were more likely to report awareness of their obligations to HMRC.²⁷
- 6.3.5. Once again, businesses in the Finance and business services sector were more likely to report that they were aware of their tax obligations (90%), while businesses in the Construction and distribution sector were far less likely to be aware (71%).

²⁵ 77% of businesses gave a score of six to nine out of nine, which, according to HMRC's definitions, classed them as being 'aware' of their tax obligations. 29% gave a score of nine out of nine.

²⁶ 27% of these businesses were 'unaware' (a score of one to five out of nine) compared to 18% overall.

²⁷ 64% of businesses with a 'poor' knowledge index were aware of their tax obligations; 75% of 'medium' businesses were aware; 90% of 'good' businesses were aware.



6.4. Ability to meet obligations to HMRC

- 6.4.1. All businesses which reported that they were unaware of how to meet their obligations to HMRC were subsequently asked to what extent they agreed or disagreed that they often needed help understanding official forms. These businesses were evenly split between those which reported they needed help (52%) and those which reported they did not (46%).²⁸ Due to the low numbers of businesses answering this question, no subgroup analysis could be performed.

²⁸ 46% gave a score of seven to nine out of nine, agreeing that their business did need help understanding official forms. 52% gave scores of one to six out of nine, indicating they did not agree that their businesses needed help. These classifications were determined by HMRC.



7. Good practice and tax management

Chapter summary

- Almost all of the newly registered businesses (95%) reported that they kept records of all receipts to help them complete their tax returns.
- Over six in ten (63%) had enrolled online so that they could submit their SA return online, while one-quarter (23%) used the HMRC email reminders service to remind them when their SA submissions were due.
- Businesses which had used HMRC or other educational material were more likely to have enrolled online and have taken up the HMRC email reminders service.
- Businesses registered for VAT were less likely to follow 'good practice' measures relating to handling VAT affairs electronically.
- Businesses registered for PAYE were slightly more likely to follow 'good practice' measures relating to PAYE: half reported that they recorded all payment and deductions on employees' payroll.

7.1. Introduction

7.1.1. Previous chapters have highlighted how newly registered businesses judged their awareness and understanding of what was required with regard to their tax obligations, as well as their knowledge of various tax regulations.

7.1.2. This chapter focuses on the actual behaviour of newly registered businesses, examining the extent to which they take certain steps to manage their tax affairs.

7.2. Record keeping

7.2.1. Almost all businesses (95%) reported that they kept records of all receipts to help them complete their tax returns.²⁹ The use of education did not significantly affect this proportion, but those which used agents were even more likely to keep records.³⁰

7.2.2. This figure was also higher among those businesses which reported that they understood what documents they needed to keep in relation to their tax returns (97% compared to 84% which were not certain). Similarly, a 'good' knowledge index and a perceived awareness of tax obligations were associated with an increased tendency to keep records of all receipts.³¹

7.2.3. Businesses which had been operating for longer were less likely to keep records of all receipts. While 96% of businesses which had been operating for a year or less kept records of all receipts, this figure was only 92% among businesses in operation for more than a year.

²⁹ Please see the Table 16.4 in Appendix B presenting findings about good practice and tax management.

³⁰ 97% of businesses with an agent kept records of all receipts compared to 92% of businesses without an agent.

³¹ 97% of businesses with a 'good' knowledge index kept records compared to 87% of businesses with a 'poor' knowledge index. 96% of businesses that were aware of their tax obligations to HMRC also kept records compared to 87% of 'unaware' businesses.



7.3. Online assistance for SA submissions

- 7.3.1. HMRC strongly advises businesses to submit their SA returns online, to improve the efficiency of the administration of these returns.
- 7.3.2. Businesses registered for SA were asked whether they had enrolled online so that they could submit their SA return online. Over six in ten (63%) had indeed enrolled online for this purpose.³² There were some notable differences by subgroup, as outlined below.
- Businesses which had used HMRC or other educational material were more likely to have enrolled online (77% compared to 60% which had not used education). The use of agents appeared to have little impact when businesses which indirectly enrolled online through their agent were accounted for.
 - A 'good' knowledge index was associated with a greater tendency to enrol online: 68% of businesses with a 'good' knowledge index had enrolled online to submit their SA return online compared to 54% of businesses with a 'poor' knowledge index. There was an identical pattern when examining the best practice index.³³
 - Businesses which had been operating for a short period of time were less likely to have enrolled online as were businesses in the Construction and distribution sector. Businesses in the Finance and business services sector were conversely far more likely to have enrolled online to submit their SA return online.³⁴
- 7.3.3. Overall, a much lower proportion of businesses (23%) used the HMRC email reminders service to remind them when their SA submissions were due.³⁵
- 7.3.4. Again, those businesses which had used HMRC or other educational material were more likely to take up this service (38% compared to 20% of those which had not used education), while the use of agents appeared to have little impact.
- 7.3.5. Neither businesses with a 'good' knowledge or best practice index were more likely to use the HMRC email reminders service. However, businesses which had contacted HMRC in the previous 12 months were less likely to have used the email reminders service (19% compared to 29% of businesses which had not contacted HMRC in the previous 12 months).
- 7.3.6. There was again an association by years trading and sector: businesses which had been operating for a shorter period of time were less likely to have used the email reminders service as were businesses in the Construction and distribution sector. Businesses in the Finance and business services sector were conversely far more likely to have used the email reminders service to remind them when SA submissions were due.³⁶

³² This figure includes 6% of businesses which reported that their agent had enrolled online for them.

³³ 68% of businesses with a 'good' best practice index had enrolled online to submit their SA return online compared to 54% of businesses with a 'poor' best practice index.

³⁴ 56% of businesses which had been operating for a year or less had enrolled online compared to 75% of businesses which had been operating for more than a year. 55% of businesses in the Construction and distribution sector had enrolled online compared to 83% of businesses in the Finance and business services sector.

³⁵ This figure includes 3% of businesses which reported that their agent used the HMRC email reminders service.

³⁶ 19% of businesses which had been operating for a year or less had used the HMRC email reminders service compared to 30% of businesses which had been operating for more than a year. 17% of businesses in the Construction



7.4. VAT behaviour

- 7.4.1. Businesses registered for VAT were asked similar questions about their online behaviour: one-fifth of businesses registered for VAT (21%) processed and sent out VAT invoices electronically. A similar proportion of businesses (23%) had also signed up to receive HMRC's email reminder informing them when the next VAT return was due.³⁷

7.5. PAYE behaviour

- 7.5.1. Businesses registered for PAYE were asked about recording information on employees' payroll and using payroll software. Exactly half of businesses registered for PAYE (50%) reported that they recorded all payment and deductions on employees' payroll. A further 14% said they weren't sure, while 36% reported that they did not do this. Meanwhile nearly three in ten businesses (28%) used payroll software to keep track of employees.³⁸

and distribution sector had used the HMRC email reminders service compared to 33% of businesses in the Finance and business services sector.

³⁷ This figure includes 1% of businesses which reported that their agent had done this for them.

³⁸ This figure includes 4% of businesses which reported that their agent did this for them.



8. Contact with HMRC

Chapter summary

- Around six in ten of the newly registered businesses (58%) had contacted the HMRC helpline or tax office in the previous 12 months.
- Around three-quarters of businesses which had done so made contact only once or twice in that period (76%).
- Businesses which had not received HMRC or other educational material were no more likely to have contacted HMRC than those which had received the education.
- The most common reason for contacting the HMRC helpline or tax office in the previous 12 months was to find out how to register for a specific tax (which is not surprising as businesses sampled were newly registered with HMRC). Confirmation that they were doing the right thing and registering as self employed were also commonly cited reasons.

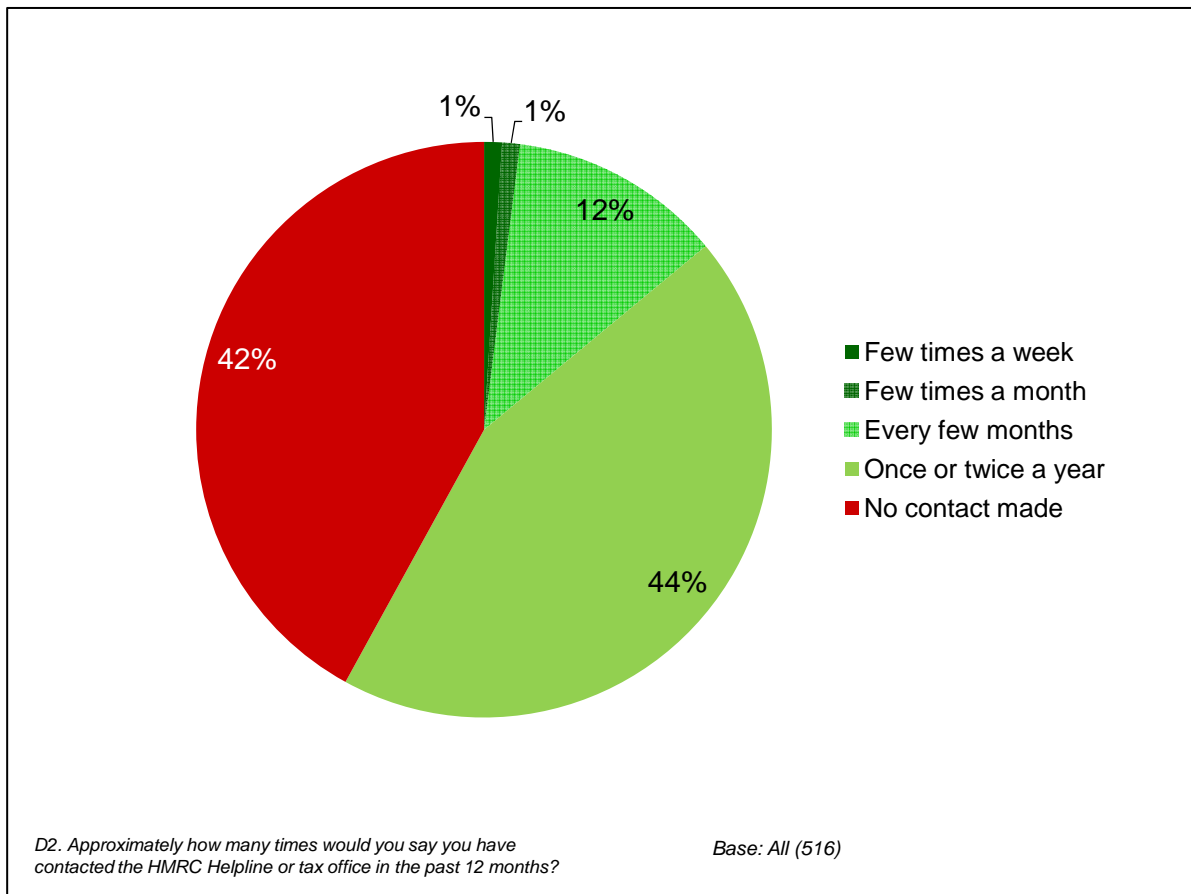
8.1. Introduction

- 8.1.1. One potential benefit of the education initiatives was that contact with HMRC would be reduced as better informed businesses might be less likely to request assistance with tax returns or ask for definitions of terms for example.

8.2. Level of contact with HMRC

- 8.2.1. Around six in ten businesses (58%) had contacted the HMRC helpline or tax office in the previous 12 months. Looking only at those that had made some contact, three-quarters of businesses which had done so made contact only once or twice in that period (76%) while most of the remaining businesses contacted HMRC every few months (20%). Figure 8.1 illustrates this contact.



Figure 8.1: Contact with HMRC in previous 12 months by newly registered businesses

8.2.2. Businesses which use agents were more likely to have made contact with HMRC in the last 12 months³⁹. While the use of educational materials was not associated with *whether or not* a business had made contact with HMRC, it was linked with the *amount* of contact made: businesses which had used HMRC or other educational material and had contacted HMRC in the previous 12 months tended to have contacted HMRC on a more frequent basis than those which had not used education.⁴⁰

8.2.3. Consequently it appears that neither education nor indeed a greater understanding or knowledge of tax requirements were associated with a lower level of contact with HMRC, although it is perhaps too early to identify any impact of education on businesses' behaviour in this area.

8.3. Reasons for contact with HMRC helpline or tax office

8.3.1. All businesses which had contacted the HMRC helpline or tax office in the previous 12 months were asked for their main reason for their most recent contact.

³⁹ 66% of businesses which did not use an agent had made contact with HMRC compared to 48% of those which did use one.

⁴⁰ 33% of businesses which had used education and had contacted HMRC in the previous 12 months had made contact at least once every few months; this compared to 17% of businesses which had not used education.



- 8.3.2. The most common cause for contacting HMRC was to find out how to register for a specific tax (19%). Confirmation that they were doing the right thing (18%) and registering as self employed (18%) were also commonly cited reasons.⁴¹ This is perhaps not surprising given that businesses sampled were newly registered with HMRC.
- 8.3.3. Businesses which had used HMRC or other educational material were more likely to contact HMRC for assistance on how to register for a specific tax (29% compared to 17%). The use of an agent was not associated with a higher or lower proportion citing any of the reasons given.

⁴¹ Figure 16.2 in Appendix B shows the top ten reasons for businesses contacting HMRC in the previous 12 months.



9. Benefits of education

Chapter summary

- Few of the newly registered businesses surveyed had actually received HMRC or other educational material (15%: 78 out of 516). Findings which associate benefits with education should therefore be treated as indicative only.
- Prior to receiving the education, exactly half of businesses (50%) had already formally reviewed how records were kept in their business, four in ten (38%) had already formally reviewed their handling of taxes while over six in ten (63%) already updated their business records on a frequent basis.
- Nearly one-quarter of businesses (23%) stated that they had recommended education tools to colleagues or other businesses after receiving the education.
- Around four-fifths of businesses (79%) felt more confident in dealing with their tax obligations after receiving this education. A further seven in ten (72%) reported feeling more confident about completing their businesses' tax returns.

9.1. Introduction

- 9.1.1. While relatively few of the businesses surveyed (15%: 78 out of 516) had actually used HMRC or other educational material in the previous 12 months, use of educational materials did appear to be associated with the behaviour, understanding and knowledge of businesses. There was not sufficient information about type of education received to draw conclusions about specific initiatives
- 9.1.2. Those businesses which had used education in the previous 12 months were therefore asked a few questions specifically about the perceived benefit of the education and whether they had, subsequent to receiving this education, improved the way they handled their tax affairs. Owing to the low base sizes involved, no subgroup analysis could be performed and ***all findings reported in this section should be treated as indicative only.***

9.2. Changes to businesses

- 9.2.1. Over six in ten businesses (63%: 49 out of 78) reported that they were already updating their business records on a frequent basis before receiving the education. Slightly lower proportions meanwhile reported that they had already formally reviewed how records were kept in their business (50%: 39 out of 78) and that they had formally reviewed how tax was handled in their business (38%: 30 out of 78) prior to receiving the education.
- 9.2.2. The benefits of education were most commonly reported in the way businesses formally reviewed how their records were kept: around a quarter (24%: 19 out of 78) reported that they had started formally reviewing how records were kept in their business since receiving the education. The proportion of businesses which reported that they had started updating their business records more frequently since receiving the education (15%: 12 out of 78) and the proportion which reported they had since started formally reviewing how tax was handled in their business (12%: 9 out of 78) was somewhat lower.

9.3. Further steps



- 9.3.1. Few businesses (6%: 5 out of 78) had recommended education tools to colleagues or other businesses before receiving their education in the previous 12 months (indicating they had used education tools used prior to this 12 month period).
- 9.3.2. Nearly one-quarter (23%: 18 out of 78) stated that they had recommended the education tools to colleagues or other businesses since receiving the education. Six out of ten businesses (60%: 47 out of 78) however reported that they had not recommended the education tools since receiving education.
- 9.3.3. One in ten businesses (10%: 8 out of 78) had already downloaded or used HMRC online educational tools before receiving the education in the previous 12 months. Of those which had not, one in seven (14%: 10 out of 70) reported that they had downloaded or used further HMRC educational tools since the education while a similar proportion (13%: 9 out of 70) reported that they were considering doing so. Nearly three-quarters (73%: 51 out of 70) reported that they had not done this at all.

9.4. Impact on confidence with tax obligations

- 9.4.1. The education businesses received generally had a positive effect on businesses' confidence in dealing with their tax obligations: around four-fifths of businesses (79%: 62 out of 78) felt more confident after receiving this education, although only 28% (22 out of 78) felt significantly more confident (51%: 40 out of 78 felt slightly more confident). One in six businesses (17%: 13 out of 78) reported no change.
- 9.4.2. A further seven in ten (72%: 56 out of 78) reported feeling more confident about completing their businesses' tax returns. This time a slightly higher proportion (29%: 23 out of 78) felt significantly more confident as a result (42%: 33 out of 78 felt slightly more confident), while 23% (18 out of 78) reported no change.



Benefits of HMRC or other education programmes to SMEs

- Businesses which had received HMRC or other education were more likely to score higher on the knowledge tests, to use an agent, to report higher awareness and understanding of their tax obligations and to report following certain 'good practice' methods. This is an association and it is not possible to tell if these were things businesses were doing before they took up education.
- However, when businesses which received HMRC or other education in the previous 12 months were asked directly about whether the education had an impact on their approach to their tax affairs, there were varied responses. While a sizeable proportion of businesses reported that they already adhered to best practice policies such as updating their business records on a frequent basis prior to receiving the education, a large proportion still felt more confident about their tax obligations and tax returns after receiving the education, illustrating the mixed feedback on benefits of education.
- It should be noted that companies in the Finance and businesses service sector were more likely to undertake education than businesses in other sectors but there were no other significant 'firmographic' differences.
- It is therefore difficult to disentangle the relationship of causality between education and the understanding of tax requirements. Businesses which undertook education might have been more pre-disposed to follow 'good practice' methods prior to receiving the education; indeed this behaviour might have led them to making use of education in the first place.
- It is perhaps too early to reliably identify the extent of impact of education on businesses' behaviour towards their tax affairs, however it is clear that there are strong associations between education and awareness and knowledge of tax affairs.



Part B: Survey of agents



10. Profile of agents surveyed

10.1. Introduction

10.1.1. This section looks at the profile of the achieved sample of all 1,440 agents who were interviewed during the survey. The key firmographic variables under consideration are employment status, size of business (in terms of number of clients) and length of time working as a tax agent.

10.2. Employment status

10.2.1. Approaching half (48%) of all agents who participated in the survey were employed by a business. The next biggest group were sole traders who made up one-third (32%) of the overall sample. One in six were partners in a business, and a very small proportion were directors in a limited company⁴².

10.3. Size of business

10.3.1. Exploring the size of agents' businesses, there was a broad variation by the number of clients represented. Just under half (45%) had fewer than 250 clients, while the remainder had 250 or more clients.

10.4. Length of time established

10.4.1. Finally, the agents who participated in the survey tended to have been working for a considerable length of time. More than half (53%) had been operating for more than 20 years as a tax agent.

10.5. Overall profile

10.5.1. Cross analysing these key variables shows that:

- As expected, agents employed by a business tended to have more clients than partners and sole traders. However, they tended to be slightly more recently established in terms of years working as a tax agent (75% working more than 10 years).
- Sole traders tended to have fewer clients compared with partners and employed agents, but they were more likely to have been working as an agent for longer (84% working more than 10 years).
- Agents who were partners of a business tended to have been working as an agent for longer (89% working more than 10 years).

⁴² See Appendix C for further detail and data tables on the profile of agents.



11. Agents' use of the toolkit

Chapter summary

- Just under half (47%) of agents reported having used the toolkit. There were no significant variations in use between different types of agents.
- Toolkit use is associated with higher levels of awareness of HMRC's services and requirements, as well as with keeping up to date via tax update newsletters.
- The vast majority used the toolkit for work purposes rather than training.
- One in ten (11%) attended the HMRC toolkit workshop, with younger agents more likely to attend. Attendance of this workshop is positively associated with take-up and use of the toolkit.

11.1. Introduction

11.1.1. This chapter explores the extent to which agents (sampled from those who had signed up to the HMRC Agent Account Manager Service) have used the toolkit, the frequency and the purposes of its use, as well as the types of audiences it has been reaching within the tax agent population.

11.2. Attendance of specialist agents' workshops

11.2.1. One in ten (11%) agents had attended a workshop around the toolkit or checklist in the last 12 months.

- Of these, seven in ten (70%) said this workshop was organised by HMRC, compared to one-third (36%) who said it was organised by a third party.
- More recently established agents were more likely to have attended the toolkit workshop than agents with a longer working history⁴³.

11.2.2. Three in five (57%) reported having attended any other face-to-face tax-related training workshop in the last 12 months. Of these most had attended workshops organised by a third party (94%).

- Long established agents and agents with a greater number of clients were more likely to have attended another tax related workshop compared to those with fewer years in practice⁴⁴ and those with fewer clients⁴⁵ respectively.

⁴³ Toolkit workshop attendance reached 19% of agents working less than 5 years, and 14% of agents working 5 up to 10 years, compared to 9% of agents working 10 up to 20 years and 10% of agents working more than 20 years.

⁴⁴ Three in five (61%) of those agents with more than 20 years experience attended another tax related workshop, compared to 54% of those working 10 up to 20 years, 51% of those working 5 up to 10 years, and 47% of those working less than 5 years.

⁴⁵ Three in five (63%) of those agents with 500+ clients had attended another tax related workshop, compared to 59% of those with 250-499 clients, and 51% of those with fewer than 250 clients.



11.3. Accessing the toolkit

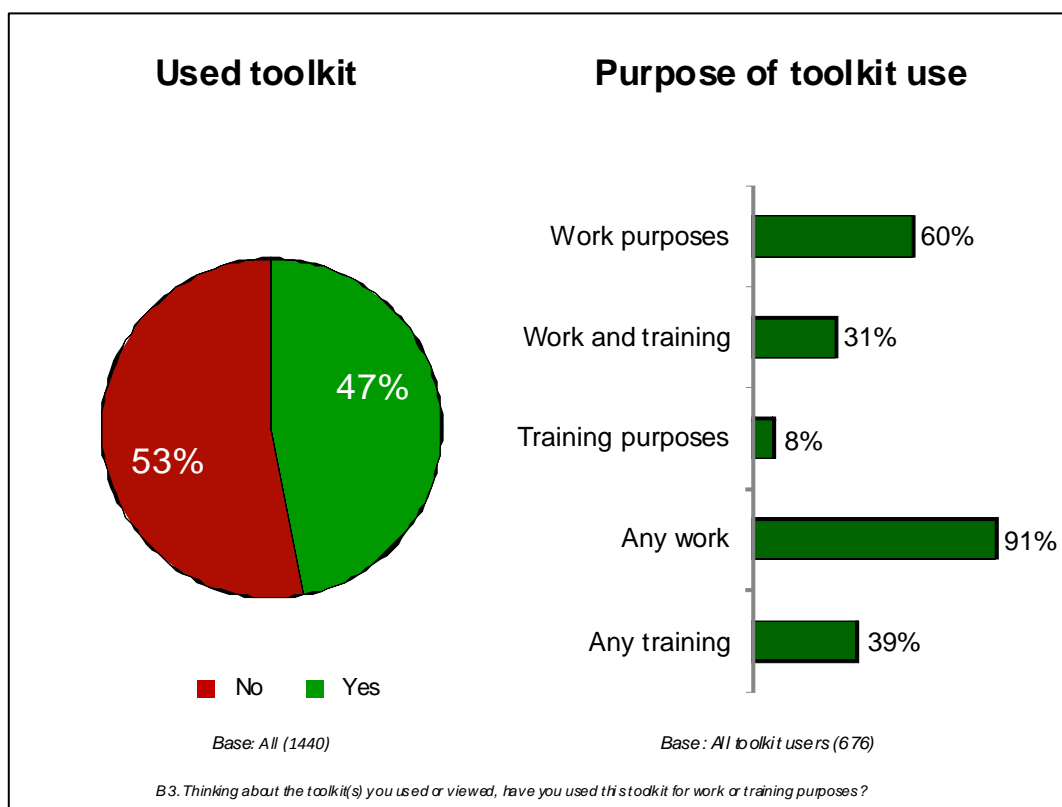
11.3.1. Overall, about three in five (57%) stated they had used or downloaded the toolkit while two in five (42%) said they had not. The following differences emerged between the sub-groups of interest:

- Larger agents with more clients were more likely to report having used or downloaded the toolkit compared to those with fewer clients⁴⁶.
- Partners (63%) were more likely to have used or downloaded the toolkit compared to sole traders (54%), while agents employed by a business (58%) were around the average.
- Those agents who subscribe to tax update newsletters were more likely to report having used or downloaded the toolkit (61% vs. 45% of those not subscribing to updates).

11.4. Use of the toolkit, purpose of use, and frequency of use

11.4.1. While three in five (57%) reported having viewed or downloaded the toolkit, the proportion of agents who actually confirmed having used it was slightly smaller (47%).

Figure 11.1: Use of HMRC agent toolkit



⁴⁶ The likelihood of having used or downloaded the toolkit increased with the number of clients: from smaller agents (54% of those with 0-249 clients), to mid-sized agents (59% of those with 250-999 clients), and to large agents (63% of those with 1000+ clients – significantly higher than usage amongst small agents).

11.4.2. Overall, nine in ten (91%) users reported using it for work and two in five (39%) for training purposes.

11.4.3. Overall frequency of use tended to be varied – three in ten (29%) users reported using the toolkit at least a few times a month, one-third (33%) stated they used it every few months, and another third (37%) said they used it a couple of times a year.

- Amongst those who said they currently use the checklists within the toolkit to review client returns, 12% reported using these checklists always, 28% frequently, 48% sometimes, and 11% rarely.
- Amongst those who stated they use the toolkit for training purposes, 3% reported always using it when training staff, 14% frequently, 44% sometimes, and 22% rarely.

11.5. What audience the toolkit is reaching

11.5.1. Overall, just under half (47%) of all agents confirmed that they had used the toolkit. Actual use tended to be relatively evenly spread out across different types of agents, with large and small agents equally likely to have used the toolkit, as well as the more recently and the longer established agents.

11.5.2. The propensity to use the toolkit did however differ by the extent to which agents are keeping informed and by their awareness of HMRC services and requirements.

- Agents who subscribe to tax newsletters were more likely to report using the toolkit (49% vs. 37% of those not subscribing to newsletters).⁴⁷
- And use of the toolkit was associated with higher levels of awareness of HMRC services and requirements, with those agents answering all four of the awareness questions in the survey correctly being more likely to use the toolkit (62%) compared to those answering fewer questions correctly.⁴⁸

11.6. Extent to which toolkit workshop attendance is associated with toolkit use

11.6.1. Workshop attendance had a positive effect on take-up, with more than three-quarters (77%) of those attending a toolkit workshop now reporting that they used or downloaded the toolkit compared to just over half (55%) of those who had not attended a workshop.

11.6.2. Actual use was also associated with workshop attendance, with 74% of those participating in a toolkit workshop confirming that they had actually used it, compared to 44% of those not having attended a workshop.

⁴⁷ Please refer to paragraph 13.2.1 for further detail on the proportion of agents subscribing to tax newsletters.

⁴⁸ Please refer to section 12.3 for further detail on the awareness questions and the proportion of agents answering them correctly.



12. Awareness of HMRC's services and requirements

Chapter summary

- Awareness of HMRC's services and requirements tended to be high, in particular regarding Self Assessment details and the RTI programme, but fewer agents were aware of HMRC's 'Agent Update' newsletter.
- Larger agents, agents employed by a business, and agents subscribing to tax update newsletters were more likely to exhibit greater awareness.
- Toolkit users exhibited greater awareness of HMRC's services and requirements compared to non-users.

12.1. Introduction

12.1.1. All agents, sampled from those who had signed up to the HMRC Agent Account Manager Service, were asked a series of questions relating to their awareness and knowledge of HMRC's services and requirements.

12.2. Agents' awareness of HMRC's services and requirements

12.2.1. Virtually all agents (99%) gave the correct answer when the survey asked them to comment whether they thought the following statement was true or false: "In terms of Self Assessment (SA), the initial late submission penalty of £100 now applies even if there is no tax to pay."

12.2.1. Overall two-thirds (67%) of agents gave the correct answer when asked how long a business needs to keep SA records⁴⁹. The correct answer is a minimum of six years. One in six (16%) thought a business would need to keep records for less than six years, and a similar proportion (17%) felt it would have to be seven years or more.

- Partners (72%) and sole traders (69%) were significantly more likely to answer correctly compared to agents employed by a business (63%).

12.2.2. Three in five (58%) gave the correct answer to a statement read out during the survey which was "Real Time Information (RTI) is a programme aimed at improving the operation of Corporation Tax." This statement was in fact false, as RTI is in reality a programme aimed at improving the operation of PAYE.

- The largest agents – those with 1000+ clients – and agents employed by a business tended to be more likely to answer correctly.
- Agents subscribing to tax newsletters and toolkit users were also significantly more likely to give the correct answer to the RTI question.

12.2.3. Finally, one in five (18%) agents knew the name of the electronic newsletter that HMRC publishes every other month, covering changes to UK tax legislation and to HMRC services as well as details about live consultations. This newsletter is called 'Agent Update'.

⁴⁹ As a note, agents were not actually asked about what specific tax regimes they dealt with, so this finding needs to be understood in a more general context,

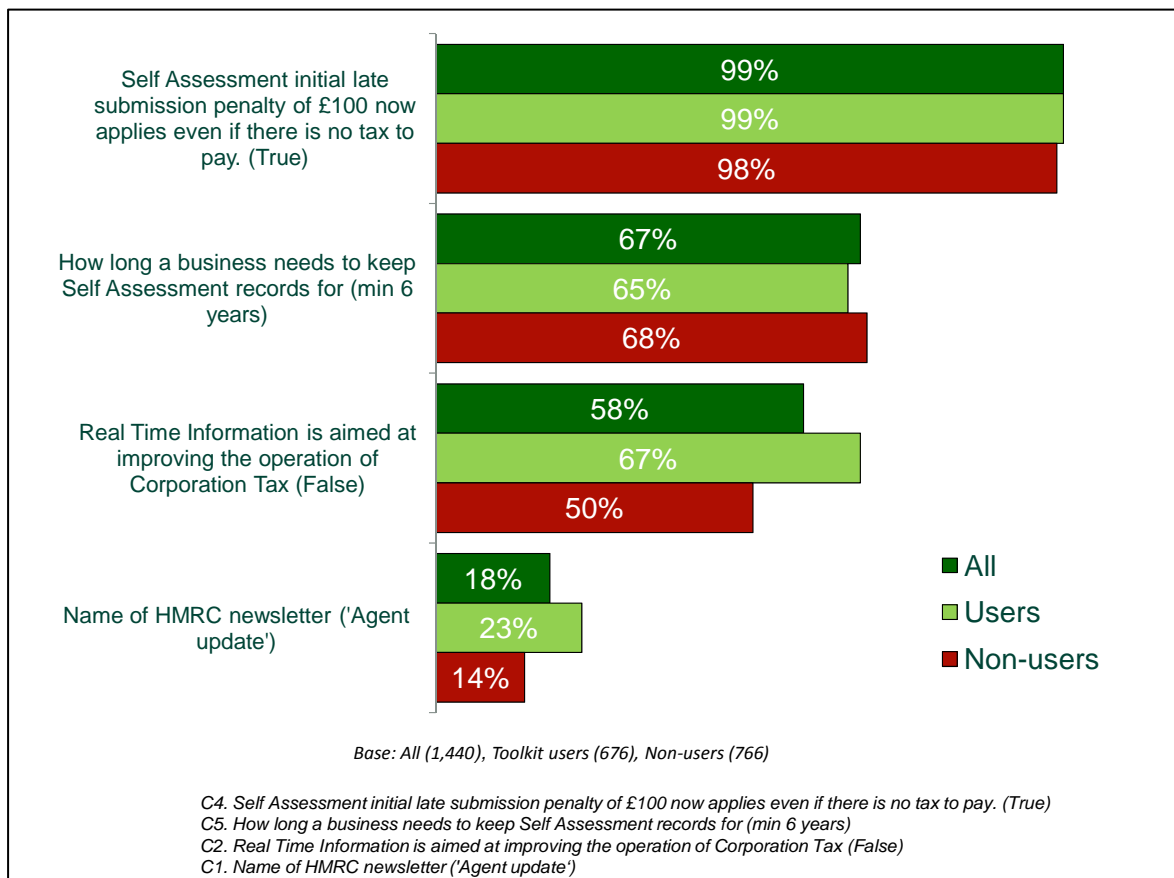


- Larger agents, those working less than five years, and agents employed by a business were more likely to answer correctly.
- Agents subscribing to tax newsletters and toolkit users were also more likely to know the name of the electronic news letter.

12.3. Summary of agents’ awareness of HMRC’s services and requirements

12.3.1. Responses to these four awareness questions are summarised in Figure 12.1 below, which also shows the survey results split by toolkit users and non-users. As a note, the difference between users and non-users is only statistically significant for the bottom two statements, about RTI and Agent Update.

Figure 12.1: Awareness questions – proportions answering correctly



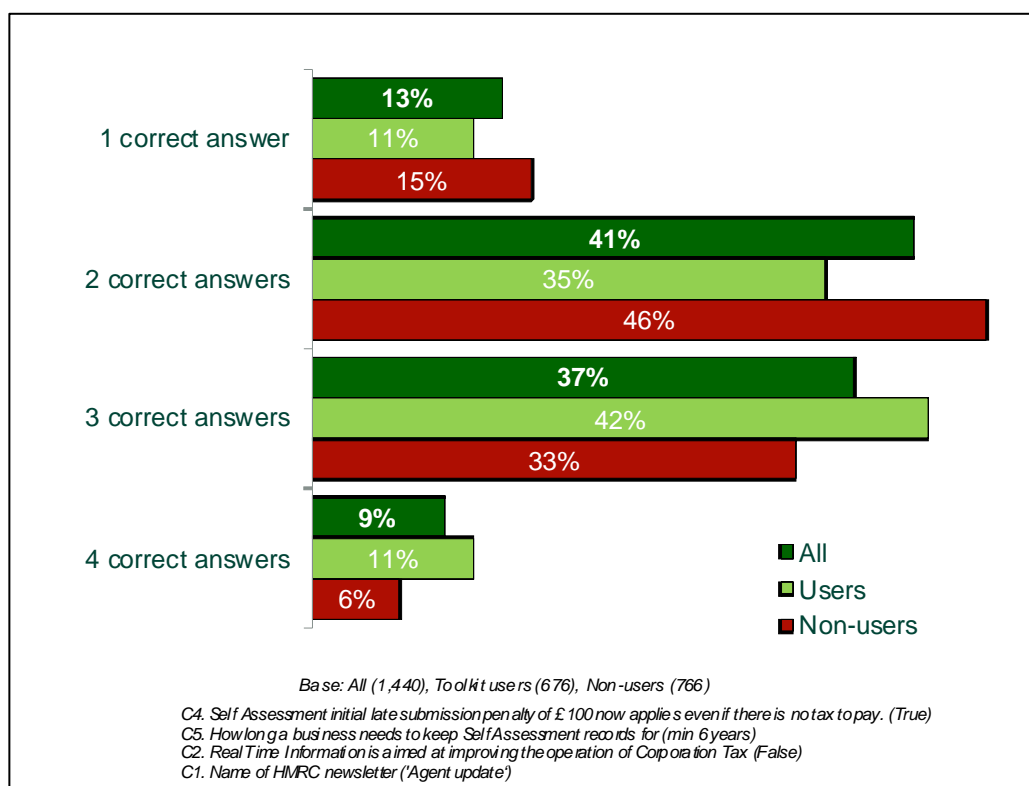
12.3.2. Considering these four awareness questions, overall over half of all agents answered at least two questions correctly (54%), while just under half answered three or four questions correctly (46%).

- Larger agents – those with 500+ clients – were more likely to give correct answers to three or four questions (53%) than those with fewer than 250 clients (42%)
- Agents employed by a business tended to answer more questions correctly (50% answering three or four correctly) compared with sole traders (40%).
- Agents subscribing to tax newsletters were more likely to answer three or four questions correctly (49% vs. 34% of those not subscribing).



- Finally, toolkit users were more likely to be aware of HMRC's services and requirements compared to non-users, as shown in Figure 12.2 below.

Figure 12.2: Number of awareness questions correctly answered



12.4. Agents' awareness of the Government Gateway

- 12.4.1. The final awareness question in the survey was about the Government Gateway, a service that allows agents to set up client authorisations and submit tax returns online. All agents were asked which types of taxes the online service for agents now cover. Responses were recorded spontaneously, i.e. answer codes were not read out to respondents during the survey.
- 12.4.2. Overall awareness of the types of taxes that are now covered by the Government Gateway tended to be high with regard to SA (91%), Corporation Tax (90%), VAT (84%), and PAYE⁵⁰ (70%).
- 12.4.3. Awareness of coverage with regard to the Construction Industry Scheme (22%) and Stamp Duty Land Tax (10%) was considerably lower.
- 12.4.4. Very small proportions of agents (below 4%) mentioned a variety of other tax regimes they thought they could administer online via the Government Gateway, including Capital Gains Tax, Partnership Tax Return, EC Sales List, Tax Trust, Pension Scheme, Tax Credits, and other types of taxes. In this context it is worth noting that agents are likely to have been

⁵⁰ The full titles of each of the types of tax as well as their acronyms were read out in the survey questionnaire.

handling a different set of tax types and that some of the less commonly used taxes may not typically be handled by agents.

12.4.5. While there were no differences between toolkit users and non-users, those agents with a larger number of clients, longer established agents, partners, and those subscribing to tax update newsletters were more likely to be aware of the Government Gateway's coverage of various tax types.

12.4.6. In summary, looking across all the various awareness questions the pattern indicates that toolkit users exhibited greater levels of awareness of HMRC's services and requirements, in particular with regard to their understanding of RTI and awareness of HMRC's 'Agent update' newsletter. This association can be interpreted as a positive impact of the toolkit. At the same time, other factors – such as the size and type of agent, and whether they subscribed to newsletters – also had a positive association with greater awareness levels.



13. Agents' working practices

Chapter summary

- Four in five (80%) agents subscribed to tax update newsletters to keep up to date with tax legislation.
- Visiting HMRC's website (93%) and receiving updates from a professional body (91%) were mentioned as the top two means of frequently keeping up to date.
- Three-quarters (76%) of agents reported using their own internal checklists to review returns, two in five stated using other tools (41%), and one in five used checklists within the HMRC toolkit (20% – in particular younger and smaller agents).
- When facing an unfamiliar tax area or calculations three in five (59%) reported taking the approach of consulting a tax manual or reference in the first instance and on a regular basis, half (51%) said they would visit HMRC's website, and half (50%) would contact a third party organisation.
- Difficulties in getting clients to improve their record keeping was a frequent problem reported by one-quarter (24%) and a further half (51%) said that this happened sometimes. One-quarter (26%) reported they sometimes have to estimate some of the information on a clients' tax return due to lack of data.
- Toolkit users were more likely to subscribe to HMRC newsletters, and to newsletters in general; they were also more likely to use HMRC's website frequently as a means of keeping up to date with tax legislation.

13.1. Introduction

13.1.1. This chapter explores the extent to which agents, sampled from those who had signed up to the HMRC Agent Account Manager Service, are making systematic efforts to keep abreast of tax related news and information, the extent to which best practice is accessed, shared and used as part of agents' working practices, and how agents are dealing with unfamiliar or difficult tax areas.

13.2. Keeping up to date with tax legislation

13.2.1. Overall, four in five (80%) agents reported that they subscribe to tax update newsletters in order to keep up to date with tax legislation. This was more likely to be the case amongst the following subgroups:

- Toolkit users were significantly more likely to subscribe to newsletters (84%) than non-users (77%).
- Agents with a greater number of clients were more likely to subscribe⁵¹.
- Partners (85%) and agents employed by a business (83%) were significantly more likely to subscribe than sole traders (74%).

⁵¹ The largest agents with 500 or more clients (83%), and mid-sized agents with 250-499 clients (84%), were most likely to subscribe to newsletters compared to small agents with fewer than 250 clients (77%).



- Agents who manage other staff who prepare and submit tax returns were more likely to subscribe (84%) compared to those who simply prepare and/or submit tax returns (80%).

13.2.2. Of those subscribing to (any) newsletters, virtually all agents (98%) reported subscribing to a newsletter from a professional body, while just under half stated they receive newsletters from HMRC (46%). There is considerable overlap, with two in five (44%) saying they subscribe both to newsletters from professional bodies and from HMRC.

- Toolkit users were more likely to be subscribing to HMRC newsletters (55% vs. 37% of non-users).
- Agents employed by a business tended to be more likely to subscribe to HMRC newsletters (50% compared to 43% amongst partners and sole traders).
- Subscription to HMRC newsletters was also associated with greater awareness of HMRC's services and requirements. Those who answered more of the awareness questions in the survey correctly were also more likely to report subscribing to newsletters⁵².

13.2.3. Agents were asked in the survey how frequently they keep up to date with tax legislation. The two most frequently used sources of information were the HMRC website (93% reported using the website very frequently or frequently) and receiving updates as a member of a professional body (91% did so very frequently or frequently).

13.2.4. Three-quarters (75%) used tax manuals very frequently or frequently to keep up to date and two-thirds (67%) reported using websites of professional bodies within their industry.

13.2.5. The frequent use of HMRC's website as a means of keeping up to date with tax legislation was more widespread amongst the following sub-groups:

- Toolkit users (96% vs. 91% of non-users);
- Agents with 500+ clients (97%) compared to those with fewer than 250 clients (91%);
- Agents employed by a business (95%) compared to sole traders (90%).

13.3. Reviewing clients' tax returns

13.3.1. All agents were asked about their approach to reviewing their clients' tax returns, in particular about the types of tools they used for this purpose. Agents were more likely to report currently using their own internal checklists to review returns (76%) than other tools (41%) and checklists within the HMRC toolkit (20%). Overall, two in five (37%) were currently using the HMRC toolkit to review tax returns or had used these checklists in the past, as shown in Table 13.1 below.

⁵² Two thirds (65%) of those agents answering all four knowledge questions correctly subscribe to HMRC newsletters, compared to half (49%) of those answering three questions correctly, two in five (40%) of those answering two questions correctly, and a third (34%) who answered only one question correctly.



Table 13.1: Use of checklists to review tax returns

	Yes, currently using	Yes, in the past	Yes (overall)	Never	Don't know
	%	%	%	%	%
Use internal checklists to review returns	76	4	80	19	*
Any other tools to review clients' tax returns	41	3	44	55	1
Use checklists within the HMRC toolkits to review returns	20	17	37	62	*

13.3.2. Looking at the current use of checklists within HMRC toolkits (20% overall), this was more likely to be reported by:

- Agents who had been in operation for a shorter period of time (32% of those working fewer than five years compared to 18% of those working more than 20 years);
- Smaller agents (26% of those with fewer than 100 clients vs. 16% of those with 1,000 clients or more);
- Agents with a higher level of awareness of HMRC's services and requirements (30% of those answering all four awareness questions correctly vs. 17% of those answering just one question correctly);
- Agents subscribing to tax update newsletters (22% vs. 11% of those not subscribing);
- Agents who attended an HMRC workshop about the toolkit (38% vs. 18% of non-attendees).

13.3.3. By contrast, agents who reported using their own internal checklists to review tax returns (76%) tended to be:

- Larger agents (87% of those with 1,000 clients or more, and 82% of those with 500-999 clients);
- Agents employed by a business (80% vs. 77% of partners and 69% of sole traders).

13.3.4. Finally, two in five (41%) agents reported using other tools to review tax returns. Most commonly these tools were third party software packages, such as SAGE or PTP (mentioned by 77% of agents who reported using other tools to review tax returns).

13.3.5. Looking across all these various checklists, about nine in ten (88%) agents currently use any of these checklists to review tax returns, and 93% reported currently using them or having used them in the past. This leaves 7% who stated they had never used any of the various checklists.

- Sole traders were more likely to report that they had never used any checklist (10% vs. 6% of agents employed by a business and 4% of partners).
- Smaller agents were more likely to report never having used a checklist to review tax returns (10% of those with fewer than 250 clients vs. 4% of those with 500 or more clients).



13.4. Approach taken to clarify unfamiliar tax areas or calculations

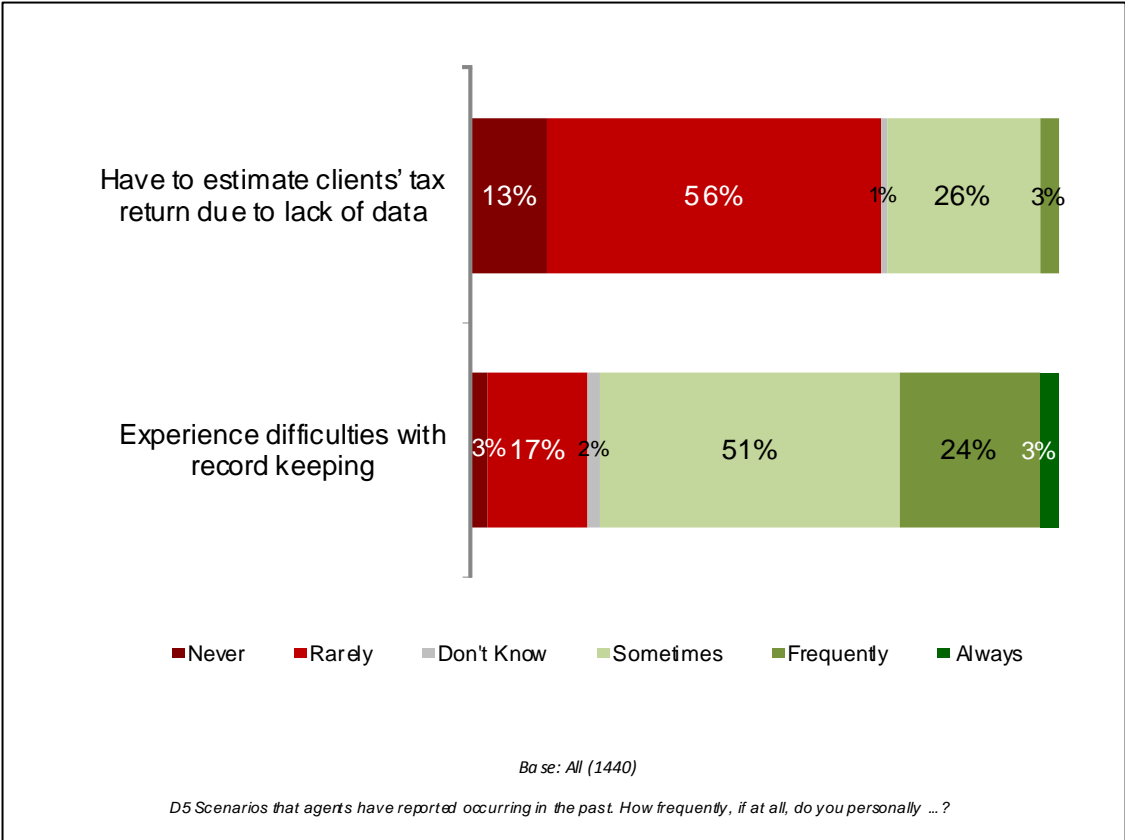
- 13.4.1. Agents were asked how they approached situations where they encounter a type of calculation or tax legislative area they are not very familiar with. The most common strategies to address this in the first instance included consulting a tax manual or reference (35%) or visiting HMRC's website (27%). About one in eight agents reported they would contact a third party organisation such as the tax institute (14%) or ask a colleague or manager for advice (12%).
- 13.4.2. Beyond considering these first steps, agents were also asked what else they would do on a regular basis in order to clarify tax calculations or legislative areas they were not familiar with. The overall pattern of responses in terms of undertaking steps on a regular basis is similar to the first steps agents would take to clarify such situations, with consulting a tax manual or reference reported to be the most frequent way of trying to achieve more clarity (59%). **About half reported they would visit HMRC's website (51%)** or contact a third party (50%) for advice.
- 13.4.3. One-third (33%) reported they would ask a colleague or manager for advice, either in the first instance or on a more regular basis. One in five (19%) said they would contact HMRC directly, by email phone or via a local contact centre. One in seven (15%) would go online and use Google to search for more information about the area they are not familiar with. Two percent would use HMRC's online agent toolkit.
- 13.4.4. Visiting HMRC's website for advice was more commonly reported by smaller agents (57% of those with fewer than 100 clients). Smaller agents were also more likely to contact HMRC directly (26%), as were those more recently established agents (40% of those working less than five years).
- 13.4.5. By contrast, larger agents were more likely to consult a tax manual or reference (65% of those with 1,000 or more clients), or ask an internal colleague or manager for advice (53%).

13.5. Experience of difficulties with tax returns

- 13.5.1. Around one-quarter of agents (24%) reported they frequently experience difficulties in getting clients to improve their record keeping, with a further half (51%) stating that this happened sometimes. Newer agents were more likely to report that these difficulties occur always or frequently (36%) compared to longer established agents.
- 13.5.2. Instances of agents having to estimate some of the information on a client's tax return due to lack of data were reported less frequently. Still, one-quarter (26%) stated that this happened sometimes.



Figure 13.1: Incidence of difficulties with tax returns



13.5.3. Overall then, toolkit use was positively associated with subscription to HMRC tax newsletters, and to newsletters in general. Toolkit users were also more likely to use HMRC’s website frequently so as to keep up to date. Exploring the relative weight of toolkit use vis-à-vis other factors shows a similar tendency for larger agents and those employed by a business to have subscribed to these newsletters and to refer to HMRC’s website.



14. Benefits of the toolkit

Chapter summary

- Agents reported a variety of benefits derived from using the toolkit, including helping them to identify risks (66%) and keeping them up to date with tax legislation (48%).
- As a result of using the toolkit about half (45%) stated that they had made changes to at least one client tax return.
- Two in five (43%) toolkit users had downloaded or used further HMRC tools for agents.
- A similar proportion (45%) had recommended the toolkit.
- The most important barrier to using the toolkit reported by agents was that their internal processes already covered all the areas in the toolkit. However, one-quarter (27%) stated they were simply not aware of the toolkit.

14.1. Introduction

14.1.1. This chapter looks at the extent to which using the HMRC agents toolkit has allowed agents, sampled from those who had signed up to the HMRC Agent Account Manager Service, to improve their working practices.

14.2. Impact of the toolkit on agents' working practices

14.2.1. Two-thirds (66%) of agents agreed that the toolkit had helped them to identify potential risks.

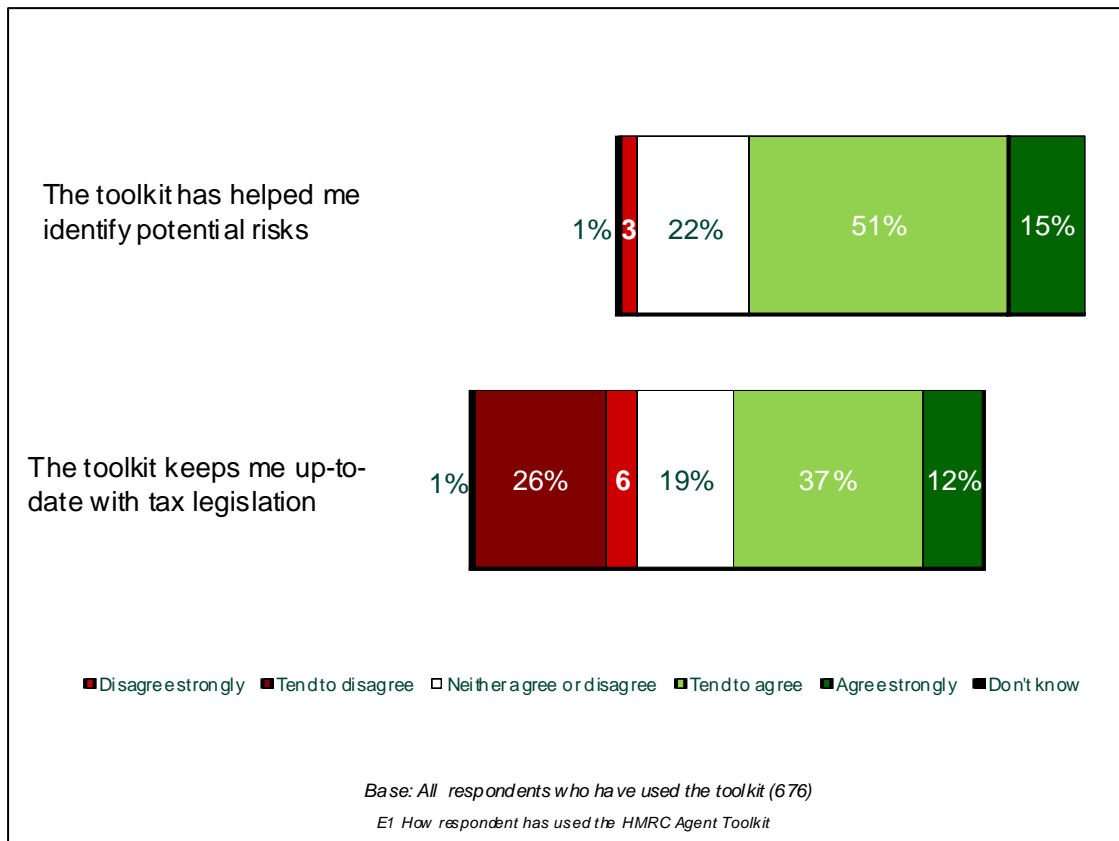
- Agents who had attended the HMRC toolkit workshop were more likely to report benefits in terms of identifying potential risks (79% vs. 64% of those not attending the workshop).
- Sole traders (69%) and agents employed by a business (68%) were more likely than partners (58%) to agree that the toolkit helped them identify risks.

14.2.2. About half (48%) reported that the toolkit kept them up to date with tax legislation, while one-third (32%) disagreed with this statement.

- Three in five (59%) workshop attendees agreed with the statement about being kept up to date about tax legislation compared to just under half (46%) of non-attendees.
- Smaller agents, and those more recently established, were also more likely to find that the toolkit kept them up to date with legislation⁵³.

⁵³ More than half (55%) of those agents with fewer than 250 clients felt that the toolkit was keeping them up to date with tax legislation compared to a third (32%) of agents with 500 or more clients. Seven in ten (70%) of agents operating for less than five years reported this benefit, compared to half (55%) of agents working five up to 10 years, half (48%) of agents working 10 up to 20 years, and two in five (44%) agents working more than 20 years.



Figure 14.1: Reported benefits of using the toolkit

14.2.3. Two in five (43%) toolkit users had gone on to download or use further HMRC tools for agents.

14.2.4. A similar proportion (45%) had recommended the toolkit to colleagues or other agents.

- Those who attended the HMRC toolkit workshop were more likely to have recommended it (55% vs. 42% of non-attendees).
- Agents employed by a business (51%) and partners (48%) were more likely to have recommended the toolkit than sole traders (33%).

14.3. Measuring concrete outcomes of using the toolkit

14.3.1. Nearly half of agents (45%) who had used the HMRC toolkit to review a tax return had made changes to at least one return as a result (11% had made changes to their most recent return).

14.3.2. Of those agents who made changes, around six in ten (62%) reported that there had been a monetary impact to the most recent change they had made, in terms of the amount of tax due or the repayment or credit claimed. On average this impact was around £540. One-quarter (26%) said that this impact would have been in HMRC's favour, while one in eight (12%) stated it would have been in their clients' favour.

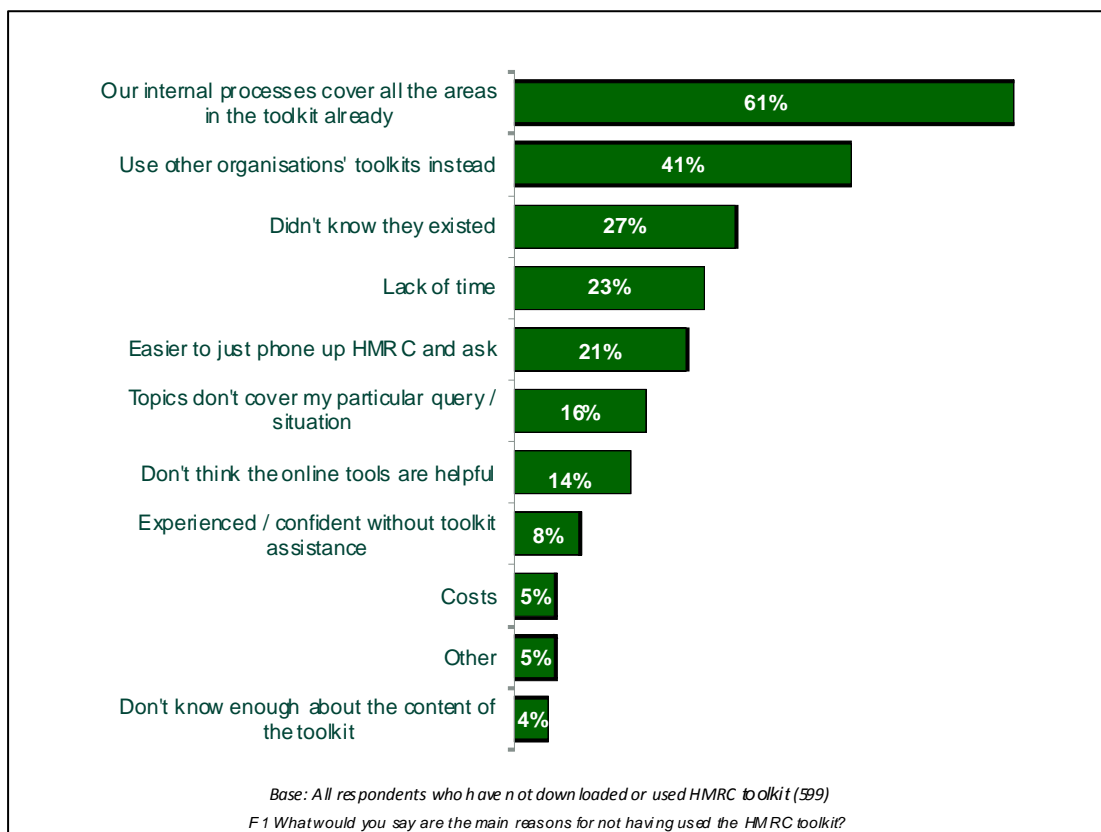


14.4. Understanding the barriers to using the toolkit

14.4.1. In order to gain a better understanding of potential barriers to take up, all non-users were asked for the reasons why they had not used the HMRC toolkit. The most common reason for not having used the toolkit was that agents felt that their internal processes covered all the areas in the toolkit already (61% reported this). Large agents (70% of those with 1,000 or more clients) and those employed by a business (65%) were more likely to report this.

14.4.2. Using other organisations' toolkits (41%), being unaware the toolkit existed (27%), a lack of time (23%) and it being easier to telephone HMRC (21%) were also commonly cited reasons.

Figure 14.2: Reasons for not having used the toolkit⁵⁴



⁵⁴ Respondents could give more than one answer so responses do not sum to 100%

Impact of HMRC toolkit use on agents

- About half (47%) of all agents reported having used the toolkit. There were no significant variations in use between different types of agents.
- Toolkit users demonstrated greater levels of awareness of HMRC's services and requirements. However, other factors such as the size and type of agent, and whether they subscribed to newsletters, were also positively associated with greater awareness levels.
- Toolkit users were more likely to subscribe to HMRC tax newsletters and to newsletters in general. The use of the toolkit was also positively associated with frequent use of HMRC's website as a means of keeping up to date. At the same time, the survey also recorded greater proportions of large agents and those employed by a business who subscribed to these newsletters and referred to HMRC's website.
- While all these findings are indications of a number of positive impacts the toolkit has had, they are essentially associations (of two interrelated variables) and it is not possible from the survey data to ascribe causal impacts with certainty.



15. Appendix A - Response rate calculation

15.1. Response rates

15.1.1. Response rates were split by SME's, and agents who had reported having taken part in an HMRC education event and those that had not. Respondents who chose to opt out of the research were classified as refusals for the purpose of calculating response rates. Each respondent was allocated to one of the following categories:

- I – complete interview
- P – partial interview (classified as those respondents reaching at least the beginning of section D, deemed a half-way point, before breaking off the interview)
- R – refusal (including those who opted out before the research, those who refused when contacted during the main-stage fieldwork, and those who broke off the interview before reaching the beginning of section D)
- NC – non-contact (those with whom contact was never made during the fieldwork period)
- U – unknown eligibility (including businesses that had moved and could not be traced during fieldwork)
- O – other non-response (including where correct respondent was unavailable throughout fieldwork)
- NE – not eligible

15.1.2. The response rate was calculated using the following formula⁵⁵:

$$\text{Response rate} = \frac{I + P}{(I + P) + (R + NC + O) + e(U)}$$

Where 'e' is the estimated proportion of cases of unknown eligibility that are eligible, calculated as below:

$$E = \frac{(I + P) + (R + NC + O)}{(I + P) + (R + NC + O) + NE}$$

⁵⁵ Thomas, M., 2002 Standard Outcome Codes and Methods of Calculating Response Rates in Business Surveys at the Office for National Statistics, GSR Conference 2002, UK; and Beerten, R., Lynn, P., Laiho, J. & Martin, J. 2001 'Recommended Standard Final Outcome Categories and Standard Definitions of Response Rates for Social Surveys', ISER Working Papers no 2001-23.



16. Appendix B - Survey of SMEs

16.1.1. This appendix contains tables and figures of data referred to in Part A: Survey of SMEs.

Table 16.1: Business by main activity and broad sector

Main activity	Proportion	Broad sector	Proportion
<i>Base: All businesses (516)</i>			<i>%</i>
Agriculture or fishing	5	Agriculture, mining, manufacturing & utilities	9
Manufacturing	3		
Mining, electricity or gas and water supply	2		
Construction	23	Construction and distribution	32
Transport, storage and communication	9		
Finance and insurance	7	Finance and business services	14
Real estate, renting or business activities	7		
Wholesale and retail trade	9	Hospitality and retail	12
Hotels and restaurants	4		
Health and social work	13	Public services	17
Education	4		
Other (including Art and design, Media and entertainment, Hairdressing and Cleaning)	15	Other	15

Table 16.2: Annual Turnover

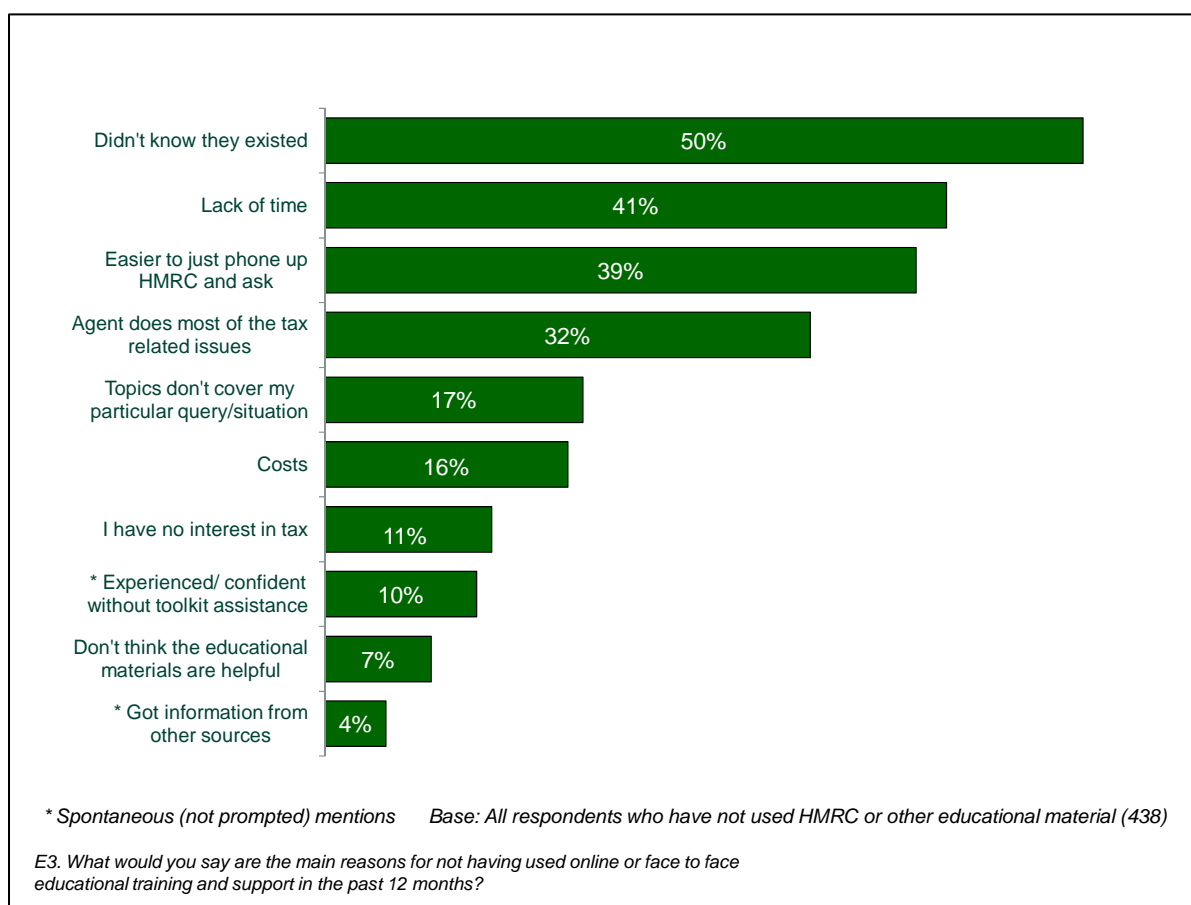
Turnover	Proportion
<i>Base: All businesses (516)</i>	
	<i>%</i>
Less than £15,000	61
£15,000 - £59,999	28
£60,000 - £150,000	3
More than £150,000	2
Don't know / Refused	7

Table 16.3: Use of education

<i>Base: All businesses (516)</i>	<i>%</i>
Looked at information on tax on the HMRC or Businesslink website*	61
Attended an HMRC training workshop	5
Attended an HMRC online seminar (webinar)	1
Attended any training course on tax not organised by HMRC	6
Used any of the HMRC educational online training tools	6
SUMMARY: Have used HMRC or other education material	15
SUMMARY: Have NOT used HMRC or other education material	85

* Businesses in this code were not treated as having used HMRC or other educational material.



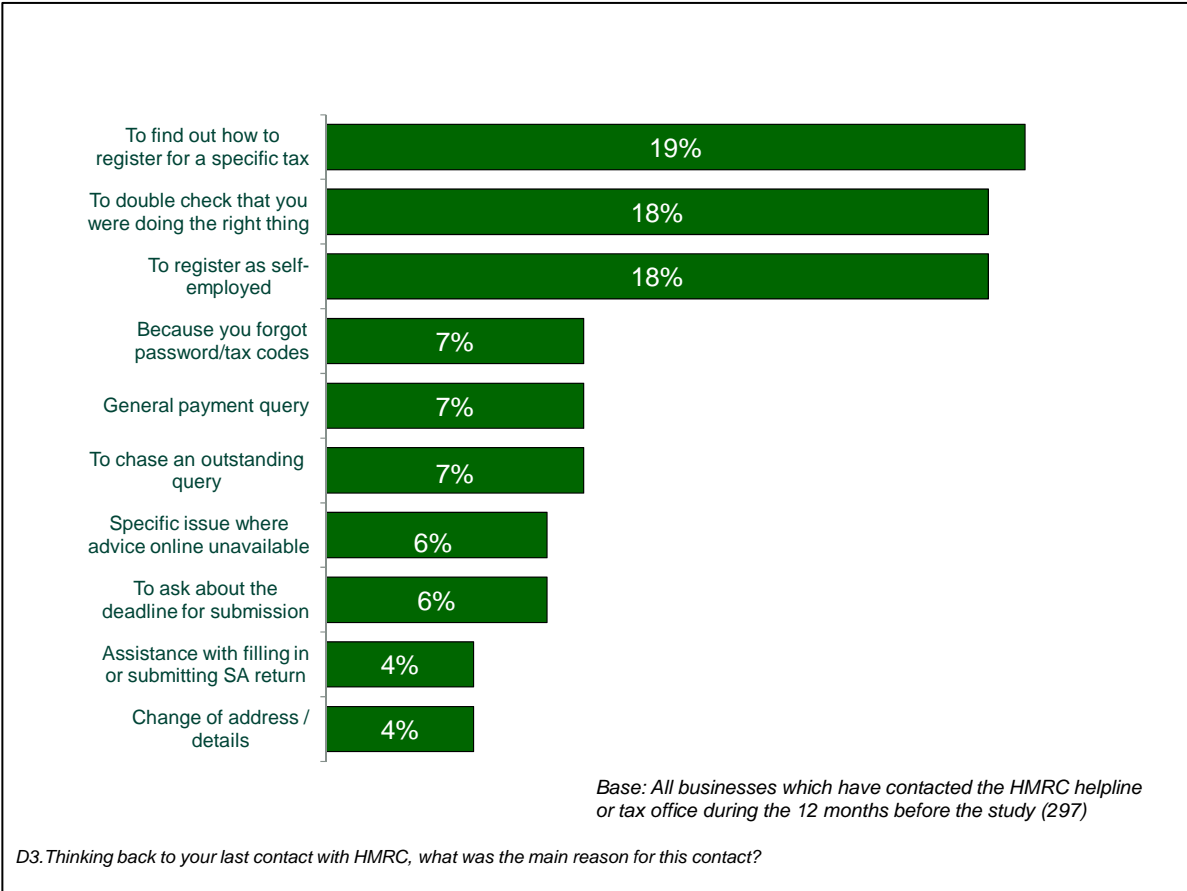
Figure 16.1: Reasons for not having used HMRC or other educational material⁵⁶**Table 16.4: Good practice and tax management**

Good practice	Yes (incl agent) %	No %	Don't know %
Keep records of all receipts to help you complete your tax returns (Base: 516)	95	5	1
Enrolled online so you can submit your SA return online (446)	63	34	3
Use the HMRC email reminders service to remind you when SA submissions are due (446)	23	70	7
Process and send out VAT invoices electronically (81)	21	69	10
Signed up to receive HMRC's email reminder informing you when the next VAT return is due (81)	23	69	7
Record all payments and deductions on employees' payroll (78)	50	36	14
Use payroll software to keep track of employees (78)	28	60	12

⁵⁶ Respondents could give more than one answer so responses do not sum to 100%



Figure 16.2: Main reason for last contact with HMRC helpline or tax office



17. Appendix C - Survey of Agents

17.1.1. These three data tables below complement the analysis presented in Chapter 10.

Table 17.1: Employment status

Employment status	Proportion
<i>Base: All agents</i>	%
Employed by a business	48
Sole trader	32
Partner in a business	16
Director in a limited company	4
Other	1

Table 17.2: Size of business

Number of clients represented	Proportion
<i>Base: All agents</i>	%
0 – 99	16
100 – 249	29
250 – 499	26
500 – 999	15
1,000 +	13
Don't know / refused to answer	1

Table 17.3: Length of time established

Years worked as tax agent	Proportion
<i>Base: All agents</i>	%
1 up to 5 years	6
5 up to 10 years	13
10 up to 20 years	27
More than 20 years	53