



IFF Research

Tax Opinions Panel Survey

Prepared for



By IFF Research

With an introduction and conclusion by
Professor Lynne Oats, University of Exeter Business School

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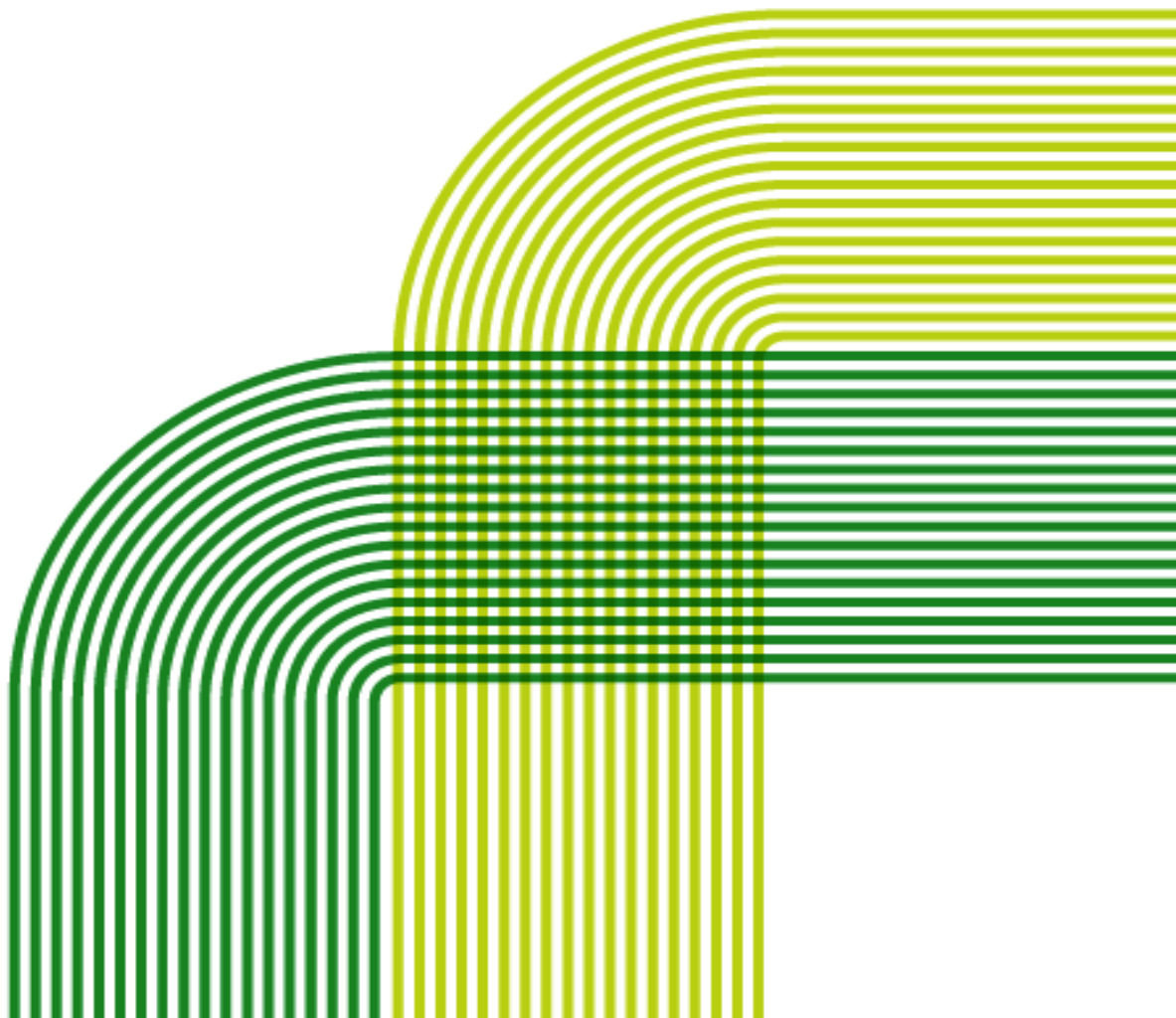
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1 Introduction

Professor Lynne Oats, University of Exeter Business School and ESRC Academic Advisor to the Tax Opinion Panel Survey

- 1.1 This innovative study is part of a growing body of research conducted by Her Majesty's Revenue and Customs (HMRC) in order to improve its understanding of the multiple ways in which the tax system and its practical operation have an impact on customers. This is in line with worldwide trends which see tax administrations such as the Internal Revenue Service (IRS) in the US, Canada Revenue Agency (CRA) and the Australian Taxation Office (ATO) investing heavily in such research in order to improve administrative responses to developments in the tax system.
- 1.2 The past decade has seen significant change in HMRC operations, and also the business environment of large business customers. HMRC is one of many revenue authorities taking steps to recognise and understand the unique and complex operations of its large business customers. The recent OECD (2011)¹ survey of tax administration identified the following features as being common attributes of large business:
 1. multiple operating entities and/or diverse business activities;
 2. high volume transactions and large number of employees;
 3. international dealings often involving cross border transactions with related entities and widespread geographical interests;
 4. operating in industries, such as banking and insurance, that present unique tax issues;
 5. dealing with complex tax law, and also accounting principles and financing arrangements.
- 1.3 This project specifically seeks to build on its sister survey, the Large Business Panel Survey², exploring additional aspects of the relationships between HMRC and large business customers, as well as the way in which recent tax policy changes, both substantive and operational, affect their decision making.
- 1.4 The collaboration between ESRC and HMRC has enabled the Tax Opinions Panel Survey to benefit from the ESRC's specialist business taxation knowledge and expert technical and specialist subject advice. It has also enabled the survey to benefit from advice from the academic community on the design and development of the survey.

¹ OECD study – <http://www.oecd.org/dataoecd/2/37/47228941.pdf>, pp 54-55

² The Large Business Panel Survey findings are available on the HMRC website research reports page: <http://www.hmrc.gov.uk/research/reports.htm>



2 Executive Summary

Overview

- 2.1 In 2011, HMRC commissioned IFF Research Ltd to carry out a sister study to the Large Business Panel Survey (LBPS). The new study is known as the Tax Opinions Panel Survey (TOPS) and is co-funded by the Economic and Social Research Council (ESRC). TOPS is intended to run for three years on an annual basis, at staggered intervals to the LBPS.
- 2.2 The LBPS and TOPS surveys have different aims and focuses; the LBPS investigates businesses' views on their relationship with HMRC, whereas TOPS aims to establish businesses' awareness and opinion of current tax policy and upcoming changes to legislation, as well as their current and potential behaviour in relation to legislation.
- 2.3 Both studies cover HMRC's large business customers. Relationships with large businesses are managed by either the Large Business Service (LBS) or the Local Compliance Large and Complex (LC) group. The LBS is responsible for working with the UK's largest businesses which all have a Customer Relationship Manager (CRM). LC partners the LBS in dealing with the tax affairs of the remaining large businesses. The larger businesses in LC also have a CRM while the rest of the customers have had a Customer Co-ordinator (CC) since 2010.
- 2.4 This report draws on the wave 1 TOPS findings from 1,262 quantitative telephone interviews, mainly with Heads of Tax or Finance Directors from HMRC's large business customers. The questionnaire lasted an average of 20 minutes and fieldwork was conducted using CATI (Computer Assisted Telephone Interviewing) between 3rd May and 18th July 2011.
- 2.5 A relatively high response rate³ was obtained with 366 achieved interviews with LBS customers, 395 with LC customers that have been allocated a Customer Relationship Manager (CRM), and 501 with LC customers who in the summer of 2010 were assigned a Customer Co-ordinator (LC CC).
- 2.6 Further information on the survey sample and the tax policies and operations referred to in this report can be found in the Glossary of Terms at Annex 1.

Response to HMRC initiatives and legislation by customers with a Customer Relationship Manager

- 2.7 The survey explored business reactions to three key HMRC initiatives; namely:
 - **Senior Accounting Officer (SAO) Legislation.** This legislation makes a senior officer in each qualifying company personally accountable for establishing and maintaining appropriate tax accounting arrangements.
 - **Risk Assessments.** Risk Assessment is the process whereby particular sources of information such as tax returns are reviewed by HMRC to establish if there is a possible, specific tax compliance risk for customers who are not Low Risk.
 - **Real Time Working.** This involves customers raising any issues or transactions with HMRC as they arise in the accounting period before the associated return becomes due.

³ Response rate by customer group: LBS – 58%, LC CRM – 42%, LC CC – 36%



- 2.8 Findings show that the Senior Accounting Officer legislation (SAO), Risk Assessments and Real Time Working have all resulted in changes to business practices and/or relationships with HMRC for the majority of large business customers with a CRM. In a large proportion of businesses, the introduction of SAO legislation achieved its intended aims of prompting a review of the governance of tax systems and/or a formal review of links between the tax department and other parts of the business (the latter is particularly likely to have happened in LBS businesses).
- 2.9 Six in ten businesses who were aware of their risk status commonly felt that Risk Assessments had led to a more transparent relationship with HMRC (61% LBS, 61% LC CRM). To a lesser extent, businesses also stated that Risk Assessments had helped to raise the profile of tax issues within the business or led to formal reviews of tax system governance (around two-fifths of CRM businesses in each case).
- 2.10 The majority of businesses using Real Time Working were in agreement that it led to a more transparent relationship with HMRC (78% LBS, 64% LC CRM). However, only a minority (even among those frequently working in real time) were convinced that working in real time benefitted by decreasing compliance costs.
- 2.11 These initiatives resulted in small proportions of businesses introducing new processes for the generation of their tax calculations. Within the LBS population, 29% had introduced new processes in response to Real Time Working, 22% in response to Risk Assessments and 40% in response to SAO legislation (with some businesses responding to one or more of these). Similar proportions made changes within LC CRM businesses; 28% introduced new business processes for generating tax calculations in response to Real Time Working, 25% in response to Risk Assessments and 35% in response to SAO legislation.

Response to tax policy

- 2.12 Businesses were asked whether they had made a series of changes to the size and structure of their investment in the UK⁴. Overall the majority of LBS customers (63%) made some form of significant change to their business within the last 12 months. While fewer LC CRM and LC CC customers had made significant changes in this period (54% and 48% respectively). A wide variety of changes were mentioned, the most common being a significant capital investment in UK operations.
- 2.13 Some of the changes mentioned may have had a positive impact on the UK economy (e.g. significantly increasing staff employed in the UK) while others were likely to have had a negative impact (e.g. moving UK operations to overseas). In the case of some changes the impact could have been either positive or negative (e.g. the movement of a tax point).

⁴ The prompted changes include the following; whether they had invested significantly in existing operations, significantly increased or decreased staff in the UK, opened or closed UK operations, moved operations into or out of the UK, significantly altered tax planning strategies or changed the tax point of goods or services.



- 2.14 Around half (47%) of LBS businesses and a third of LC CRM (36%) and LC CC (34%) businesses had made changes which could be described as positive for the UK economy in the last 12 months⁵. Lower proportions (28% LBS, 24% LC CRM, 21% LC CC) had made a change which could be described as negative for the UK economy⁶ in the past 12 months. For a minority of businesses, tax policy was influential in making these changes.
- 2.15 When questioned specifically about changes to Corporation Tax, the majority (79% LBS, 79% LC CRM and 76% LC CC) felt that the reduction of corporation tax to 23% in 2014/15 would have some impact on their business⁷.

Business structuring and decision making

- 2.16 The use of agents or external tax advisors was widespread among large business customers, particularly for LC CRM and LC CC businesses (68% LBS, 87% LC CRM, 92% LC CC). Most businesses, and in particular LC CC ones believed that the use of external advisors ensured fewer errors were made in any tax calculations (69% LBS, 79% LC CRM, 89% LC CC).
- 2.17 However agents and tax advisors were also used to reduce the amount businesses pay in tax, and the majority of large business customers were in agreement that the use of agents/advisors did result in their respective businesses implementing planning strategies that might not have otherwise been considered (57% LBS, 65% LC CRM, 65% LC CC).
- 2.18 Furthermore, relatively high proportions (41% LBS, 46% LC CRM and 56% LC CC) felt that the use of agents/external advisors resulted in the business paying less tax⁸.

⁵ The positive changes recorded were moving operations to the UK, opening new operations in the UK, increasing the number of staff employed and making a significant capital investment in UK operations.

⁶ Negative changes explored were moving operations out of the UK, reducing the number of staff employed in the UK and closing UK operations.

⁷ The question asked whether the reduction in Corporation Tax rates to 23% by 2014/15 will have a major impact, minor impact, or no impact at all on the business. On 21st March 2012 it was announced in the budget that corporation tax will be reduced to 22% by 2014.

⁸ This outcome may arise for a variety of reasons, for example agents and advisors making businesses aware of available tax reliefs.



3 Background and methodology

Background

- 3.1 HMRC has carried out research with large businesses⁹ since 2008, using a telephone survey and qualitative interviews, to annually assess businesses' views of the services provided by HMRC.
- 3.2 In June 2010, IFF Research Ltd was appointed to take the research forward as a three-year annual study - the Large Business Panel Survey (LBPS). At that point HMRC also chose to survey the same panel of businesses each year rather than annually drawing the sample afresh. This approach enables HMRC to gain further insight by measuring changes within the large business population over time.
- 3.3 In 2011, HMRC commissioned IFF Research Ltd to carry out a sister study to the LBPS, the Tax Opinions Panel Survey (TOPS), co-funded by the Economic and Social Research Council (ESRC). TOPS is also intended to run for three years on an annual basis, at six-monthly staggered intervals to the LBPS.
- 3.4 The LBPS and TOPS surveys have different aims and focuses; the LBPS investigates businesses' views on their relationship with HMRC, whereas TOPS aims to establish businesses' awareness and opinion of current tax policy and changes to legislation, as well as their current and potential business behaviour in relation to future tax policy and legislation.
- 3.5 The same panel of business customers that were used for the LBPS study were also approached for TOPS, with the exception of businesses with a Customer Co-ordinator for which the sample was drawn afresh (more details of which are included in the technical appendix). This consistent panel approach creates one cohesive vehicle for all research with large businesses, the aim of which is to limit the burden of research on businesses as far as possible, and to collect in-depth information about this particular population.

HMRC's large business customers

- 3.6 HMRC's relationships with large businesses are managed by either the Large Business Service (LBS) or the Local Compliance Large and Complex (LC L&C) customer group.
- 3.7 The LBS is responsible for working with the UK's largest businesses on a range of taxes, duties and regimes. Around 770 businesses are serviced by the LBS, and all have a dedicated Customer Relationship Manager (CRM). The CRM manages the relationship between the business and HMRC across all taxes and duties. These customers are referred to as LBS customers throughout this report.
- 3.8 LC L&C partners the Large Business Service (LBS) in dealing with the tax affairs of the remaining large businesses. From 2007, the largest LC customers were appointed a CRM (with the same responsibilities and remit as the CRMs that work with LBS customers). In total around 1,200 businesses within LC have a CRM. These customers are referred to as LC CRM customers throughout this report.

⁹ The definition of large businesses is principally based on the EU definition of large businesses which is either more than 250 employees or more than €50M turnover and €43M assets.



- 3.9 The remaining businesses within LC L&C were assigned a Customer Co-ordinator (CC) in the summer of 2010. The CC acts as a first point of contact for businesses but does not have as extensive a remit as a CRM. In total, around 8,000 businesses within LC now have access to a CC. These customers are referred to as LC CC customers throughout this report.

Methodology

- 3.10 TOPS (and its sister survey the Large Business Panel Survey) use a longitudinal panel survey design. This means that instead of drawing a new sample each year, the survey returns to the same businesses. This approach enables HMRC to gain more in-depth knowledge of businesses as it can measure changes in individual businesses over time. TOPS focuses on responses to tax policies while the Large Business Panel Survey explores customer experience issues. At least a further two waves of the TOPS survey are planned in 2012 and 2013.
- 3.11 The construction of the TOPS 2011 questionnaire involved an extensive period of development which included discussions with HMRC, the ESRC Academic Advisor, cognitive interviews with Heads of Tax (or equivalent) of large businesses, and a pilot telephone survey.
- 3.12 The final main stage questionnaire lasted an average of 20 minutes and fieldwork was conducted using CATI (Computer Assisted Telephone Interviewing) between 3rd May and 18th July 2011.
- 3.13 This report draws on the findings from 1,262 quantitative telephone interviews, mainly with Heads of Tax or Finance Directors from HMRC's large business customers¹⁰. A relatively high response rate¹¹ was obtained with 366 achieved interviews with Large Business Service (LBS) customers, 395 with Large and Complex (LC) customers that have been allocated a Customer Relationship Manager (CRM), and 501 with LC customers who in the summer of 2010 were assigned a Customer Co-ordinator (LC CC).
- 3.14 A more detailed discussion of the approach (including the final questionnaire) is included within the technical appendix to this report.

Structure of the report

- 3.15 This report provides an overview of all findings from the first wave of the TOPS survey and is structured as follows:
- **Section 4 – Response to HMRC initiatives and legislation**
 - **Section 5 – Response to tax policy**
 - **Section 6 – Influences on businesses' structuring and planning**
 - **Section 7 - Conclusion**
 - **Technical Appendix**

¹⁰ For more details about large business customers, please see the Technical Appendix

¹¹ Response rate by customer group: LBS – 58%, LC CRM – 42%, LC CC – 36%



- 3.16 This report summarises findings and it is envisaged that further analysis will be conducted on the data by HMRC and ESRC. TOPS data will be deposited and made available for reuse in the HMRC Datalab.



4 Response to HMRC initiatives and legislation

Overview

- 4.1 This chapter explores large businesses' response to specific HMRC initiatives and legislation:
- **Real Time Working;**
 - **Risk Assessments;**
 - **Senior Accounting Officer legislation (SAO).**
- 4.2 The findings in this chapter relate to large business customers with a Customer Relationship Manager (CRM) since LC CC customers were not asked about these initiatives for reasons including applicability and familiarity.

Real Time Working

- 4.3 HMRC defines Real Time Working as instances where customers raise any issues or transactions with the department as they arise in an accounting period before the associated return becomes due. This was the definition that customers were provided with in the survey if they requested an explanation.
- 4.4 The majority of large businesses with CRM support had worked in Real Time in the last 12 months, particularly those looked after by the Large Business Service (89% of LBS 78% of LC CRM customers).
- 4.5 Not only were LBS customers more likely to discuss issues in Real Time, they were also more likely to use Real Time Working on a frequent basis (39% of LBS customers frequently discussed issues in Real Time compared with 19% of LC CRM customers).
- 4.6 There appeared to be a relationship between the size of LC CRM customers (both in terms of the number of employees and turnover) and likelihood of never working in real time – 38% of smaller sized LC CRM customers¹² had never worked in Real Time.

Table 4.1: Frequency of working in Real Time

	LBS	LC CRM
<i>Base: All</i>	(366)	(395)
	%	%
Frequently	39	19
Occasionally	46	50
Once	4	9
Never	10	21
Don't know	1	1

¹² Turnover over £41.5m

- 4.7 Nearly all large businesses were either engaging more in Real Time Working than 12 months ago (36% LBS, 31% LC CRM) or engaging in Real Time discussions to the same degree as they did 12 months ago (59% LBS, 61% LC CRM). Only 3% of both LBS and LC CRM customers stated they had fewer discussions in Real Time.

Table 4.2: Frequency of working in Real Time compared to 12 months ago

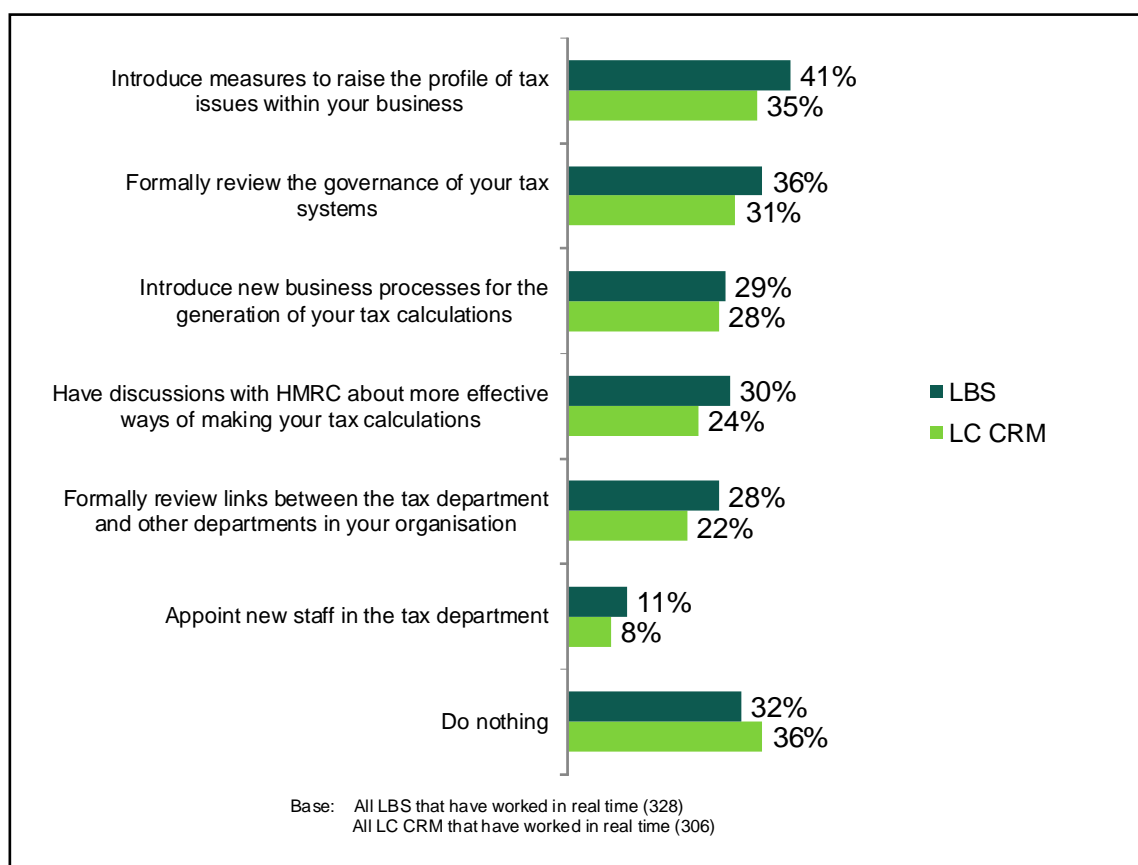
	LBS	LC CRM
<i>Base: All who engage in Real Time Working</i>	<i>(328)</i>	<i>(306)</i>
	%	%
More than 12 months ago	36	31
Same as 12 months ago	59	61
Less than 12 months ago	3	3
Don't know	2	4

- 4.8 When asked about future working, around a quarter of LBS customers (26%) and a fifth of LC CRM customers (21%) said they would increase the amount of engagement they will have with HMRC in Real Time. The remainder anticipated making no changes. Only a minority expected to decrease the amount of work that was done in Real Time – 1% LBS and 3% LC CRM).
- 4.9 The majority of customers that said they would work more frequently in Real Time in the future, had only occasionally worked in Real Time in 2011 (57% LBS, 59% LC CRM).



4.10 Around two-thirds of large business customers (68% LBS, 64% LC CRM) that engaged in Real Time Working within the last year stated it had led their organisation to make changes to the way they deal with tax issues. These are summarised in figure 4.1.

Figure 4.1: Impact of Real Time Working (% agreeing with each statement)

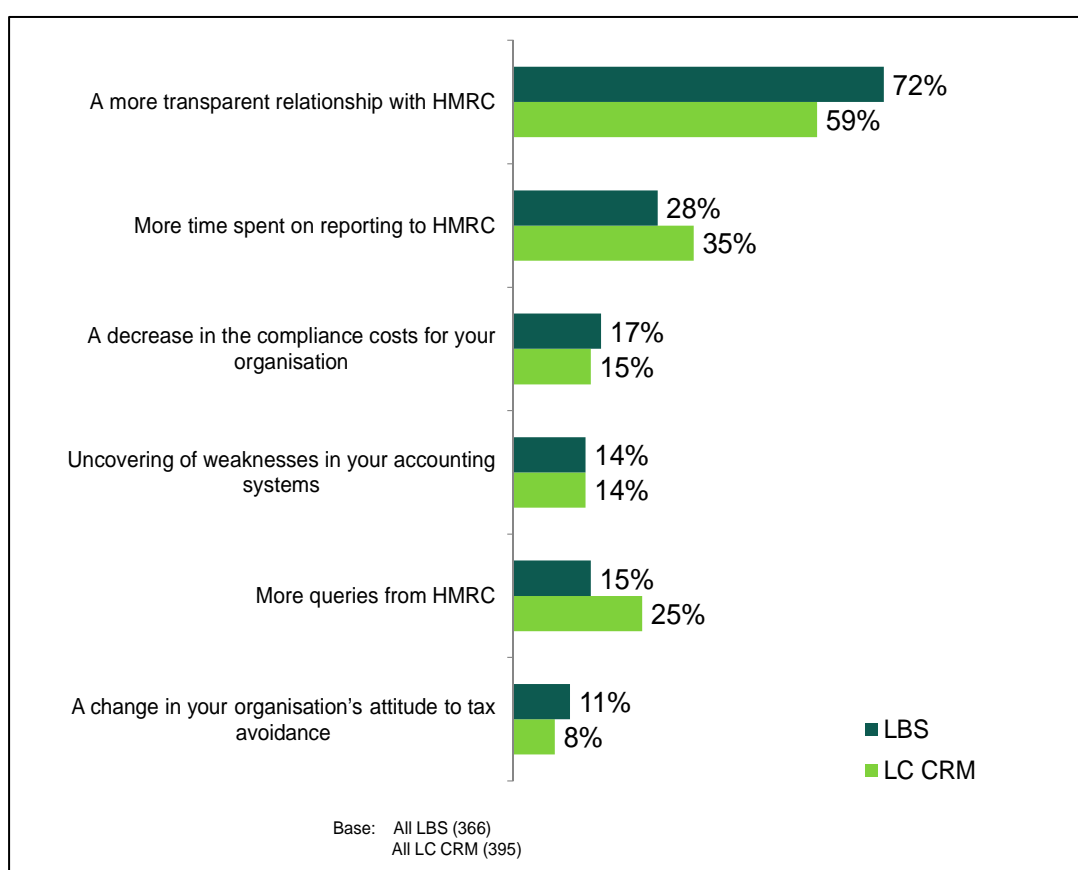


4.11 A relatively wide range of changes were undertaken by large business customers, including measures to raise the profile of tax issues within the business (41% LBS, 35% LC CRM) and new processes for the generation of tax calculations (29% LBS, 28% LC CRM).

4.12 Around one in three businesses (36% LBS, 31% LC CRM) also formally reviewed the governance of the business's tax systems.

- 4.13 All large business customers (regardless of whether they had used Real Time Working previously) were asked the extent to which they agreed or disagreed with several statements about the impact that Real Time Working could have on their business. They were asked to consider a range of possible impacts – on their relationship with HMRC, their compliance costs and their approach to producing their tax calculations. Figure 4.2 shows the percentages who agreed that they felt each impact had been or could be the result of Real Time Working. These findings give a flavour of the types of associations customers had with the process of Real Time Working.
- 4.14 The most common perception was that Real Time Working could lead to a more transparent relationship with HMRC. However a minority of respondents also held more negative perceptions such as the idea that it could lead to more time spent on reporting or more queries. Only a small minority of businesses (17% of LBS and 15% of LC CRM customers) perceived Real Time Working lead to a reduction in compliance costs.

Figure 4.2: Impacts that Real Time Working has had / could have (% agreeing with each statement)



- 4.15 Table 4.3 shows perceptions of Real Time Working split by the amount of Real Time Working that customers said they had engaged in over the last 12 months. Responses show that frequency of Real Time Working did not appear to affect customer attitudes to a large extent. That said, there were stronger perceptions among LC CRM businesses that had not used Real Time Working at all in the last 12 months that it may lead to more time reporting to HMRC and more enquiries from HMRC – these customers were also less likely to feel it would lead to a more transparent relationship with HMRC¹³. LBS customers showed the same pattern of response, but the number of LBS customers who did not use Real Time Working at all over the last 12 months (35) was too small to conduct robust analysis.
- 4.16 The latest findings from the LBPS survey¹⁴ showed use of Real Time Working was much lower among the LC CC population and findings from qualitative interviews suggested there is a great deal of uncertainty among LC CC customers as to what Real Time Working involves.

Table 4.3: Impacts that Real Time Working has had/could have by frequency of use of Real Time Working (% agreeing)

LBS Customers					LC CRM Customers			
	All	Use Real Time frequently	Use Real Time occasionally/once	Do not use Real Time	All	Use Real Time frequently	Use Real Time occasionally/once	Do not use Real Time
Base: All	(366)	(143)	(185)	(35)*	(395)	(74)	(232)	(84)
Proportion agreeing	%	%	%	%	%	%	%	%
A more transparent relationship with HMRC	72	78	74	[37]	59	64	61	51
More time spent on reporting to HMRC	28	24	26	[57]	35	39	25	56
A decrease in the compliance costs for your organisation	17	21	15	[11]	15	18	14	15
Uncovering of weaknesses in your accounting systems	14	15	11	[23]	14	15	13	15
More queries from HMRC	15	11	13	[43]	25	15	22	45
A change in your organisation's attitude to tax avoidance	11	12	12	[3]	8	11	8	6

* Base under 50 – treat with caution

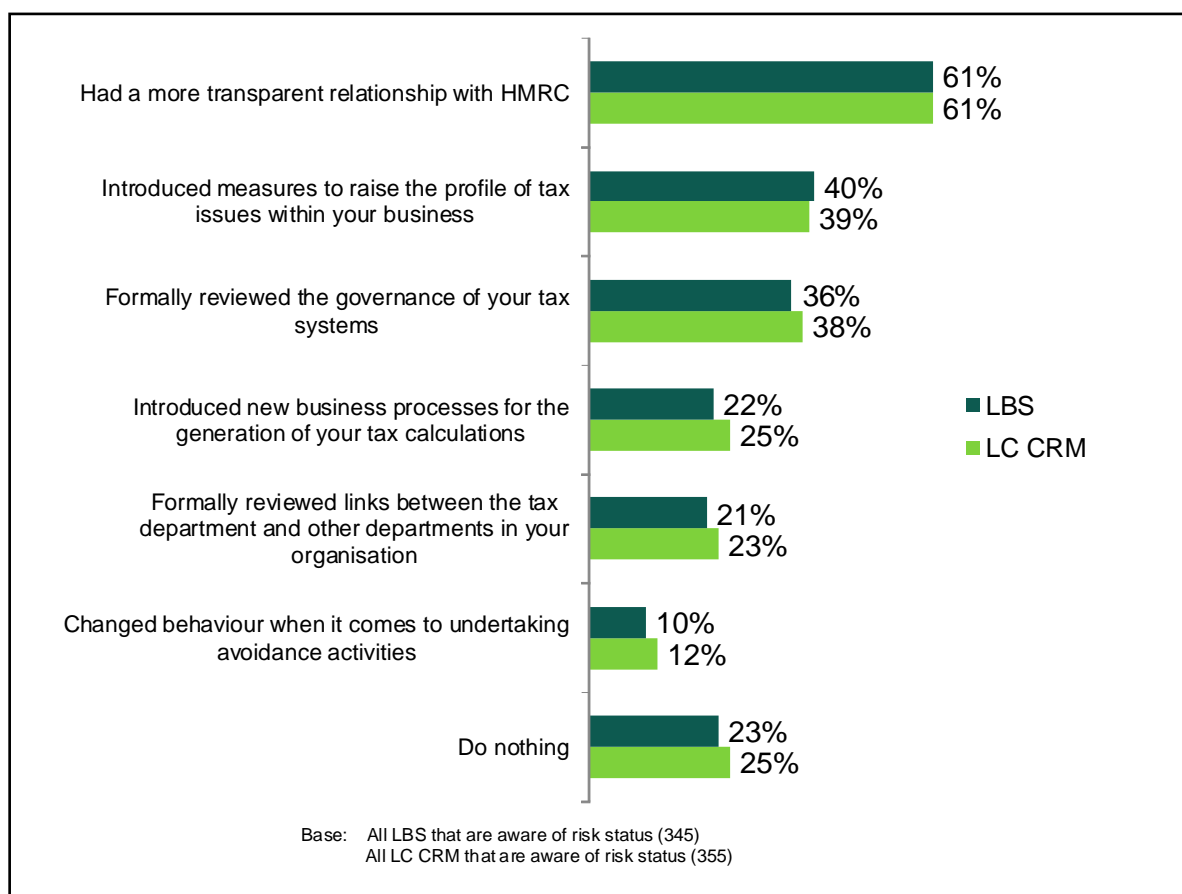
¹³ The base size for LBS businesses customers that have not discussed issues in real time is too small (35) for separate analysis

¹⁴ Large Business Panel Survey Wave 2 – quantitative fieldwork: Sep-Dec 2011; qualitative follow up: Jan-Feb 2012

Risk Assessment

- 4.17 Nearly all large business customers were aware of their risk status (94% LBS and 90% LC CRM). Although base sizes were small the data appeared to show smaller businesses (in terms of turnover) were less likely to be aware of their risk status – around a fifth of all businesses with a CRM (i.e. both LBS and LC CRM) that have a turnover of under £41.5m were unaware of their risk status.
- 4.18 In terms of communicating their risk status more widely within the organisation businesses were split with half (50%) of LBS customers and just over two-fifths (42%) of LC CRM customers communicating their risk status more widely.
- 4.19 Around three-quarters of businesses that were aware of their risk status (77% LBS, 75% LC CRM) stated that it had led to changes within the organisation, these are summarised in figure 4.3.

Figure 4.3: Impact of Risk Assessment (% agreeing with each statement)



- 4.20 For three-fifths of businesses (61% LBS, 61% LC CRM) it was felt being aware of the risk status had led to a more transparent relationship with HMRC. Two-fifths (40% LBS, 39% LC CRM) also mentioned that being aware of the risk status had led to measures being introduced to raise the profile of tax issues within the business.
- 4.21 Similar proportions (36% LBS, 38% LC CRM) stated that being aware of their risk status had led to a formal review of the governance of the businesses' tax systems.

- 4.22 Among LBS businesses, those using external agents were more likely to state they had formally reviewed their tax systems (40%) than those dealing with all taxes internally (28%).
- 4.23 Within LC CRM businesses, those that were part of a larger group were more likely to state they introduced measures to raise the profile of tax issues within the wider business (42%) compared with 25% of businesses that were not part of a larger group.
- 4.24 When asked about the importance of having a low risk status, most businesses, particularly LC CRM customers, were in agreement that this was important (72% LBS, 86% LC CRM).

Senior Accounting Officer (SAO) legislation

- 4.25 The Senior Accounting Officer (SAO) legislation, introduced in the 2009 budget, requested each qualifying company to identify a Senior Accounting Officer who would be personally accountable for establishing and maintaining appropriate tax accounting arrangements. Generally speaking, LC CC customers were not large enough to have been affected by this legislation and they were not asked to comment on it.
- 4.26 All CRM businesses were asked the extent to which they felt the SAO legislation helped ensure more accurate returns were made – shown in table 4.4. Overall 27% of LBS and LC CRM customers were in agreement that this was the case (with around half disagreeing and the remainder neither agreeing nor disagreeing).

Table 4.4: Whether agree that SAO legislation helps ensure more accurate returns

		LBS	LC CRM
<i>Base: All</i>		(366)	(395)
		%	%
Extent to which businesses feel the SAO legislation helps ensure more accurate returns are made	Agree	27	27
	Neither/Nor	20	22
	Disagree	51	41

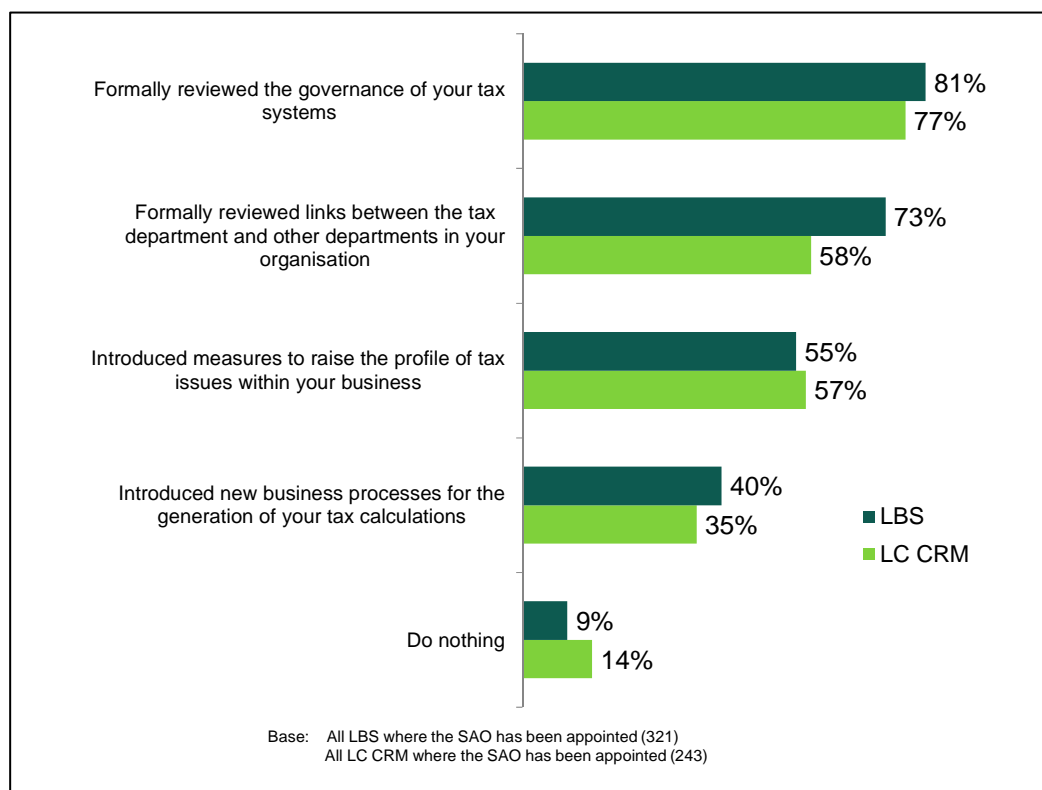
Note: Figures may not add to 100% due to rounding and respondents answering 'don't know'.

- 4.27 At the time of the survey, nearly all (88%) of LBS customers had already appointed their SAO, whereas only 62% of LC CRM customers had made the appointment. The LC CRM businesses which had not introduced an SAO tended to be smaller; both in terms of the number of employees and turnover (48% of those with a turnover of under £41.5m have not yet introduced SAO). These smaller companies are not necessarily required to appoint an SAO¹⁵.

¹⁵ The SAO legislation has a threshold based on turnover – only companies with a turnover of over £200m or assets of over £2 billion need to introduce an SAO.

4.28 Where businesses had appointed an SAO, most had also made further changes as a result of the legislation (91% LBS, 86% LC CRM). These are summarised in figure 4.4.

Figure 4.4: Impact of SAO legislation (% agreeing with each statement)



4.29 As a result of the legislation most businesses had formally reviewed the governance of their tax system (81% LBS, 77% LC CRM).

4.30 Many had also formally reviewed the links between the tax department and other departments within the organisation – LBS customers were particularly likely to have undertaken a formal review of this nature (73%, compared with 58% of LC CRM customers).

4.31 Furthermore, over half of all businesses (55% LBS, 57% LC CRM) had introduced measures to raise the profile of tax issues within the business more generally.

- 4.32 All large business customers that had appointed an SAO were also asked the extent to which they agreed or disagreed with several statements about the benefits and disadvantages the legislation might bring. The following table (table 4.5) shows the proportion who agreed and disagreed with each statement.¹⁶

Table 4.5: Agreement that SAO legislation has led to...

		LBS	LC CRM
<i>Base: All appointed an SAO</i>		(321)	(243)
		%	%
An increase in the cost of compliance for our organisation	Agree	55	51
	Neither/Nor	17	19
	Disagree	27	30
Better governance of your tax systems	Agree	51	52
	Neither/Nor	16	25
	Disagree	32	22
An improvement in the business processes for the generation of your tax calculations	Agree	40	38
	Neither/Nor	25	32
	Disagree	35	29
A more transparent relationship with HMRC	Agree	29	36
	Neither/Nor	31	34
	Disagree	38	28
Less clarity within the business regarding responsibility for tax matters	Agree	9	7
	Neither/Nor	15	20
	Disagree	76	73

- 4.33 Responses by customer type were very similar, around half of businesses felt that the SAO legislation had increased the cost of compliance (55% LBS, 51% LC CRM). Indeed, with regards to compliance, findings from the latest wave of LBPS¹⁷ indicated that the introduction of the SAO legislation had led large business customers to perceive that the general administrative burden of compliance had increased.
- 4.34 However, a similar proportion were in agreement that the SAO legislation led to better governance of the tax system within the organisation (51% LBS, 52% LC CRM). As mentioned earlier, a large proportion of businesses stated that they had conducted a formal review of the governance of their tax systems as a direct consequence of the legislation.
- 4.35 Some businesses felt that the SAO legislation had led both to increased costs of compliance and to better governance with (27% across the customer groups in agreement with both statements).
- 4.36 Findings suggest that the legislation had not had a detrimental impact on clarity over who was responsible for tax within the business; - around three-quarters (76% LBS, 73% LC CRM) disagreed that the legislation had led to less clarity regarding responsibility for tax matters.

¹⁶ These will not sum to 100% - the difference between the proportion agreeing/disagreeing is accounted for by those stating neither or don't know.

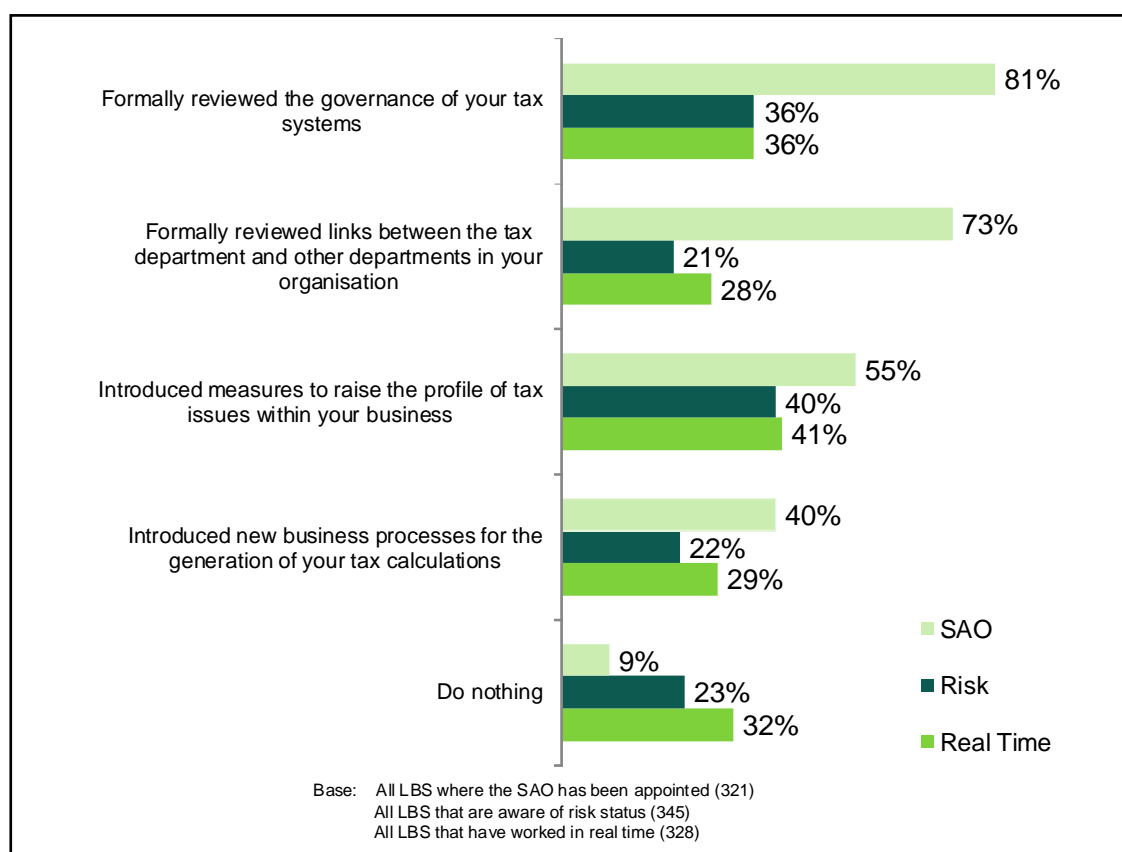
¹⁷ Large Business Panel Survey Wave 2 – quantitative fieldwork: Sep-Dec 2011; qualitative follow up: Jan-Feb 2012



Comparative impacts of SAO legislation, Risk Assessments and Real Time Working on large businesses

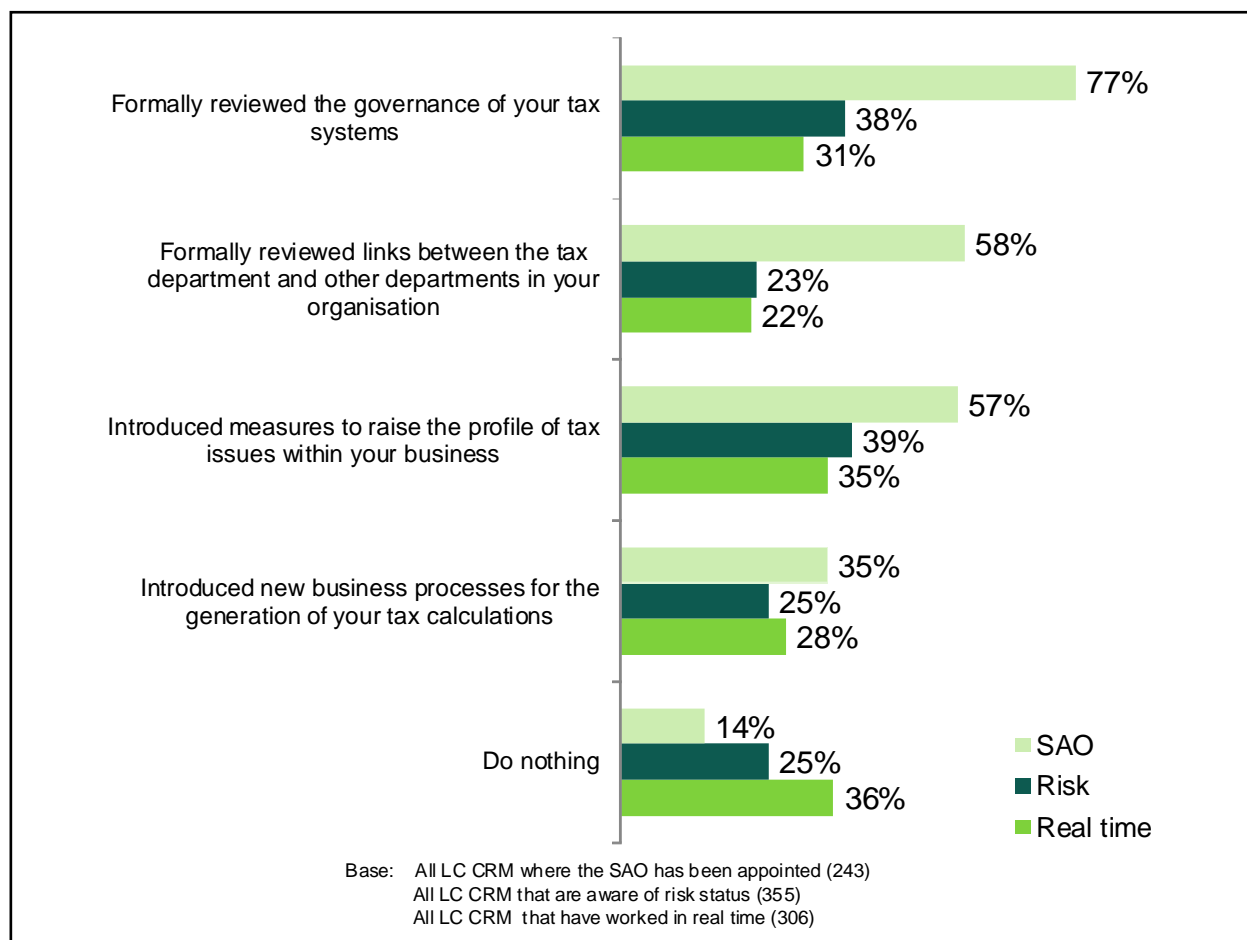
4.37 The following two charts summarise the key impacts that Risk Assessments, Real Time Working and SAO legislation have had on large businesses. Figure 4.5 compares the impact across LBS customers and figure 4.6 takes a similar approach across LC CRM customers¹⁸.

Figure 4.5: Comparative impact of SAO legislation, Risk Assessments and Real Time Working on LBS customers (% agreeing that each impact has been a consequence of initiative)



¹⁸ Only four direct impacts have been charted – these are the only four which were asked across SAO, risk and real time working

Figure 4.6: Comparative impact of SAO legislation, Risk Assessments and Real Time Working on LC CRM customers (% agreeing that each impact has been a consequence of initiative)



- 4.38 As discussed, the SAO legislation has clearly had the biggest impact on large businesses with very few stating they had done nothing as a result of its introduction. Over three-quarters had formally reviewed the governance of their tax systems in response to the SAO legislation; in comparison around a third reacted in this way to the introduction of either Risk Assessments or Real Time Working.
- 4.39 In addition to encouraging businesses to review their operations and raise the profile of tax issues internally, the initiatives also resulted in a minority of businesses introducing new processes for the generation of their tax calculations. Within the LBS population, 29% introduced new processes in response to Real Time Working, 22% in response to Risk Assessments and 40% in response to SAO legislation. Of LC CRM businesses, 28% introduced new business processes for generating tax calculations in response to Real Time Working, 25% in response to Risk Assessments and 35% in response to SAO legislation.

5 Response to tax policy

Overview

- 5.1 This chapter explores large businesses' responses to tax policy. It begins by exploring changes that were either implemented or only considered as a direct result of tax policy within the last 12 months. It then focuses on responses to specific policies:
- **Corporation Tax:** Corporation Tax is a tax on the taxable profits of limited companies and some organisations including clubs, societies, associations, co-operatives, charities and other unincorporated bodies.
 - **Capital Allowances:** Capital allowances are a tax relief designed to allow the cost of certain assets of an organisation to be written off against its taxable profits. They take the place of the depreciation shown in the financial (commercial) accounts, which is not allowable for Corporation Tax purposes.
 - **Stamp Duty Land Tax:** Stamp Duty Land Tax is usually payable when a business buys or leases land or property. It is also sometimes payable on transfers of ownership of property or land.

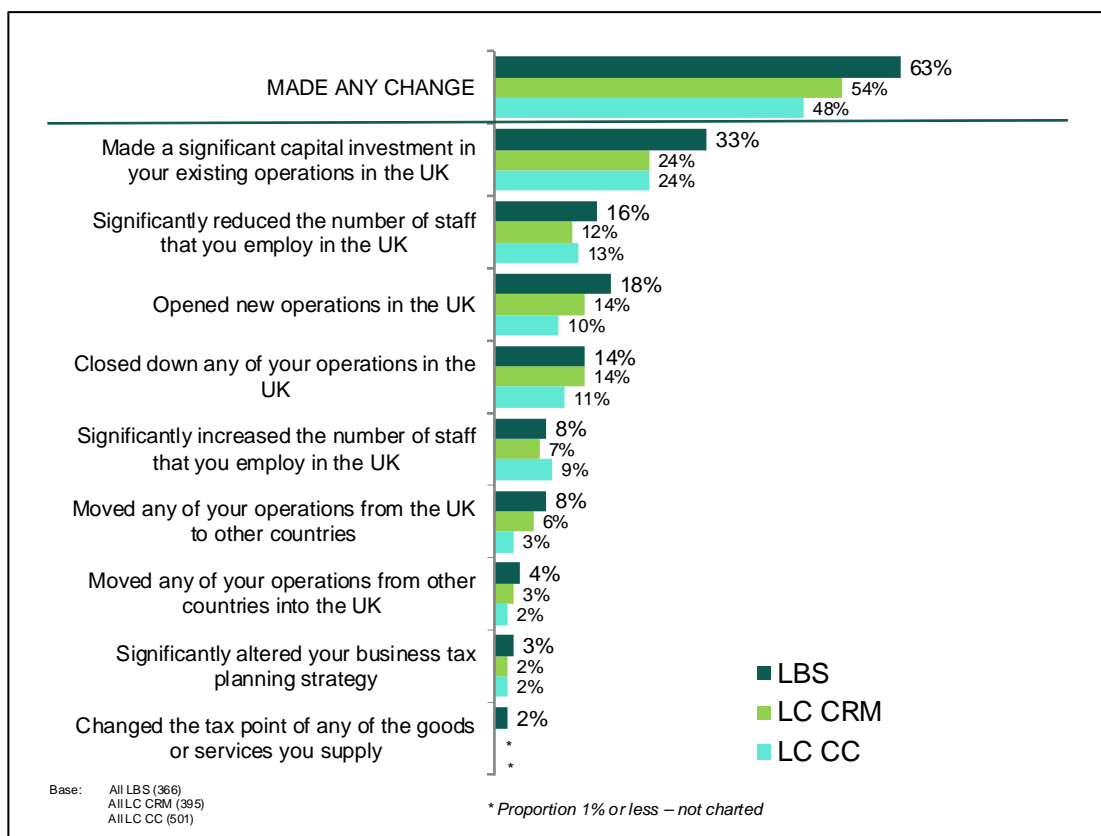
Business decision making – changes made in the last 12 months

- 5.2 Overall the majority of LBS customers (63%) had made some form of significant change to their business within the last 12 months (though not necessarily as a result of tax policy). LC CRM and LC CC customers were less likely to have made significant changes to the business in the 12 months preceding the survey (54% and 48% respectively).



- 5.3 Figure 5.1 shows the wide variety of changes made by businesses in the last 12 months.
- 5.4 Making a significant capital investment to existing operations was the most commonly mentioned change (33% LBS, 24% LC CRM, 24% LC CC). Only a minority of businesses (fewer than 5% across all customer groups) mentioned moving operations from other countries into the UK, significantly altering their tax planning strategy or changing the tax point of any goods and services supplied.

Figure 5.1: Changes made to the business within the last 12 months (respondents prompted with changes)



- 5.5 Some of these changes may have had a positive impact on the UK economy (e.g. significantly increasing staff employed in the UK) while others are likely to have had a negative impact (e.g. moving UK operations to overseas). Table 5.1 shows the way in which the changes made have been grouped for analysis purposes. It also shows the proportion of all businesses that had made any positive change or any negative change within the last 12 months.
- 5.6 In the case of two of the changes discussed (altering tax planning strategy and changing the tax point) the impact on the UK economy could be either positive or negative depending on the exact approach taken. These changes have therefore not been included in either the positive or negative groupings.

Table 5.1: Proportion of businesses that made 1 or more change to their business (negative and positive changes shown)

	Positive	Negative
	Moved any of your operations from other countries into the UK	Moved any of your operations from the UK to other countries
	Significantly increased the number of staff that you employ in the UK	Significantly reduced the number of staff that you employ in the UK
	Opened new operations in the UK	Closed down any of your operations in the UK
	Made a significant capital investment in your existing operations in the UK	-
	-	-
	-	-
LBS Made one or more change:	47%	28%
LC CRM Made any change:	36%	24%
LC CC Made any change:	34%	21%

- 5.7 Overall around half (47%) of LBS businesses and a third of LC CRM (36%) and LC CC (34%) businesses made a positive change in the last 12 months. Lower proportions (28% LBS, 24% LC CRM, 21% LC CC) made a negative change in the past 12 months.

Business decisions made in response to change in tax policy

- 5.8 While it is expected that the driving factors behind these operational changes would, on the whole, be of a commercial nature, the TOPS survey has been designed to understand the impact tax policy has on large businesses; as such all businesses that had made a significant change within the last year were asked the extent to which tax (and which specific taxes) played a part in their decision¹⁹.

¹⁹ Owing to the length of the questionnaire the survey only followed up the top 2 changes mentioned by large businesses (businesses were asked to prioritise the main decisions where more than two were mentioned).

- 5.9 In the main, the majority of changes were not influenced by tax policy²⁰. At an overall level for positive changes made, 15% of LBS, 10% of LC CRM and 9% of all LC CC customers stated the changes were influenced in some way by tax policy. Nine per cent of LBS, 7% of LC CRM and 6% of LC CC customers made some mention of a specific tax policy influencing a negative change their organisation made.
- 5.10 Qualitative follow-up discussions with customers who took part in LBPS wave 2²¹ added to these findings, with large business customers keen to point out that tax planning does not drive commercial decision making. The qualitative findings suggested it was a consideration once key strategic decisions had been made.

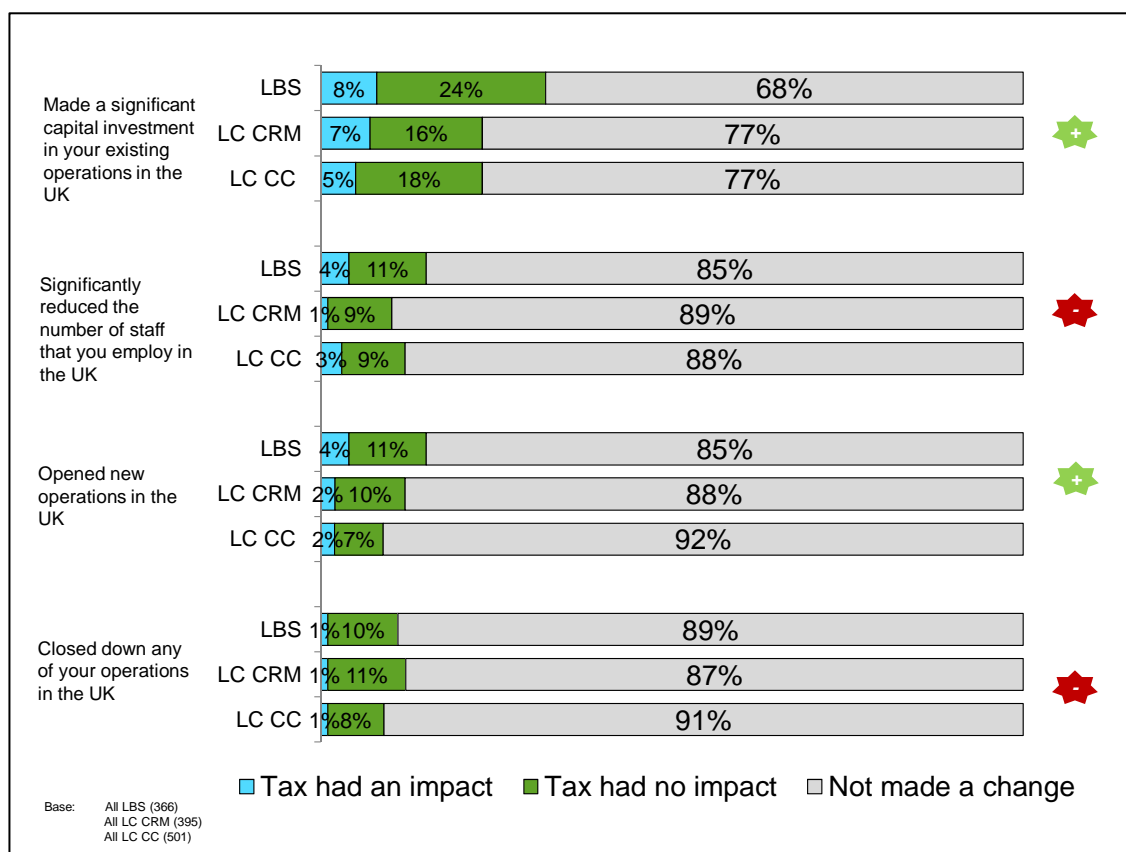
²⁰ Respondents were asked if the following tax policies had any influence at all on their decision to make any of the changes in their operations shown in figure 5.1: CT rates, VAT rates, the level of capital allowances, NI obligations, personal income tax rates, any other tax policy changes. These were aggregated in the reporting of the results, given the low numbers making any of the operational changes, and the low numbers for each tax policy influencing those changes.

²¹ Large Business Panel Survey Wave 2 – quantitative fieldwork: Sep-Dec 2011; qualitative follow up: Jan-Feb 2012



5.11 Figure 5.2 puts the findings into a wider context by showing the top four ‘major’ changes²² made by businesses within the last 12 months and highlighting the businesses which made the change as a result of tax policy (blue) from those that made the change for other reasons (green).²³ The green and red stars indicate whether, respectively, the changes can be defined as positive or negative for the UK economy.

Figure 5.2: Impact of tax policy on ‘major’ changes within the last 12 months.



5.12 The most common ‘major’ change made in the last 12 months was in regards to change in capital investment in the UK – 8% of LBS, 7% of LC CRM and 5% of LC CC customers stated that tax policy influenced their decision to make this operational change.

5.13 Though major changes as a direct response to tax policy were only reported by very small proportions of businesses, these businesses accounted for a sizeable proportion of all customers making changes. For example, of all customers that made a significant capital investment in the last 12 months, 25% of LBS customers, 30% of LC CRM and 23% of LC CC customers stated that tax policy was influential²⁴.

²² As noted above the proportion making the change will be slightly lower than figures presented in figure 5.1 as only the top two changes were followed up in the survey – i.e., this is what we define as a ‘major’ change.

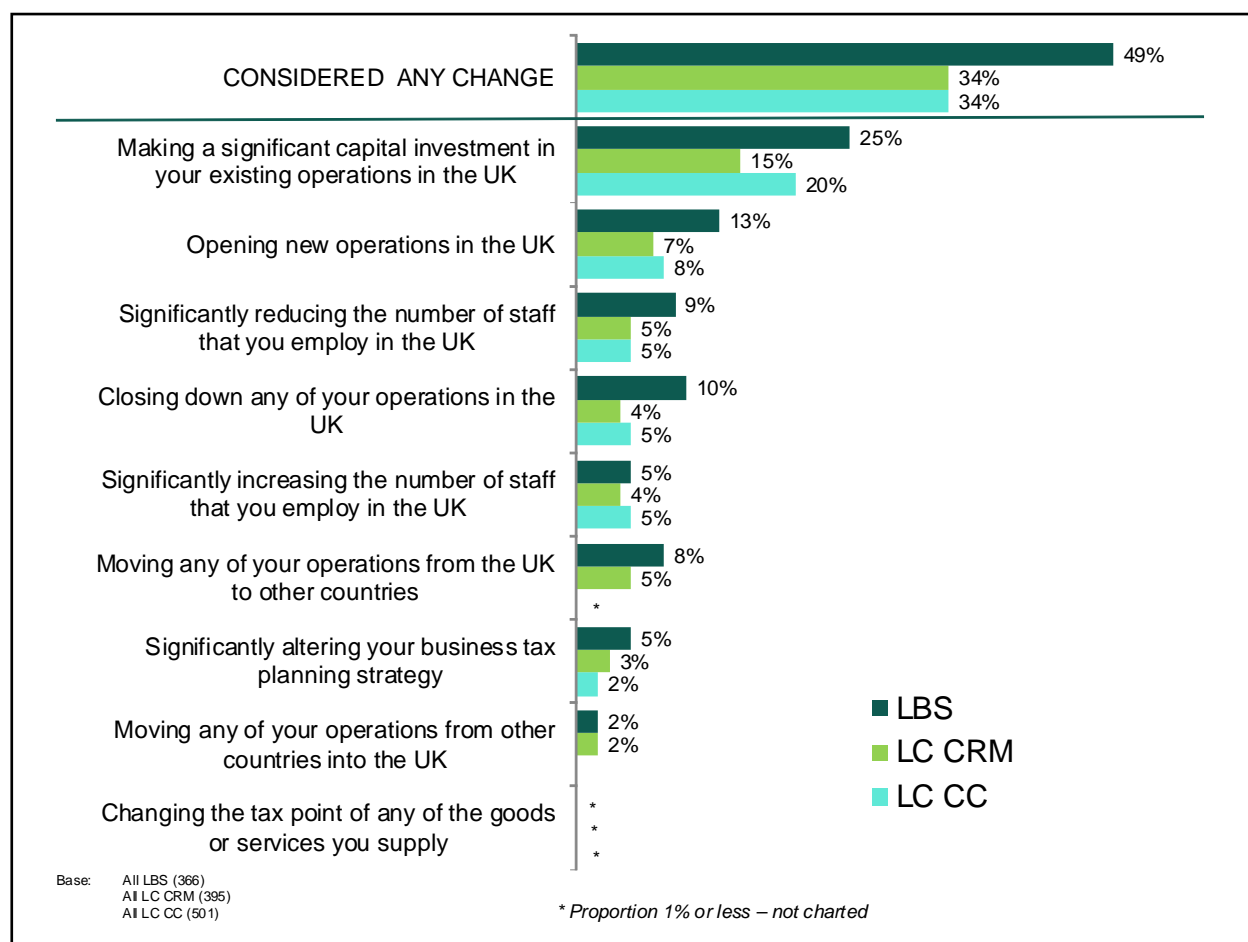
²³ Proportions are based on all customers within each of the three customer groups.

²⁴ It should be noted that the TOPS data does allow for further granularity in the analysis (i.e. drilling down to which specific taxes were influential and to what degree) but given the relatively small base sizes involved, and the headline nature of this report, these findings are not explored in this paper.

Overall response to tax policy – future changes considered in the next 12 months

- 5.14 A similar line of questioning was adopted for changes which businesses were considering making in the next 12 months (i.e. mid 2011-mid 2012).
- 5.15 Around half of LBS customers (49%) envisaged making some form of significant change to their business in the next 12 months. Fewer LC CRM and LC CC businesses were considering making significant changes (34% respectively for both customer groups). Figure 5.3 highlights the future changes considered across the three customer groups.

Figure 5.3: Future changes considered in the next 12 months (respondents prompted with changes)



- 5.16 Again, a wide variety of changes were mentioned, and the overall picture was very similar to that of changes which had already been made in the last 12 months (the most likely change centred around making capital investment to existing operations in the UK).
- 5.17 Using the same approach discussed earlier in this chapter, the changes can be grouped into positive and negative changes. Overall 32% of LBS, 22% of LC CRM and 25% of LC CC businesses had considered making changes which are likely to have a positive impact on the UK economy, compared with 19% of LBS, 11% of LC CRM and 8% of LC CC that had considered making changes which are likely to have a negative impact on the UK economy.

- 5.18 Specific tax policies had a small impact on anticipated future changes. At an overall level, 4% of LBS, 2% of LC CRM and 2% of LC CC customers considered making a change that could be described as negative for the UK economy in response to tax policy within the next 12 months. In terms of positive changes considered, one per cent or less of all customer groups stated tax policy was influential in their consideration. As explained below the table, base sizes are too small to report by specific changes.

Corporation Tax rates and Capital Allowances

- 5.19 All businesses were asked the extent to which the planned reductions in corporation tax by 2014/15 and reduction in capital allowances for both main rate and special rate expenditure would have an impact on their business.

- 5.20 The following table (table 5.2) shows the impact anticipated for each policy change.

Table 5.2: Impact of Capital Allowance and Corporation tax changes

		LBS	LC CRM	LC CC
<i>Base: All</i>		(366)	(395)	(501)
		%	%	%
The reduction in Corporation Tax rates to 23% by 2014/15	Major impact	28	29	21
	Minor impact	51	50	55
	No impact	19	19	21
Next year's reduction in rates of capital allowances from 20% to 18% for main rate expenditure	Major impact	8	6	6
	Minor impact	57	61	55
	No impact	33	32	36
Next year's reduction in rates of capital allowances from 10% to 8% for 'special rate' expenditure	Major impact	5	2	3
	Minor impact	46	46	40
	No impact	47	52	54

Note: Figures may not add to 100% due to rounding and respondents answering 'don't know'.

- 5.21 Most customers felt that the reduction of corporation tax to 23% by 2014/15 would have an impact on their business (79% LBS, 79% LC CRM and 76% LC CC) – with over a fifth of businesses across the three customer groups stating it would have a major impact.
- 5.22 For around two thirds of all large businesses the reduction of capital allowances from 20% to 18% for main rate expenditure would have a minor impact (57% LBS, 61% LC CRM and 55% LC CC state a minor impact). For about a third in all large customer groups, it would have no impact.
- 5.23 For the special rate expenditure change around half of large business customers anticipated no impact – and among those that believed they would be affected, most did not expect that it would have a major impact on the business (only 5% LBS, 2% LC CRM and 3% LC CC stated a major impact).
- 5.24 Where large business customers felt that either of the two changes to capital allowances would have an impact they were asked whether they would consider making any specific changes to their business.

- 5.25 The majority (87% LBS, 90% LC CRM, 85% LC CC) of large businesses did not consider making any specific changes to their business as a result of the capital allowances changes. The most common change considered was cancelling planned capital investment in the UK (mentioned by 6% of LBS customers, 5% of LC CRM customers and 9% of LC CC customers).

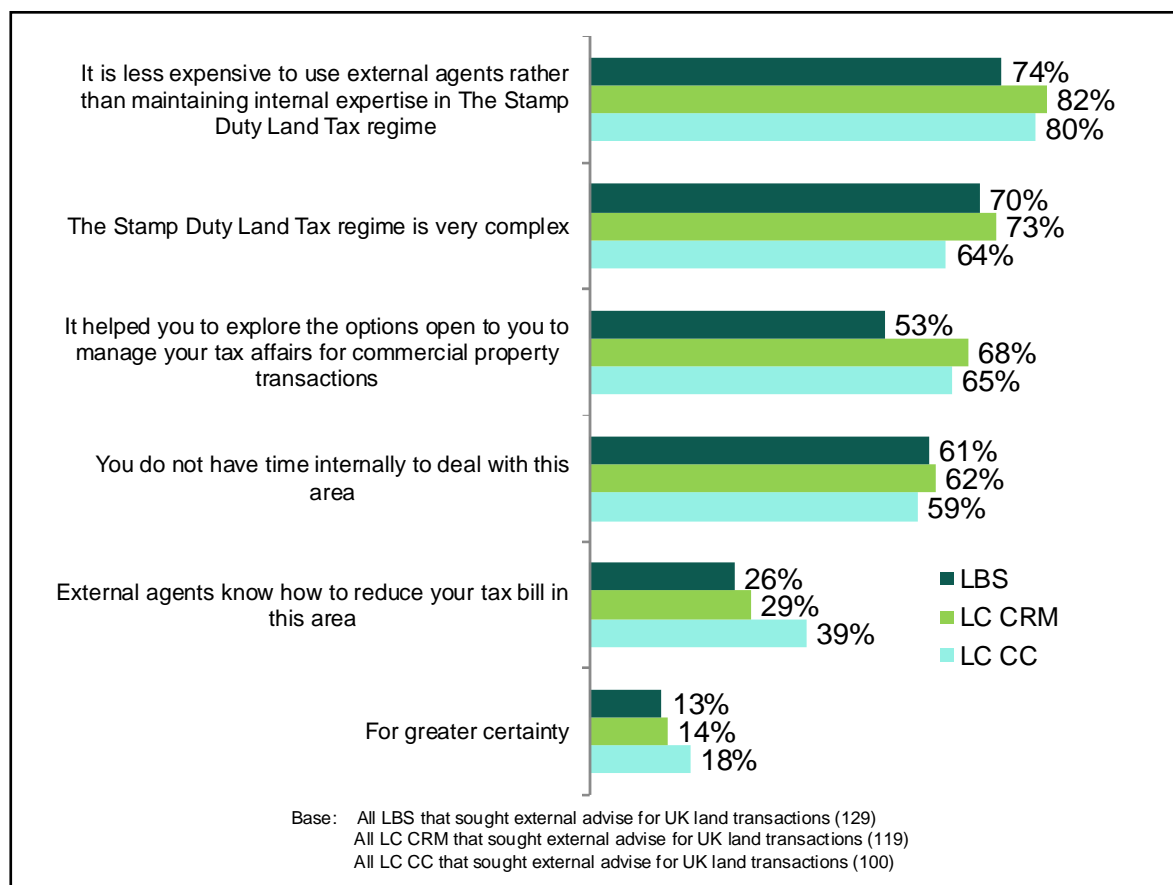
Stamp Duty Land Tax

- 5.26 Customers were asked about the current Stamp Duty Land Tax Policy.
- 5.27 Just under half of all LBS large customers (47%) had undertaken UK land transactions in the last 12 months, whereas around a third (35%) of LC CRM and a quarter (25%) of LC CC customers had undertaken these types of transactions. Within each of the three customer groups the largest businesses (in terms of turnover) tended to be the businesses that had undertaken UK land transactions.
- 5.28 The large business customers which had undertaken UK land transactions were asked how confident they were that someone within the business understood the rules surrounding transactions. There were clear differences by customer group with most (87%) of LBS customers stating they were confident, compared with 77% of LC CRM and 69% of LC CC customers.
- 5.29 Despite the majority of businesses being confident that they had someone within the organisation who understood the rules surrounding UK Land transactions, most sought external advice around this issue (75% LBS, 85% LC CRM and 81% LC CC).



5.30 A relatively large number of reasons were cited by large business customers for using external advisors in relation to UK land tax - these are explored further in figure 5.4.

Figure 5.4: Reasons for using external advisors in relation to UK land duty (% agreeing with each statement - statements prompted)



5.31 The main reason cited by all three customer groups was commercial in nature – it was perceived to be less expensive to use external agents rather than maintaining the expertise in-house (74% LBS, 82% LC CRM, 80% LC CC). Perhaps linked to this findings, a high proportion of businesses did see the regime as complex (70% LBS, 73% LC CRM, 64% LCC).

5.32 Around three in five across all customer groups (61% LBS, 62% LC CRM, 59% LCC) felt they did not have the time internally to deal with the issue of Stamp Duty Land Tax.

5.33 There were two noticeable differences by customer group:

- The first centred around exploring options to manage affairs relating to commercial property transactions, where 53% of LBS customers cited this as a reason compared with 68% of LC CRM and 65% of LC CC customers respectively.
- The second related to LC CC customers who appeared more likely to agree that external agents knew how to reduce their tax bills (39% LC CC compared with 29% LC CRM and 26% LBS).

6 Influences on Businesses' Structuring and Planning

Overview

- 6.1 This chapter explores decision making within large businesses and also looks at the use of agents, external advisors and other professional networks (particularly among HMRC's LC CC customers).

Decision making

- 6.2 To help understand the context of decision making in large businesses, all respondents were asked whether they sat on the board of their respective businesses. As table 6.1 shows, around a third (36%) of LC CC respondents, a quarter (25%) of respondents from LC CRM customers and a very small minority (5%) of respondents from LBS customers sat on the board.

Table 6.1: Whether respondent sits on the board

	LBS	LC CRM	LC CC
<i>Base: All</i>	(366)	(395)	(501)
	%	%	%
Yes	5	25	36
No	92	72	59
N/A	2	3	6

- 6.3 All businesses were asked the extent to which they agreed or disagreed with several statements about decision making surrounding the payment of tax. The following table (table 6.2) summarises the proportion agreeing/disagreeing with each statement.

Table 6.2: Agreement or disagreement that...

		LBS	LC CRM	LC CC
<i>Base: All</i>		(366)	(395)	(501)
		%	%	%
Paying the correct level of tax is a key objective for the business	Agree	95	93	90
	Neither/Nor	3	4	7
	Disagree	2	3	2
We are always open to ways to legally reduce our tax payments	Agree	84	88	88
	Neither/Nor	11	8	8
	Disagree	5	3	3
The business has a duty to its shareholders to minimise tax payments	Agree	76	73	69
	Neither/Nor	9	14	17
	Disagree	10	7	7
We look to reduce our tax liabilities through recognising profits in more favourable regimes	Agree	20	17	19
	Neither/Nor	17	21	24
	Disagree	54	52	36

Note: Figures may not add to 100% due to rounding and respondents answering 'don't know'.



- 6.4 Nearly all businesses (95% LBS, 93% LC CRM, 90% LC CC) agreed that paying the correct level of tax was a key objective for the business. Similarly high proportions were also in agreement that the business was always open to ways to legally reduce their tax payments.
- 6.5 In this context, a sizeable majority (76% LBS, 73% LC CRM, 69% LC CC) also acknowledged that the business had a duty to its shareholders to minimise tax payments.
- 6.6 A fifth (20% LBS, 17% LC CRM, 19% LC CC) stated that their business looked to reduce its tax liabilities through recognising profits in more favourable regimes.
- 6.7 All LC CC customers were also asked the extent to which they felt deterrents and penalties influenced their tax planning decision making. Over half (58%) felt they did influence decision making, with over a quarter (27%) stating deterrents and penalties influenced planning to a great extent.

Use of agents

- 6.8 Most large business customers used agents or external tax advisors to some degree – particularly LC CC customers; 92% of LC CC customers and 87% of LC CRM customers used external agents/advisors, whereas only 68% of LBS customers did so.
- 6.9 All businesses using agents/external advisors were asked the extent to which they agreed or disagreed with several statements surrounding the payment of tax. The following table (table 6.3) summarises the proportion agreeing/disagreeing with each statement.

Table 6.3: Agreement or disagreement that the use of agents/advisors results in...

		LBS	LC CRM	LC CC
<i>Base: All using agents/external advisors</i>		(247)	(342)	(460)
		%	%	%
You making fewer errors in your tax calculations	Agree	69	79	89
	Neither/Nor	15	9	5
	Disagree	15	11	5
Your business implementing tax planning strategies that it might not otherwise consider	Agree	57	65	65
	Neither/Nor	17	16	17
	Disagree	26	18	16
You paying less tax	Agree	41	46	56
	Neither/Nor	32	33	27
	Disagree	25	18	15
Fewer people within your company having knowledge of tax issues	Agree	28	32	55
	Neither/Nor	15	18	18
	Disagree	57	49	25
You disclosing less information to HMRC	Agree	4	7	10
	Neither/Nor	13	19	26
	Disagree	82	72	62

Note: Figures may not add to 100% due to rounding and respondents answering 'don't know'.

- 6.10 Most businesses, particularly LC CC customers, believed that the use of external advisors ensured fewer errors were made in any tax calculations (69% LBS, 79% LC CRM, 89% LC CC).



- 6.11 Two-thirds of LC CRM and LC CC customers (65%) and 57% of LBS customers were also in agreement that the use of agents/advisors resulted in their respective businesses implementing planning strategies that might not have otherwise been considered. With this in mind, relatively high proportions (41% LBS, 46% LC CRM and 56% LC CC) felt that the use of agents/external advisors resulted in the business paying less tax²⁵.
- 6.12 As a result of working with agents/external advisors, over half (55%) of LC CC customers admitted that a direct consequence of this was having fewer people within the organisation that had knowledge of tax issues. By contrast, among LBS and LC CRM customers, 28% and 32% respectively stated that this was the case.
- 6.13 Only a minority of large business customers agreed that the use of external agents/advisors resulted in less information being disclosed to HMRC. (4% of LBS, 7% of LC CRM, 10% of LC CC customers). By contrast the majority disagreed with this statement.
- 6.14 LC CC customers were asked follow up questions exploring whether their agents ever suggested new ways of doing business to reduce the business's tax liability. Overall, two-thirds (68%) of LC CC customers that used agents/advisors said they suggested ways of reducing tax liability. Nearly all of these businesses also agreed they paid less tax as result of using agents/external advisors.
- 6.15 In the main, businesses reported that their agents suggested ways to reduce tax liabilities on an occasional basis (63%) rather than frequently (5%). LC CC businesses that engaged with their agents/advisors to reduce liability were relatively evenly split between those where discussions were prompted by the agent (39%), those where the discussions prompted by the business (23%) and those where discussions were prompted by both (31%). In a minority of cases (7%) the discussions are prompted by another third party.

²⁵ This outcome may arise for a variety of reasons, for example agents and advisors making businesses aware of available tax reliefs.



Professional networks and other influences on approach to tax

- 6.16 As table 6.4 shows, over half (56%) of LBS respondents were members of a professional network of tax specialists – whereas significantly fewer LC CRM (27%) and LC CC (10%) respondents were²⁶.

Table 6.4: Whether a member of any professional network of tax specialist

	LBS	LC CRM	LC CC
Base: All	(366)	(395)	(501)
	%	%	%
Yes	56	27	10
No	42	72	90
Don't know	1	1	1

- 6.17 All businesses were asked how influential different factors were on the approach that the business took to its tax affairs (summarised by table 6.5).²⁷

Table 6.5: Influence of the following factors on approach to tax...

		LBS	LC CRM	LC CC
Base: All		(366)	(395)	(501)
		%	%	%
Your own finance or tax department	Influential	86	84	68
	Not influential	14	13	25
Agents/ External advisors ²⁸	Influential	55	76	72
	Not influential	12	10	19
Press coverage of tax issues	Influential	45	49	52
	Not influential	53	49	47
Informal networks of businesses within your sector	Influential	40	27	26
	Not influential	58	72	72
Trade associations	Influential	35	25	24
	Not influential	62	72	73
Professional networks ²⁹	Influential	33	16	6
	Not influential	22	11	3

²⁶ As discussed earlier in this chapter – to some extent this may be explained by job titles, survey data show that LC CC respondents are more likely to be Financial/Accounting Directors whereas in the largest organisations respondents tend to be Tax Managers/Head of Tax.

²⁷ Responses for each source of influence do not sum to 100% as 'don't know' responses are not shown.

²⁸ Figures are based on all businesses. They do not sum to 100% because there are a proportion of businesses that do not use agents/advisors (in addition to the small proportion stating that they do not know how influential they are).

²⁹ Figures are based on all businesses. They do not sum to 100% because there are a proportion of businesses that do not use professional networks (in addition to the small proportion stating that they do not know how influential they are).

- 6.18 For most businesses, particularly LBS and LC CRM customers (86% and 84% respectively) their finance/tax department had the greatest influence on their overall approach to tax; for LC CC customers only 68% stated it was influential and a quarter (25%) stated it had little or no influence.
- 6.19 For LC customers the use of agents and external advisors was more important, with 76% of those with a CRM and 72% of those with a CC stating these had an influence. By contrast only 55% of LBS customers stated agents/external advisors were influential. This difference may be accounted for by the fact LBS customers were generally less likely to use agents.
- 6.20 Large businesses were fairly evenly divided between those that felt press coverage of tax issues had an influence on their approach to tax and those that did not.³⁰
- 6.21 The influence of informal sector networks was greater among LBS customers (40%) than it was among other large business customers (27% LC CRM and 26% LC CC).
- 6.22 Around a third (35%) of LBS customers and a quarter of LC CRM and LC CC customers (25% and 24% respectively) stated trade associations had at least some influence on their approach to tax policy. In terms of professional networks a similar proportion of LBS customers (33%) stated they influenced their approach to tax. Given far fewer LC CRM and LC CC customers were members of professional networks, only a minority stated they had an influence on the business (16% LC CRM and 6% LC CC).

³⁰ 45% of LBS, 49% of LC CRM, 52% LC CC all stated that press coverage had an influence on the business.



7 Conclusion

Professor Lynne Oats, University of Exeter Business School and ESRC Academic Advisor to the Tax Opinion Panel Survey

- 7.1 The relatively high response rate achieved in this survey is reassuring as an indicator of the willingness of large business customers to participate in activities undertaken by HMRC to better understand the large business tax environment. It benefits both parties, HMRC and large business customers, to engage in such research: for the former to improve knowledge of customer working practices and the way in which the tax system impacts on different types of customer; and for the latter to contribute to improved working relationships with potential for spin off benefits such as reduced compliance costs.
- 7.2 The following observations relate to the three broad areas canvassed in this first survey, specifically response to HMRC initiatives, response to tax policy and influences on businesses' structuring and planning.
- 7.3 In the context of response to HMRC initiatives, three key developments in the relationship between large business customers and HMRC were explored, specifically Real Time Working, the Risk Rating approach and the Senior Accounting Officer legislation.
- 7.4 Real Time Working, in the sense of settling issues up front before accounts are finalised, is seen by HMRC as a win-win approach to relationship management, providing certainty to the customer as well as cost reductions. In evidence to the House of Commons Treasury Select Committee in June 2011, it was stated that the benefit to HMRC was that 'it gives confidence that risks are being managed up-front, at the time when there are still opportunities to change the law if necessary'. The statement made in the 2011 Budget document Tackling Tax Avoidance³¹ makes the link between real time working and HMRC's anti tax avoidance strategy explicit. There is an indication that some customers not currently using Real Time Working may not be sufficiently clear about the benefits of doing so.
- 7.5 The Risk Rating approach to relationships between HMRC and large business customers has taken some time to bed down. The majority of large businesses see the benefits of a low risk rating, in line with the overall aim of enhancing relationship through co-operation. There seems to be a residual group of customers who do not think it important to have a low risk status, presumably because they cannot see the benefits of low risk rating as outweighing the benefits of higher risk tax planning strategies. The Risk Rating approach is linked to the overall aim of increasing engagement of boards of directors in the tax strategy of businesses. In Freedman et al's (2009) study, nearly all interviewees were adamant that boards were at least broadly aware of the tax affairs of the company, although one or two suggested that board engagement was not adequate. Importantly, Freedman et al found that board engagement may not always be positive in terms of keeping tax planning in check due to the 'golf course syndrome', that is, informal sharing of tax planning ideas. 'Companies engaging in non-conservative tax planning may nevertheless have corporate governance arrangements in place in relation to tax matters'. The picture in relation to risk rating is complex, as evidenced by the mixed qualitative views elicited in the LBPS as to the benefits of achieving low risk status³².

³¹ http://www.hm-treasury.gov.uk/2011budget_taxavoidance.htm, p15

³² IFF Research (2011) Large Business Panel Survey: businesses' experience of HMRC, HMRC Research Report 142, pp 44 -45, in particular 5.21 and 5.22.



- 7.6 The Senior Accounting Officer (SAO) legislation was introduced in Finance Act 2009 to attribute personal responsibility to an individual for assuring the efficacy of tax accounting procedures within large businesses, primarily those to whom a CRM has been appointed. The clear policy intention is to continue to put pressure on customers to raise the profile of tax decision making with senior decision makers. In a 2009 article in the British Tax Review, Judith Freedman explores the introduction of the measure, suggesting that there are mixed views as to whether the 'legislation will result in improved tax accounting arrangements and at what cost'. It is evident that the introduction of the SAO legislation has had a significant impact on tax governance within LBS customers with some 81% reporting that it has led to a formal review of tax system governance.
- 7.7 These three measures together appear to have added impetus to the drive to improve tax governance in large businesses, although the study did not explicitly seek to identify the specific kinds of measures adopted to facilitate improvements. A study by Doyle et al (2012) based on fieldwork conducted in 2006 with a limited number of tax practitioners found that tightly controlled risk management practices within organisations could potentially 'desensitise the ethical antennae of tax practitioners'; however this is an area where practice is constantly changing (see also Glaister and Frecknall Hughes (2008)).
- 7.8 The specific areas of tax policy that were canvassed in this survey are capital allowances and corporation tax rate reductions and stamp duty land tax. In terms of the overall response to tax policy changes, it is clear that changes are not generally made in response to tax policy changes, which is consistent with empirical research³³ that suggests that tax is only one of many factors influencing business decision making and usually only of second or third order importance.
- 7.9 A significant majority of businesses questioned said that corporation tax rate reductions will have an impact on their business. The impact of changes to the capital allowance regime are likely to be industry specific and although most large businesses indicated that the rate reductions will not, or will only have a minor, effect on their businesses, for a minority the impact may well be substantial and this is something that could be worthy of exploration through additional research. Although the number of customers reporting cancellation of planned investment, for example, is quite low, it may nonetheless be significant in terms of a possible disproportionate impact for particular types of large business customer. The impact of corporation tax rate reduction is much more noticeable.
- 7.10 Stamp Duty Land Tax is an area of policy that has received increasing attention in light of the apparent prevalence of tax avoidance activity. Many large businesses outsource this area of tax expertise, and it would seem that only very large businesses or those with frequent occurrences of Stamp Duty Land Tax would be prepared to invest in in-house expertise. This raises interesting questions about the use of external advisors more broadly and the extent to which intermediaries with specialist expertise are able to influence customer decision making and strategic choices.
- 7.11 The final category of questions in the survey seeks to better understand the various influences on large business customers in terms of the way their internal operations are structured. There has been considerable effort, in the UK and elsewhere in recent years to elevate the importance of tax planning within corporate decision making processes. Mulligan (2008) found, in her study of tax directors in US multinationals, a variety of influences on corporate tax risk appetites, including corporate culture and networks of influence such as professional

³³ For example, Glaister and Frecknall Hughes (2008) and Brav et al (2008).



associations (see also Mulligan and Oats 2009). In this study this is one area where the differences between LBS customers and those within Local Compliance are quite marked, for example in terms of the question of whether the respondent has a seat on the Board of Directors. Here the question of the use of external advisors was explored, as well as participation in professional networks. In interpreting these results it must be borne in mind that the respondents were not necessarily all tax directors, and in some instances, for example with Local Compliance Customer Co-ordinator customers, respondents with a more generic role, for example Finance Director, may not have specific tax expertise.

- 7.12 Freedman et al 2009 found that the extent to which reputational concerns will be strong enough to limit a company's legal tax planning activities will vary from company to company and will depend on the nature of the business and other factors. In this survey there was an even divide in terms of whether the press coverage of tax issues was felt to influence the customer's approach to its tax affairs. What is not clear, however is whether respondents were referring to coverage of tax issues broadly, or specific issues relating to particular taxpayers and/or issues.
- 7.13 One very clear finding from this study is the difference in responses from Local Compliance large business customers with a Customer Co-ordinator compared to those large businesses with a CRM. These differences suggest that the adoption of different regulatory strategies according to particular characteristics of the customers concerned might be beneficial.
- 7.14 Research that is aimed at informing HMRC decision making and operational procedures needs to adopt a range of approaches. The insights from this form of questioning are an important part of the broader HMRC research agenda, which is designed to improve policies and procedures relating to securing compliance within a co-operative model.

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8 Glossary

Term	Definition
Capital Allowances	Capital allowances are a tax relief designed to allow the cost of certain of your company or organisation's assets to be written off against its taxable profits. They take the place of the depreciation shown in the financial (commercial) accounts, which isn't allowable for Corporation Tax purposes.
Corporation Tax	Corporation Tax is a tax on the taxable profits of limited companies and some organisations including clubs, societies, associations, co-operatives, charities and other unincorporated bodies
Customer Relationship Manager (CRM)	All LBS customers have a Customer Relationship Manager (CRM) and some of the largest businesses within Local Compliance have had a CRM for the last four years. The CRM role ranges from preparing the Risk Assessment, ensuring issues are resolved, responding to queries and keeping the business updated on how issues are progressing.
Customer Coordinator (CC)	The remaining businesses within Local Compliance have what is known as a Customer Co-ordinator (CC). The Customer Co-ordinator acts as a first point of contact for businesses but does not have the same remit as a CRM. CCs were introduced in the summer of 2010 and the 2011 survey results show that awareness and use of the CC is increasing over time.
Large Business	The definition of large businesses is principally based on the EU definition of large businesses which is either more than 250 employees or more than €50M turnover and €43M assets.
LBS	Large Business Service. The LBS is responsible for working with the UK's largest businesses on a range of taxes, duties and regimes. Around 770 businesses are serviced by the LBS, and all have a dedicated Customer Relationship Manager (CRM). The CRM manages the relationship between the business and HMRC across all taxes and duties.
LC CRM	The Local Compliance Large and Complex (LC L&C) group deals with the affairs of large businesses that are not handled by the Large Business Service (LBS). From 2007, the largest LC customers were appointed a Customer Relationship Manager to manage their relationship with HMRC across all taxes and duties. In total around 1,200 businesses within the LC L&C group have a CRM. These customers are referred to as LC CRM customers.
LC CC	The Local Compliance Large and Complex group deals with the affairs of large businesses that are not handled by the Large Business Service (LBS). Within this group, those businesses who were not large enough to have been assigned a Customer Relationship Manager were allocated a Customer Coordinator (CC) in 2010. These customers are referred to as LC CC customers.
Longitudinal analysis & Gross change	The advantage of the panel approach means HMRC can measure how individual businesses that have taken part in 2010 and 2011 responses have changed over time. This is referred to as both 'longitudinal' analysis and 'gross change'.

Term	Definition
<i>Real Time Working</i>	Over the past two years HMRC has been looking at addressing issues and conducting transactions in Real Time where possible, HMRC's definition being raising any issues or transactions in as they arise in an accounting period before the return becomes due.
<i>Risk Assessments</i>	Risk Assessment is the process whereby particular sources of information such as tax returns are reviewed by HMRC to establish whether there is a possible, specific tax compliance risk for customers who are not Low Risk. The focus and nature of the Risk Assessment should be influenced by the results of the Business Risk Review. For example, if a customer only failed to meet the Low Risk criteria because of their Tax Strategy, Risk Assessment activity should be focused on identifying possible tax avoidance rather than on possible systemic errors. The outcome of the Risk Assessment process is further knowledge to inform the Business Risk Review and, depending on the outcome, an agreed set of priority risks which will be taken forward through Risk Working. Source (LBS HMRC)
Senior Accounting Officer Legislation (SAO)	The SAO legislation makes a senior officer in each qualifying company personally accountable for establishing and maintaining appropriate tax accounting arrangements (LBS HMRC)
Stamp Duty Land Tax	Stamp Duty Land Tax (SDLT) is usually payable when you buy or lease land or property. It's also sometimes payable on transfers of ownership of property or land. (Source HMRC)

9 Technical appendix.

Overview of the research method

- 9.1 The 2011 TOPS survey encompassed 1,262 quantitative telephone interviews, mainly with Heads of Tax or Finance Directors from HMRC's large business customers. This report draws on the findings of interviews with the largest business customers from HMRC's Large Business Service (LBS) and with customers from Large and Complex with a Customer Relationship Manager (LC CRM) and those with a Customer Coordinator (LC CC).
- 9.2 The following numbers within each customer group were interviewed between the 3rd May and 18th July 2011:

Table 9.1: *Number of interviews achieved by customer group*

TOTAL	LBS	LC CRM	LC CC
<i>N</i>	<i>n</i>	<i>n</i>	<i>n</i>
1,262	366	395	501

Table 9.2: *Approximate population by customer group*

TOTAL	LBS	LC CRM	LC CC
<i>N</i>	<i>n</i>	<i>n</i>	<i>n</i>
9,170	770	1,100	7,300

Sampling

- 9.3 For the LBS and LC CRM populations, a near census approach was taken for the TOPS survey. The only businesses excluded from the survey were those that declined to be re-contacted when they were approached for the sister survey to the TOPS i.e. the Large Business Panel Survey (LBPS) about 6 months prior to TOPS fieldwork and a small sample that were ring fenced for piloting and development work for the two surveys.
- 9.4 Among LC CC customers, a random sample, specific to the TOPS survey, of 1,350 businesses was selected by HMRC with the aim of interviewing as many as possible of these customers.
- 9.5 The rationale for using a 'fresh' sample for LC CC customers was to reduce the survey burden on these customers (i.e. they will only be invited to take part in TOPS once a year whereas LBS/LC CRM customers will be invited to take part in two surveys a year). It was also hoped that taking this approach would help to maintain response rates for this group more effectively than using the same sample for both the LBPS and TOPS surveys (since the LBPS survey found a lower response rate for this group than the other two customer groups).

- 9.6 Where contact details were lacking on the database, telephone numbers and addresses were found where possible via online look-up services, and also via manual desk research. All businesses that had viable addresses were sent a letter introducing the research and giving them the opportunity to opt-out.
- 9.7 The number of records provided by HMRC, that were sent an opt-out letter and that were issued for main-stage interviewing are detailed in Table 9.3. The difference between the number provided by HMRC and the number sent an opt-out letter is accounted for by records where no telephone number or address could be sourced and records where HMRC had already identified the business as being ineligible for the study.

Table 9.3: Sample selection for main-stage fieldwork

	Number provided by HMRC	Records used for pilot / development work	Refusal to re-contact following LBPS	Further records sourced using LBPS sample*	Opt outs	Issued for main stage fieldwork
	<i>n</i>	<i>N</i>	<i>n</i>	<i>n</i>	<i>n</i>	<i>N</i>
LBS (full population)	758	40	61	0	27	630
LC CRM (full population)	1,118	80	94	34	67	911
LC CC (a random sample of full population)	1,350	n/a	n/a	65	130	1,285
TOTAL	3,226	120	155	99	224	2,826

* 'Further records sourced using LBPS sample' refers to records where we could not obtain contact details at wave 1 of LBPS – and therefore could not offer them the opportunity to take part but managed to secure details ahead of TOPS wave 1

Questionnaire and screening

- 9.8 The construction of the TOPS 2011 questionnaire involved an extensive period of development which included discussions with HMRC, cognitive interviews with Heads of Tax (or equivalent) of large businesses and a pilot telephone survey.
- 9.9 Cognitive interviewing involved 9 face-to-face interviews (2 with LBS customers, 1 with an LC CRM customer and 6 with LC CC customers). The interviews took place between 7th March and 21st March. Each interview involved running through the questionnaire in full and taking detailed notes of respondent feedback. Respondents were asked for their overall views of the interview experience and probed in detail about how they arrived at their answers to some of the key questions
- 9.10 All pilot interviewing took place from IFF's CATI centre between Wednesday 6th April and Friday 8th April 2011. A warm up letter was sent at the end of March to introduce respondents to the survey and allow them the opportunity to opt-out if necessary. In total 33 interviews were achieved (9 LBS, 14 LC CRM, 10 LC CC). The average length was close to 30 minutes and therefore cuts were made to the questionnaire ahead of the mainstage interviewing.

- 9.11 Following on from this development work the final main stage questionnaire lasted an average of 20 minutes and fieldwork was conducted using CATI (Computer Assisted Telephone Interviewing).
- 9.12 The screening section at the start of the script was used to identify the correct respondent at each business - the person at the business with overall responsibility for dealing with HMRC, usually the Finance Director, Head of Tax or a Senior Accountant.
- 9.13 The eligibility of the business to take part in the research was also checked at this stage, i.e. that the business managed its own tax affairs.

Response rates

- 9.14 Sub-group response rates were calculated for each of the three customer groups as well as the overall response rate for the whole sample. Businesses which 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



9.15 The response rate was calculated using the following formula³⁴:

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

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

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

9.16 The table below shows the 2011 TOPS response rate achieved for each customer group.

Table 9.4: Response rates achieved

	2011 Completed interviews (TOPS)	2011 Response rate (TOPS)
LBS	366	58%
LC CRM	395	42%
LC CC	501	36%
ALL	1,262	43%

Non-response analysis

- 9.17 Checks were run on the profile of complete interviews to detect non-response bias. Non-response bias can occur in surveys if the answers of respondents differ from the potential answers of those who did not participate. The danger of this is that overall results may not be fully representative of the overall customer group.
- 9.18 The scope for non-response analysis was limited to variables on the original sample database, which were sector, region and HMRC administrative data. Generally, this analysis showed only minimal differences (typically 0-4%) between the original sample and the profile of achieved interviews within each customer group.
- 9.19 Similarly it was also possible to compare the answers on the LBPS wave 1 survey of those who took part in both studies and those that took part in just LBPS wave 1. There are some suggestions that customers that were more satisfied in LBPS were more likely to take part in TOPS (although the difference was only 5% and does not warrant major cause for concern).

³⁴ 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

Data linking

- 9.20 At the end of the TOPS survey, respondents were asked whether they would be willing to have their survey answers linked to administrative data held on their business by HMRC, on the condition that HMRC would still not be able to identify any business that has taken part in the survey, regardless of whether data linking occurred or not. The following proportions agreed to have their data linked to their survey answers.

Table 9.5: *Proportion of respondents agreeing to data linking*

TOTAL	LBS	LC CRM	LC CC
%	%	%	%
71	72	68	73

- 9.21 For those businesses that agreed to this process, the data linking took place anonymously at IFF. HMRC securely sent IFF the data to be linked – the amount of CT paid by each business for the tax year 2008/9. IFF first banded this data into ranges, ensuring the ranges were sufficiently broad that at least five businesses fell into each range, thus preserving their anonymity.
- 9.22 The data were initially linked using a unique HMRC project ID number. After the linking had taken place the unique project ID number was removed from the database, again to ensure the process was completed anonymously, before the database was sent securely back to HMRC. No data were linked if permission was denied by the respondent.

Data analysis

- 9.23 As with the LBPS, the data were analysed separately for the three customer groups - due to the different structure and size of the businesses in the three groups as well as the different service provided to each, there would be limited value in analysing the data from all businesses as a whole.
- 9.24 In the absence of any notable non-response bias, no weighting to adjust for non-response was deemed necessary. Furthermore, as approximately 80 percent of large businesses belong to the LC CC customer group, any attempt to apply weights to bring any overall results back in line with the overall population proportions would simply have become a reflection of the responses of LC CC customers rather than a true reflection of the opinions of all three customer groups. Hence no weighting to adjust for differential selection probabilities was applied to the final database.
- 9.25 Chi squared tests have been carried out on the data to check whether subgroup differences are significant. Any differences highlighted in the text of this report can be taken to be statistically significant unless otherwise stated.
- 9.26 In some instances, the base sizes of certain subgroups are small and findings for these groups should be treated as indicative only. Instances of low base sizes are highlighted in the report.