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Tax Opinions Panel Survey 2012

Prepared for



By IFF Research

With conclusion by
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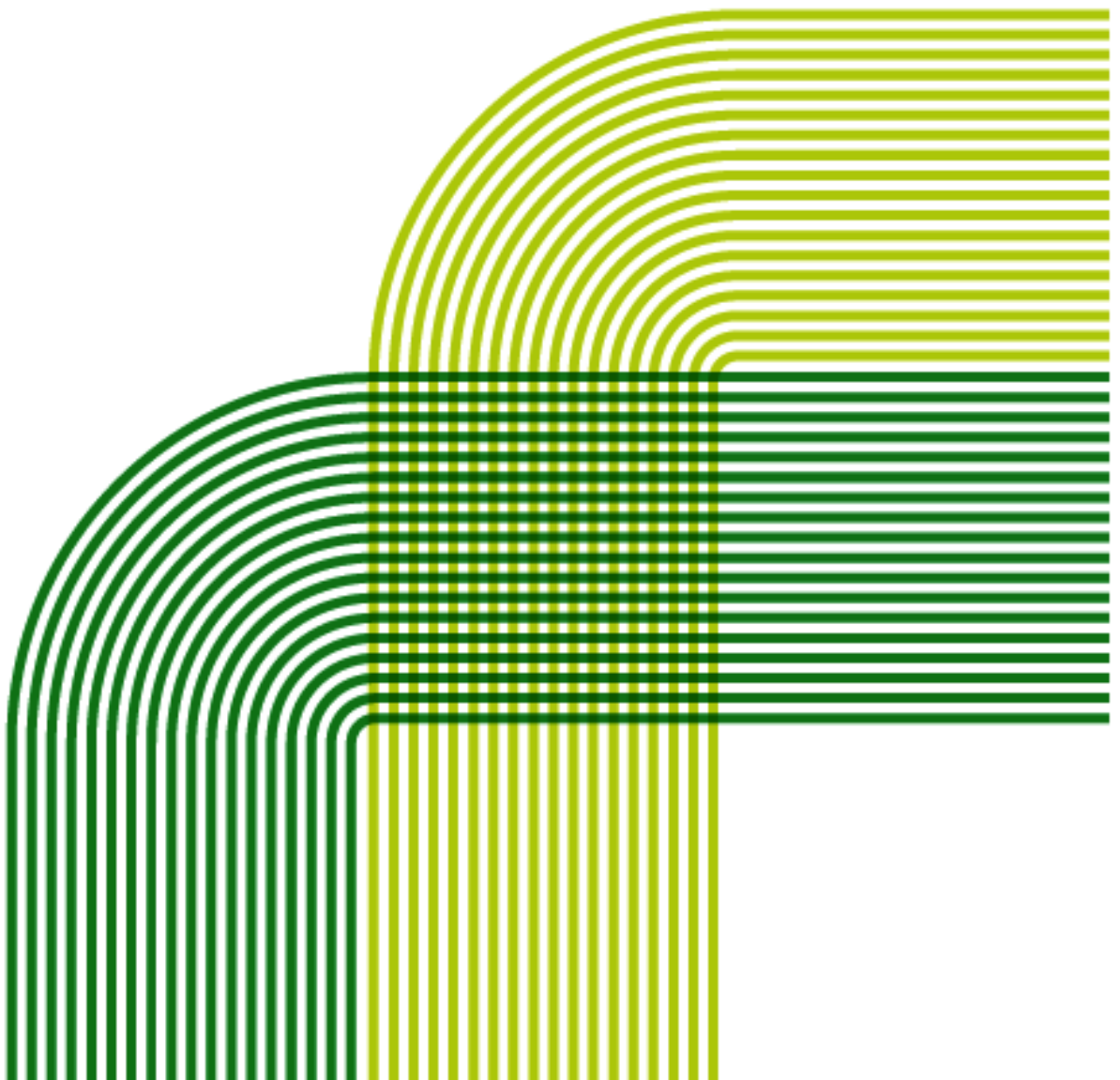
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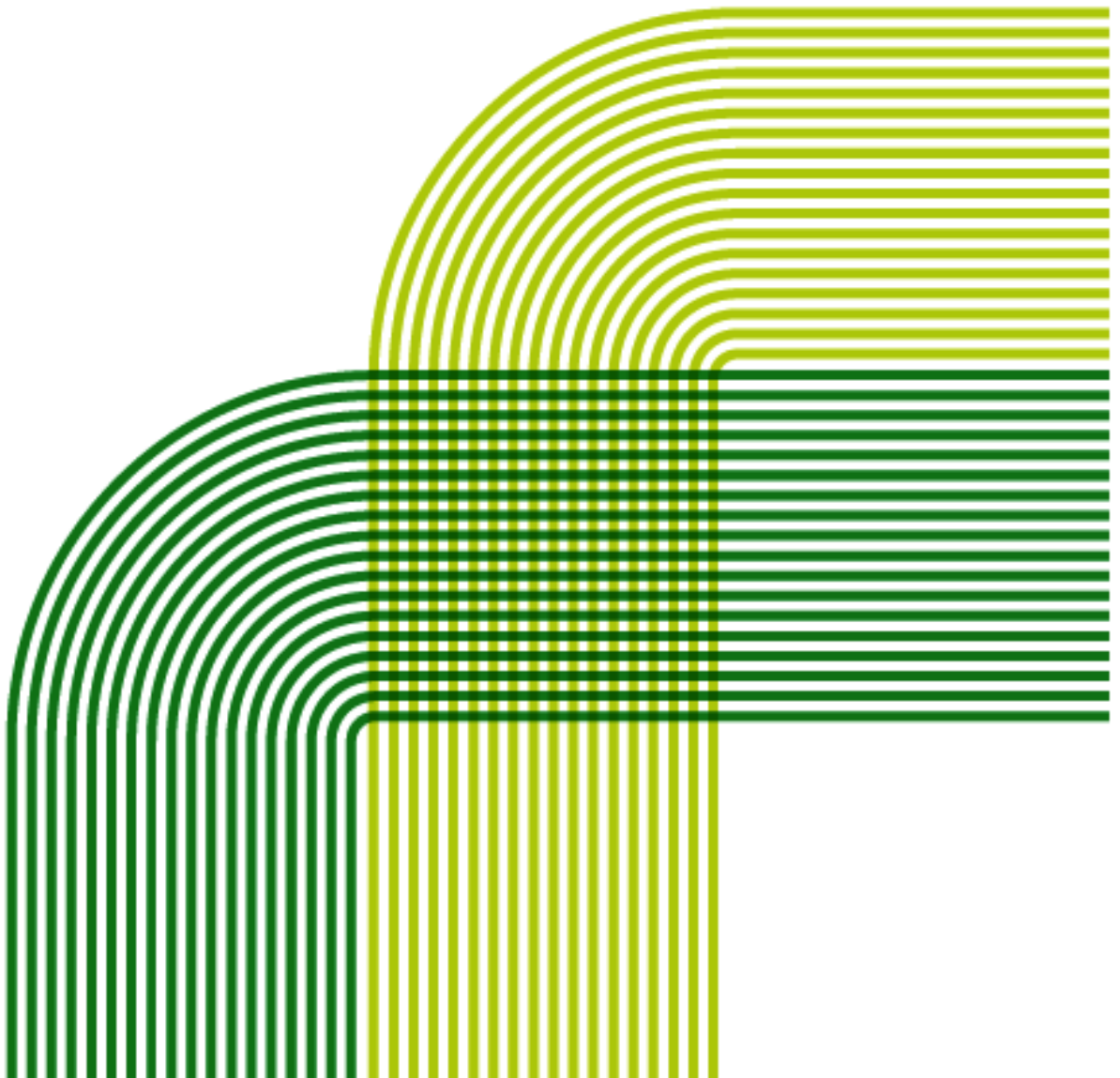
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1 Executive Summary

- 1.1 HMRC places considerable importance on its relationships with its customers and undertakes regular surveys to gain more in-depth information about customers' experience of dealing with HMRC. In the case of large businesses, HMRC has conducted annual surveys since 2008.
- 1.2 HMRC's relationships with large businesses are managed by either the Large Business Service (LBS) or Local Compliance (LC). The LBS is responsible for working with the UK's largest businesses which have all had a Customer Relationship Manager (CRM) since 2008. Local Compliance (LC) partners the Large Business Service (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 their large business customers have had a Customer Co-ordinator (CC) since 2010. Please see the short section 'HMRC's large business customers' in the Background and Methodology section for more detail.
- 1.3 This report summarises the findings from the second wave of the Tax Opinions Panel Survey (TOPS) that took place between 7th June and 27th July 2012.

Nature and impact of businesses' relationship with HMRC

- 1.4 The different customer groups have contact with HMRC to differing extents, with most LBS customers contacting some part of HMRC at least monthly, most LC CRM customers at least once a quarter and most LC CC customers less than once a quarter or not at all. That said, among the LC CC customers the proportion that had dealt personally with their Customer Coordinator had increased compared with previous waves of research for HMRC. In this, the 2012 TOPS study, 38% of LC CC customers had spoken to their CC, compared with 31% in the 2011 Large Business Panel Survey¹.
- 1.5 Although reasonably high proportions of businesses saw both positive and negative impacts of regular contact with HMRC, on balance the picture was positive.
- 1.6 Where businesses had regular contact (defined as at least once a quarter) they were more likely than businesses who had less frequent contact with HMRC to state that:
 - Their contact with HMRC had resulted in changes to the business's transactions, systems or processes;
 - The relationship with HMRC had at least some influence on the business's tax planning strategy; and
 - The contact with HMRC had led to a more transparent relationship with HMRC and/or had uncovered weaknesses in their accounting systems.
- 1.7 It should be noted that although there is clearly a link between level of contact and business behaviour it was not possible to determine who instigated the contact between the business and HMRC (e.g. whether businesses made regular contact with HMRC *because* they were looking to change their systems and strategies or whether regular contact from HMRC drove change within the business).

¹ Which surveys the same populations.



- 1.8 LC CC customers that had had regular contact were more likely than LBS and LC CRM customers to state their relationship with HMRC had resulted in more queries from HMRC and more time spent reporting. That said, half of LC CC customers that had regular contact with HMRC agreed it led to a more transparent relationship.

Real Time Working

- 1.9 While 63% of all LBS businesses and 39% LC CRM businesses worked in ways that met HMRC's broad definition of Real Time Working², only 16% of LC CC businesses had done so.
- 1.10 While causation cannot be implied, it seems to be the case that engaging in Real Time Working (similarly to engaging in regular contact with HMRC as described above) is linked to greater HMRC influence: where businesses had engaged in Real Time Working, they were more likely to state that their relationship with HMRC influenced the business's tax planning strategy and more likely to agree that a greater level of transparency had been achieved.

Nature and impact of relationship with agents on businesses

- 1.11 Nearly all businesses used agents or advisers in some capacity, though the different customer groups appeared to use them for different types of advice. While LBS and LC CRM customers were particularly likely to have used agents for advice on operational activities, LC CC customers were more likely to have sought assistance from agents when planning the business's tax strategy.
- 1.12 Generally LBS and LC CRM customers were more likely to have used one of the 'Big 4' accountancy firms³, with LC CC businesses more likely to use smaller/independent agencies.
- 1.13 The majority of businesses agreed that the use of agents resulted in them making fewer errors in their tax calculations. A substantial minority of businesses also felt that the use of agents resulted in them paying less tax (37% of LBS customers and 47% of LC CC customers).

Wider influences on businesses

- 1.14 Businesses were asked how influential a number of factors were on their approach to tax affairs, including their own tax department, agents, media coverage, other businesses, trade associations. Overall, businesses were influenced by a range of different factors.
- 1.15 While generally the business's customer group did not appear to be a factor in determining what influenced the business, there were some differences when it came to the influence of the business's own tax department, and the influence of agents:
- 1.16 LC CC customers were more likely than LBS and LC CRM customers to rate agents as 'very or fairly influential' on their business's approach to tax affairs. Conversely, LBS and LC CRM customers were more likely than LC CC businesses to rate their own tax department as 'very or fairly influential'.

² Throughout this report, large businesses that had either discussed specific tax issues with HMRC as they arise during the tax year at least quarterly, or shared information with HMRC before committing financial transactions at least quarterly, were defined as businesses that had worked in Real Time.

³ 'Big 4' accountancy firms are defined as PriceWaterhouseCoopers, KPMG, Deloitte, Ernst and Young.

- 1.17 Across all three customer groups, when businesses were asked about press coverage, about half stated this was influential and about half stated it was not.
- 1.18 Similarly, over half of all large businesses stated that deterrents and penalties had some influence on their approach to tax and again, this was reasonably stable across all groups.
- 1.19 Businesses that had regular contact with HMRC were more likely to state that the HMRC relationship, and deterrents and penalties, influenced their tax planning.
- 1.20 Nearly all businesses agreed that paying the correct level of tax was a key objective for the business. Among LC CRM and LC CC customers this represented a significant increase in the proportions that agreed with this statement when compared with 2011.
- 1.21 The proportion of large businesses that agreed that their business was open to ways to legally reduce their tax payments had decreased since 2011 across all customer groups. Sub-group analysis did not indicate any direct link between this and the type and nature of contact the businesses had with HMRC. It also did not prove any link with the influence of other external factors such as press coverage.

Impact of tax policy changes introduced between 2009 and June 2012

- 1.22 When asked about the impact of the major tax policy changes introduced between 2009 and June 2012, most businesses stated that the changes had either had a positive or a neutral effect on their business's competitive position. LBS customers were significantly more likely than the other customer groups to say the changes had had a positive impact.
- 1.23 When asked about the policy changes that had had the biggest impact on their business in terms of a change to the business's administrative burden, SAO and iXBRL were the policy changes most frequently mentioned by the largest (CRM) businesses. Among LC CC businesses – which are smaller in size and less likely to have had to comply with SAO legislation – the change in VAT rate was one of the most frequently mentioned changes (albeit by only 14% of LC CC respondents).
- 1.24 However it should be noted that many businesses (13% of LBS, 22% of LC CRM and 29% of LC CC) stated that no specific policy changes had impacted upon the administrative burden of their business.
- 1.25 The full report covers all of these areas in more detail, the structure of which is briefly set out in paragraph 2.21.

2 Background and methodology

Background

- 2.1 HMRC places considerable importance on its relationships with its customers and undertakes regular surveys to gain more in-depth information about customers' experience of HMRC. In the case of large businesses, HMRC has conducted an annual survey since 2008.
- 2.2 HMRC's relationships with large businesses are managed by either the Large Business Service (LBS) or Local Compliance (LC). The LBS is responsible for working with the UK's largest businesses which all have a Customer Relationship Manager (CRM). Local Compliance (LC) partners the Large Business Service (LBS) in dealing with the tax affairs of the remaining large businesses. The larger businesses in LC also have a CRM while remaining large business customers have had a Customer Coordinator since 2010.
- 2.3 Although large businesses have been surveyed regularly since 2008, in 2010 the approach changed and a panel study was launched among this audience. The panel approach allowed HMRC to survey the same businesses every year and gain a better insight into how individual businesses' experiences and expectations change over time.
- 2.4 Since the introduction of the panel in 2010, two annual studies have been conducted with large businesses each year - the Large Business Panel Survey (LBPS) and its sister study - the Tax Opinions Panel Survey (TOPS). The TOPS is co-funded by the Economic and Social Research Council (ESRC). TOPS is intended to run for three years on an annual basis, at six-monthly staggered intervals to the LBPS.
- 2.5 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' opinions regarding the administration of current tax policy and changes to legislation, as well as current and potential business behaviour in relation to these.
- 2.6 This report provides an overview of all findings from the second wave of the TOPS survey.

HMRC's large business customers

- 2.7 HMRC's relationships with large businesses are managed by either the Large Business Service (LBS) or Local Compliance (LC).
- 2.8 The LBS is responsible for working with the UK's largest businesses on a range of taxes, duties and regimes. Around 780 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.
- 2.9 LC partners the 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.



- 2.10 The remaining businesses within LC 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

- 2.11 The construction of the TOPS 2012 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 short pilot telephone survey.
- 2.12 The main stage questionnaire lasted an average of 20 minutes and fieldwork was conducted using CATI (Computer Assisted Telephone Interviewing) between 7th June and 27th July 2012.
- 2.13 In total 1,403 Heads of Tax or Finance Directors of HMRC's large business customers⁴ took part in the 2012 study.
- 2.14 A more detailed discussion of the approach is included within the technical appendix to this report.

Objectives and approach to analysis

- 2.15 The main aim of this research was to assess businesses' views of changes made to the administration of the tax system over the past year. It also sought to explore the influence various factors have had on businesses' decisions regarding tax planning.
- 2.16 In order to answer these key objectives the original 2011 questionnaire was extensively redeveloped – as a result direct comparisons with the first wave of the 2011 TOPS study are relatively limited.
- 2.17 Where possible, year-on-year 'trend' analysis has been conducted. This involved looking at how the answers to questions have changed over time; that is, whether the proportion of businesses that agreed or disagreed with statements had increased or decreased over the last 12 months.
- 2.18 In the instances where questions have remained comparable, longitudinal analysis has also been conducted to explore how the responses given by individual businesses that took part in both TOPS 2011 and TOPS 2012 have changed over time.
- 2.19 Throughout all the analysis, only differences identified as statistically significant⁵ (whether between years or types of large business) have been included in this report.

⁴ Large business customers can be further divided between those that are covered by HMRC's Large Business Service (LBS – 342 achieved interviews), those that are covered by the Local Compliance Large and Complex that have a Customer Relationship Manager (LC CRM – 422 achieved interviews) and those that are also covered by Local Compliance but have a Customer Coordinator (LC CC – 639 achieved interviews). Throughout this report all findings are presented by customer group.

⁵ Statistical significance has been tested using a chi-squared test at the 95% confidence level. Where significant differences were found, HMRC can be confident differences in the results reflect a real difference in the overall population.



2.20 For reasons of clarity, 'don't know' or 'prefer not to say' responses have not been included in some tables and charts. Consequently not all figures sum to a total of 100%. Even where all responses have been included, figures may not sum to exactly 100% due to rounding. Figures may also not add to a total of 100% if the response was multi-coded (i.e. if respondents were allowed to provide several answers to a question).

Structure of the report

2.21 This remainder of the report is structured as follows:

- **Section 3** – Nature and impact of relationship with HMRC;
- **Section 4** – Nature and impact of relationship with agents;
- **Section 5** – Other influences on general approach to tax;
- **Section 6** – Impact on change of UK businesses;
- **Section 7** – Influences on the administrative burden of compliance; and
- **Section 8** – Influences on tax paid by the business.



3 Nature and impact of relationship with HMRC

Key findings

- 3.1 Large businesses with a Customer Relationship Manager (CRM) had more frequent contact with HMRC over the past year than large businesses that had been assigned a Customer-Coordinator (CC). This is likely to be due, at least in part, to the more complex tax affairs and operations of these larger CRM businesses.
- 3.2 Real Time Working has been broadly defined by HMRC as '*raising any issue or transaction as they arise in a financial year or accounting period before the return has become due, including clearances*'. While the majority of LBS customers had contact with HMRC at least once a quarter with regards to issues that HMRC would broadly define as Real Time Working⁶, less than a third of LC CRM customers and even fewer LC CC customers had regular contact with HMRC for these purposes.
- 3.3 Across all three customer groups, the more regular the contact with HMRC, the more likely large businesses were to feel that the contact resulted in changes to processes within the business. Those with regular contact were also more likely to state that HMRC had a high degree of influence on their tax planning decisions. However, it should be noted that although there is clearly a link between contact and business behaviour it was not possible to determine who instigated the regular contact between the business and HMRC (e.g. whether businesses made regular contact with HMRC *because* they were looking to change their systems and strategies or whether regular contact from HMRC drove change within the business).
- 3.4 Where this regular contact involved issues which could broadly be defined by HMRC as Real Time Working, the influence of HMRC on the business appeared to be greater.
- 3.5 The majority of businesses felt that regular contact with HMRC resulted in outcomes which could be regarded as positive for the business: a more transparent relationship with HMRC⁷, uncovering weaknesses in the business's accounting systems and a decrease in compliance costs.
- 3.6 Businesses that had contact with HMRC regarding issues which could be broadly defined as working in 'Real Time' were more likely to state that regular contact with HMRC had resulted in positive outcomes with regards to administrative procedures. In particular it was felt this contact resulted in more transparency with HMRC.

Introduction

- 3.7 This chapter explores the nature of the relationship that large businesses have had with HMRC over the last 12 months. After providing contextual information on the level of contact

⁶ Real Time Working was derived in this analysis and was not defined specifically in this wave of research. In the Large Business Panel Survey it was defined as 'raising any issue or transaction as they arise in a financial year or accounting period before the return has become due and includes clearances'. For information on how Real Time Working was derived for this study please refer to paragraph 3.14 in this chapter.

⁷ Although it should be noted not all businesses would necessarily view more transparency as a positive benefit for their business.



large businesses have had with HMRC, it focuses specifically on the types of issues discussed and the impact these discussions have had on the business.

Level of contact with HMRC

- 3.8 Nearly all large business customers with a Customer Relationship Manager (CRM) had dealt with their CRM directly at some point (96% LBS and 91% LC CRM). These proportions were similar to those seen in previous waves of the research⁸.
- 3.9 The remaining businesses within Local Compliance have a Customer Coordinator (CC)⁹. Close to two fifths (38%) of these businesses had personally dealt with their CC at some point in the past. This indicates that levels of interaction with CCs are steadily increasing over time – in the 2010 wave of the Large Business Panel Survey only 25% of LC CC customers had dealt with their CC; in the 2011 wave of Large Business Panel Survey the proportion had increased to 31%.
- 3.10 While this analysis provides a good measure of whether businesses had ever had contact with their named representative at HMRC it is also important to explore frequency of contact. Table 3.1 summarises the regularity of contact large businesses said they generally had with HMRC across the three customer groups (contact was defined as any personal contact with HMRC about tax issues, including with CRMs/CCs and other staff– but not including routine file returns).

Table 3.1: Frequency of personal contact with any area of HMRC (including, but not limited to, CRM/CC contact)¹⁰

| | LBS | LC CRM | LC CC |
|--|-----------|-----------|-----------|
| <i>Base: All customers</i> | (342) | (422) | (639) |
| | % | % | % |
| Weekly | 14 | 7 | 1 |
| Monthly | 47 | 30 | 10 |
| Quarterly | 29 | 34 | 20 |
| Less than once a quarter | 9 | 25 | 49 |
| Never | 1 | 4 | 19 |
| Summary: Any contact | 99 | 96 | 80 |
| Summary: Any 'regular'¹¹ contact | 90 | 71 | 31 |

Columns do not add up to 100% due to rounding and exclusion of 'Don't know' responses from the table

- 3.11 LBS businesses had the most frequent contact with HMRC – 90% stated they had contact at least quarterly. By comparison 71% of LC CRM and 31% of LC CC businesses reported contact of this frequency with HMRC.
- 3.12 Indeed, a fifth (19%) of LC CC businesses stated they never contacted HMRC personally about tax issues (not including routine file returns). Perhaps as a result of this lower level of

⁸ In the last wave of the LBPS study (Sep-Dec '11) 97% of LBS businesses and 86% of LC CRM stated they had 'ever' had direct contact with their CRM.

⁹ The CC 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 showed that awareness and use of the CC had increased over time.

¹⁰ NB: The definition of contact excludes routine file returns.

¹¹ Regular contact defined as at least once a quarter.



engagement with HMRC, these businesses were significantly more likely to state that HMRC had no influence on tax planning within the business¹².

Reasons for contacting HMRC – an assessment of Real Time Working

3.13 Over recent years, HMRC has increasingly considered addressing issues and conducting transactions in Real Time¹³. In previous waves of both LBPS and TOPS, businesses have been asked about whether they work in Real Time but there has been evidence of some confusion among businesses about what this term means. Hence for this wave of the TOPS, a different approach was taken where the frequency of a range of different types of contact was explored without specifically referencing the term Real Time Working or the broad definition which HMRC uses.

3.14 All businesses were asked about the extent and frequency of contact with HMRC with regards to the following issues (for the purposes of this study, the first two were considered to constitute Real Time Working if customers engaged in either of them at least once a quarter):

- Discussing specific tax issues with HMRC as they arise during the tax year (RTW);
- Sharing information with HMRC before committing yourself to financial transactions (RTW);
- Getting in touch with HMRC for advice on process issues;
- Chasing HMRC for responses to queries; and
- Talking to HMRC before making changes to your business tax operations.

3.15 Figure 3.1 summarises the proportion of all businesses that stated they had ‘regular’ contact with HMRC – i.e. at least once a quarter – on each of the issues. For the purposes of this analysis the five issues have been separated into those that specifically relate to Real Time Working as HMRC broadly defines it and wider process driven issues.

¹² 76% of LC CC customers that never contact HMRC claimed HMRC had no influence on tax planning cf. 56% of LC CC that have regular contact with HMRC.

¹³ HMRC broadly defines Real Time Working as “Raising any issue or transaction as they arise in a financial year or accounting period before the return has become due including clearances”. This definition was not provided to participants in this wave of TOPS.



Figure 3.1: Reasons for contact with HMRC

| | LBS | LC CRM | LC CC |
|---|------------|------------|------------|
| Real Time working issues | | | |
| Discuss specific tax issues with HMRC as they arise during the tax year | 59% | 35% | 14% |
| Share information with HMRC before committing yourself to financial transactions | 31% | 16% | 6% |
| SUMMARY: Any regular contact for any of the above 'Real Time' working issues | 63% | 39% | 16% |
| Wider process issues | | | |
| Talk to HMRC before making changes to your business tax operations | 31% | 16% | 5% |
| Get in touch with HMRC for advice on process issues | 43% | 31% | 16% |
| Chase HMRC for responses to queries | 34% | 27% | 17% |
| SUMMARY: Any regular contact for any of the above wider process issues | 63% | 48% | 26% |
| SUMMARY: Any regular contact for any of the above | 77% | 58% | 31% |

Base: All businesses: LBS (342), CRM (422), CC (639)

3.16 At an overall level LBS businesses were more likely to have had regular contact for at least one of the reasons listed (77%) – by contrast 58% of LC CRM businesses and 31% of LC CC businesses had regular contact with HMRC for at least one of the reasons given.

3.17 Furthermore – over three fifths of LBS businesses (63%) reported that they regularly had contact with HMRC about issues that HMRC would broadly define as Real Time Working – particularly in relation to discussing tax issues as they arise during the year (59%). In contrast, only 39% of LC CRM businesses and 16% of LC CC customers stated they had had contact with HMRC regularly in regards to these kinds of issues.

3.18 There were sub-group differences in the businesses that had worked regularly with HMRC in ways which would broadly be defined as Real Time Working. This was particularly the case among the LC CC and LC CRM customers where larger businesses (both in terms of number of employees and turnover) were significantly more likely to have worked in Real Time¹⁴.

3.19 Among LC CC customers there was also a link between Real Time Working and the influence that HMRC had on the business: 23% of LC CC customers that stated HMRC had an influence on their businesses tax strategy, had regularly worked in ways that HMRC would broadly define as Real Time Working (compared with 13% of those that stated HMRC had no influence on the businesses tax strategy). Though it is not possible to imply causation here,

¹⁴ 28% of LC CC customers and 45% of LC CRM businesses with over 1000 employees had worked regularly in what HMRC would define as Real Time. NB: Base for LC CC customers is 50 and should be treated with caution.

there is a relationship between working in Real Time and a higher level of HMRC influence on the business.

3.20 To help put these findings in context table 3.2 shows the levels of Real Time Working indicated by earlier waves of both the Large Business Survey and the Tax Opinions Panel survey (where both Real Time Working and frequency were left more to respondent interpretation).

Table 3.2: Historical analysis of businesses reporting to work in Real Time

| | LBS | | LC CRM | | LC CC ¹⁵ |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | TOPS wave 1 (May-Jul '11) | LBPS wave 2 (Sep-Dec '11) | TOPS wave 1 (May-Jul '11) | LBPS wave 2 (Sep-Dec '11) | LBPS wave 2 (Sep-Dec '11) |
| <i>Base: All</i> | (366) | (351) | (395) | (475) | (839) |
| | % | % | % | % | % |
| Summary: Ever work in Real Time | 90 | 94 | 79 | 81 | 60 |
| Frequently | 39 | 32 | 19 | 13 | 4 |
| Occasionally | 46 | 58 | 50 | 59 | 46 |
| Once | 4 | 4 | 9 | 9 | 9 |
| Never | 10 | 6 | 21 | 19 | 39 |
| Don't know | 1 | * | 1 | 1 | 2 |

Columns do not add up to 100% due to rounding

3.21 By contrast with findings from earlier surveys, the 2012 findings suggested that businesses using their own interpretation of Real Time Working tended to over-estimate the frequency of its use. This is consistent with findings from previous qualitative research suggesting some businesses confused responding in 'in time' to requests as being in 'Real Time'. Others were also confusing Real Time Working with the Real Time Information requirement that will be introduced in 2013.

3.22 The survey also indicated that the CRM played a crucial role for LBS customers who engaged in the activities broadly defined as Real Time Working:

- Of the LBS customers that had had contact with HMRC in relation to sharing information before committing transactions, 92% had approached their CRM to do this, rather than approaching other staff at HMRC.
- Of the LBS customers that had discussed specific tax issues as they arose, 80% had approached their CRM directly to do this, rather than approaching other staff at HMRC.

¹⁵ LC CC businesses were not asked about Real Time Working until LBPS wave 2.

- 3.23 Similarly, among LC CRM customers the majority of businesses that had had contact with HMRC to discuss issues as they arose and share information before committing to financial transactions approached their CRM directly (70% and 69% respectively for each of these issues).
- 3.24 The proportion of LC CC customers contacting their CC was relatively low – as such only a small minority of businesses contacted their CC in ‘Real Time’. This is illustrated by table 3.3 which shows the proportions of all business that contacted their CRM or CC in relation to the various issues discussed in the interview.

Table 3.3: Proportion of large businesses that had contact with their CRM/CC

| | LBS | LC CRM | LC CC |
|---|-------|--------|-------|
| <i>Base: All customers</i> | (342) | (422) | (639) |
| | % | % | % |
| <i>Real Time Working issues</i> | | | |
| Discuss specific tax issues as they arise during the tax year with CRM/CC | 50 | 28 | 3 |
| Share information with CRM/CC before committing to financial transactions | 32 | 14 | 2 |
| <i>Wider process issues</i> | | | |
| Talk to CRM/CC before making changes to business tax operations | 31 | 17 | 2 |
| Get in touch with CRM/CC for advice on process issues | 29 | 23 | 2 |
| Chase CRM/CC for response to queries | 24 | 20 | 3 |

This is a summary table – columns will not add to 100%

- 3.25 Returning to figure 3.1, by comparing the proportions of businesses with regular contact on Real Time issues with those who have regular contact for any of the reasons explored (the numbers at the bottom of the figure) it is clear that the proportions of businesses who **only** have regular contact for wider process issues is quite small.

Impact of regular contact with HMRC on administrative burden

- 3.26 As supported by data from the previous wave of the Tax Opinions Panel Survey, the proportion of businesses that had regular contact with HMRC varied considerably across the three customer groups. The findings from the 2012 wave of TOPS showed that 90% of LBS customers, 71% of LC CRM customers and only 31% of LC CC customers had regular contact with HMRC (which for the purposes of this research is defined as contact at least once a quarter - see table 3.1).
- 3.27 Businesses were presented with a number of possible outcomes that might be generated by regular contact with HMRC – particularly focussing on the administrative burden for the business¹⁶. They were asked whether these had occurred as a direct result of regular contact with HMRC.

¹⁶ The wider ranging impacts of regular contact with HMRC are discussed in detail later in this chapter.

- 3.28 The different outcomes discussed with large businesses can be divided into those which could be defined 'positive' and those which could be defined 'negative' for the business. Table 3.4 summarises the proportion of businesses that agreed that regular contact with HMRC had resulted in 'positive' benefits for the business.
- 3.29 Around four-fifths of LBS and LC CRM customers agreed that regular contact with HMRC had at least one of the 'positive' outcomes. They were more likely to do so than LC CC customers (60%).

Table 3.4: Impact of regular contact with HMRC - 'Positive' Impacts

| | | LBS | LC CRM | LC CC |
|--|-------------|-------|--------|-------|
| <i>Base – All with regular contact with HMRC</i> | | (308) | (299) | (199) |
| | | % | % | % |
| A more transparent relationship with HMRC ** | Agree | 79 | 75 | 50 |
| | Neither/Nor | 15 | 13 | 24 |
| | Disagree | 6 | 12 | 24 |
| Uncovered weaknesses in accounting systems | Agree | 18 | 21 | 21 |
| | Neither/Nor | 28 | 26 | 23 |
| | Disagree | 54 | 52 | 54 |
| Decreased compliance costs for the organisation | Agree | 14 | 14 | 8 |
| | Neither/Nor | 24 | 26 | 28 |
| | Disagree | 62 | 60 | 61 |
| Proportion agreeing with at least one of the above | | 83 | 79 | 60 |

Responses do not add to 100% due to rounding and exclusion of 'Don't know' responses

*** It is acknowledged that "A more transparent relationship with HMRC" may not in itself be considered positive by all businesses.*

- 3.30 LBS and LC CRM businesses working in what HMRC would broadly define as 'Real Time'¹⁷ were more likely to agree that regular contact with HMRC had at least one positive outcome than those who did not engage in Real Time Working.¹⁸
- 3.31 Three-quarters of LBS and LC CRM businesses felt that regular contact with HMRC had led to a more transparent relationship with HMRC, with LC CC customers less likely to agree. In line with the overall picture, LC CRM and LC CC customers that could broadly be defined as working in 'Real Time' with HMRC were more likely to agree that regular contact with HMRC had led to a more transparent relationship than those that had had no regular Real Time contact¹⁹.

¹⁷ Real Time Working was derived in this analysis – see paragraph 3.14.

¹⁸ 86% of LBS, 85% of LC CRM businesses that had worked in RT frequently agreed with at least one of these positive outcomes (compared with 76%, 73% respectively of those that had not worked in RT frequently). Among LC CC customers the difference was not statistically significant (67% worked in RT compared with 54% that did not).

¹⁹ 80% OF LC CRM and 60% of LC CC businesses that had worked frequently in RT agreed regular contact had led to a more transparent relationship (compared with 69% and 43% respectively of those that had not worked frequently in RT).



- 3.32 Fewer businesses interviewed had experienced the other two 'positive' impacts of regular contact with HMRC; only around a fifth of businesses stated that regular contact had led to them uncovering weaknesses in their accounting systems and even fewer businesses agreed that the regular contact had decreased compliance costs for their business.²⁰
- 3.33 Table 3.5 summarises the proportion of businesses that agreed that regular contact with HMRC had resulted in 'negative' outcomes for to the business.
- 3.34 LC CC customers were more likely to have agreed with these 'negative' statements: 44% of LC CC businesses felt that regular contact had led to more time spent reporting to HMRC compared to 38% and 36% respectively in the LBS and LC CRM customer groups. LC CC customers were also more likely to have stated that regular contact had led to more queries from HMRC.
- 3.35 In regard to these 'negative' outcomes there were no significant differences between LC CC customers that had worked in what could broadly be defined as Real Time and those that had not. This suggests that the burden reported by LC CC customers cannot directly be attributed to a push for Real Time Working from HMRC among this customer group. Indeed, as discussed above, LC CC customers working in Real Time were more likely to mention 'positive' outcomes.

Table 3.5: Impact of contact with HMRC - 'Negative' Impacts

| | | LBS | LC CRM | LC CC |
|--|-------------|--------------|--------------|--------------|
| <i>Base – All with regular contact with HMRC</i> | | <i>(308)</i> | <i>(299)</i> | <i>(199)</i> |
| | | % | % | % |
| More time spent reporting to HMRC | Agree | 38 | 36 | 44 |
| | Neither/Nor | 20 | 23 | 22 |
| | Disagree | 42 | 41 | 33 |
| More queries from HMRC | Agree | 16 | 20 | 30 |
| | Neither/Nor | 19 | 21 | 22 |
| | Disagree | 63 | 58 | 46 |
| Proportion agreeing with at least one of above | | 43 | 41 | 51 |

Responses do not add to 100% due to rounding and exclusion of 'Don't know' responses

- 3.36 Although reasonably high proportions of businesses saw both positive and negative impacts of regular contact with HMRC, on balance the picture was positive. As discussed above, the majority of those with regular contact saw at least one positive impact resulting from this contact (83% LBS, 79% LC CRM, 60% LC CC). The proportions experiencing only negative impacts²¹ (LBS 7%, LC CRM 7%, LC CC 15%) or neither positive nor negative impacts (LBS 10%, LC CRM 14%, LC CC 26%) were comparatively small, particularly for LBS and LC CRM customers.

²⁰ LBS 14%, CRM 14%, LC CC 8%.

²¹ Businesses that did not agree with any of the positive statements i.e. that did not agree that regular contact with HMRC had led to a more transparent relationship with HMRC, uncovered weaknesses in accounting systems, or decreased compliance costs for the organisation.

Changes made as a result of regular contact with HMRC

3.37 All businesses that had any form of contact with HMRC at least quarterly over the last 12 months²² were asked whether this contact had resulted in any changes to their businesses' transactions, systems or processes. LBS customers were the most likely to have made these types of changes as a result of regular contact with HMRC, as table 3.6 shows.

Table 3.6: Proportion of large businesses that made changes as a result of regular contact with HMRC

| | LBS | LC CRM | LC CC |
|--|-------|--------|-------|
| <i>Base: All customers</i> | (342) | (422) | (639) |
| | % | % | % |
| Made any changes to the businesses transactions, systems or processes as a result of regular contact with HMRC | 37 | 28 | 11 |

This is a summary table – columns will not add to 100%

3.38 The more frequent the contact was with HMRC the more likely large businesses were to state they had made changes to their business. Of businesses that contacted HMRC on a monthly basis, 42% LBS, 45% LC CRM and 38% LC CC reported that they had made changes to their business.

²² 90% LBS, 71% LC CRM, 31% LC CC – see table 3.1.



- 3.39 The types of changes to transactions, systems and processes made as result of regular contact were relatively consistent across the three customer groups, as table 3.7 shows. These responses were all mentioned spontaneously by large businesses.
- 3.40 Across all groups, about a fifth of customers who had regular contact with HMRC felt the contact had generally helped the business improve its processes across the board. A similar proportion said their business had changed the way VAT was processed as a result of this contact.

Table 3.7: Changes made as a result of regular contact with HMRC

| | LBS | LC CRM | LC CC |
|--|-------|--------|-------|
| <i>Base: All customers that made changes as a result of regular HMRC contact</i> | (125) | (117) | (68) |
| | % | % | % |
| Improved processes generally across the board | 28 | 26 | 22 |
| Changed the way we calculate VAT | 26 | 22 | 24 |
| Changes to the way we conduct certain transactions | 9 | 2 | - |
| More contact with CRM | 8 | 7 | - |
| Changes to payroll systems/procedures | 8 | 8 | 9 |
| Changed/improved checking process | 6 | 3 | 6 |
| Improved our expenses policy procedure | 5 | 3 | 7 |
| Increased compliance with HMRC requirements | 5 | 5 | 4 |
| More robust reporting of information/data capture | 5 | 13 | 13 |
| Updated our software/IT systems | 2 | 8 | 7 |
| Online filing | 2 | 2 | 7 |
| Changes involving Custom Duty | 2 | 3 | 1 |
| Changes involving Construction Industry Scheme | 1 | 3 | 3 |
| Acted on SAO legislation | 2 | 3 | 1 |

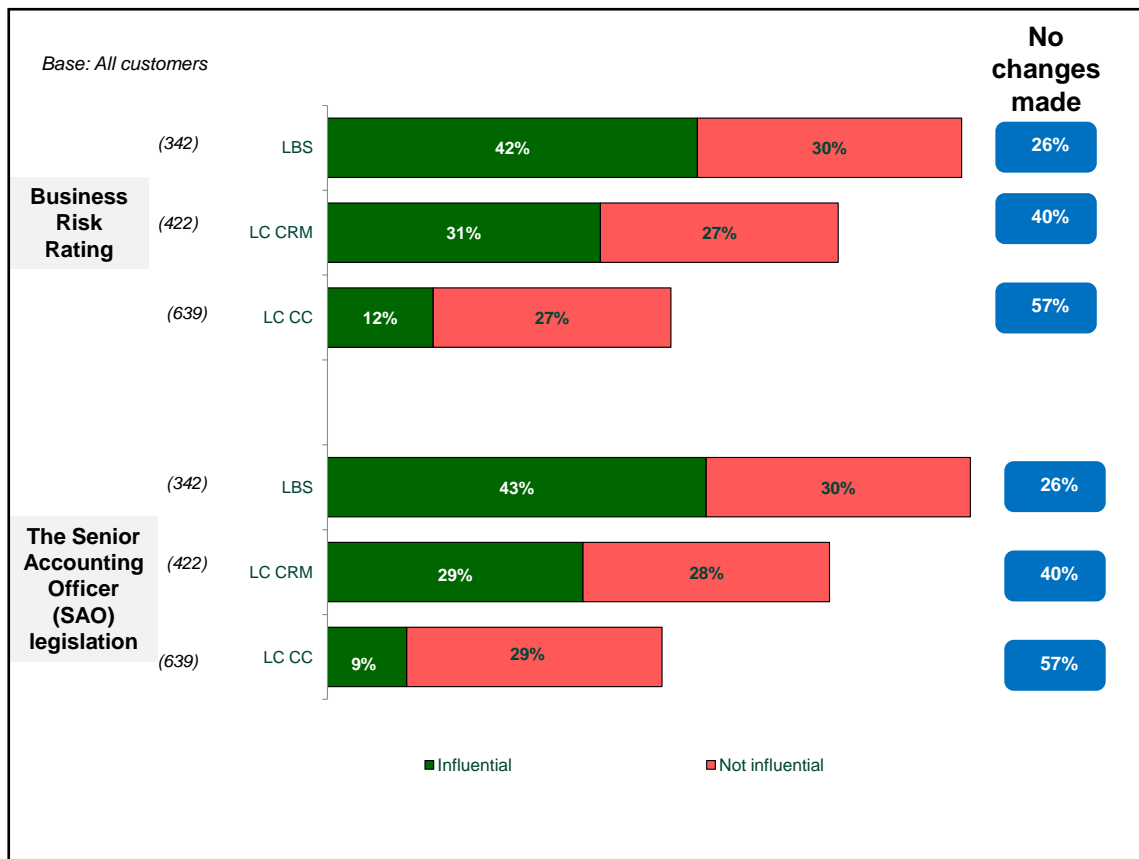
Note: Figures add to over 100% due to respondents giving more than one answer



Wider influence of other factors on changes to the business

- 3.41 While the previous section sought to show what changes businesses had made as a result of regular HMRC contact, all large businesses were also asked about the influence of other factors in changes to transactions, systems and processes. These were: the business's risk rating and the Senior Accounting Officer legislation. These factors appeared to influence LBS customers the most and LC CC customers the least. Within each customer group, similar proportions reported that each factor was influential.
- 3.42 As figure 3.2 shows, the majority of LBS customers had made changes to their businesses transactions, systems and processes. Around two fifths of LBS businesses reported that their businesses' risk rating (42%) and the Senior Accounting Officer legislation (43%) respectively, were influential in driving these changes.

Figure 3.2: Influence of other factors on changes to the business



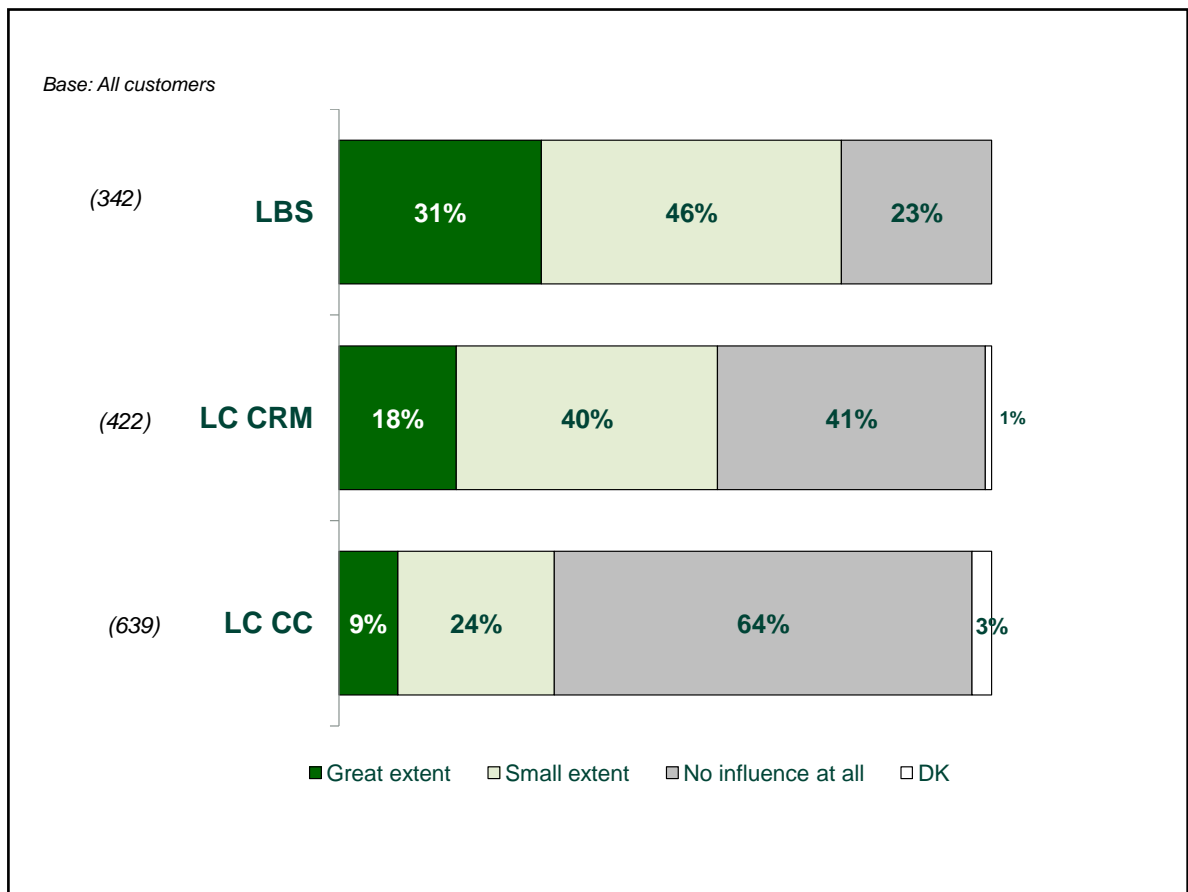
- 3.43 Among LC CRM customers, 3 in 5 (60%) had made changes to their business, and of these around 3 in 10 felt that their Risk Rating (31%) and the SAO legislation (29%) were influential in driving these changes
- 3.44 Just over 2 in 5 (43%) LC CC customers had made any changes to their business – and where they had, about 1 in 10 reported that their Risk Rating (12%) and the SAO legislation (9%) were influential. This is likely to reflect the fact that some LC CC customers may not have been required to appoint Senior Accounting Officers.
- 3.45 Aside from the factors discussed above, all large businesses were given the opportunity to feed back on any other factors that had been influential in changes made to the business. The majority of businesses (70% LBS, 73%, LC CRM, 82% LC CC) stated that there were no other influential factors.
- 3.46 Of the minority that did mention other factors, the most commonly mentioned was internal change driven by policy/strategy within the business itself – 13% of all LBS businesses, 11% of all LC CRM businesses and 4% of all LC CC businesses mentioned this.



How HMRC relationship influences tax planning

- 3.47 Large business customers were asked to assess what influence their relationship with HMRC had on their tax planning decisions.
- 3.48 As figure 3.3 shows, over three quarters of LBS customers (77%) and almost three fifths of LC CRM customers (58%) felt that their relationship with HMRC had at least some influence on their planning. Among the LC CC population only a third of businesses (33%) felt their relationship with HMRC influenced their tax planning – and only a small minority (9%) felt HMRC influenced tax planning to a great extent.

Figure 3.3: Influence of HMRC relationship on tax planning



- 3.49 Where contact with HMRC was more frequent, large businesses were significantly more likely to state that their relationship with HMRC influenced their tax planning ‘to a great extent’. Of the 31% of LBS businesses that stated that HMRC influenced them to a great extent, 93% had contact with HMRC at least once a quarter.
- 3.50 Furthermore, where businesses engaged with HMRC regularly for issues that could be broadly defined as Real Time Working, the proportion that stated HMRC had an influence on tax planning was higher still. While causation is difficult to imply here, in the context of HMRC’s continued push for businesses to work in Real Time, it is a key finding that those that do are also more likely to be influenced by their relationship with HMRC.



4 Nature and impact of relationship with agents

Key findings

- 4.1 Nearly all businesses used agents in some capacity.
- 4.2 Three-quarters of LC CC customers used agents for input into their company's tax strategy while LBS customers were much less likely to use agents for this purpose. This may well be because these businesses are more likely to have internal expertise in this area.
- 4.3 LBS and LC CRM businesses were particularly likely to have used agents for advice on operational activities (e.g. transactions or operational decisions including about remuneration).
- 4.4 For processing, operational and strategic input, LBS and LC CRM customers who used agents primarily worked with the 'Big 4' accountancy firms.²³
- 4.5 LC CC customers were more likely to use smaller/independent agencies but there were still a relatively large proportion using the Big 4.
- 4.6 In terms of the impact of agents, the majority of businesses agreed that this resulted in them making fewer errors in their tax calculations. Between two in five and half of each customer group also felt that the use of agents resulted in them paying less tax.

Introduction

- 4.7 This chapter looks at the relationship that large businesses had with external agents, accountants and advisers. It looks at the types of advice sought from these intermediaries and the types of taxes that this advice related to. It then looks at businesses' views on the impact that working with agents had on their approach to tax.

²³ Big 4' accountancy firms defined as: PriceWaterhouseCoopers, KPMG, Deloitte, Ernst and Young



Types of advice agents used for

- 4.8 Almost all large businesses used agents in some capacity (97% LBS, 95% LC CRM and 94% LC CC).
- 4.9 Businesses were asked to state whether they used agents for ‘processing’ activities (day-to-day processing, returns or basic filing), ‘operational’ activities (advice on transactions or operational decisions including remuneration) or ‘strategic’ activities (advice on drawing up the company’s tax strategy). Over half of both LC CRM and LC CC customers used agents to assist with processing activities; but this was significantly less likely among LBS customers. In contrast, a majority of both LBS customers (89%) and LC CRM customers (84%) used agents for advice in operational areas while this was less common among LC CC customers (though still cited by a majority: 64%).
- 4.10 The use of agents for strategic advice reduced as the size of business increased; LC CC customers were the most likely to use agents in this way while only a minority of LBS customers did so (these businesses are likely to have more in-house expertise in the area). Table 4.1 shows the proportions of businesses that used agents for each type of activity.

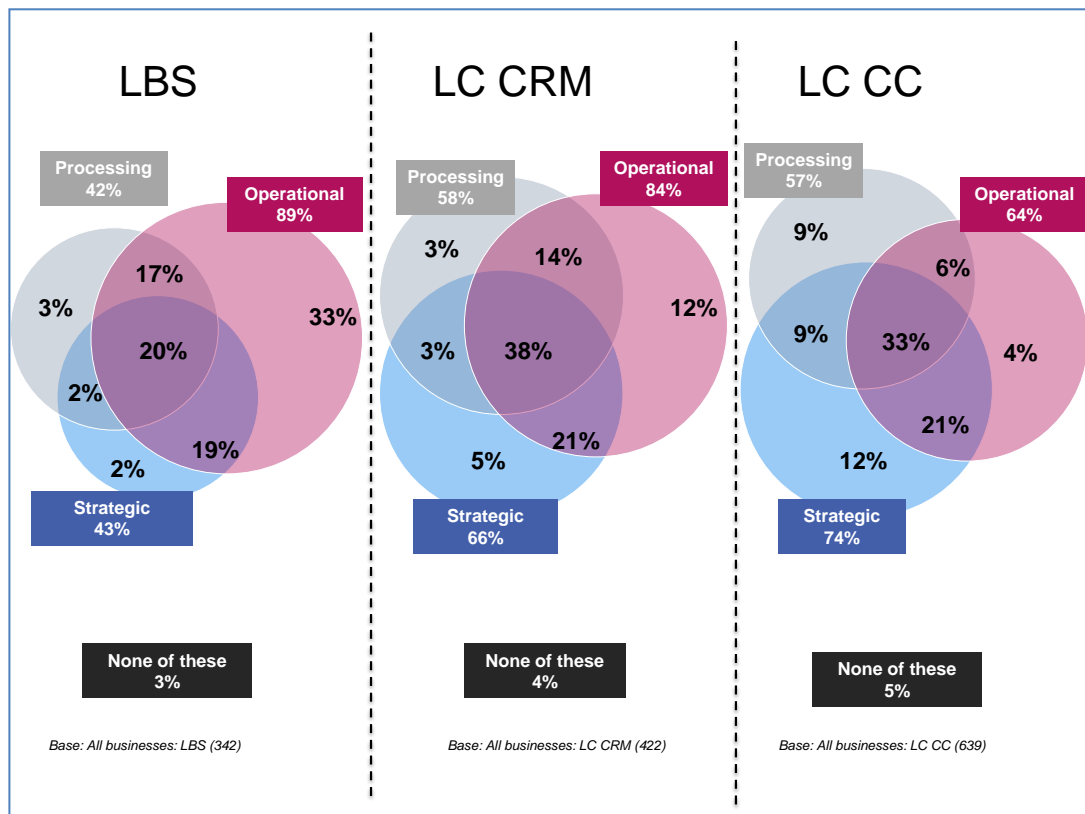
Table 4.1: Types of advice sought from agents

| | LBS | LC CRM | LC CC |
|--|-------|--------|-------|
| <i>Base: All customers</i> | (342) | (422) | (639) |
| | % | % | % |
| Day-to-day processing, returns or basic filings (processing) | 42 | 58 | 57 |
| To receive advice on transactions or operational decisions, including remuneration (operational) | 89 | 84 | 64 |
| To receive advice on drawing up your company’s tax strategy (strategic) | 43 | 66 | 74 |
| Do not use agents | 3 | 4 | 5 |

4.11 Figure 4.1 shows the proportions of each customer group that use agents for the three kinds of advice: processing, operational or strategic. As might be expected, some businesses seek more than one type of advice from agents (perhaps processing *and* operational for example), whereas others use agents for only one of the three types. The diagram shows what proportion of businesses use agents for each of three types of advice separately, as well as the proportions using agents for different combinations of advice types, shown by the overlapping circles.

4.12 Where all three circles overlap, this shows the proportion of businesses using agents for all three types of advice. This analysis shows that the most common position among LBS customers was to use agents to provide advice on operational activities only (33%). Among the other two customer groups, the most common position was to use agents across all three areas (processing, operational decisions and strategic decisions): 38% LC CRM and 33% LC CC. While using agents solely for advice on tax strategy was relatively rare among both LBS and LC CRM customers, 12% of LC CC customers used agents in this way.

Figure 4.1: Types of advice sought from agents, by different customer groups



4.13 Across all three types of interaction with agents (processing, operational and strategic), LBS and LC CRM customers who used agents primarily worked with the 'Big 4' accountancy firms (PriceWaterhouseCoopers, KPMG, Deloitte, Ernst and Young). Among LBS customers, use of agents outside of these four firms for either strategic or operational advice was extremely rare. Among LC CC customers, the market was more open: across all three types of advice, just under half of customers used the 'Big 4' with the remainder split between those using other large firms²⁴ and those using small/independent firms.

4.14 Table 4.2 shows the types of agent used for each category of advice.

Table 4.2: Agents used for each category of advice

| Day-to-day processing | LBS | LC CRM | LC CC |
|--|-------|--------|-------|
| <i>Base: All customers using agents for day-to-day processing</i> | (138) | (236) | (342) |
| | % | % | % |
| Use the Big 4 accountancy firms | 77 | 72 | 44 |
| Use other large firms | 12 | 13 | 24 |
| Use smaller/independent firms | 17 | 19 | 38 |
| Don't know/refused | 5 | 3 | 3 |
| Operational transactions | LBS | LC CRM | LC CC |
| <i>Base: All customers using agents for operational transactions</i> | (304) | (353) | (406) |
| | % | % | % |
| Use the Big 4 accountancy firms | 89 | 83 | 47 |
| Use other large firms | 3 | 10 | 23 |
| Use smaller/independent firms | 13 | 12 | 37 |
| Don't know/refused | 5 | 5 | 4 |
| Strategic advice | LBS | LC CRM | LC CC |
| <i>Base: All customers using agents for strategic advice</i> | (141) | (275) | (473) |
| | % | % | % |
| Use the Big 4 accountancy firms | 90 | 80 | 45 |
| Use other large firms | 6 | 11 | 23 |
| Use smaller/independent firms | 4 | 10 | 35 |
| Don't know/refused | 6 | 5 | 4 |

Note that columns do not always add to 100% as a few businesses mentioned agents in more than one group. Businesses were asked to limit their response to the two agents most commonly used.

²⁴ Baker Tilly, BDO Stoy Hayward, Crowe Clark Whitehall, Grant Thornton, Haines Watts Group, Mazars, Moore Stephens, PKF, RSM Tenon Group, Saffery Champness, Smith & Williamson.



- 4.15 Further analysis (table 4.3) showed that among LC CC customers, those with a turnover greater than £4.1m (comprising about half of LC CC customers) were significantly more likely to use one of the Big 4, and less likely to use smaller/independent firms, than those with a turnover under £4.1m. This was the case regardless of the kind of advice sought (processing, operational or strategic).
- 4.16 Nearly all LBS and LC CRM customers stated they had a turnover greater than £41.5m (and as shown in table 4.2, large proportions use the Big 4), hence a larger turnover (and potentially therefore more complex transactions) is associated with Big 4 use.

Table 4.3: Use of accountancy firms by LC CC customers split by business size (turnover)

| Day-to-day processing | Turnover under £41.5m | Turnover £41.5m+ |
|--|-----------------------|------------------|
| <i>Base: All LC CC customers using agents for day-to-day processing</i> | (179) | (156) |
| | % | % |
| Use the Big 4 accountancy firms | 37 | 51 |
| Use smaller/independent firms | 49 | 29 |
| Operational transactions | Turnover under £41.5m | Turnover £41.5m+ |
| <i>Base: All LC CC customers using agents for operational transactions</i> | (205) | (187) |
| | % | % |
| Use the Big 4 accountancy firms | 37 | 58 |
| Use smaller/independent firms | 50 | 22 |
| Strategic advice | Turnover under £41.5m | Turnover £41.5m+ |
| <i>Base: All LC CC customers using agents for strategic advice</i> | (263) | (197) |
| | % | % |
| Use the Big 4 accountancy firms | 37 | 56 |
| Use smaller/independent firms | 44 | 23 |

- 4.17 As we have seen, the propensity of large businesses to use agents for each type of advice varied considerably by customer group. However, among those using agents the types of taxes for which advice was sought was reasonably similar across all three customer groups; across all three types of advice (processing, operational and strategic), large businesses were most likely to seek the advice of agents in relation to Corporation Tax, VAT or payroll processes (PAYE, NICs and benefits)²⁵.
- 4.18 Where agents were used for **processing**, this was most likely to be for advice on Corporation Tax rather than other tax regimes (74% of LBS, 82% of LC CRM and 80% of LC CC customers who made use of agents for processing, used them for processing Corporation Tax). Smaller proportions of those using agents for processing were most likely to use them for payroll taxes (28% LBS, 24% LC CRM, 23% LC CC) and VAT (19% LBS, 17% LC CRM and 19% LC CC).

²⁵ Where they used agents for advice on several taxes, businesses were asked to give the top three taxes for which they made use of agents' advice.

- 4.19 Similarly, where agents were used for **operational** decisions, this was most likely to be for Corporation Tax (70% of LBS, 59% of LC CRM, 64% of LC CC), and much less likely to be for VAT or payroll taxes. Among those using agents for operational advice, LBS customers were more likely than LC CRM or LC CC customers to seek advice on VAT issues (38% LBS, 29% LC CRM, 29% LC CC). Only a small minority of those using agents for operational decisions cited using them for remuneration and reward packages (5% LBS, 4% LC CRM, 4% LC CRM).
- 4.20 Where customers used agents to help define tax **strategy**, this was mainly in relation to Corporation Tax (75% LBS, 77% LC CRM, 79% LC CC). Across all customer groups, around a fifth cited VAT as a tax regime for which they were most likely to use an agent and about one in ten cited payroll taxes.

Impacts of using agents

- 4.21 Table 4.4 shows the level of agreement among businesses using agents with a series of statements about the impact that using agents have.

Table 4.4: Agreement with statements about the impact of agents

| Agreement (strongly/slightly) that making use of external agents/advisers results in... | LBS | LC CRM | LC CC |
|---|--------------|--------------|--------------|
| <i>Base: All businesses using agents</i> | <i>(331)</i> | <i>(406)</i> | <i>(606)</i> |
| | % | % | % |
| Making fewer errors in your tax calculations | 71 | 80 | 88 |
| Implementing tax strategies that might not otherwise consider | 43 | 56 | 66 |
| Paying less tax | 37 | 44 | 47 |
| Fewer people in the company having knowledge of tax issues | 15 | 31 | 48 |
| Disclosing less information to HMRC | 4 | 8 | 9 |

- 4.22 Of the impacts discussed, businesses were most likely to feel that the use of agents resulted in them making fewer errors in their tax calculations. The vast majority of all three customer groups agreed that this was the case. Views on the other impacts that agents might have were more divided.

- 4.23 Among the LC CC population (where internal finance/tax resources were likely to be less extensive), the majority of businesses (66%) agreed that using agents resulted in them implementing tax planning strategies that they would otherwise not have considered. Customers in the other two groups and particularly LBS customers were less likely to agree that this was the case.
- 4.24 A substantial minority of customers within all three customer groups felt that using agents resulted in them paying less tax and there was a strong relationship between this and businesses' agreement that the use of agents resulted in implementing tax strategies that they would not otherwise have considered (55% of LBS businesses who agreed that using agents resulted in implementing tax strategies that they would not otherwise have considered also agreed that using agents had resulted in them paying less tax; the equivalent figure for LC CRM and LC CRM businesses was 60%).
- 4.25 The proportions who agreed that the use of agents resulted in the disclosure of less information to HMRC were very small.
- 4.26 The extent of agreement that the use of agents resulted in fewer people within the business having knowledge of tax affairs varied considerably by customer group. Just under half of LC CC customers using agents agreed that this was the case compared with a third of LC CRM customers and only a small proportion (15%) of LBS customers. This perhaps indicated that in larger companies, agents were used to work alongside existing decision-making structures whereas in smaller ones, the use of agents was designed to reduce the workload of other staff and/or reduce the need for specialist in-house staff.
- 4.27 Although some caution is needed in drawing direct comparisons between waves²⁶, questions about the impact of agents were also asked in TOPS Wave 1. Comparing responses between the two years shows that views on the extent to which the use of agents resulted in making fewer errors and in disclosing less information to HMRC remained at a very similar level. Among LC CC customers there was a slight reduction in the proportion agreeing that the use of agents resulted in paying less tax (from 57% in 2011 to 47% in 2012) although agreement remained at a similar level for LBS and LC CRM customers.
- 4.28 Looking at views on whether the use of agents resulted in paying less tax longitudinally²⁷ shows a relatively high degree of change in opinion since 2011. Across all customer groups over one in three customers²⁸ that took part in both waves of the study were less likely to agree in 2011 that the use of agents resulted in the business paying less tax. Comparing businesses which had changed their opinion over the year preceding this survey with those who had not, shows no significant differences in terms of frequency of contact with HMRC, likelihood to discuss issues in Real Time²⁹ or size/sector of business.

²⁶ The question used to establish whether agents were used at all was different in 2011 compared to 2012. This seems to have resulted in more LBS customers in particular stating that they used agents in 2012. In wave 2 the respondents were asked a number of questions about the use of agents before being presented with the statement: *Still thinking about using agents / advisers in general, to what extent would you agree or disagree that making use of external agents / advisers results in... fewer people in your company having knowledge of tax issues.* In TOPS wave 1 respondents were asked about their tax department before being asked: *To what extent would you agree that making use of external agents results in... people within your company having less knowledge of tax issues.*

²⁷ i.e. solely focussing on the responses of businesses that took part in both the 2011 and 2012 surveys.

²⁸ Of the 159 LBS, 173 LC CRM and 212 LC CC customers that took part in both TOPS 2011 and TOPS 2012 and answered this question – 34%, 31% and 39% respectively stated a lower level of agreement in 2012 than they did in 2011.

²⁹ Real Time Working was derived in this analysis – see chapter 3.



4.29 Agreement that use of agents resulted in implementing strategies that would otherwise not have been considered decreased among LBS and LC CRM customers (from 58% to 43% for LBS customers and from 65% to 56% for LC CRM customers) although it remained at a similar level for LC CC customers. Between 2011 and 2012, the proportion of customers agreeing that the use of agents resulted in fewer people in the business having knowledge of tax issues decreased for LBS customers (from 27% in 2011 to 15% in 2012) and to a lesser extent for LC CC customers, while remaining at a similar level for LC CRM customers.

Discussions about reducing tax liability

4.30 Although the proportion of customers who felt that the use of agents resulted in them paying less tax ranged between two-fifths and a half of each customer group, the proportions who stated that their external advisers had suggested ways in which to reduce their tax liability was considerably higher (79% of LBS; 75% of LC CRM and 68% of LC CC customers using agents).

4.31 Across all three customer groups advice of this sort was most commonly given on an annual basis. However, a quarter of LBS customers received this type of advice quarterly. Table 4.5 shows how often businesses received advice from agents about reducing their tax liability.

Table 4.5: Frequency with which agents provide advice on tax liability

| | LBS | LC CRM | LC CC |
|---|-------|--------|-------|
| <i>Base: All customers using agents</i> | (331) | (406) | (606) |
| | % | % | % |
| Monthly | 5 | 2 | * |
| Quarterly | 27 | 18 | 10 |
| Yearly | 47 | 56 | 57 |
| Never | 18 | 22 | 29 |
| Don't know | 4 | 3 | 3 |

Figures in this table do not add to exactly 100 due to rounding

4.32 Among businesses who had discussed ways in which to reduce their tax liability with their agents, businesses generally felt that these discussions were sometimes prompted by the business and sometimes prompted by their agents. Around a fifth felt that these discussions were only ever initiated by their agents (21% across all three customer groups) and one in ten that they were only ever initiated by the business (11% LBS, 11% LC CRM and 9% LC CC).

5 Other influences on general approach to tax

Key findings

- 5.1 Businesses were asked to what extent their approach to tax was influenced by various factors such as agents, press coverage of tax issues, various professional bodies and deterrents and penalties.
- 5.2 The main influences on businesses' approach to tax were their own finance department (for LBS and LC CRM customers), and agents or advisers (for LC CC customers). This echoes the findings in the previous chapter that LC CC customers were the most likely group to use agents for advice with their strategic planning. In fact, findings in this chapter, show that LC CC businesses were more likely to rate their agents as 'very' or 'fairly' influential than their own tax department. As hypothesised in the previous chapter, this could be related to LBS and LC CRM businesses having more strategic expertise within their tax own department than LC CC customers.
- 5.3 Large businesses were relatively evenly divided with regards to the influence of press coverage (with around half considering this to be influential on their tax strategy).
- 5.4 Professional accountancy bodies were influential in determining strategy in a number of businesses and particularly in LC CC businesses.
- 5.5 The influence of other networks and professional bodies was comparatively low although informal networks of businesses were considerably more influential among LBS businesses than among the other two customer groups.
- 5.6 Over half of all large businesses stated that deterrents and penalties had at least some influence on their approach to tax. Where businesses stated that HMRC had an influence on their tax planning, they were more likely to have stated that deterrents and penalties influence their tax planning 'to a great extent' rather than 'to a small extent'.
- 5.7 Among businesses who took part in both TOPS wave 1 in 2011 and TOPS wave 2 in 2012, a third had reduced their level of agreement that they 'are always open to reducing tax payments' in 2012 as compared to 2011. Similarly, when looking at all LC CC customers across both waves (i.e. not just those that had taken part in both) this group were less likely in 2012 than in 2011 to agree that the business had a duty to its shareholders to minimise tax payments.
- 5.8 Around one fifth of businesses across all customer types agreed that their business had looked to reduce its tax liabilities through recognising profits in more favourable tax regimes.



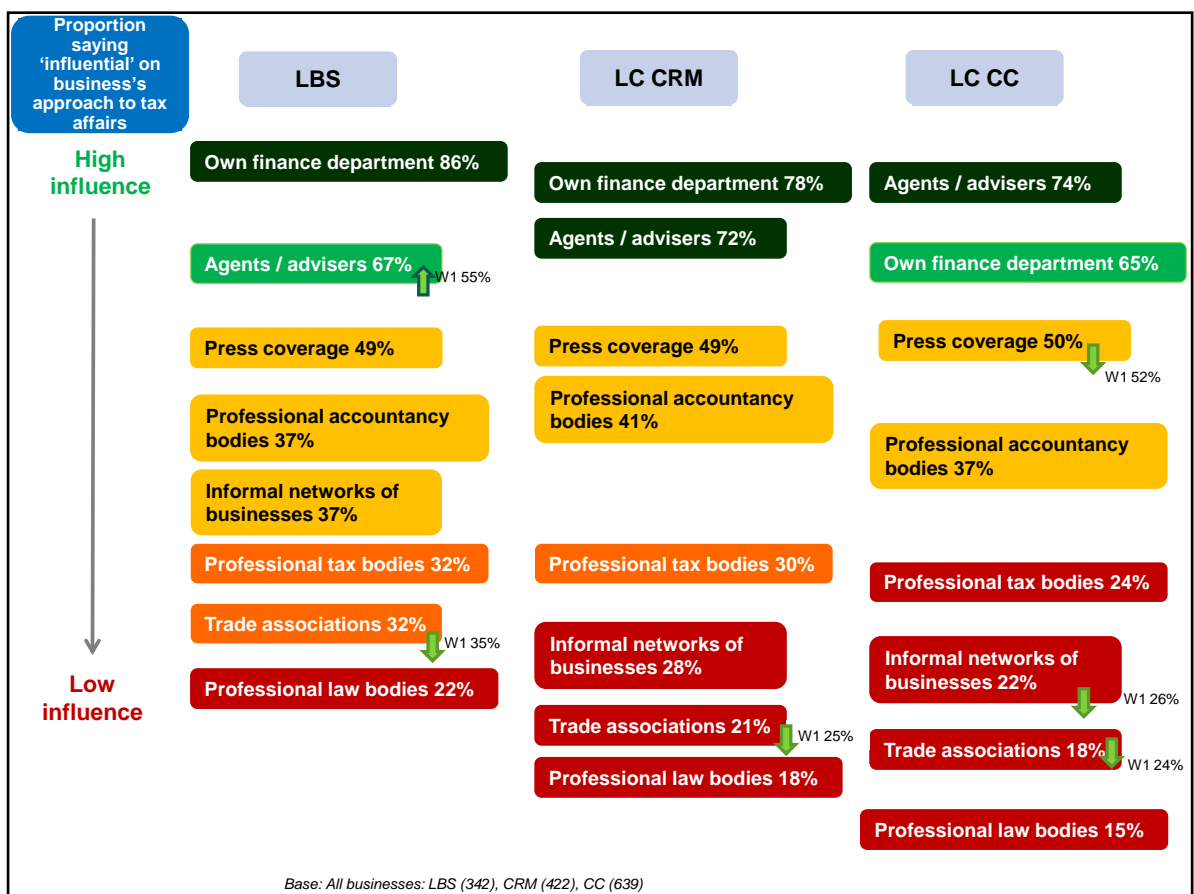
Introduction

5.9 This chapter looks at other external factors which may influence businesses’ approach to tax planning. It begins by looking at the role various factors play in decision making, before exploring the impact of penalties and deterrents. The final section, seeks to look at businesses’ overall opinions on tax planning, comparing the findings to those of the previous wave of the research (TOPS 2011).

Influence of wider factors on businesses’ approach to tax

5.10 All businesses were asked how influential different factors were on the approach that the business took to its tax affairs – these are summarised in figure 5.1. As the question was directly comparable with the previous year’s survey, significant differences between waves are highlighted.

Figure 5.1: Influencers of approach to tax affairs



5.11 When asked to rate how influential different factors were on the business’ approach to tax affairs, the largest proportions of LBS and LC CRM customers (86% and 78% respectively) rated their own finance/tax department as ‘very’ or ‘fairly’ influential. Smaller proportions of LC CC customers rated their own tax department as influential on their business’s approach to tax (though still a majority agreed, at 65%). However the LC CC group were also more likely than the other customer groups to say their tax department had little or no influence



(29%) on the business' approach to their tax affairs. This finding³⁰ is consistent with the findings in the 2011 TOPS study.

- 5.12 As discussed in the previous chapter, agents and advisers were more likely to be used by LC CC customers to assist with strategic decision making. In this context it is not surprising that the largest proportion of this customer group (74%) rated agents and advisers as influential on their tax planning. For LC CC customers, agents/advisers were more likely to be rated as influential in determining the approach to tax than the business's own finance department.
- 5.13 That said, the influence of agents and advisers for LBS and LC CRM customers was also evident (67% and 72% among each customer group respectively stated they were influential). Among LBS businesses this represented a significant increase from 2011.
- 5.14 Large businesses were fairly evenly divided between those that felt press coverage of tax issues had influence on their approach to tax and those that did not.³¹ Although the coverage and reporting of tax avoidance had increased in the press over the 12 months preceding the survey, the data showed that views on the influence of press coverage on businesses had not significantly changed over this time (among LC CC customers there was actually a significant drop in the proportion that stated press coverage was influential).
- 5.15 Further analysis showed that businesses for which the press was influential were no more or less likely than businesses overall to agree that they were open to legally reducing their tax payments.
- 5.16 The majority of Finance Directors/Heads of Tax interviewed in the study were members of at least one kind of professional tax, accountancy or law body – particularly those representing LBS and LC CRM businesses (88% LBS, 83% LC CRM and 62% LC CC). Although comparisons with 2011 findings indicated that the number of businesses that view the bodies as influential has dropped, it is clear that they were still seen as influential for a substantial number of businesses.
- 5.17 While around a third of large businesses stated that membership of professional tax bodies influenced decisions on tax, less than a quarter of large businesses mentioned professional law bodies.
- 5.18 Informal networks and trade associations were mentioned as influential by a minority of businesses but they were more frequently mentioned by LBS customers than other customer groups.

³⁰ That LBS and LC CRM customers are more likely than LC CC customers to report that their tax department is influential.

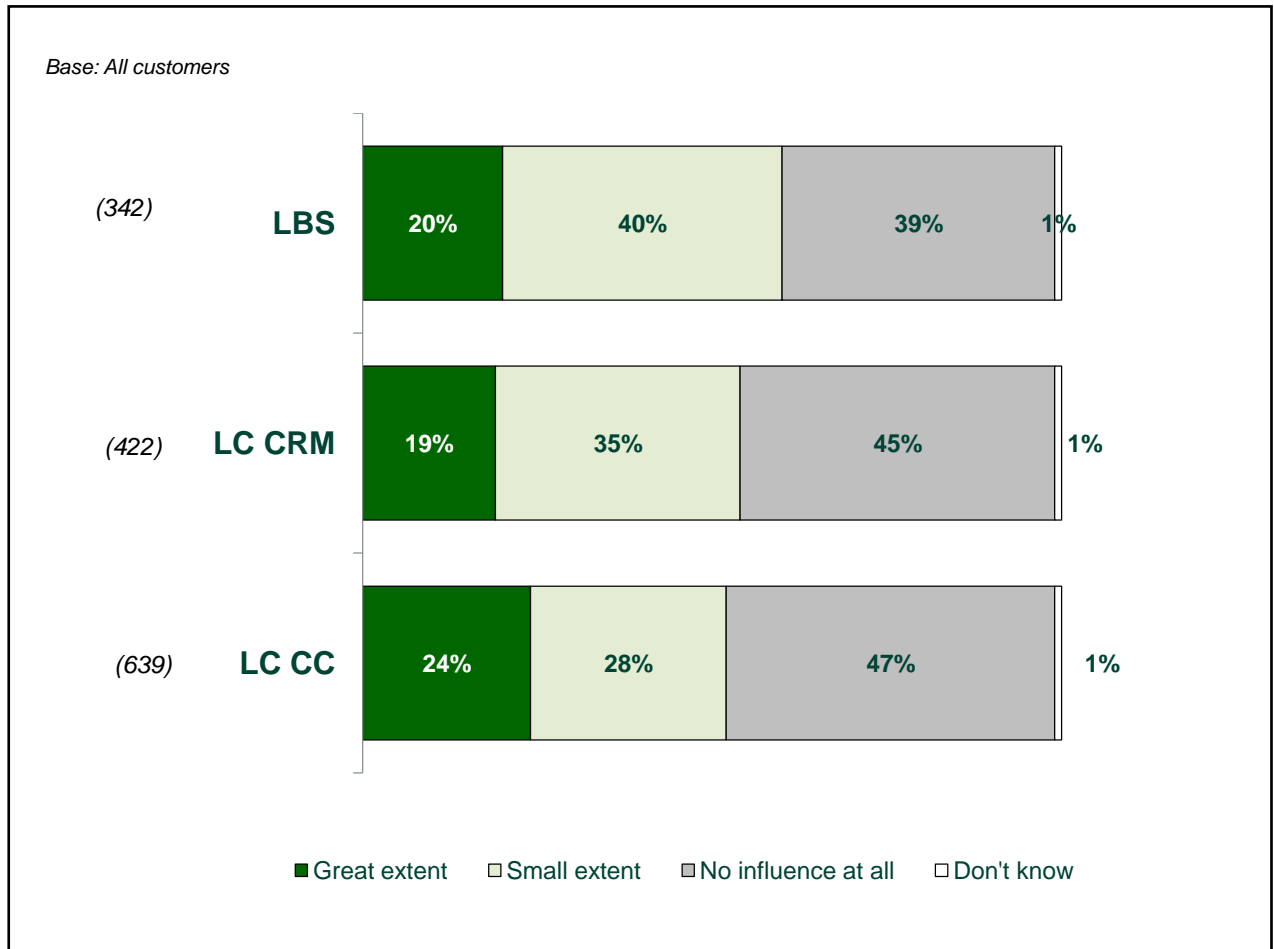
³¹ 49% of LBS, 49% of LC CRM, 50% LC CC all stated that press coverage had an influence on the business.



Deterrents and penalties

5.19 Large business customers also assessed the influence that deterrents and penalties³² had on their business’ decisions relating to tax planning. As figure 5.2 shows, 60% of LBS businesses, 54% of LC CRM businesses and 52% of LC CC businesses felt penalties and deterrents had at least some influence on tax planning decisions. That said, a substantial proportion of each of the three groups felt deterrents and penalties did not influence their tax planning at all.

Figure 5.2: Influence of deterrents and penalties on tax planning



5.20 Large business customers that stated deterrents and penalties had an influence on their tax planning were significantly more likely (than those who felt deterrents and penalties had no influence) to have stated that their relationship with HMRC had a direct influence on the way the business approached tax planning³³.

³² Penalties were defined to respondents as a monetary fine or senior accounting officer penalty. Deterrents were defined as an indirect impact on the business (e.g. reputation).

³³ 68% LBS, 67% LC CRM, 73% LC CC businesses that stated their HMRC relationship influenced tax planning also stated that the deterrents and penalties had an impact on tax planning.



Overall opinions on tax planning

- 5.21 All businesses were asked the extent to which they agreed or disagreed with several statements about decision making surrounding the payment of tax. Table 5.1 summarises the proportion agreeing/disagreeing with each statement. This question was directly comparable with the 2011 wave of the study so the table also shows 2011 findings³⁴.
- 5.22 Across the three customer groups the greatest net change between years was evident among the LC CC population.

Table 5.1: Agreement or disagreement with statements about tax planning

| | | LBS | | LC CRM | | LC CC | |
|--|--------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | | TOPS wave 1 (May-Jul '11) | TOPS Wave 2 (Jun-Jul '12) | TOPS wave 1 (May-Jul '11) | TOPS Wave 2 (Jun-Jul '12) | TOPS wave 1 (May-Jul '11) | TOPS Wave 2 (Jun-Jul '12) |
| <i>Base: All businesses</i> | | (366) | (342) | (395) | (422) | (501) | (639) |
| | | % | % | % | % | % | % |
| Paying the correct level of tax is a key objective for the business | Agree | 95 | 95 | 93 | ↑ 96 | 90 | ↑ 93 |
| | Neither/Nor | 3 | 2 | 4 | 2 | 7 | 3 |
| | Disagree | 2 | 2 | 3 | 2 | 2 | 3 |
| We are always open to ways to legally reduce our tax payments | Agree | 84 | ↓ 75 | 88 | ↓ 80 | 88 | ↓ 83 |
| | Neither/Nor | 11 | 8 | 8 | 11 | 8 | 9 |
| | Disagree | 5 | ↑ 15 | 3 | ↑ 8 | 3 | ↑ 6 |
| The business has a duty to its shareholders to minimise tax payments | Agree | 76 | 78 | 73 | 72 | 69 | ↓ 64 |
| | Neither/Nor | 9 | 9 | 14 | 13 | 17 | 16 |
| | Disagree | 10 | 10 | 7 | 10 | 7 | ↑ 13 |
| We look to reduce our tax liabilities through recognising profits in more favourable regimes | Agree | 20 | 17 | 17 | 19 | 19 | ↑ 23 |
| | Neither/Nor | 17 | 18 | 21 | 16 | 24 | 18 |
| | Disagree | 54 | 59 | 52 | 58 | 36 | ↑ 49 |

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

- 5.23 Nearly all businesses (95% LBS, 96% LC CRM, 93% LC CC) agreed that paying the correct level of tax was a key objective for the business. Among LC CRM and LC CC customers this represented a significant increase in the proportions that agreed when compared with 2011.
- 5.24 Although relatively high proportions were also in agreement that the business was always open to ways to legally reduce its tax payments, the proportion of businesses that agreed with this statement had dropped significantly when compared with 2011 across all types of large businesses.

³⁴ Significant changes in the proportions agreeing/disagreeing between 2011 and 2012 are highlighted with an arrow in the table.

- 5.25 Indeed, looking at the data longitudinally³⁵ across the three customer groups, around a third of businesses that took part in both the TOPS 2011 and TOPS 2012 studies were less likely³⁶ to agree that they were always open to reducing tax payments in 2012.
- 5.26 Focussing on those businesses which had changed their opinion over the year preceding this survey, there were no significant differences in terms of frequency of contact with HMRC, likelihood to discuss issues in Real Time³⁷ or size/sector of business.
- 5.27 A sizeable majority of customers (78% LBS, 72% LC CRM, 64% LC CC) thought that the business had a duty to its shareholders to minimise tax payments. However, among LC CC businesses this represented a significant drop in the proportion that agreed when compared with 2011.
- 5.28 Around a fifth (17% LBS, 19% LC CRM, 23% LC CC) stated that their business had looked to reduce its tax liabilities through recognising profits in more favourable regimes. Among LC CC businesses, those saying they ‘neither agreed nor disagreed’ with this statement, decreased from 2011 to 2012. This means opinion among this group appears to have polarised since the last wave; in 2012 more businesses agreed or disagreed and fewer picked the ‘middle ground’.

³⁵ i.e. solely focussing on the responses of businesses that took part in both the 2011 and 2012 surveys.

³⁶ Of the 244 LBS, 214 LC CRM and 249 LC CC customers that took part in both TOPS 2011 and TOPS 2012 and answered this question – 35%, 32% and 30% respectively stated a lower level of agreement in 2012 than they did in 2011.

³⁷ Real Time Working was derived in this analysis – see chapter 3.



6 Impact of policy changes on UK businesses

Key Findings

- 6.1 Most large businesses believed the recent Corporation Tax reduction of 4% between 2010 and April 2012 was fairly or very effective in maintaining the UK's competitive position in the global economy.
- 6.2 On balance, large business customers considered the benefits to their business from the reduction in Corporation Tax outweighed any negative impact incurred by the reduction in Capital Allowance rates.
- 6.3 In a similar vein, when asked to consider all of the various tax reforms introduced between 2009 and June 2012, most businesses felt the changes had either a positive impact or no significant impact on the competitive position of their businesses.
- 6.4 Over three-quarters of large businesses affected by the SAO legislation monitored tax accounting arrangements on a continuing basis or identified and evaluated new tax risks as a direct result of the SAO legislation.

Introduction

- 6.5 This chapter explores large businesses' responses to six specific recent tax changes in the UK. It explores businesses' awareness levels of each of the six changes, their views on how effective each will be in maintaining the competitive position of their businesses, and whether they considered the changes will affect the competitiveness of the UK economy as a whole. The six specific pieces of recent legislation discussed were:
 - The Corporation Tax rate changes since between 2010 and June 2012, falling from 28% to 26% at April 2011 and then 24% from April 2012;
 - The reduction in the rates of Capital Allowances, for example, the reduction in the main rate from 20% to 18% from April 2012;
 - The introduction of the Distribution Exemption for companies in 2009;
 - The introduction of the Debt Cap, effective from 2009;
 - The Patent Box reforms finalised in Budget 2012; and
 - The 2011/12 Research and Development (R&D) Reforms.
- 6.6 More details on each of these policy reforms are provided overleaf.
- 6.7 In addition this chapter also explores the impact of:
 - The Senior Accounting Officer (SAO) legislation³⁸

³⁸ Please see <http://www.hmrc.gov.uk/large-businesses/other-info.htm> for more information on SAO legislation.



Summary of Tax Policy changes

- 6.8 **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. The current Government has prioritised CT rate reductions as a key way to increase UK competitiveness. As a result the Corporation Tax rate has fallen from 28% to 26% at April 2011 and then to 24% from April 2012, with further reductions planned.
- 6.9 **Capital Allowances** are a tax relief designed to allow a proportion of 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. The recent change involved a decrease in the general rate of writing down allowance from 20% to 18% for periods ending on or after 1 April 2012.
- 6.10 A **Distribution Exemption** was introduced in 2009 replacing the old Corporation Tax exemption for UK dividends. In its place is a new Corporation Tax charge and exemptions which apply to both UK and foreign dividends.
- 6.11 The **Debt Cap** was introduced in 2009. It applies to large businesses with at least 250 employees and an annual turnover of over £40 million and assets exceeding £35 million.
- The principle of the debt cap measure is to limit relief for deductions in respect of excessive debt owed by the UK members of a group. The measure applies whether the UK group companies are members of a UK or non-UK headed group. The amount of excessive debt is established by comparing the costs of borrowing (referred to as finance expenses), rather than snapshots of debt. The comparison is made between the net borrowing costs of the UK members of the group and the gross borrowing costs of the group as a whole³⁹.*
- 6.12 The **Patent Box Reforms** involved a phased reduction to 10% of Corporation Tax on profits attributed to patents and other similar intellectual property.
- 6.13 The 2011/12 **Research and Development (R&D) Reforms** offered increased tax relief on allowable Research and Development costs. This is set at 200% for SMEs and 130% for larger organisations.

³⁹ Source: <http://www.hmrc.gov.uk/manuals/cfmmanual/cfm90160.htm>.



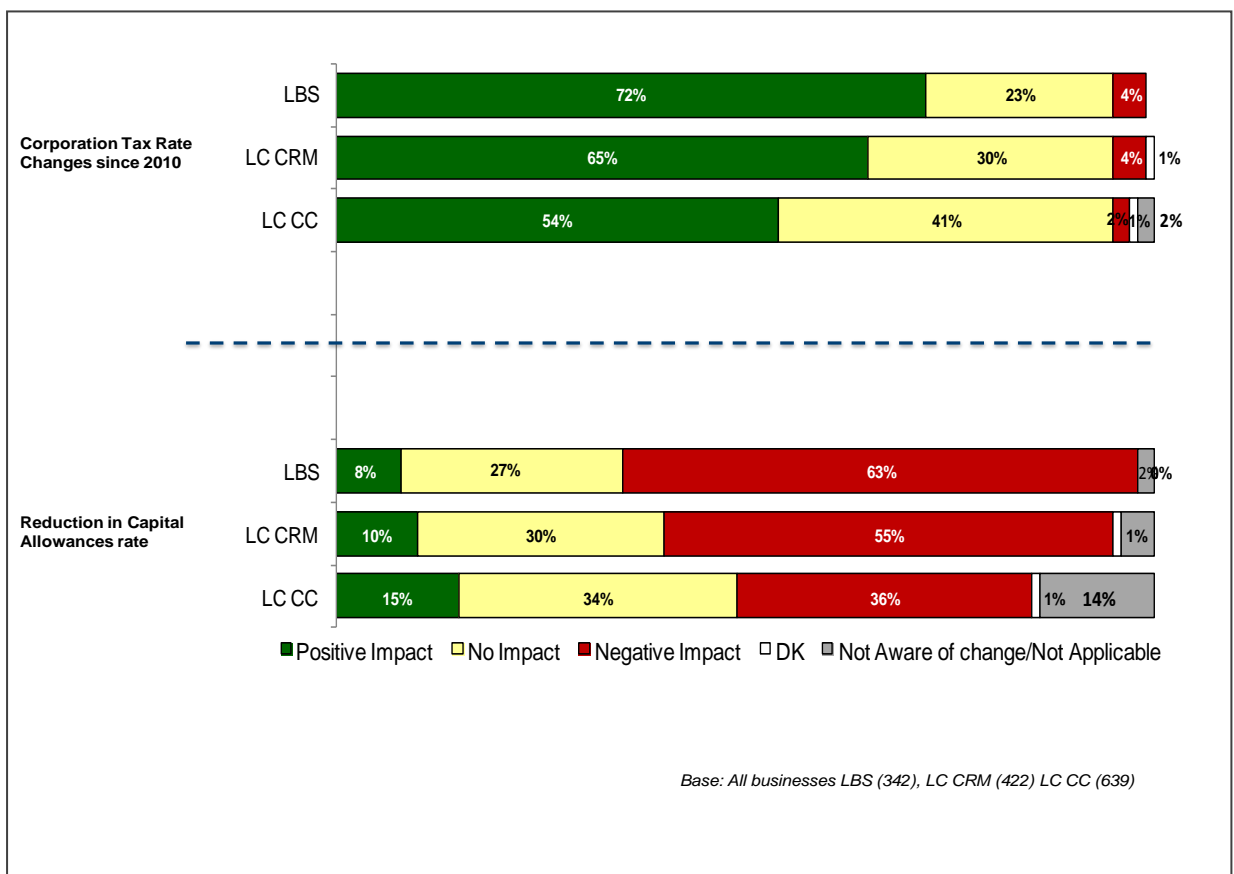
Impact of changes on businesses competitive position

6.14 With the exception of the near universally recognised Corporation Tax reforms, LBS and LC CRM customers were significantly more likely to be aware of the policy changes than LC CC customers, conceivably due to the lack of relevance of some of these changes to certain businesses.

6.15 All businesses that stated they were aware of each change were asked whether they perceived there would be any impact on their business as a result of its introduction and, if so, to qualify the impact as either positive or negative. Figure 6.1 compares how customers perceived their business would be impacted by changes to Corporation Tax rates and Capital Allowances. Figures are based on all businesses and a ‘not aware of change’ category is shown.

6.16 Looking at the reduction in Corporation Tax, almost three quarters of LBS customers, two thirds of LC CRM customers and just over half of LC CC customers deemed the change would have a positive impact on the competitive position of their business.

Figure 6.1: Perceived effect of changes to Corporation Tax and Capital Allowances on businesses’ competitive position



Due to rounding, not all figures may sum to 100%

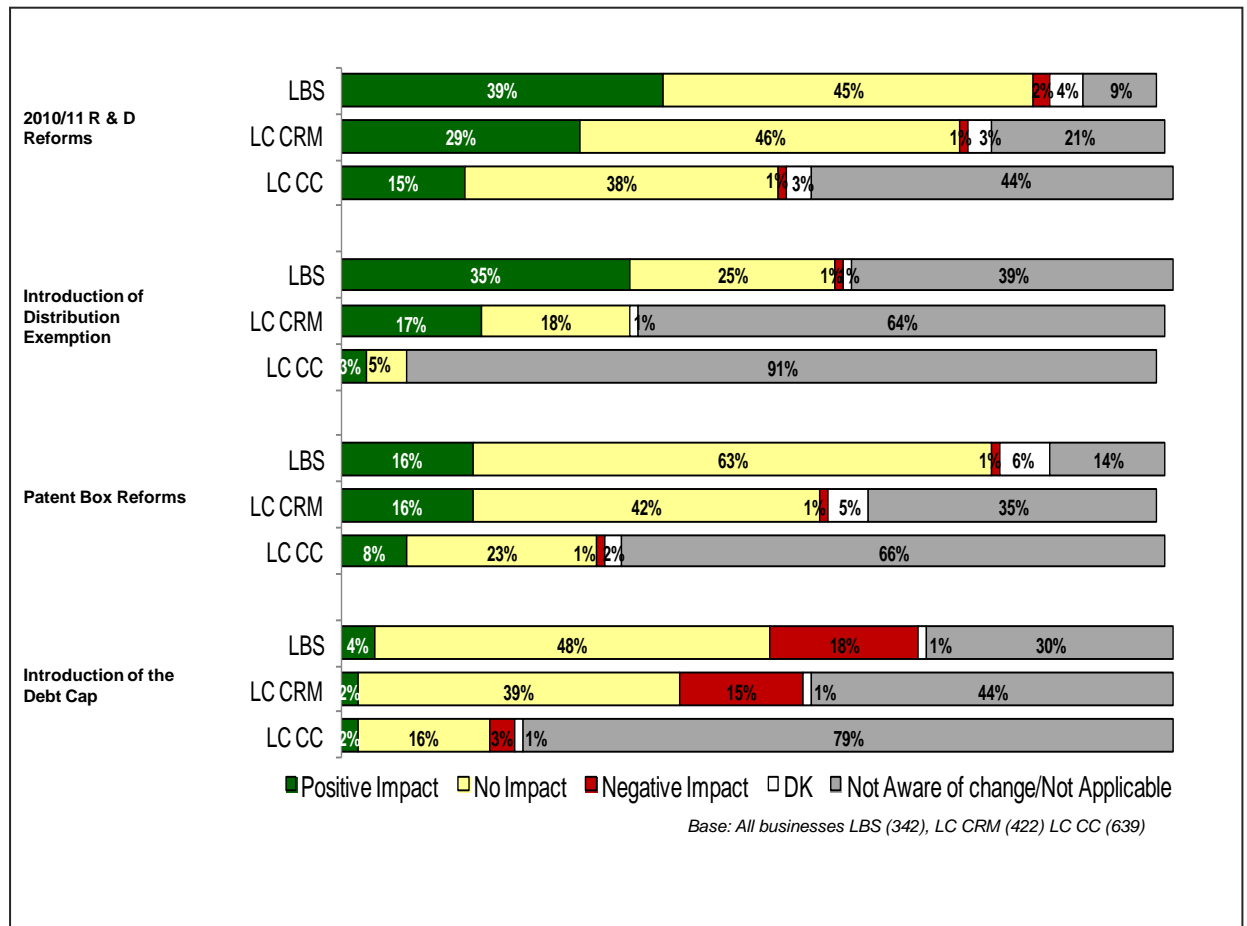
6.17 As would be expected, and in contrast with the other five policy changes which were expected to invoke a positive response from businesses, the reduction in the Capital Allowances rate tended to draw a negative response amongst businesses - almost two thirds of LBS customers stated that the change would reduce the competitive position of their business.

6.18 Businesses were asked to weigh up the overall effect of the Corporation Tax and Capital Allowances changes. The majority⁴⁰ considered any positive impact induced by the Corporation Tax change would outweigh any negative impact incurred from the Capital Allowances change and less than one in five businesses felt the net impact would be negative.⁴¹ This finding was consistent across all customer groups.

6.19 Figure 6.2 compares how customers perceived the other four policy changes - again figures are based on all businesses and a 'not aware of change' category is shown.

Figure 6.2: Potential effect of other policy changes of businesses competitive position

Due to rounding, not all figures may sum to 100%



Note: Figures may not add to 100% due to rounding

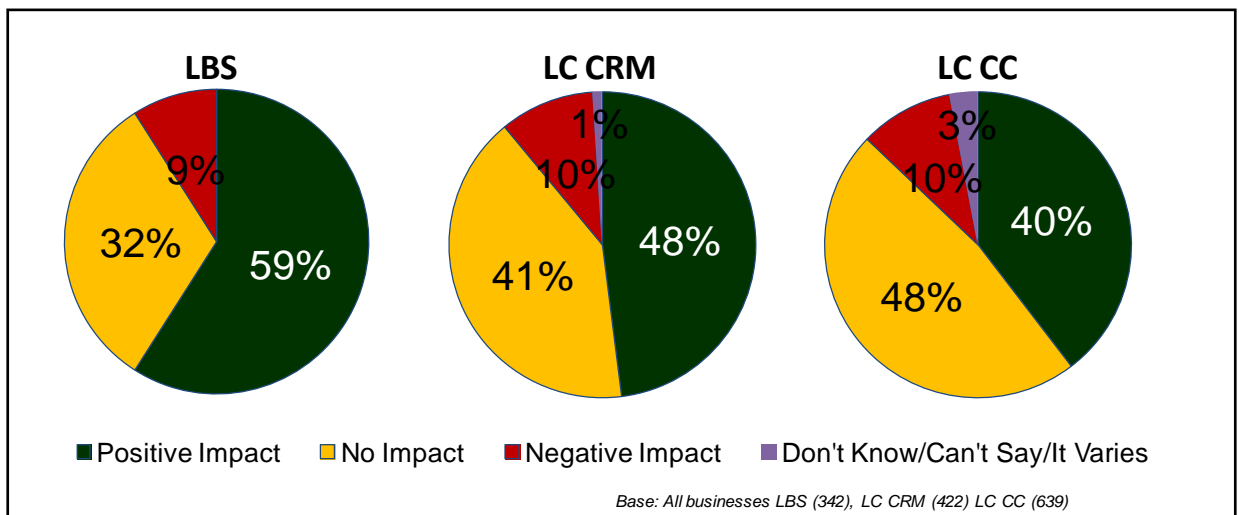
⁴⁰ LBS 60%, LC CRM 57%, LC CC 56%.

⁴¹ LBS 17%, LC CRM 13%, LC CC 14%.



- 6.20 Over half⁴² of businesses that were aware of the Distribution Exemption stated that they believed it would have a positive effect on their business. When asked whether they had benefitted since its introduction in 2009, 44% of LBS customers and 37% of LC CRM customers that were aware of the policy change, said that they had benefitted from it.
- 6.21 The Patent Box Reforms and Introduction of the Debt Cap produced largely neutral responses from businesses, with their introduction expected to have no impact on individual businesses' competitive position in the majority of cases. This is perhaps to be expected given that these changes will impact on relatively small proportions of businesses. That said, where businesses claimed the Patent Box Reforms would have an impact, significantly higher proportions stated this would be a positive rather than a negative change.
- 6.22 LBS and LC CRM customers were more likely than LC CC customer to deem that the R&D Reforms would have a positive impact on the competitive position of their business; LC CC customers were more likely to state that these would have no impact. It should be noted that the activities of businesses will have had an impact or their overall assessment of the R&D reforms – some businesses will have more engagement with these reforms than others.
- 6.23 When judging the overall impact of the six policy changes combined, around nine in ten believed them to have had either a positive impact or no impact at all on the competitive position of the business, as shown in figure 6.3.
- 6.24 LBS customers were significantly more likely than the other customer groups to state that the changes as a whole had had a positive impact on the competitive position of their business. LC CC customers were slightly more likely to consider that the package of changes had a neutral rather than a positive impact.

Figure 6.3: Impact of all tax policy changes since 2009 on the competitive position of the business



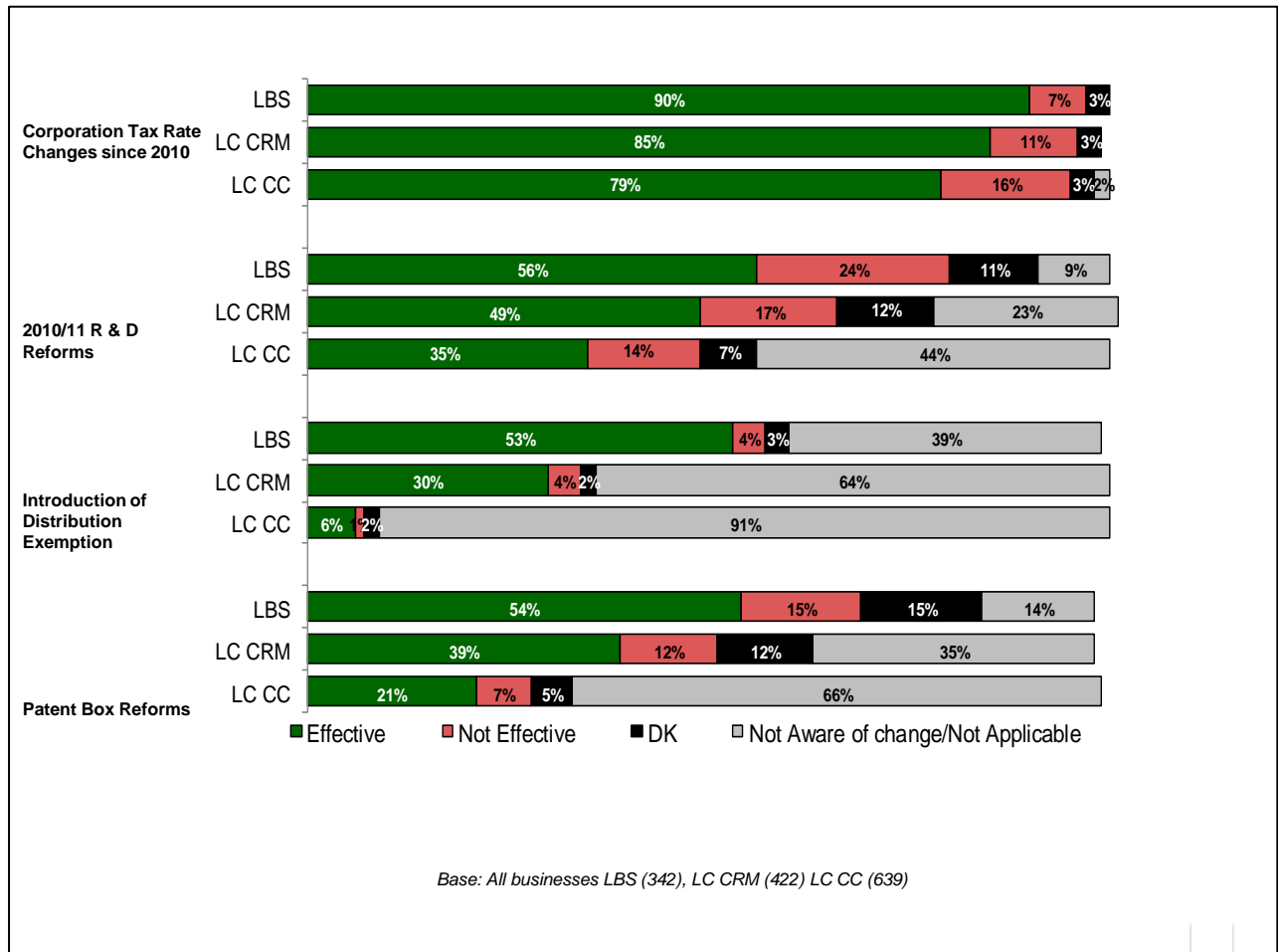
Due to rounding, not all figures may sum to 100%

⁴² LBS 58%, LC CRM 48%, LC CC 35%.

Impact of changes in maintaining the UK's competitive position

6.25 Businesses were asked further questions about four⁴³ of the tax policies – specifically in terms of whether they considered them to have impacted the UK's competitive economic position as a whole. Figure 6.4 highlights these responses.

Figure 6.4: Impact of changes in maintaining the UK's competitive position



Note: Figures may not add to 100% due to rounding

6.26 Across the four policy changes in question, where businesses were aware of the changes, the majority considered them to be a positive step in maintaining the UK's competitive economic position.

6.27 The reduction in the Corporation Tax Rate was the change that the greatest proportion of businesses considered had had a positive impact on the competitive position of the UK's economy (LBS 90%, LC CRM 85%, LC CC 79%).

⁴³ The policy changes that were relevant for this section were the Introduction of the Distribution Exemption, change in Corporation Tax rate, the 2011/12 R&D reforms and the Patent Box Reforms.

- 6.28 The remaining three policy changes were considered to be effective in maintaining the competitive position of the UK economy by a lower proportion of large businesses. Around half of LBS businesses considered the R&D reforms to be effective and a similar proportion felt the same way about the Patent Box Reforms.
- 6.29 Among the LC CC population the levels of perceived effectiveness were markedly lower with only 21% of businesses in this group considering the Patent Box reforms effective in maintaining the UK's competitive position - compared with 54% of LBS and 39% of LC CRM customers. Only 6% of LC CC customers considered the Distribution Exemption effective but this reflects the low levels of awareness that these businesses had of these policies.

Responses by businesses to the SAO legislation

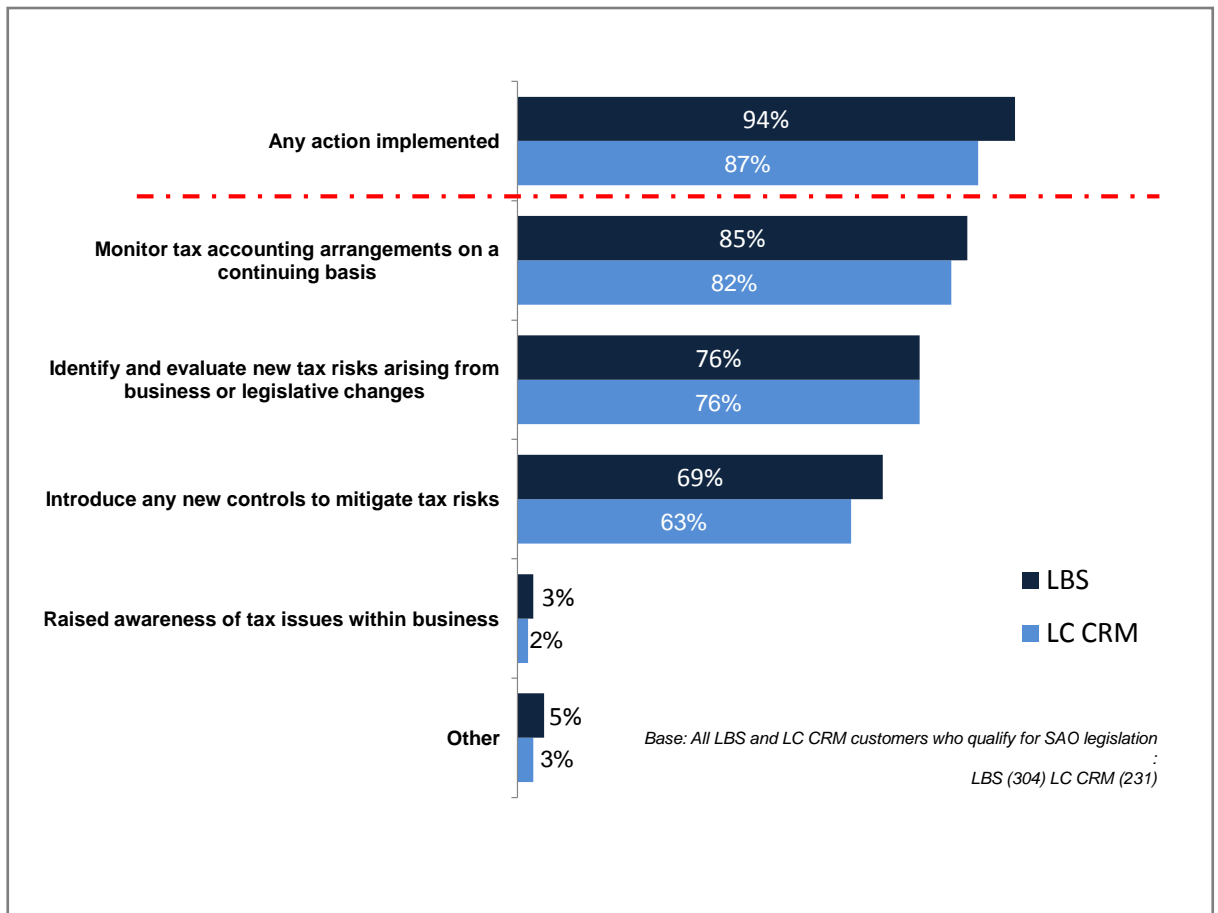
- 6.30 **The Senior Accounting Officer (SAO)** legislation makes a senior officer in each qualifying company personally accountable for establishing and maintaining appropriate tax accounting arrangements.
- 6.31 LBS customers were more likely to have qualified for SAO legislation than LC CRM customers, reflecting the size of the companies in each of the groups. Of those that qualified for the legislation, 95% of LBS customers and 89% of LC CRM customers had notified HMRC of the names of their SAO by the time of interview.
- 6.32 The 2011 Tax Opinion Panel Survey showed business reaction to the implementation of the SAO legislation was mixed. Although over half of businesses then agreed that the legislation had led to better governance of the tax system (51% LBS, 52% LC CRM) a similar proportion felt the introduction of the SAO legislation had led to an increase in the cost of compliance for their organisation (55% LBS 51% LC CRM). Around a third saw a more transparent relationship with HMRC as a result of the policy (29% LBS, 36% LC CRM).



6.33 Despite this mixed response, findings from the 2012 survey showed that most businesses affected by the legislation had changed some aspect of their tax and accounting processes as a result. Figure 6.5 shows the various actions implemented by businesses. Nearly all large businesses affected by the legislation (94% LBS, 87% LC CRM) had implemented at least one action. The most common action, performed by over four-fifths of businesses, was ensuring that their tax accounting arrangements were monitored on a continuing basis.

6.34 Three quarters of both LBS and CRM customers had identified and evaluated new tax risks while 69% of LBS and 63% of LC CRM customers had introduced new controls in order to mitigate tax risks. By contrast, few businesses felt the new legislation had raised awareness of tax issues within the business.

Figure 6.5: Actions implemented by businesses as a result of SAO legislation



6.35 Businesses that deemed the introduction of the SAO legislation to have been influential in making changes to their transactions, systems and processes were significantly more likely to have agreed that regular contact with HMRC over the last 12 months had led to a change in their organisations attitude to tax avoidance.



7 Influences on the administrative burden of compliance

Key Findings

- 7.1 Where businesses felt recent tax policy changes had impacted the administrative burden of tax compliance, SAO legislation and the introduction of iXBRL were most commonly spontaneously mentioned by businesses as having had the greatest impact.
- 7.2 However it should be noted that many businesses did not feel specific policies had impacted upon the administrative burden of their business.

Introduction

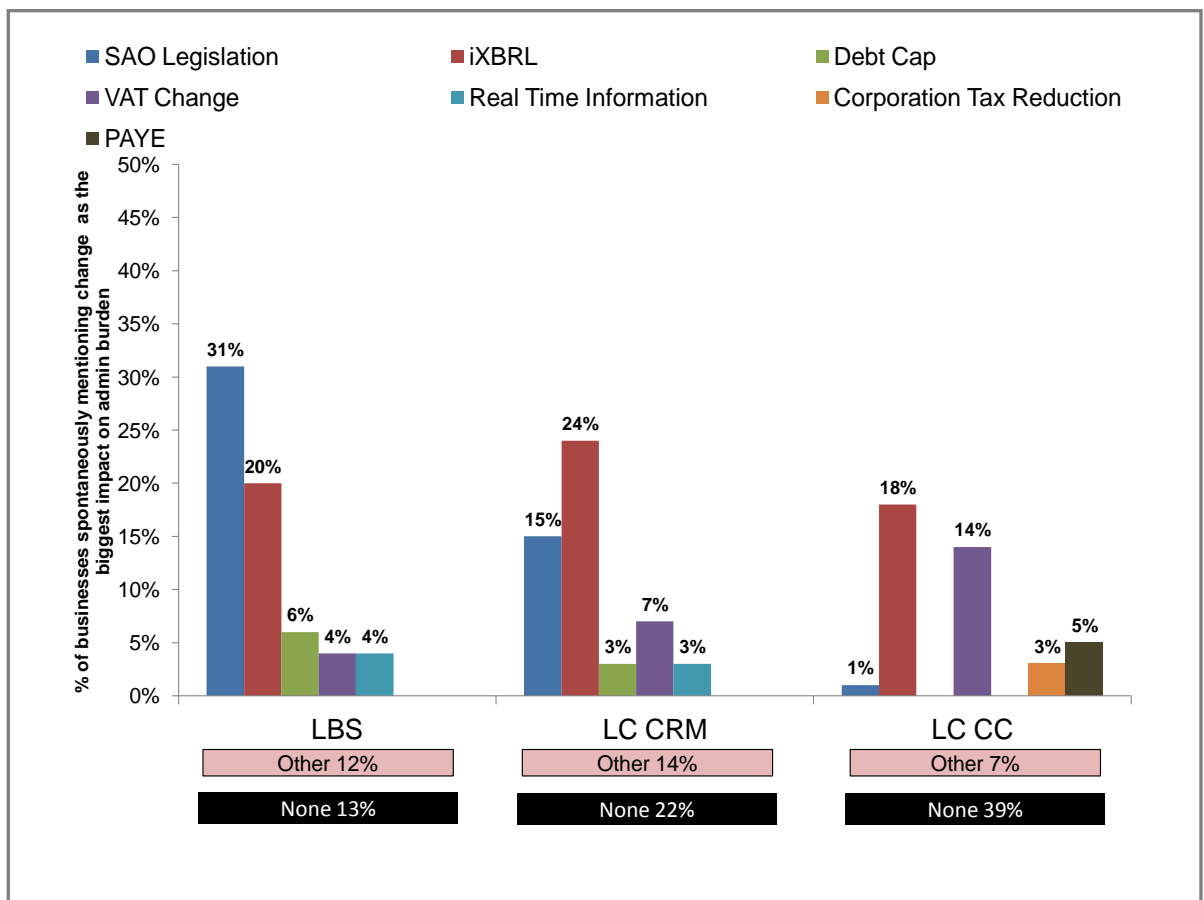
- 7.3 This chapter focuses on the impact large businesses perceived recent policy changes to have had on the administrative burden of tax compliance for their organisations.
- 7.4 Questions on which recent policy change had most affected respondents' businesses in terms of administrative burden were asked first on an unprompted basis but were followed by specific follow-up questions which referred to some of the policy changes discussed previously in addition to:
- **The Value Added Tax (VAT) increase** in January 2011 from 17.5% to 20%
 - **The introduction of iXBRL** (Extended Business Reporting Language): This is a new, electronic format for business information, which HMRC expects to provide benefits in the preparation, analysis and communication of business and financial data.



Tax policy changes that have affected the level of administrative burden on businesses

- 7.5 Businesses were asked to name, spontaneously, one tax policy change in the last three years that had had the biggest impact on the administrative burden of tax compliance for their organisation. Figure 7.1 shows the top five tax policy changes mentioned for each of the three customer groups.
- 7.6 It should be noted that a substantial minority of businesses (13% LBS, 22% LC CRM and 39% LC CC) did not feel specific policies had impacted upon the administrative burden of tax compliance for their business. LBS customers were most readily able to name policies which had impacted on their admin burden, and LC CC customers least so.
- 7.7 For LBS customers, SAO legislation was deemed to have had the biggest impact on administrative burden by the greatest proportion of businesses; almost a third of businesses mentioned this. However, the proportion of LC CRM customers who mentioned SAO legislation was only 15% and hardly any LC CC businesses mentioned SAO legislation. The nature of the SAO legislation meant only larger businesses needed to appoint an officer and thus LC CC customers were unlikely to have been greatly affected by this due to the businesses in this group being characteristically smaller in size.

Figure 7.1: Tax policy changes with the biggest impact on administrative burden



- 7.8 The introduction of iXBRL was one of two major changes mentioned spontaneously by all three customer groups. One in five LBS customers stated that iXBRL had the biggest



influence on administrative burden, rising to a quarter of LC CRM customers. Similarly, this was the most commonly mentioned tax policy change by LC CC customers (18%).

- 7.9 Alongside the introduction of iXBRL, the change in VAT rate was mentioned across all customer groups, although more so amongst LC CC customers. PAYE changes were also commonly mentioned by LC CC customers, although only by 5%.

Administrative burden of R&D and Patent Box reforms

- 7.10 In addition to being asked about administrative burden on a spontaneous basis, businesses were also asked follow up questions for two specific reforms discussed in chapter 6, namely the 2011/12 Research and Development (R&D) reforms and the Patent Box reforms. However, it is worth noting that neither of these reforms were in the top five changes spontaneously mentioned by businesses as impacting on the administrative burden of their tax compliance.
- 7.11 Businesses that were aware of the R&D reforms felt that on the whole these had no impact on the administrative burden of tax compliance (LBS 77%, LC CRM 74% and LC CC 75%). Only around one in five large businesses stated that they felt the burden had increased as a result of these changes; a finding consistent across all customer groups.
- 7.12 In response to a similar question about the Patent Box Reforms just over two thirds felt there had been no impact on their administrative burden (LBS 73%, LC CRM 67%, LC CC 69%). The proportion that felt the Patent Box Reforms have led to an increased admin burden was slightly higher than the proportion that felt R&D had led to an increase: around one quarter, again consistent across all customer groups.
- 7.13 It is worth noting that both the Research and Development and Patent Box reforms are more specific in their impact compared with the other policy changes. Not all businesses undertake activities which qualify for R&D allowances or have assets that qualify under Patent Box legislation.



8 Influences on tax paid by the business

Key findings

- 8.1 The reduction in Corporation Tax rates and the VAT rate changes were mentioned spontaneously by businesses as the main changes in policy which had impacted on the tax paid by their businesses. Generally businesses felt that both changes had had a minor impact (a minor decrease in tax paid for CT reform and a minor increase in tax paid with regards to the VAT change).
- 8.2 The majority of large businesses did not feel that the policy changes introduced since 2009 had made businesses any more likely to engage in tax avoidance. In fact, almost six in ten LBS businesses stated that the changes made tax avoidance less likely. Across all groups, only a small minority felt the changes made tax avoidance more likely, and significantly higher proportions felt the opposite.

Introduction

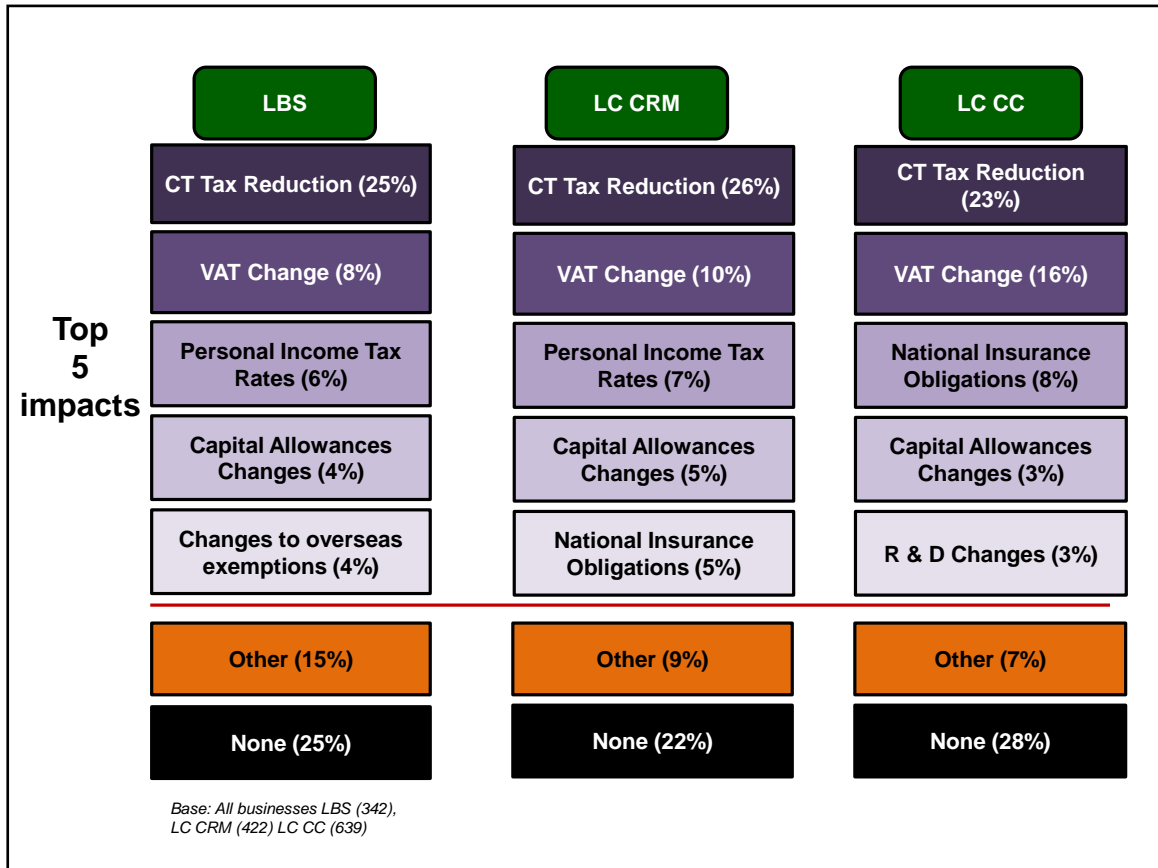
- 8.3 This chapter explores which tax policy changes have had the biggest influence on the amount of tax paid by large businesses. It reviews how these reforms have impacted on the likelihood to engage in tax avoidance. It also touches on the influence of agents on tax paid by businesses, although the influence of agents was discussed in more detail in chapter 4.



Tax policy changes that have affected the amount of tax paid by the business

8.4 Businesses were asked on an unprompted basis to name the tax policy changes that they believed had had the greatest impact on the amount of tax paid by their business. Figure 8.1 shows the top five changes mentioned.

Figure 8.1: Tax policy changes with the biggest impact on tax paid by business



8.5 Around one quarter of businesses stated ‘none’, i.e. that no policy had caused a change in the amount of tax paid, a notable proportion consistent across all customer groups.

8.6 As well as being the most commonly named policy change for having a positive impact on businesses’ competitiveness (Chapter 6), the changes in Corporation Tax rates between 2010 and June 2012 were most commonly named as the policy change that had the biggest impact on tax paid by businesses. Around a quarter of businesses in each of the customer groups named it as the policy change that had the greatest impact on the amount of tax paid by the business.⁴⁴

8.7 The change in VAT rates was the second most commonly mentioned impact on tax paid across all customer groups - although LC CC customers were significantly more likely to name it as one of the biggest impacts than other large businesses.

⁴⁴ LBS 25%, LC CRM 26%, LC CC 23%.



8.8 When probed further about the impact of these changes, the majority of businesses reported a minor decrease in the tax they paid as a result of the Corporation Tax changes (table 8.1), while about half of businesses felt the increase in VAT had led to a minor increase in the tax they paid (table 8.2).

Table 8.1: Business perception of change in tax paid as a result of Corporation Tax change

| | LBS | LC CRM | LC CC |
|--|------|--------|-------|
| <i>Base: All businesses that cited CT as a change that influenced the amount of tax paid</i> | (86) | (111) | (149) |
| | % | % | % |
| Major increase | 8 | 2 | 3 |
| Minor increase | 3 | 4 | 4 |
| Minor decrease | 64 | 77 | 74 |
| Major decrease | 22 | 16 | 11 |

Columns may not add to 100% due to rounding and the exclusion of Don't Know responses from the table

Table 8.2: Business perception of change in tax paid as a result of VAT change

| | LBS | LC CRM | LC CC |
|---|------|--------|-------|
| <i>Base: All businesses that cited VAT as a change that influenced the amount of tax paid</i> | (28) | (42) | (104) |
| | % | % | % |
| Major increase | 46 | 33 | 35 |
| Minor increase | 46 | 55 | 57 |
| Minor decrease | 4 | 10 | 2 |
| Major decrease | 4 | 2 | 2 |

Columns may not add to 100% due to rounding and the exclusion of Don't Know responses from the table

Note: small base sizes

8.9 The impact of the changes to Capital Allowances was considered to be much lower than the impact of Corporation Tax reductions, mirroring the earlier finding that businesses perceived the benefits of the Corporation Tax change to have outweighed any negative impact of the Capital Allowances reduction. This is perhaps unsurprising and echoes the relative magnitude of the two policy changes i.e. that the change made to the rate of CT was far larger than that that made to Capital Allowances.

8.10 Around a quarter of businesses felt that no one policy change had had an impact on the amount of tax paid by their business.⁴⁵

⁴⁵ LBS 25%, LC CRM 22%, LC CC 28%.

Influence of tax policy changes on tax avoidance

8.11 Table 8.3 shows how businesses perceived the recent tax policy changes discussed in this chapter to have impacted businesses' overall likelihood of avoiding tax.

Table 8.3: Likelihood of tax avoidance as a result of policy changes

| | LBS | LC CRM | LC CC |
|---|-------|--------|-------|
| <i>Base: All businesses</i> | (342) | (422) | (639) |
| | % | % | % |
| Reforms make tax avoidance more likely | 4 | 6 | 10 |
| Reforms do not change the likelihood of tax avoidance | 35 | 48 | 53 |
| Reforms make tax avoidance less likely | 58 | 43 | 32 |

Columns may not add to 100% due to rounding and the exclusion of Don't Know responses from the table

8.12 LBS customers were more likely to state that reforms made tax avoidance less likely than the other two customer groups (58% compared to 43% for LC CRM customers and 32% for LC CC customers).

8.13 Only a minority of large business customers felt the changes meant tax avoidance was more likely – most felt the changes did not affect the likelihood of tax avoidance, or made it less likely.

8.14 LC CRM businesses that had had regular contact with HMRC⁴⁶ were more likely to believe that the reforms would make tax avoidance less likely than customers whose contact with HMRC was less frequent⁴⁷.

⁴⁶ Regularly was defined as at least once a quarter.

⁴⁷ 47% of LC CRM businesses that had regular contact with HMRC felt it tax avoidance was less likely (compared with 32% that had less frequent contact with HMRC).



9 Conclusions

Professor Lynne Oats, University of Exeter Business School and Economic and Social Research Council (ESRC) Academic Advisor to the Tax Opinions Panel Survey

- 9.1 This report describes the findings from the second wave of the Tax Opinions Panel Survey (TOPS), based on interviews with representatives from large business customers conducted during June and July 2012.
- 9.2 The TOPS study is concerned with the opinions of large businesses on a range of tax policy and procedural issues. In addition, it seeks to explore the influences of several factors on businesses' tax decision making.
- 9.3 The businesses that have participated in this survey have all been allocated either a Customer Relationship Manager or a Customer Coordinator, as part of HMRC's drive to improve tax compliance as well as the customer experience in a cost-effective manner.
- 9.4 The survey is partly funded by the ESRC. As with the first wave of the survey, the response rate is high, which is indicative of the willingness of Finance and Tax Directors of large organisations to participate in helping HMRC achieve its goal of better understanding the decision-making environment in which business currently operates.
- 9.5 This second wave survey introduced several new lines of questioning, as part of the process of refining the focus of the research, which, as described in Chapter 2, included extensive consultation. A number of features of the first wave questions have, however, been carried forward into this second wave allowing for longitudinal analysis, most notably influences on approaches to tax and opinions about tax planning.
- 9.6 The following observations highlight findings from the survey across three broad categories of questions: influences of tax changes on businesses, compliance burdens and tax paid; relationships with HMRC; and relationships with agents and other external influences.

Influences on businesses, compliance burdens and tax paid

- 9.7 For some years there has been growing public awareness of the tax affairs of large businesses, and several high profile media campaigns have led to considerable criticism, not only of the businesses involved, but also HMRC's dealings with them. The findings of this survey are indicative of improved relationships between large business customers and HMRC and an overall sense of growing confidence from the business perspective that recent changes in the UK tax environment are beneficial for large business competitiveness in the global arena. Developments in the UK are consistent with those in other jurisdictions that have adopted cooperative arrangements with large business taxpayers, including the US and Australia. HMRC's view is that the greater transparency and disclosure achieved through such arrangements has enabled it to improve identification and targeting of risk, leading to increased tax revenues and yield from its compliance activities.
- 9.8 One aim of the survey is to probe responses to HMRC's administration of six specific tax policy changes. As would be expected, the reduction in the rate of corporation tax (CT) has been well received by all three categories of respondent in terms of its effect on individual businesses and also the competitiveness of the UK economy.



- 9.9 Of the policy changes that were discussed with respondents, all but the reduction in capital allowances were designed to achieve benefits for businesses, and the survey results indicated that these benefits appear to be realised, even though it is too early for businesses to be able to quantify them.
- 9.10 In this wave of the survey, respondents were asked to spontaneously nominate legislative changes that have had the biggest impact on their compliance burden. Unsurprisingly, the two most frequently nominated were the Senior Accounting Officer (SAO) legislation, and the introduction of iXBRL, which requires computerised ‘tagging’ of information provided in tax returns to facilitate more efficient processing and analysis.
- 9.11 The SAO legislation was more frequently mentioned by LBS customers, who are more likely to fall within its scope. An informal survey conducted by Deloitte in 2009⁴⁸, prior to the introduction of SAO legislation, asked participants how confident they were that their organisation would be able to provide the necessary assurance that their tax accounting arrangements allow tax calculations to be calculated accurately. Some 42% of respondents indicated that further work was required. Responses to this wave of the TOPS survey now indicate that the SAO legislation is achieving the goal of increasing awareness of internal tax accounting arrangements. The most common response to the SAO legislation for companies that qualify for it is continuous monitoring of internal tax accounting. In addition, just over three quarters have identified and evaluated new risks and around two thirds have introduced new controls to mitigate tax risks (69% LBS; 63% LC CRM).
- 9.12 Some existing research indicated that the introduction of iXBRL may require significant technical expertise given the complexity of the data involved⁴⁹. It was therefore anticipated that mandatory iXBRL filing would impact more heavily on smaller businesses. However, the inclusion of iXBRL in a list of most frequently mentioned influences on compliance burdens by TOPS large business respondents suggests that the impact is more widely felt.
- 9.13 Fewer LC CC customers specified particular measures that have impacted on their compliance burden, compared with those with CRMs. This is most likely a reflection on their relative heterogeneity and LC CC companies being less affected by certain measures; as well as the possibility that the persons interviewed, although having a sound understanding of the wider issues facing the business, may not be tax specialists or may have lower awareness of detailed legislative requirements.
- 9.14 Questions relating to the influence of tax policy changes on the likelihood of tax avoidance produced different results across the three customer groups, with LBS customers being more likely to state that recent changes would constrain tax avoidance activity. Interpreting this finding is difficult, however, given the range of policy changes in recent years, some of which will have had a positive and some a negative impact on the likelihood of tax avoidance. This is clearly a complex and contentious area of tax practice that has received increasing attention in the media as well as debate among practitioners and academics, for example, in the context of the proposed General Anti Abuse Rule.

⁴⁸ Available at

[http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/UK_Tax_SAO_Taking_Reasonable_Steps\(2\).pdf](http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/UK_Tax_SAO_Taking_Reasonable_Steps(2).pdf).

⁴⁹ See, for example, Mousa (2010) E-Government Adoption Process: XBRL Adoption in HM Revenue and Customs and Companies House” unpublished PhD thesis, University of Birmingham and references contained therein.



Relationship with HMRC

- 9.15 The OECD, in a recent study⁵⁰, has noted the worldwide trend towards cooperative approaches to tax administration based on revenue authority engagement with taxpayers and other stakeholders, in recognition of important shared interests, which is most pronounced for large businesses. The report observes the example of Australia's new Reportable Tax Position schedule, which has a focus on *“generating intelligences that can be applied almost in real time across the segment of large business taxpayers. This will mean that the revenue body will be in a better position to differentiate compliance activities based on the degree of transparency displayed by the businesses, which will at the same time drive efficiency in the revenue body and provide incentives to compliant taxpayers.”*
- 9.16 Frequency of contact with HMRC would be expected to be greater for larger and more complex businesses, and this seems to be borne out by the survey which finds that LBS businesses had most frequent contact with HMRC, and were also more likely to participate in Real Time Working⁵¹. Research in the US by De Simone et al⁵², models the conditions under which an enhanced relationship tax compliance programme makes both the taxpayer and the government better off, concluding inter alia, that the disclosure required of participant taxpayers enables the revenue authority to avoid challenges that are not cost efficient. Notwithstanding the differences in regulatory environment and disclosure requirements between the US and the UK, benefits to participation in enhanced working arrangements clearly accrue to both parties. In the UK the increasing willingness of HMRC customers to engage in Real Time Working will produce cost efficiency gains over time, not least because of speedier resolution of issues.

Relationships with agents and other external influences

- 9.17 In the previous (2011) TOPS survey, respondents were asked how influential different factors are on the business' approach to its tax affairs. Just over half of LBS customers and approximately three quarters of LC customers responded that agents/external advisors were influential. In this second wave of the survey, this aspect of large business tax governance was explored more fully, with questions seeking to identify which type of external advisor is used and for what broad purpose.
- 9.18 This aspect of the TOPS survey identifies the extent of the use of external agents and advisors in the context of three broad categories of advice as well as types of taxes. It revealed differences between the three customer groups, with LBS customers less likely to use agents in the context of the businesses tax strategy than other groups, but more likely to use Big 4 firms than LC CC customers. A majority of businesses in each category agreed that the use of external advisors is associated with reducing errors. The second most commonly mentioned impact was implementing tax strategies that the business might not otherwise consider. For a substantial minority of respondents, the use of agents is also associated with paying less tax.
- 9.19 Professional accountancy bodies, of which the respondents in the survey are likely to be members, were found to be influential in determining the tax strategy of a number of

⁵⁰ OECD Forum on Tax Administration (2012) “Working smarter in structuring the administration, in compliance and through legislation”, Information Note, OECD Paris.

⁵¹ Real Time Working has been broadly defined by HMRC as raising any issue or transaction as it arises in a financial year or accounting period, before the return has become due. This includes clearances.

⁵² De Simone, L; Sansing, R. and Seidman, J.K. (2011) “When are Enhanced Relationship Tax Compliance Programs Mutually Beneficial?”, McCombs Research Paper Series No ACC-07-11. The authors use game theory, or interactive decision theory, to model the relationship.



businesses, in particular LC CC. The influence of informal networks is more marked in the case of LBS businesses. This is possibly because they are less diverse in terms of the tax issues they encounter by virtue of their relative size; that is, the largest of large businesses are more likely to share intelligence on tax issues because they face common issues.

- 9.20 A significant majority of businesses in all three categories agreed that paying the correct amount of tax is a key objective for the business, which is in line with the previous survey's findings in this regard.
- 9.21 Overall, the TOPS survey, together with the LBPS, is building a rich picture of large business tax management processes and relationships with HMRC that will add to the latter's capacity to better respond to business needs in the quest to collect the right tax at the right time.

