



IFF Research

Tax Opinions Panel Survey 2013

Prepared for



By IFF Research

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

Her Majesty's Revenue and Customs Research Report 297



IFF Research

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Introduction

By Professor Lynne Oats, University of Exeter Business School

This report describes the findings from the third wave of the Tax Opinions Panel Survey (TOPS), based on interviews with representatives from large business customers conducted from the end of May through to early August, 2013. The TOPS study is concerned with the opinions of large businesses on HMRC's administration of the tax system as well as wider influences on attitudes and decision-making in relation to tax. In addition, it seeks to explore the various influences of several factors on business tax decision-making. The businesses that have participated in this survey are all 'large' and have all been allocated either a Customer Relationship Manager or a Customer Coordinator, and the interviewees are all Tax Directors or otherwise responsible for the tax affairs of their respective organisations.

The TOPS research is partly funded by the Economic and Social Research Council (ESRC), which initiated a joint programme of research with HMRC in 2010, of which this study is an offshoot. The appointment of an external academic advisor to the project is an acknowledgement of the important role of academic insights, which had not always featured prominently in previous HMRC commissioned tax research. In 2013, the launch of the Tax Administration Research Centre (TARC) reflects a continued shared commitment between the ESRC and HMRC to academic engagement in research to add value to the important practical research work undertaken by HMRC's Knowledge, Analysis and Intelligence unit.

The TOPS research supplements other HMRC research, such as the Large Business Panel Survey, aimed at better understanding the large business taxpaying environment. As with the previous two waves of the TOPS 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.

The intense scrutiny of the affairs of large business taxpayers by the media, tax campaigners and parliamentary committees was a notable backdrop to the previous wave of TOPS, and has continued unabated into this third wave. Importantly, the findings of this survey call into question some of the assumptions on which the public debate appears to be based, for example, HMRC's resource allocation, capabilities and achievements in the context of large businesses. The findings broadly indicate continued improvements in HMRC's relationships with, and management of, large businesses.



1 Executive Summary

- 1.1 HMRC places considerable importance on its relationships with its customers, as a means to achieving better compliance, 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 2006. 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 third and final wave of the Tax Opinions Panel Survey (TOPS) that took place between 24th May and 5th August 2013.

Nature and impact of businesses' relationship with HMRC

- 1.4 This study, and previous studies, has shown that the different customer groups described above will have differing extents of contact with HMRC the course of a typical year. Between 2012 and 2013:
 - LBS customers had the most frequent contact with HMRC – with nine in ten having contact at least once a quarter and around two thirds (65%) contacting HMRC at least one a month;
 - By contrast around two-thirds of LC CC customers (67%) had contact with HMRC less than once a quarter or not at all. This broke down as:
 - (49%) less than once quarter, and
 - (18%) no contact at all within the last 12 months.
- 1.5 Generally, the majority of LBS (72%) and LC CRM (70%) customers that had contact with HMRC (regardless of how frequent) were in agreement that the contact had led to a more transparent relationship with HMRC. Among LC CC customers agreement that contact had led to a more transparent relationship was lower (41%) than for the other two customer groups. Contact itself tended to be initiated by businesses rather than by HMRC, for all types of issues.
- 1.6 The latest wave of TOPS has further demonstrated the importance of the CRM to the relationship between HMRC and both LBS and LC CRM customers. These customers mainly approached their CRM for all issues throughout the year – including issues which could be described as more 'process driven' requirements. LBS and LC CRM businesses explained that the speed of getting in touch with their CRM and the efficiency of their CRM were the main reasons for their decision to approach the CRM over anyone else within HMRC to deal with 'process driven' issues.



- 1.7 By contrast LC CC customers used a wide range of contact points within HMRC, most commonly this included HMRC helplines and to a lesser extent the HMRC website. Around a third (37%) of LC CC businesses had personally dealt with their CC at some point in the past. This indicated that levels of interaction with CCs have recently 'plateaued' - customer use of CCs increased from 25% in 2010 to 38% in 2012 and remained around this level in 2013.
- 1.8 There was relatively high agreement across all customer types that HMRC was even-handed in its treatment of businesses; seven in ten agreed that HMRC treats businesses of their size in an even-handed manner. However when businesses were asked whether HMRC treated all businesses in an even-handed manner regardless of size, agreement dropped to just over a third.

Real Time Working

- 1.9 For the purposes of this study, customers who engaged with HMRC at least once a quarter were defined as working in real time if they had had one of the following types of contact:
- *Discussing specific tax issues with HMRC as they arise during the tax year; and*
 - *Sharing information with HMRC before committing themselves to financial transactions.*
- 1.10 Close to two-thirds of all LBS businesses (65%) reported that they had contact with HMRC about issues that HMRC would broadly define as Real Time Working – more commonly in relation to discussing tax issues as they arise during the year. By contrast fewer LC CRM and LC CC customers stated they had contact with HMRC about Real Time Working issues (40% and 20% respectively).
- 1.11 Making a direct comparison with the 2012 wave of TOPS, these findings indicate that the use of Real Time Working has not significantly changed over the course of the last year.
- 1.12 Where Real Time Working was used by businesses, findings indicated that businesses in all customer groups were more likely to feel contact had led to a more transparent relationship with HMRC. Real Time Working also appeared to be correlated with businesses' behaviour in relation to tax strategies (particularly in relation to LBS and LC CRM customers' attitude to tax avoidance):
- LBS customers that worked in Real Time were more likely than those that had not worked in Real Time to agree that there had been a change in the organisation's attitude to tax avoidance¹. They were also more likely than those not working in Real Time to agree that the business was fully transparent with the public and media; and
 - To a slightly lesser extent, LC CRM customers who had worked in Real Time were also more likely than those who had not worked in Real Time, to agree that there had been a change in the organisation's attitude to tax avoidance.

¹No direction of change was implied by this statement



Nature and impact of relationship with agents and advisors on businesses

- 1.13 Nearly all businesses across the three customer groups had made use of agents/advisors between 2012 and 2013. That said, there were differences in how agents/advisors were used by different customer groups. While around half of all businesses used agents/advisors for help with their day to day processing, LBS customers were the group most likely to report using agents/advisors for advice on making operational decisions, and LC CC customers were most likely to report using agents/advisors for help with more strategic decisions.
- 1.14 The businesses that reported using agents for strategic issues were most likely to report doing so for advice relating to Corporation Tax, ahead of all other tax regimes, which was consistent across all customer groups. Fewer businesses across all customer groups reported using agents for Payroll processes, or Customs or Excise Duties.
- 1.15 Where businesses had provided their agents with a steer as to the business's appetite for risk regarding tax planning, these businesses were more likely to report their agents had suggested ways to reduce the business's tax liabilities.
- 1.16 When it came to businesses' attitudes towards using agents/advisors, there appeared to have been a change in how agents/advisors were used between 2011 and 2013. Year-on-year, fewer businesses agreed that the use of agents/advisors resulted in them paying less tax (in 2013 these figures were 31% LBS, 36% LC CRM, 39% LC CC) and implementing tax planning strategies that they might not otherwise have considered (in 2013 these figures were 41% LBS, 55% LC CRM, 58% LC CC). The reductions in agreement were particularly marked among LC CC customers.
- 1.17 Where LBS businesses worked in Real Time the influence of agents/advisors appeared to be diminished further, in that LBS businesses that worked in Real Time were less likely to agree (than those that did not work in Real Time) that their use of agents resulted in them implementing tax strategies they wouldn't otherwise consider. In addition, none of the LBS businesses working in Real Time agreed that their use of agents resulted in their business disclosing less information to HMRC. Therefore Real Time Working appears linked to business behaviour that is beneficial to HMRC (not necessarily taking agents' advice² about strategy and disclosing information to HMRC), though whether Real Time Working is the cause or the effect is difficult to say for certain.
- 1.18 Of all business who stated they used agents/advisors, around three quarters of LBS, half of LC CRM and a fifth of LC CC customers stated they had provided their agents/advisors with a steer on their appetite for reducing their tax liabilities.

Wider influences on businesses

- 1.19 When businesses were asked to rate various factors as to how influential or not various factors were on their tax planning, the aspects rated influential by the largest proportions of businesses were: the ethos of the business, deterrents and penalties, and a loss of reputation among customers, suppliers and/or other businesses. The top factors influencing tax policy were very similar across both employment and business taxes.

² This assumes that the agent/advisor is proposing (potentially risky) strategies that are designed to reduce the businesses tax liabilities



1.20 In terms of their general approach to tax and tax planning, businesses appeared less open to reducing their tax bill in 2013. When direct comparisons were made with results from previous TOPS:

- *We are always open to ways to legally reduce our tax payments* – fewer businesses agreed, across all customer groups³;
- *The business has a duty to its shareholders to minimise its tax payments* – a significant fall in agreement among the LC CC customer group⁴; and
- *We look to reduce our business tax liabilities through recognising profits in more favourable tax regimes*⁵ – a significant fall in agreement among LC CC customers although a minority of businesses across all three customer groups agreed with this statement (as was the case in 2012).

1.21 That said, a substantial minority agreed that *Tax avoidance is acceptable*: just under half of LBS customers (45%), a third of LC CRM customers (32%) and a quarter of LC CC customers (23%) agreed with this statement. Further analysis also highlighted that a large proportion of businesses who disagreed that tax avoidance is acceptable still agreed that *we are always open to ways to legally reduce our tax payments* - suggesting these businesses may not see their actions as constituting tax avoidance.

1.22 However, the research suggests the subject of tax planning is on the agenda at a senior level, as substantial proportions of businesses (around half of LBS, a third of LC CRM and a quarter of LC CC businesses) reported that there had been an increase in senior-level scrutiny over all tax planning measures over the last 12 months. This suggested a shift in mind-set within large businesses in terms of the importance of this issue.

1.23 In terms of the factors influencing the location of a businesses' head office, these were most often reported to be historical or business-related reasons (such as where the company or employees have always been based), and less often reported to be tax-rate related, or related to administrative burdens and the complexity of parts of the tax system.

Perceived impact of tax policy changes on individual businesses and the wider UK economy

1.24 The majority of large businesses felt that the drop in the main rate of Corporation Tax between 2010 and 2013 was positive for the competitive position of their business and close to all felt it was very or fairly effective at maintaining the UK's economic position in the global economy. The drop in CT rate also encouraged around a fifth of businesses to consider investing in existing UK activity and to place new activity in the UK.

1.25 Overall, close to 95% of all large businesses believed the various tax reforms, introduced since 2009, either had a positive effect or no overall effect on their business' competitive position. LBS and LC CRM customers were more likely to consider the package of changes as having a positive effect on their business than LC CC customers.

1.26 The majority of large businesses also felt that all the various tax reforms introduced since 2009 will either make tax avoidance less likely or have no impact on tax avoidance. LBS customers were more likely to state that the introduction tax reforms since 2009 would make tax avoidance less likely.

³ LBS 75% vs. 84% wave 1, LC CRM 79% agree vs. 88% wave 1, LC CC 77% vs. 83% wave 2.

⁴ 56% vs. 64% wave 2

⁵ 15% vs. 23% wave 2



2 Background and methodology

- 2.1 HMRC places considerable importance on its relationships with all of its customers, as a means to achieving better compliance, and undertakes regular surveys to gain more in-depth information about customers' experience of HMRC. In the case of large businesses, HMRC has conducted at least one survey annually 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 - 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 was designed 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 third and final 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 800 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 1,300 businesses within LC have a CRM. These customers are referred to as LC CRM customers throughout this report.



- 2.10 The remaining large businesses within LC were assigned a Customers 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 the report.

Methodology

- 2.11 The construction of the TOPS 2013 questionnaire involved an extensive period of development which included discussions with HMRC, an ESRC Academic Advisor 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 24th May and 5th August 2013.
- 2.13 In total 1,438 Heads of Tax or Finance Directors of HMRC's large business customers⁶ took part in the 2013 study.

Objectives and approach to analysis

- 2.14 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.
- 2.15 Although three waves of TOPS research have been conducted, the original 2011 questionnaire was extensively redeveloped between the first and second waves. As such any comparisons between waves are largely between the 2012 and 2013 studies.
- 2.16 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 since the previous wave of research.
- 2.17 Where questions have remained comparable, longitudinal analysis has also been conducted to explore how the responses given by individual businesses that took part in previous waves has changed over time.
- 2.18 Throughout all the analyses, only differences identified as statistically significant⁷ have been included in this report.
- 2.19 For reasons of clarity, 'don't know' and '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).

⁶ Large business customers can be further divided between; LBS 328, achieved interviews, LC CRM, 435 achieved interviews and LC CC, 675 achieved interviews. Throughout this report all findings are presented by customer group.

⁷ 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.



Structure of the report

2.20 The remainder of this report is structured as follows:

- **Section 3:** Nature and impact of relationship with HMRC;
- **Section 4:** Nature and impact of relationship with agents/advisors;
- **Section 5:** Other influences on general approach to tax;
- **Section 6:** Influence of tax administration and policy change on the UK economy and individual businesses;
- **Section 7:** Influences on tax paid by the business; and
- **Section 8:** Conclusions.



3 Nature and impact of relationship with HMRC

Key findings

- 3.1 The frequency of contact between large businesses and HMRC correlated with customer groups. Businesses with a Customer Relationship Manager (CRM) tended to contact HMRC more frequently in the 12 months prior to the TOPS 2013 than businesses with a Customer Coordinator (CC).
- 3.2 Across all three customer groups, the majority of this contact was driven by the business itself rather than by HMRC, for all kinds of issues.
- 3.3 In the main LBS and LC CRM customers approached their CRM for all issues throughout the year – including more administrative, day-to-day ‘process driven’ requirements (although the CRM was contacted slightly less for these types of tasks). LBS and LC CRM businesses explained that the speed of getting in touch with their CRM and the efficiency of their CRM were the main reasons for their decision to approach the CRM over anyone else within HMRC about these issues. By contrast LC CC customers explained a wide range of contact points were approached within HMRC, most commonly this included HMRC helplines and to a slightly lesser extent – the HMRC website.
- 3.4 Around two-thirds of LBS customers had contact with HMRC at least once a quarter with regards to issues that HMRC would broadly define as Real Time Working⁸, while two-fifths of LC CRM customers and a fifth of LC CC customers had quarterly contact with HMRC for these purposes. These findings indicated that the use of Real Time Working had remained relatively consistent across all customer groups between 2012 and 2013. Larger businesses (in terms of turnover and employee numbers) were more likely to have used Real Time Working during this period.
- 3.5 Where Real Time Working was used by businesses, findings indicated that all customer groups were more likely to feel contact had led to a more transparent relationship with HMRC. While it’s not possible to imply causality, Real Time Working also appeared to be related to businesses’ behaviour in relation to tax strategies (particularly in relation to LBS and LC CRM customers’ attitude to the acceptability of tax avoidance).
- 3.6 More generally, the majority of customers that had any contact with HMRC (regardless of how frequent) were also in agreement that the contact had led to a more transparent relationship with HMRC.
- 3.7 There was relatively high agreement across all customer types that HMRC was even-handed in its treatment of businesses; seven in ten agreed that HMRC treats businesses of their size in an even-handed manner. However when businesses were asked whether HMRC treated *all* businesses in an even-handed manner regardless of size, agreement dropped just over a third.

⁸ Real Time Working was derived in this analysis and was not defined specifically in this wave of research. The two types of contact which have been classified as Real Time Working (if customers engaged with HMRC at least once a quarter) were: Discussing specific tax issues with HMRC as they arise during the tax year; and Sharing information with HMRC before committing yourself to financial transactions.



Introduction

3.8 This chapter explores the nature of the relationship that large businesses had with HMRC over the 12 months prior to being interviewed. Beginning with contextual information on the level of contact businesses had with HMRC, the chapter then focuses on the type of information discussed, who initiates the discussions and the extent to which businesses make use of Real Time Working.

Level of contact with HMRC

3.9 Nearly all large business customers with a Customer Relationship Manager (CRM) had dealt with their CRM directly at some point (97% LBS and 89% LC CRM). The proportion of customers using their CRM has remained relatively static over the past few years⁹.

3.10 Of the businesses that have a Customer Coordinator (CC)¹⁰, close to two fifths (37%) had personally dealt with their CC at some point in the past. This indicates that levels of interaction with CCs have recently 'plateaued' - customer use of CCs initially increased from 25% in 2010¹¹ to 38% 2012 but did not increase further in 2013¹².

3.11 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 had with HMRC across the three customer groups (contact was defined as any personal contact with HMRC staff about tax issues, including with CRMs/CCs, but not including routine file returns). The table makes a direct comparison with findings from the TOPS 2012.

Table 3.1: Frequency of contact with HMRC¹³

	LBS '13	LBS '12	LC CRM '13	LC CRM '12	LC CC '13	LC CC '12
<i>Base: All customers</i>	(328)	(342)	(435)	(422)	(675)	(639)
	%	%	%	%	%	%
Weekly	17	14	6	7	3	1
Monthly	48	47	26	30	11	10
Quarterly	26	29	35	34	19	20
Less than once a quarter	8	9	27	25	49	49
Never	2	1	5	4	18	19
Summary: Any contact	98	99	95	96	82	80
Summary: Any 'regular'¹⁴ contact	90	90	67	71	33	31

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

3.12 It is clear from this table that LBS customers had the most frequent contact with HMRC – with nine in ten having contact at least once a quarter and around two thirds (65%) in contact with HMRC at least one a month.

⁹ In the last wave of the LBPS study (Sep-Dec '12) 95% of LBS businesses and 89% of LC CRM stated they had 'ever' had direct contact with their CRM.

¹⁰ 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.

¹¹ First wave of the LBPS study (Sep-Dec '10)

¹² Second wave of the TOPS study (April-Jul '12)

¹³ Including, but not limited to CC/CRM contact and excluding routine file returns

¹⁴ Regular contact defined as at least once a quarter.



- 3.13 By contrast a similar proportion of LC CC customers (67%) had contact with HMRC less than once a quarter or not at all. Indeed, close to a fifth of LC CC customers had not had any contact with HMRC within the 12 months prior to being interviewed.
- 3.14 This picture has remained relatively consistent across the last two waves of the survey.
- 3.15 When comparing responses among LC CC customers that had any direct contact with HMRC in the preceding 12 months against those that had not had any direct contact with HMRC, there were few significant differences across the survey, suggesting contact was not a strong driver of opinion amongst this customer group. The exception was in relation to the statement *“the business is fully transparent with the public and media with regards to business taxes”* – customers that had contact with HMRC were more likely to agree with this statement than those that had no contact (67% cf. 56% with no contact).

Understanding the contact with HMRC – who initiates it?

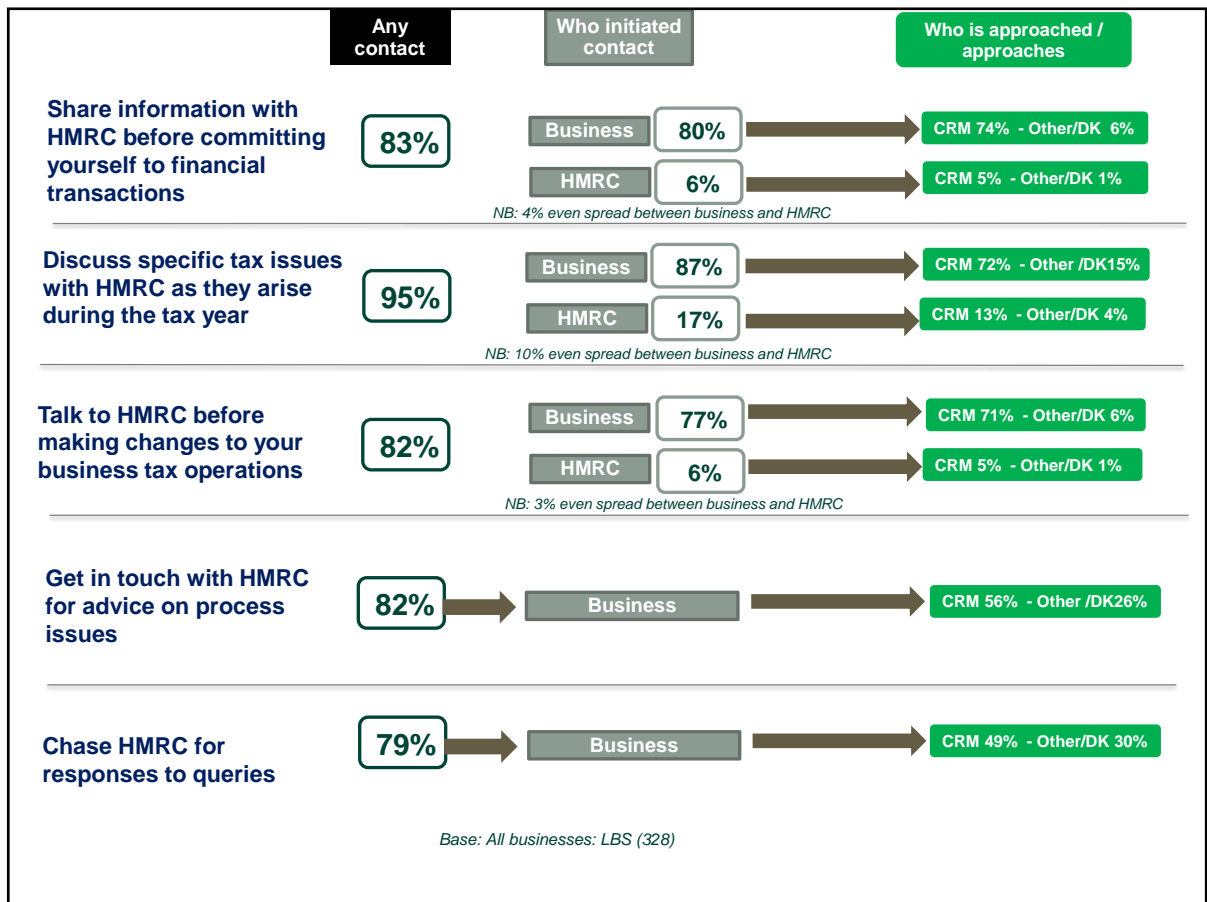
- 3.16 All businesses that had some form of contact with HMRC were asked about the extent and frequency of contact with HMRC with regards to the following issues:
- Discussing specific tax issues with HMRC as they arise during the tax year;
 - Sharing information with HMRC before committing to financial transactions;
 - Getting in touch with HMRC for advice on process issues;
 - Chasing HMRC for responses to queries; and
 - Talking to HMRC before making changes to business tax operations.



LBS Customers

3.17 The following Figure (3.1) shows the proportion of all LBS customers that had any contact with HMRC about each of these issues. It also shows whether it was the business or HMRC initiating the contact and who within HMRC was approached (or approached the business).

Figure 3.1: Summary of contact: All LBS customers¹⁵



3.18 The key findings from this analysis are summarised below:

- The majority of LBS customers had some form of contact with HMRC about at least one of the measures listed above;
- Most commonly this related to discussing tax issues with HMRC as they arose during the tax year (95%);
- Across all the issues discussed between HMRC and the businesses, the majority of contact was driven by the business itself;
- That said, close to a fifth (17%) of LBS customers stated that HMRC initiated contact with the business to discuss specific tax issues as they arose during the year;

¹⁵ The two figures showing who initiated the contact will sum to more than the “any” contact as some customers stated that they had contacted HMRC and HMRC had contacted them about the issue within the last year.



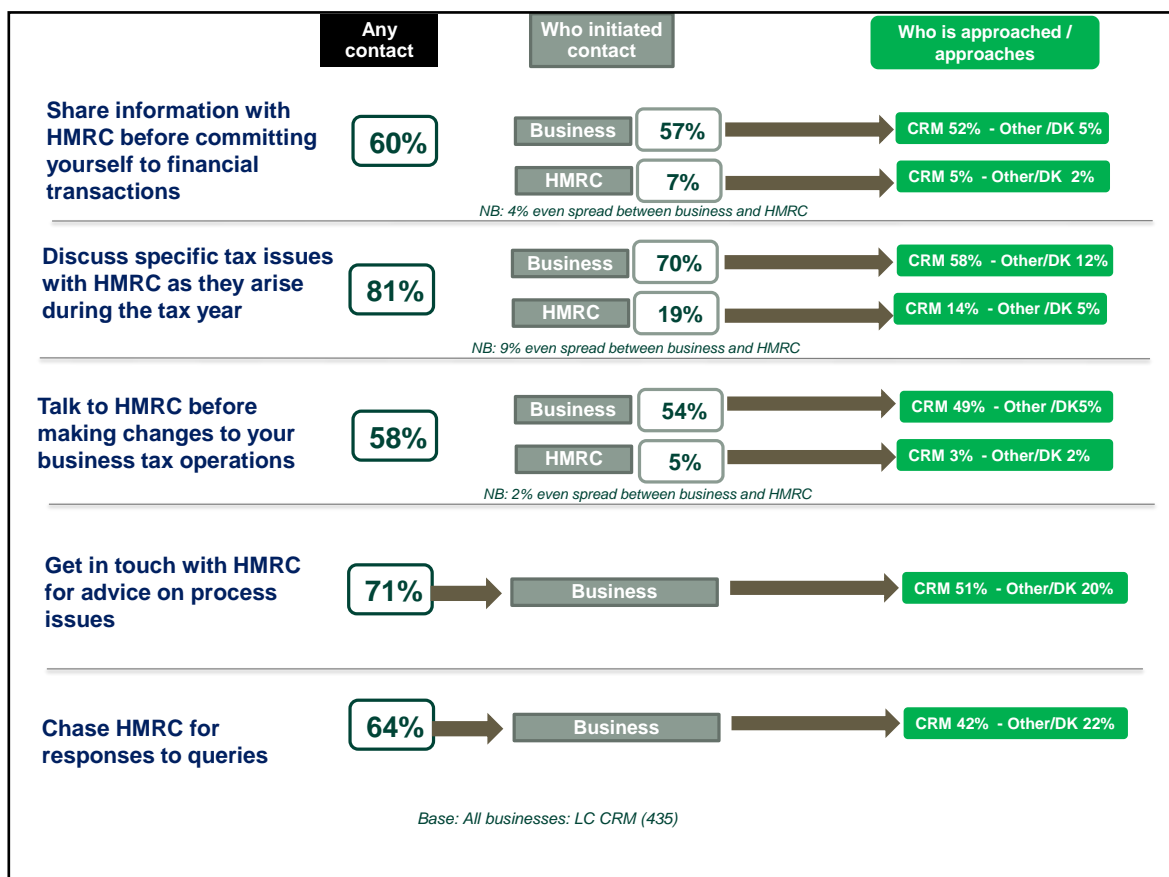
- Where LBS businesses initiated the contact with HMRC across all the issues listed above, the majority of this contact was directed towards the CRM. Over seven in ten LBS customers had contacted their CRM to share information before committing to transactions, to discuss specific issues as they arose during the year and to talk to HMRC before making changes to business tax operations;
- Further, close to half of all LBS customers had also sought to contact their CRM about issues which can be described as process driven issues (56% of LBS customers had been in touch with their CRM to discuss advice on process issues and 49% had been in touch with their CRM to chase for a response to queries); and
- Where LBS customers approached other areas of HMRC (i.e. not their CRM) about these process issues, specific tax specialists within HMRC were most commonly mentioned.

3.19 There is further exploration later in the chapter (paragraph 3.24) of who it is within HMRC that businesses have contact with, and the reasons why.

LC CRM Customers

3.20 The following Figure (3.2) shows similar analysis for LC CRM customers.

Figure 3.2 Summary of all contact between LC CRM customers and HMRC¹⁶



¹⁶ The two figures showing who initiated the contact will sum to more than the “any” contact as some customers stated that they had contacted HMRC and that HMRC had contacted them about the same issue within the last year.



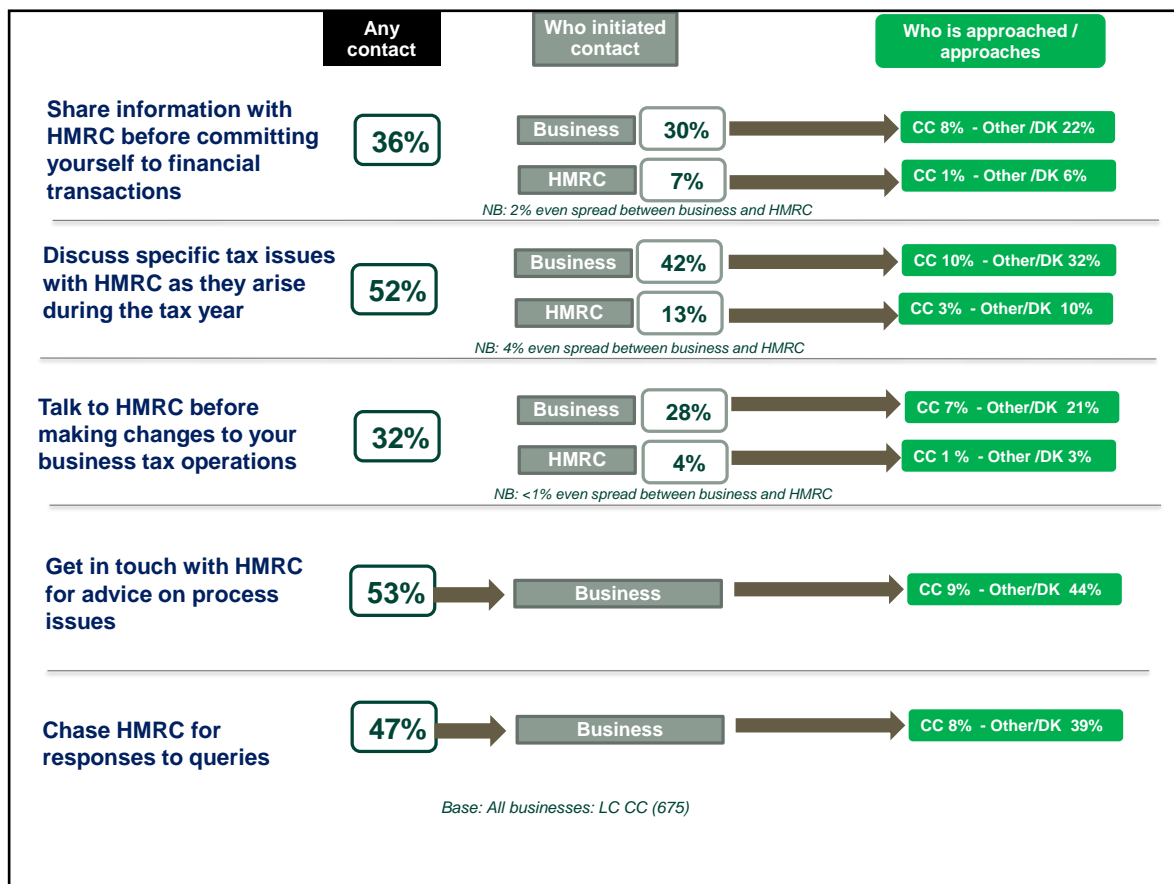
3.21 The picture is broadly similar to that of LBS customers, although it should be noted the proportion of LC CRM customers that had experienced each type of contact was considerably lower than it was for LBS customers. More specifically the key areas to note include:

- The majority (four-fifths) of LC CRM customers had discussed specific tax issues as they arose during the year – most commonly this was initiated by the business directly with their CRM. That said, around a fifth of LC CRM customers also explained HMRC mainly initiated contact with the business with regards to this issue; and
- More generally, most contact was with the CRM, even for issues which can be described as more process driven.

LC CC Customers

3.22 Finally, the following Figure (3.3) shows the same analysis for LC CC customers.

Figure 3.3 Summary of all contact with LC CC customers¹⁷



¹⁷ The two figures showing who initiated the contact will sum to more than the “any” contact as some customers stated that they had contacted HMRC and HMRC had contacted them about the issue within the last year.



3.23 The dynamics of the relationship LC CC customers have with HMRC is clearly quite different to that of customers with a CRM. The key findings from this analysis are summarised below:

- The most common reasons for contact with HMRC among LC CC customers related to getting in touch for advice on process issues (53%), discussing issues as they arise in the tax year (52%) and chasing HMRC for responses to queries (47%);
- By contrast, only around one in three LC CC businesses had contacted HMRC with regards to sharing information before committing transactions and talking to HMRC before making changes to tax operations;
- In the majority of cases all contact described above was initiated by the business rather than by HMRC;
- Reflecting the fact that around one third (37%) of LC CC customers had direct contact with their CC at some point before being interviewed, most contact with HMRC among this customer group was through other means rather than the CC. Across most of the issues listed above a wide range of contact points were mentioned, the most common of which were HMRC helplines and to a slightly lesser extent the HMRC website.

Approaching the CRM/CC with regards to process driven issues

3.24 The findings described above highlight that LBS and LC CRM customers frequently contacted their CRM for some of the more process driven issues (such as advice on processes and chasing response to queries) rather than going through other, arguably more appropriate, channels. To a much lesser extent LC CC customers also sought to discuss some of these issues with their CC.



3.25 Focussing specifically on businesses that had contacted their CRM/CC in regards to process issues – Table 3.2 shows that speed and efficiency of response were top of mind when explaining why the CRM/CC was approached. Around half of LBS and LC CRM customers stated that their CRM can solve things quickly and efficiently, while close to a third explained it was much quicker to contact their CRM – particularly in comparison to using HMRC helplines.

Table 3.2: Reasons why CRM/CC approached for process driven¹⁸ issues

	LBS	LC CRM	LC CC
<i>Base: All customers that contacted their CRM or CC for advice on process issues or responses to queries</i>	(217)	(264)	(79)
	%	%	%
Our CRM/CC knows how to get these things solved quickly and efficiently	46	52	38
Much quicker to contact our CRM/CC as helplines can be time consuming	30	33	38
CRM/CC always our main / first point of contact	17	11	14
We have a good relationship with the CRM/CC	15	15	8
What our CRM/CC has told us to do	11	11	25
CRM/CC is familiar with our business	9	9	13
CRM/CC knows the right person to pass us on to	5	6	4
Normal procedure to contact CRM/CC	5	4	4
Not aware of who else to speak to	2	2	3

Columns do not add up to 100% as businesses could give more than one answer

Assessment of Real Time Working

What proportion of customers used Real Time Working?

3.26 Over recent years, HMRC has increasingly considered addressing issues and conducting transactions in Real Time¹⁹. 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 the last two waves of the TOPS, an approach was taken where different types of contact described above were explored without specifically referencing the term Real Time Working or the broad definition which HMRC uses.

¹⁸ For analysis purposes 'getting in touch with HMRC for advice on process issues' and 'chasing HMRC for responses to queries' were defined as process driven issues

¹⁹ 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.

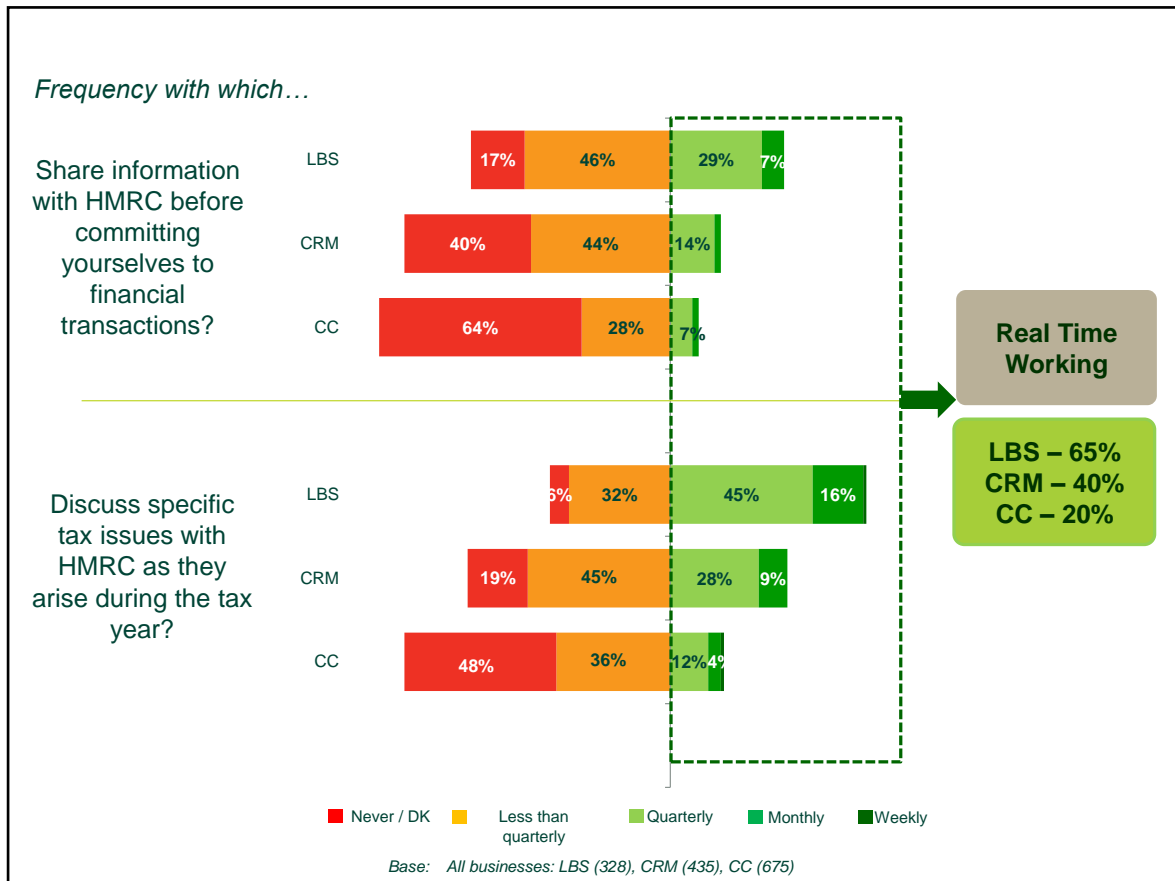


3.27 The two types of contact which have been classified as Real Time Working (for customers who engaged with HMRC at least once a quarter) were:

- Discussing specific tax issues with HMRC as they arise during the tax year; and
- Sharing information with HMRC before committing to financial transactions.

3.28 The following Figure (3.4) summarises the proportion of all three customer groups that undertook Real Time Working in the last 12 months using the classification described above.

Figure 3.4 Frequency of Real Time Working



3.29 Close to two-thirds of all LBS businesses (65%) reported that they had contact with HMRC about issues that HMRC would broadly define as Real Time – more commonly in relation to discussing tax issues as they arise during the year (61%). By contrast fewer LC CRM and LC CC customers stated they had contact with HMRC about issues which could be defined as Real Time Working (40% and 20% respectively).

3.30 Making a direct comparison with the 2012 wave of TOPS – these findings indicate that the use of Real Time Working has not changed significantly over the course of the last year.²⁰

²⁰ In 2012 – 63% LBS, 39% LC CRM and 16% LC CC worked in Real Time using the same classification described above.



Understanding the profile of customers that used (and did not use) Real Time Working

- 3.31 Across the three customer groups, the pattern broadly holds that the larger the business in terms of turnover or number of employees, the more likely it was to have adopted Real Time Working in the last 12 months²¹.
- 3.32 Among the LC CC customer group there was also a link between the use of the CC and Real Time Working. LC CC customers that had worked in Real Time were more likely to have been in contact with their CC in the last 12 months²².
- 3.33 There were no significant differences by sector or other aspects of businesses' structure (such as whether they are part of a wider group) in the use of Real Time Working.

Differences in experience and outlook for customers using Real Time Working

- 3.34 There were also some differences in the perceived experience of working with HMRC by whether customers had made use of Real Time Working:
- Customers in all customer groups were more likely to agree that contact had led to a more transparent relationship with HMRC if they had worked in Real Time²³.
 - That said, LC CRM and LC CC customers were also more likely to agree that contact had led to more time reporting to HMRC if they had worked in Real Time²⁴
 - LC CC customers in particular were more likely to state they had received more queries from HMRC and that contact had led to HMRC uncovering weaknesses in their accounting systems if they had worked in Real Time²⁵.

²¹ 73% of LBS customers that had worked in Real Time had a turnover of £500m+ (only 54% that had not worked in Real Time had a turnover of £500m+). 52% of LC CRM customers that had worked in Real Time had over 1,000 employees (only 33% that had not worked in Real Time had 1,000+ employees); 17% of LC CC customers that had worked in Real Time had over 1,000 employees (only 5% that had not worked in Real Time had 1,000+ employees).

²² 47% of LC CC customers that had worked in Real Time had contacted with their CC in the last 12 months (only 35% of customers that had not worked in Real Time contacted their CC).

²³ 76% LBS, 79% LC CRM, 56% LC CC that worked in Real Time were in agreement that contact led to a more transparent relationship with HMRC (only 65%, 63%, 36% respectively of customers that did not work in Real Time agreed).

²⁴ 47% LC CRM businesses and 49% LC CC businesses that worked in Real Time agreed that: *Contact with HMRC has led to More time spent reporting to HMRC*, whereas of the LC CRM and LC CC businesses that had **not** worked in real time, only 33% (of both customer groups) agreed with this statement.

²⁵ 22% LC CC that worked in Real Time agreed contact had led to more queries from HMRC (13% that had not worked in Real Time agreed). 20% LC CC that worked in Real Time agreed contact had led HMRC uncovering weaknesses in accounting systems (11% that had not worked in Real Time agreed).



3.35 In addition there were also differences in businesses' behaviour in relation to tax strategies by whether they had made use of Real Time Working:

- LBS customers that worked in Real Time were more likely to agree that there had been a change in the organisation's attitude to tax avoidance²⁶. They were also more likely to agree that the business was fully transparent with the public and media if they had worked in Real Time²⁷.
- To a slightly lesser extent, LC CRM customers were also more likely to agree that there had been a change in the organisation's attitude to tax avoidance if they had worked in Real Time²⁸.

Perceived impact of contact with HMRC on the administrative burden

3.36 As Table 3.1 at the beginning of this chapter showed, nearly all businesses had at least some contact with HMRC over the course of the year (although for LBS and LC CRM customers this contact has been more regular than it has been for LC CC customers).

3.37 In this context, all customers that had contact with HMRC were also presented with a number of possible outcomes that might have been generated as a result of that contact – particularly focussing on the perceived administrative burden for the business.

²⁶ No direction of change was implied by this statement

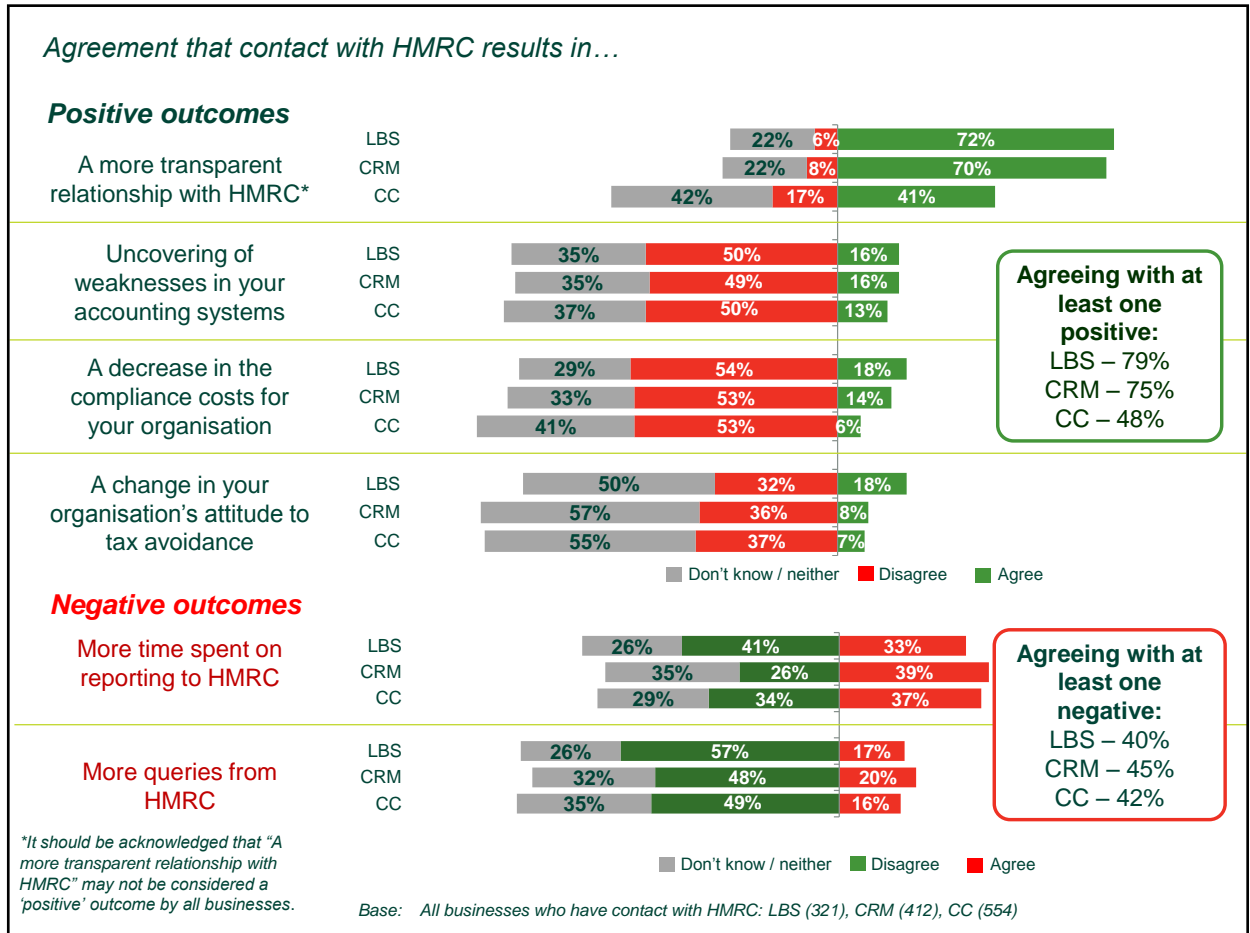
²⁷ 21% LBS that worked in Real Time agreed there had been a change in the organisation's attitude to tax avoidance (12% that had not worked in Real Time agreed). 72% LBS that worked in Real Time agreed that their business was fully transparent with the public and media about tax issues (58% that had not worked in Real Time agreed).

²⁸ 13% LC CRM that worked in Real Time agreed there had been a change in the organisation's attitude to tax avoidance (4% that had not worked in Real Time agreed).



3.38 The different outcomes discussed with large businesses can be broadly divided into those which could be defined 'positive' and those which could be defined 'negative' for the business. Figure 3.5 summarises the proportion of businesses that agreed/disagreed with each of the statements discussed.

Figure 3.5 Outcomes as a result of contact with HMRC



3.39 Focussing on 'positive' outcomes first, around four-fifths of LBS customers, three-quarters of LC CRM and just under half of LC CC customers agreed that contact with HMRC had led to at least one 'positive' outcome. Most commonly this related to a more transparent relationship with HMRC - around seven in ten LBS and LC CRM customers and two in five LC CC customers agreed with the statement²⁹.

²⁹ It should be acknowledged that "A more transparent relationship with HMRC" may not be considered a 'positive' outcome by all businesses.



- 3.40 As previously discussed, customers that worked in Real Time were significantly more likely to agree that contact with HMRC led to a more transparent relationship.
- 3.41 For the remaining three outcomes that could be considered 'positive', only a minority of large businesses across all customer groups agreed that regular contact with HMRC resulted in these benefits for the business. That said, it should be noted only around half disagreed that regular contact resulted in these outcomes – many businesses actually gave a neutral rating with regards to the statements.
- 3.42 In terms of outcomes which could be defined as 'negative' there was very little variation by the three customer groups. Around two-fifths of all customer groups agreed that either contact with HMRC led to more time reporting to HMRC or that it led to more queries from HMRC.
- 3.43 More specifically, in terms of contact leading to more time reporting to HMRC, businesses were relatively evenly divided into those that agreed this was the case, those that disagreed and those that were relatively neutral.
- 3.44 By contrast, in terms of contact leading to more queries from HMRC only a minority of customers agreed this was the case (16%-20% across the three customer groups) and over half of LBS customers (57%) and close to half of LC CRM and LC CC customers disagreed with the statement (48% and 49% respectively).
- 3.45 These findings cannot be directly compared to the findings from the 2012 wave of the TOPS, owing to the fact the questions were asked of all businesses that had any contact with HMRC in 2013 – as opposed to those who had contact at least once a quarter in 2012. When the 2013 findings are re-analysed on a comparable base the broad picture remains similar to that of 2012.

Influence of HMRC on the business making changes to transactions, systems and processes

- 3.46 All businesses were asked whether they had made any changes (other than those which had been mandated³⁰) to their transactions, systems and processes in the last 12 months. They were also asked what factors had the greatest influence on the decision to make the changes.

³⁰ Mandated changes include things such as the introduction of RTI and XBRL.



3.47 As Table 3.3 shows – the majority of large business customers had not made any changes to transactions, systems and processes other than those which had been mandated.

Table 3.3: Changes made to their transactions, systems and processes in the last 12 months

	LBS	LC CRM	LC CC
<i>Base: All customers</i>	(328)	(435)	(675)
	%	%	%
No changes made	59	69	78
Any changes made	39	29	21
<i>Don't Know</i>	2	2	1
<i>Top 5 changes mentioned</i>			
1 Updated software IT/systems	13	10	7
2 Made changes to payroll systems/PAYE	6	6	7
3 Changed the way VAT is calculated	5	3	2
4 Changed / improved checking processes	4	4	2
5 Change to accounting systems	4	2	1

A wide variety of answers were given across all customer groups – for ease of interpretation only the top 5 mentions have been shown in this table

3.48 LBS customers were more likely than LC CRM and LC CC customers to have made changes to their transactions, systems and processes in the 12 months prior to being interviewed. Across all three customer groups the most commonly mentioned changes related to updating software and IT systems.

3.49 Across all the changes cited by businesses, the main things which influenced the decision to make the changes to operations are summarised in the table below.

Table 3.4: Factors that influenced the decision to make changes to transactions, systems and processes

	LBS	LC CRM	LC CC
<i>Base: All customers that had made changes to transactions, systems and processes</i>	(128)	(124)	(141)
SAO legislation	41	35	13
Contact with agents and advisors	30	40	44
Risk rating	22	22	9
Contact with CRM / CC	19	26	13
Contact with other parts of HMRC	13	25	18
To improve business processes	10	8	11
Business / commercial requirements	11	11	5

Columns do not add up to 100% as businesses could give more than one answer

3.50 Among LBS customers (and to lesser extent LC CRM customers) a lot of these changes were influenced by the SAO legislation.

3.51 By contrast, the role of advisors and agents/advisors played a much greater influence among LC CC customers' decisions to make changes to systems and processes – an area which is discussed in more detail in chapter 4.



- 3.52 Just over a fifth of all LBS and LC CRM customers that had made changes to systems, transactions and processes also stated their risk rating also had a direct influence on the decision to make the changes.
- 3.53 Of particular interest is how these findings break down by the type of changes made – looking at the top two changes mentioned³¹:
- *Updated software IT/systems* – across all customer groups this tended to be influenced primarily by contact with agents/advisors and the SAO legislation (the latter primarily among LBS and LC CRM customers); and
 - *Made changes to payroll systems/PAYE* – again across all customer groups this tended to be influenced by contact with agents and advisors.

³¹ Base sizes for this sub-group analysis are relatively small (under 50) and should be treated as indicative

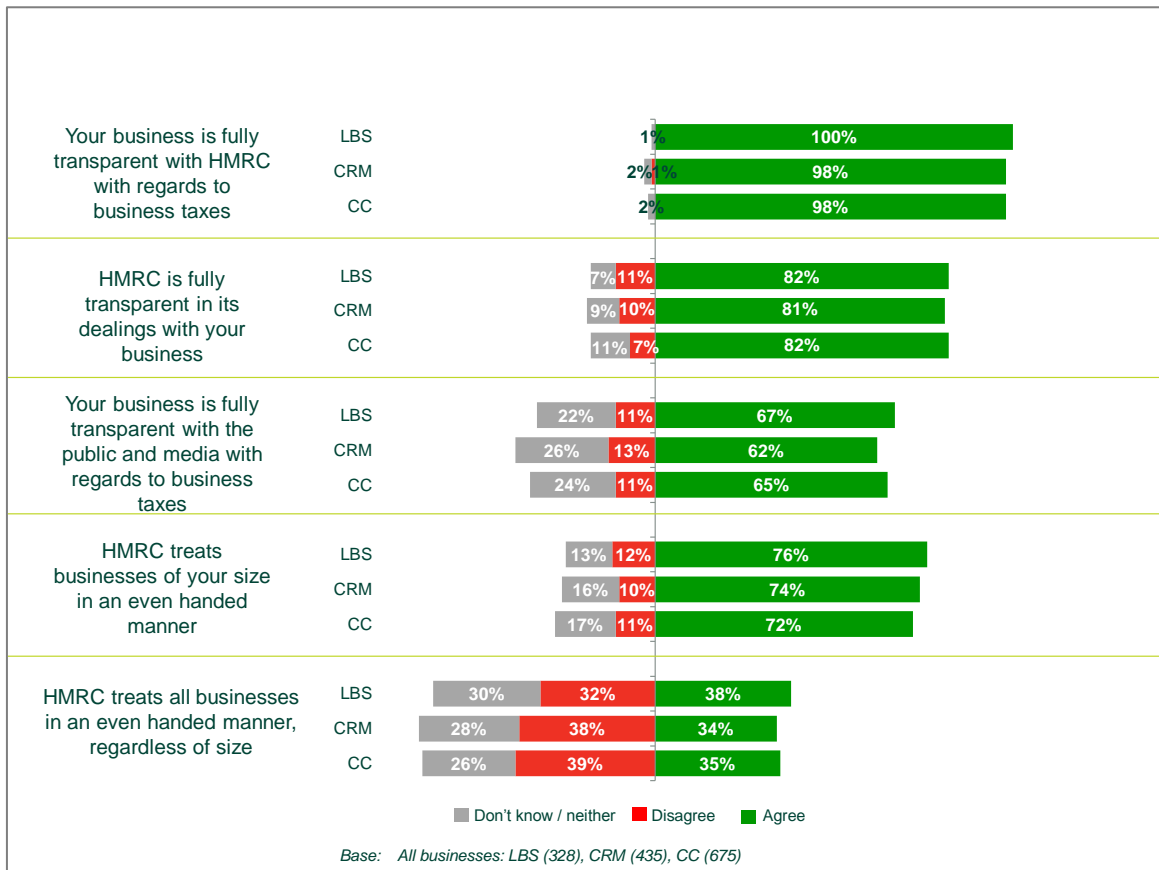


Transparency of the HMRC relationship

3.54 All businesses were also asked the extent to which they agreed or disagreed with several statements about the perceived transparency and fairness of their relationship with HMRC. Figure 3.6 summarises these findings.

3.55 Of particular interest is the fact that there were no major differences by customer group – this was one of the few question areas on the 2013 survey where this was the case.

Figure 3.6 Attitudes to transparency and fair treatment



3.56 While virtually all businesses were in agreement that their business was fully transparent with HMRC closer to four in five were in agreement that HMRC was fully transparent with the business.

3.57 Around two thirds of businesses were in agreement that their business was fully transparent with the public and media with regards to taxes. As previously discussed, LBS customers that had worked in Real Time were more likely to agree that the business was fully transparent with both the media and public.



- 3.58 In terms of whether the business perceived that businesses of their size were treated in an 'even handed' manner – the majority of customers (over seven in ten among all customer groups) were in agreement with this statement. However when the question was framed in a slightly different way - whether *all* businesses are treated 'even handedly' regardless of size - opinions were relatively evenly split between those agreeing, those disagreeing and those remaining neutral.
- 3.59 Looking at differences by business size within each customer group, it tended to be the smallest businesses that showed the highest level of agreement that they (and others of their size) are treated in an even-handed manner. The LBS group showed the strongest difference in agreement by size, with the other groups showing the same relationship but to a lesser extent³².
- 3.60 There were no clear differences in attitudes to transparency by the level (and frequency) of contact the business had with HMRC or by whether the business worked in what could be defined as Real Time.

³² Agreement that ...HMRC treats businesses of your size in an even-handed manner:

LBS – UK turnover <£41.5m 89%, £41.5m-£499m 80%, £500m+ 73%

LC CRM - UK turnover <£41.5m 74%, £41.5m-£499m 75%, £500m+ 70%

LC CC - UK turnover <£41.5m 72%, £41.5m-£499m 72%, £500m+ 70%



4 Nature and impact of relationship with agents and advisors

Key findings

- 4.1 Nearly all businesses across the three customer groups made use of agents/advisors.
- 4.2 That said, there were differences in how agents/advisors were used by customer group. While around half of businesses across all groups used agents/advisors for help with their day to day processing, LBS customers were the group most likely to report using agents/advisors for advice on making operational decisions, and the LC CC customer group was most likely to report using agents/advisors for help with more strategic decisions.
- 4.3 When it came to businesses' attitudes towards using agents/advisors, there has potentially been a change in the mind-set amongst large businesses between 2011 and 2013. Year-on-year, fewer businesses agreed that the use of agents/advisors resulted in the business paying less tax and implementing tax planning strategies that it might not otherwise have been considered. The reductions in agreement were particularly marked among LC CC customers.
- 4.4 Of all business who stated they used agents/advisors, around three quarters of LBS, half of LC CRM and a fifth of LC CC customers stated they had provided their agents/advisors with a steer on their appetite for reducing their tax liabilities
- 4.5 While half of LBS and LC CRM businesses (and a third of LC CC customers) reported that their agent had suggested ways of reducing their business's tax liabilities, very small proportions said that the business itself usually prompted these conversations. More generally there was also marked decrease in the incidence of agents/advisors suggesting ways to reduce tax liability when compared to the 2012 wave of the TOPS.

Introduction

- 4.6 This chapter explores the nature of large businesses' relationship with agents and the impact of that relationship. It also looks at the extent to which large businesses use agents (and for what kind of advice and tax regimes) and then focuses on businesses' attitudes towards agents and the influence of agents on large businesses' approach to reducing their tax liabilities.

Proportion of businesses using agents/advisors, and for what advice

- 4.7 Nearly all businesses used agents or external advisors³³, though there were differences by customer group in terms of who was used, and what they were used for.

³³ 98% LBS, 98% LC CRM and 96% LC CCs use agents or external advisors in some capacity

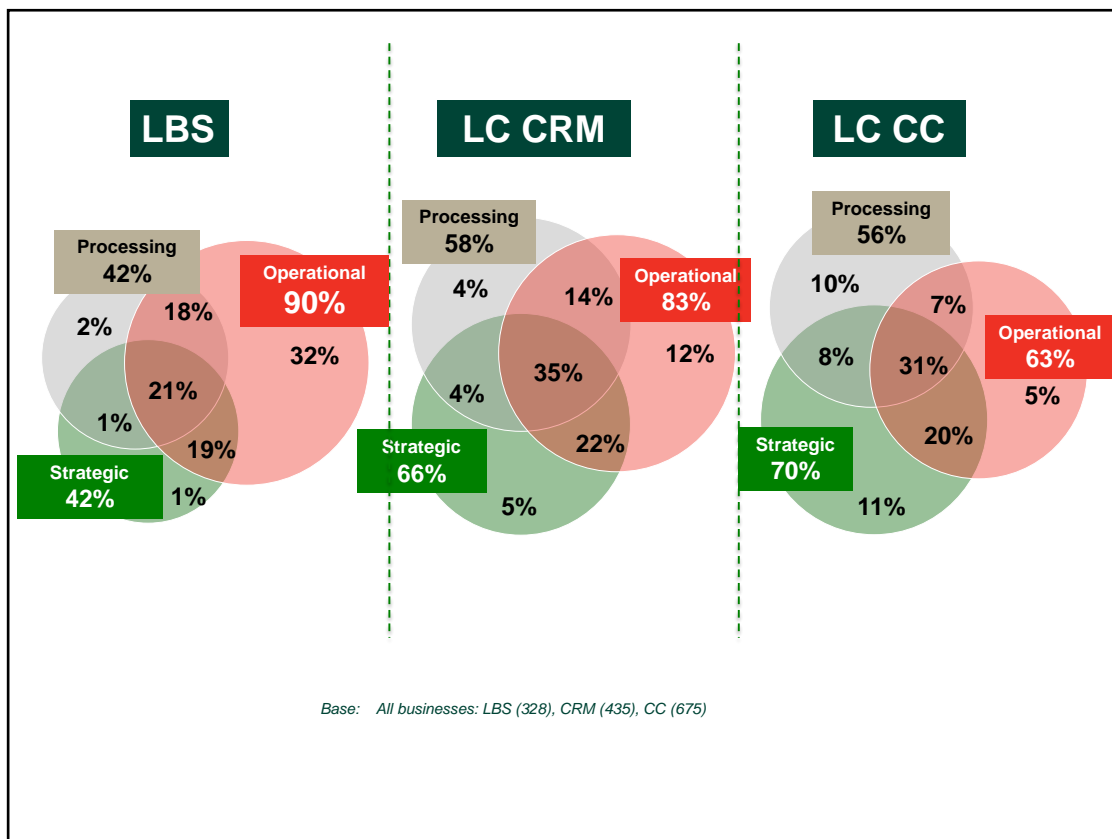


4.8 In terms of the agents/advisors that were used, a large majority of LBS and LC CRM business reported using the ‘Big 4’ accounting firms,³⁴ with the majority of these customers using *only* these ‘Big 4’. By contrast under half of all LC CC customers used the ‘Big 4’ and an even smaller proportion used only these firms.³⁵

4.9 Figure 4.1 shows the types of advice that businesses reported using agents/advisors for; in particular whether they used agents for any of the following:

- Day-to-day processing, returns or basic filings (in the diagram, abbreviated to ‘Processing’);
- To receive advice on transactions or operational decisions, including remuneration (in the diagram, abbreviated to ‘Operational’); and
- To receive advice on drawing up your company’s tax strategy (in the diagram, abbreviated to ‘Strategic’).

Figure 4.1: The types of advice for which businesses use agents/advisors



4.10 The LC CC customer group was most likely to report using agents/advisors for strategic advice, while a smaller proportion of LC CRM and LBS businesses reported using agents/advisors for this type of help. It may be that these larger businesses have the necessary expertise in-house to manage the business’s tax strategy internally.

³⁴ The “Big 4” accountancy firms are: PricewaterhouseCooper’s, Ernst & Young, Deloitte, KPMG

³⁵ 44% LC CC customers used Big 4, 36% of LC CCs only used the Big 4 only



- 4.11 Large proportions of businesses in all customer groups reported using agents/advisors for operational advice, though the pattern was opposite to that for strategic advice. Here the customer group most likely to cite that they used agents and advisors for these issues were LBS customers, followed by LC CRM and LC CC customers.
- 4.12 However, in terms of day-to-day process issues, businesses reported relatively similar usage; around half of all businesses across the three customer groups reported using agents/advisors for processing issues.

The tax regimes for which businesses most often take agents/advisors' advice on strategy

- 4.13 As Table 4.1 shows, of the businesses that reported using agents/advisors for strategic advice, the majority did so for assistance with the Corporation Tax regime above any other kind of tax. This was consistent across all customer groups.

Table 4.1: Tax regimes for which businesses most often sought advice on tax strategy

	LBS	LC CRM	LC CC
<i>Base: All businesses using agents/advisors for help with strategic planning</i>	(137)	(288)	(475)
	%	%	%
Corporation Tax	95	95	96
VAT	81	68	53
Payroll processes	58	51	45
Remuneration / Reward	60	46	37
Property Taxes	33	38	34
Customs Duties	28	26	20
Excise Duties	20	16	13
Partners' Income Tax	9	15	20

Columns do not add up to 100% as businesses could give more than one answer

- 4.14 However, there were differences by customer group when it came to those using agents/advisors for strategic advice with regards VAT, as well as Remuneration and Reward. LBS customers were the most likely to cite using agents/advisors' strategic advice for these regimes, with LC CRM and LC CC customers less likely to do so.
- 4.15 Other regimes were mentioned less by all customer groups – with around half mentioned using agents/advisors' strategic advice for their Payroll processes, and smaller proportions (around one third to one fifth across all three customer groups) mentioned using agents/advisors' strategic advice with regards Customs Duties or Excise Duties.

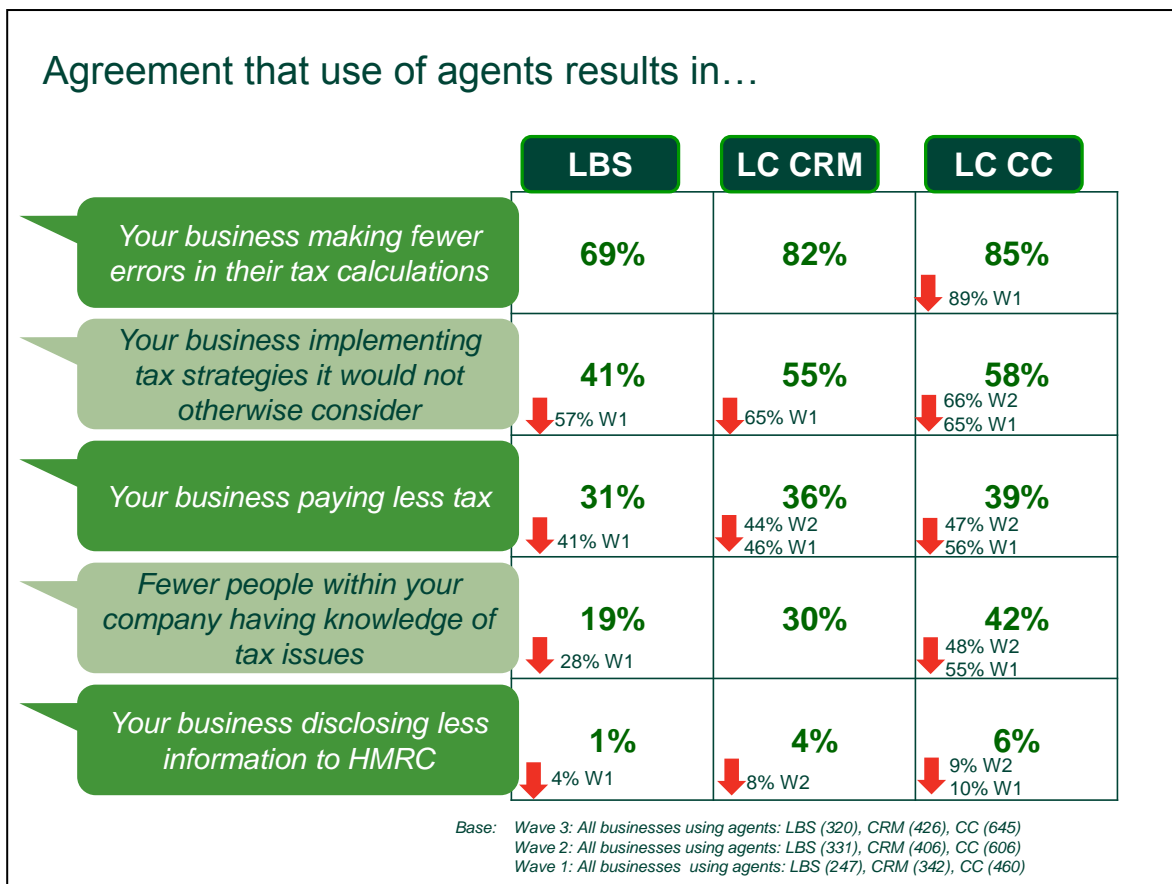


Businesses' attitudes toward agents/advisors

4.16 Businesses were asked to what extent they agreed or disagreed with five statements that highlighted some of the potential outcomes of using agents/advisors. Figure 4.2 shows the proportions of businesses agreeing with each of these statements.³⁶

4.17 The arrows on this figure clearly show there has been a significant decrease in the proportion of customers agreeing with most of these statements compared with previous years of the TOPS (W2 / W1 as indicated³⁷).

Figure 4.2: Businesses' attitudes towards agents/advisors: proportion of businesses agreeing with each statement



4.18 The responses to these attitudinal statements show fewer businesses agreed year-on-year that the use of agents/advisors results in the business paying less tax and implementing tax planning strategies that it might not otherwise have been considered. The reductions in agreement were particularly marked among LC CC customers. More specifically:

- Across all customer groups, the majority of customers that used agents/advisors agreed that their use resulted in the business making fewer errors in their tax calculations;

³⁶ The percentages shown combine both the 'strongly agree' and 'tend to agree' scores

³⁷ W2: Wave 2 of TOPS conducted in 2012 / W1: Wave 1 of TOPS conducted in 2011



- Fewer businesses that used agents/advisors (around half) agreed that their use resulted in the business implementing tax strategies they would not otherwise have considered (with LBS customers showing the lowest level of agreement);
 - Fewer still (between a fifth and two-fifths) agreed that the use of agents/advisors resulted in the business paying less tax, or resulted in fewer people within the company having knowledge of tax issues; and
 - Only a small minority felt this led to less information being disclosed to HMRC.
- 4.19 The fact that levels of agreement had significantly reduced for many of these statements across the waves of this research suggests there has potentially been a change in mind-set amongst large businesses when it comes to agent use between 2011 and 2013. The results show businesses claiming that agents/advisors were used less, year on year, to reduce tax payments and implement tax strategies (with the reductions in agreement particularly marked among LC CC customers).
- 4.20 Amongst the LBS customer group, there were notable differences in the attitudes towards the use of agents/advisors between those that did and those that didn't work in Real Time:
- LBS customers working in Real Time were less likely to agree that using agents/advisors resulted in the business implementing tax strategies that it would not otherwise have considered³⁸. This could potentially be because businesses working in Real Time feel more able to discuss their tax strategies directly with HMRC and are therefore less dependent on agents/advisors for these discussions (i.e. strategies are still put in place, but not as a result of agents/advisors). Alternatively, working in Real Time with HMRC could act as a deterrent for implementing risky strategies. Regardless, when this is also placed in context of findings from the previous chapter, Real Time Working appears linked to business behaviour that is beneficial to HMRC.
 - None of the LBS customers working in Real Time agreed that using agents/advisors resulted in less information being disclosed to HMRC, compared to 3% of those who did not work in Real Time. While this difference is of itself relatively small, it does show how those working in Real Time could potentially have a stronger relationship with HMRC which ensures any contact with agents/advisors does not alter the information usually disclosed.
- 4.21 Working in Real Time appeared to have an impact for LC CC customers in terms of the more process-based issues. LC CC customers that worked in Real Time were less likely to agree that using agents/advisors resulted in fewer errors in their tax calculations.³⁹
- 4.22 Increased Board-level scrutiny also appeared to be related to businesses' attitudes towards agents/advisors among LC CC businesses. Where LC CC businesses reported an increase in Board-level scrutiny over the previous 12 months, they were more likely to agree that using agents/advisors had led to implementing tax strategies the business would not otherwise consider (71%) compared to those for which there had not been an increase in the level of Board scrutiny (52%).

³⁸ LBS: Agreement that... *using agents/advisors results in implementing tax strategies the business would not otherwise consider*: Working in Real Time 36% agree, vs. not working in Real Time 52% agree

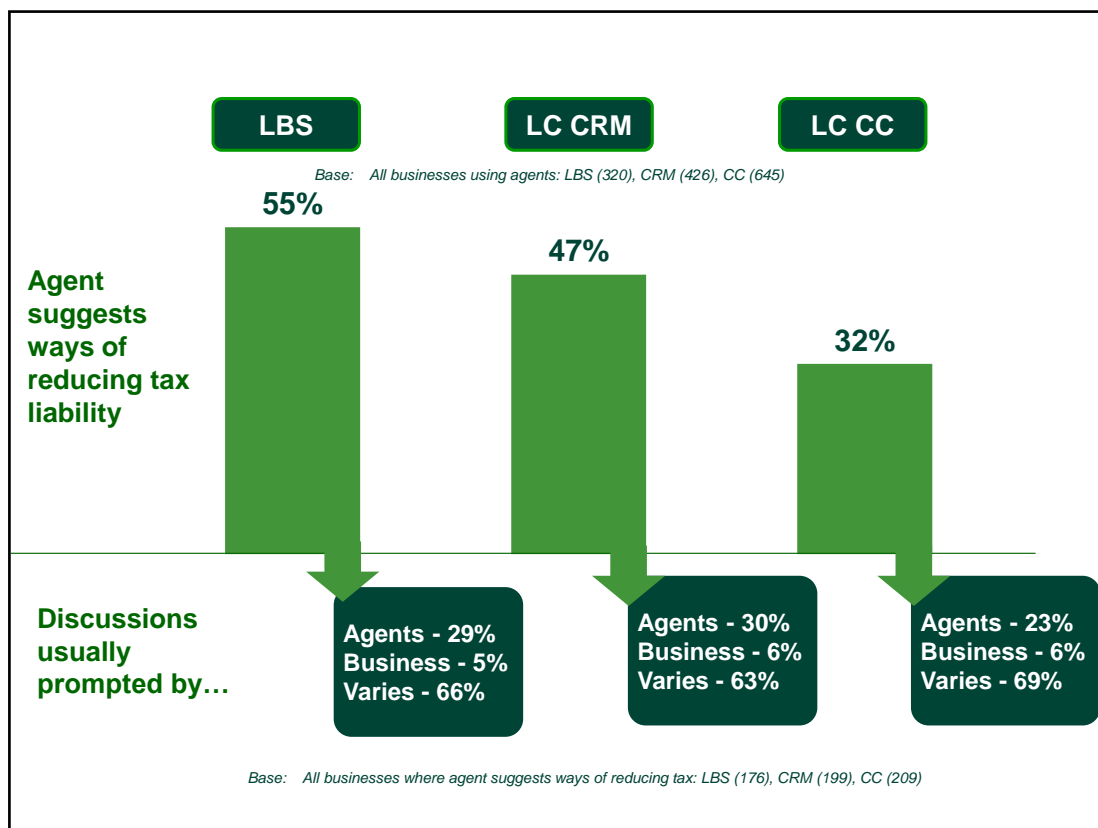
³⁹ LC CC: Agreement that... *Using agents/advisors results in the business making fewer errors in their tax calculations*: Working in Real Time 77%, vs. not working in Real Time 87%



The influence of agents/advisors on reducing a business’s tax liability

- 4.23 The findings so far in this chapter have suggested that the behaviour of businesses may be changing somewhat in terms of a diminished use of agents/advisors to reduce the tax paid by a business. However, discussions with agents/advisors about the reduction of tax liabilities remained on-going in some businesses.
- 4.24 As Figure 4.3 shows, when asked whether their agents/advisors had suggested ways of reducing their business’s tax liability, around half of LBS and LC CRM customers, and around a third of LC CC customers, stated their agents/advisors had made suggestions.⁴⁰

Figure 4.3: Incidence of agents/advisors suggesting ways of reducing tax liability



- 4.25 Most of these businesses (around two thirds) said that these discussions about tax reduction were sometimes prompted by the agent and sometimes prompted by the business, rather than regularly prompted by one or the other, whereas just under a third of businesses (across all customer groups) said these discussions were more consistently prompted by their agents/advisors. Of all business who stated they used agents/advisors, around three quarters of LBS, half of LC CRM and a fifth of LC CC customers stated they had provided their agents/advisors with a steer on their appetite for reducing their tax liabilities.

⁴⁰ This is not to say that the business necessarily agreed with or took action as a result of the suggestions



- 4.26 There was also a marked decrease in the incidence of agents/advisors suggesting ways to reduce tax liability when compared to the 2012 wave of the TOPS. In 2012 this was reported by 79% of LBS customers, 75% of LC CRM customers and over two thirds (68%) of LC CC customers⁴¹.
- 4.27 Businesses that had provided their agents/advisors with a steer as to the businesses' appetite for risk regarding tax planning or avoidance strategies, were more likely than those that did not provide a steer to also report that their agents/advisors had suggested new ways for the business to reduce their tax liability (this is true across all customer groups, though most marked among LBS businesses):
- *LBS businesses*: of those who had provided agents/advisors with a steer on their appetite for risk regarding tax planning, around two thirds (62%) reported their agents/advisors had suggested new ways of reducing the businesses' tax liability, compared to around a third (35%) among those who had not provided their agents/advisors with this steer as to their appetite for risk regarding tax planning.
 - *LC CRM businesses*: of those who had provided agents/advisors with a steer on their appetite for risk regarding tax planning, over a half (58%) reported their agents/advisors had suggested new ways to reduce tax compared to around a third (34%) of CRM businesses who had not provided a steer as to their appetite for risk regarding tax planning.
 - *LC CC businesses*: of those who provided agents/advisors with a steer on their appetite for risk regarding tax planning, just over a half (52%) of businesses reported their agents/advisors suggested new ways to reduce their tax liabilities, compared to nearly a third (27%) among those who had not provided a steer as to their appetite for risk regarding tax planning.
- 4.28 This could suggest that businesses providing agents/advisors with a steer on their appetite for risk regarding tax planning results in agents/advisors then making new suggestions about reducing liabilities.
- 4.29 It should be noted however that the direction of the steer is not specified (the steer could be a preference for a high-degree or a low-degree of risk towards tax planning or avoidance strategies). Therefore it is also possible that causation may sometimes fall the other way i.e. that agents/advisors suggest new ways to reduce tax liabilities which then prompts the businesses to clarify the business' position in terms of appetite for risk in planning/implementing tax strategies.

⁴¹ Some degree of caution is needed in making a direct comparison – it should be noted that in 2012 respondents were asked how often it is suggested by an agent whereas in 2013 they were asked whether it was suggested at all. The 2012 percentages shown are derived based on those that said they used agents/advisors at least monthly.



5 Other influences on general approach to tax

Key findings

- 5.1 In terms of their general approach to tax and tax planning businesses appeared less open to reducing their tax bill compared to the 2012 wave of TOPS. In addition, the majority of businesses disagreed that avoidance is acceptable and that tax evasion is commonplace in their sector.
- 5.2 When businesses were asked to rate various factors as to how influential or not they were on their tax planning, the aspects rated influential by most businesses were: the ethos of the business, deterrents and penalties, and a loss of reputation among customers, suppliers and/or other businesses
- 5.3 In terms of the factors influencing the location of a businesses' head office, these were most often reported to be historical or business-related reasons (such as where the company or employees have always been based), and less often reported to be tax-rate related, or related to administrative burdens and the complexity of parts of the tax system.

Introduction

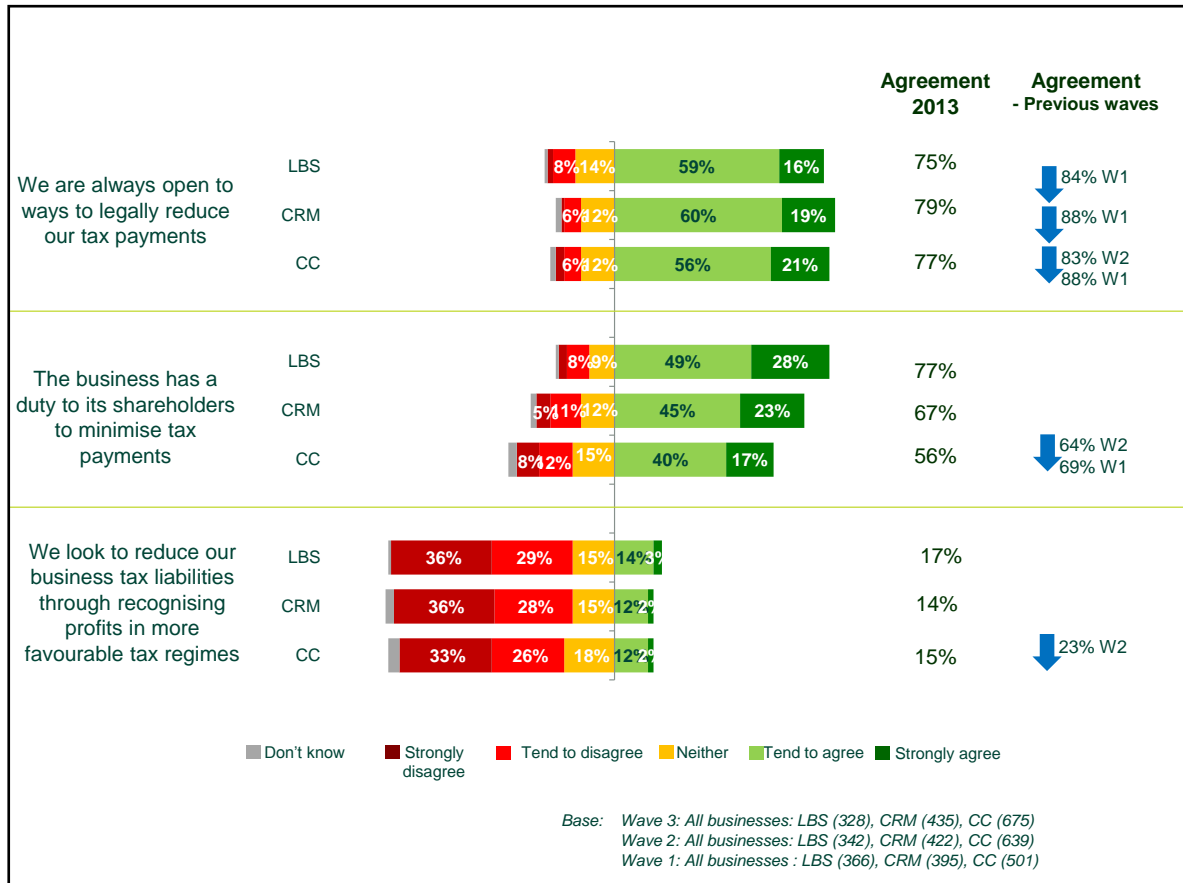
- 5.4 This chapter explores the wider factors that can influence businesses' approach to its tax planning. It begins by exploring businesses' views on tax planning (and how this has changed since the TOPS 2012). The chapter also focuses on the specific factors that businesses report are influential on their strategy for both business and employment taxes. The chapter concludes by looking at what influences businesses in terms of where their Head Office is located.



Attitudes to tax planning – comparisons with 2012

5.5 Where comparisons can be made with the TOPS 2012, businesses in 2013 appeared less open to reducing their tax bill. Figure 5.1 shows the extent to which businesses agreed or disagreed with three statements about reducing their tax liabilities.

Figure 5.1: Attitudes to tax planning: agreement with statements and comparison to previous years



5.6 The Figure clearly shows that there has been significant fall in the proportion of businesses that agreed with the following statements when compared to previous waves of the TOPS:

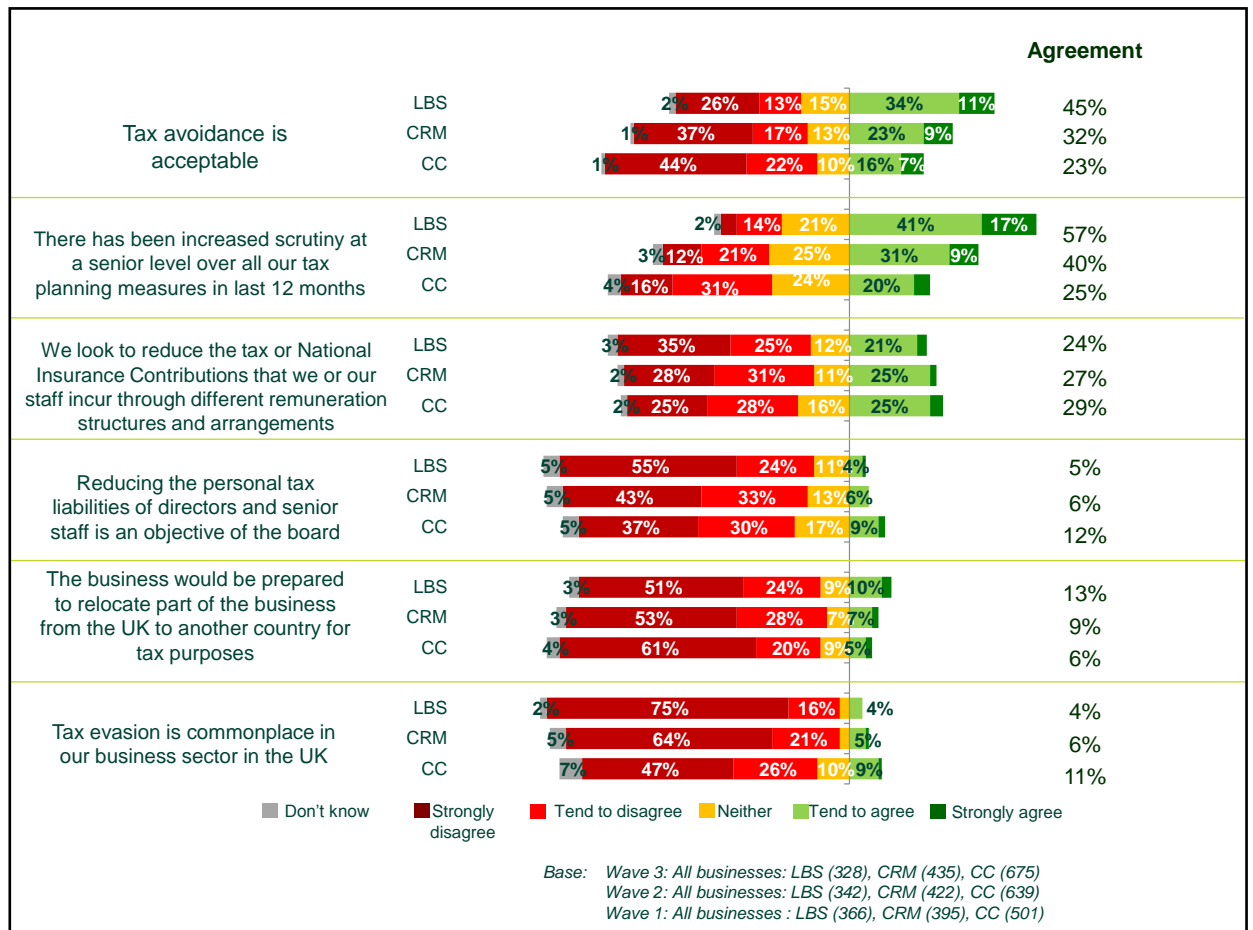
- *We are always open to ways to legally reduce our tax payments* – a smaller proportion of businesses agreed across all customer groups;
- *The business has a duty to its shareholders to minimise its tax payments* – a fall in the proportion that agreed among the LC CC group; and
- *We look to reduce our business tax liabilities through recognising profits in more favourable tax regimes* – a fall in agreement among LC CC groups customers, although a minority of businesses across all three customer groups agreed with this statement (as was the case in 2012).



Attitudes to tax planning – new questions for 2013

5.7 In order to further capture businesses’ views on tax planning in a swiftly changing financial and media climate, several new attitudinal statements were developed for the 2013 wave of TOPS. Figure 5.2 shows the level of businesses’ agreement and disagreement with these new statements.

Figure 5.2: Attitudes to tax planning: agreement with new statements introduced this year



5.8 In general, businesses disagreed with most of statements, particularly with those that specifically referenced a willingness to reduce tax paid in one way or another.

5.9 That said, a key point here is the substantial minority that agreed with the statement: *Tax avoidance is acceptable*; just under half of LBS customers, a third of LC CRM customers and a quarter of LC CC customers agreed with this statement.



- 5.10 Looking at the customers who agreed that tax avoidance is acceptable, there was a high degree of crossover (across all customer groups) with those who also agreed that *We are always open to ways to legally reduce our tax payments*:
- LBS: of the 146 businesses who agreed tax avoidance was acceptable, 85% also agreed they were open to legally reducing tax payments;
 - LC CRM: of the 138 businesses who agreed tax avoidance was acceptable, 93% also agreed they were open to legally reducing tax payments;
 - LC CC: of the 152 businesses who agreed tax avoidance was acceptable, 93% also agreed they were open to legally reducing tax payments;
- 5.11 Further analysis also highlighted that a large proportion of businesses who disagreed that tax avoidance is acceptable still agreed that *'we are always open to ways to legally reduce our tax payments'* suggesting these businesses may not see their actions as constituting tax avoidance⁴².
- 5.12 Businesses were also asked specifically about tax 'evasion' in 2013 (the first time the survey has used the term), in the statement: *Tax evasion is commonplace in our business sector in the UK*. Agreement with this statement was relatively low, with 4% LBS, 6% LC CRM and 11% LC CC businesses agreeing that evasion *is* commonplace within their sector⁴³. That said, the research did not specify where the evasion took place so we cannot rule out that these businesses were referring to evasion taking place lower down the supply chain.
- 5.13 Businesses were then asked about senior-level interest in the tax affairs of their business, and substantial proportions agreed that: *There has been increased scrutiny at a senior level over all our tax planning measures in the last 12 months* (over half of LBS, two-fifths of LC CRM and a quarter of LC CC business). This suggests (as mentioned in the previous chapter) a shift in mind-set within large businesses over the past year with regards their overall proclivity for overtly reducing their tax liability.
- 5.14 Focussing on specific tax reductions highlighted by the other statements shown in figure 5.2, around a quarter of businesses across all customer groups agreed that: *We look to reduce the tax or National Insurance Contributions that we or our staff incur through different remuneration strictures and arrangements*.

⁴² 71% LBS, 74% LC CRM, 72% LC CC disagreed that *Tax avoidance is acceptable* but agreed *We are always open to ways to legally reduce our tax payments*.

⁴³ Within the LC CC group there was some indication that business in certain sectors were more likely to agree with this statement than those in other sectors. E.g. the Alcohol and Tobacco sector (3 of 7 businesses agreed tax evasion was common place in their sector), and the Automotive sector (9 of 34 businesses agreed tax evasion was common place in their sector). However, as seen above, splitting these results by individual sectors results in very small base sizes so the observations are made with reference to absolute figures rather than percentages, and with the caveat that due to these small base sizes, the results should be treated with caution



5.15 Agreement with the statements about other specific reductions was far lower; between one in ten and one in twenty businesses agreed that:

- *Reducing the personal tax liabilities of directors and their senior staff is an objective of the board – with LC CC businesses most likely to agree.*
- *The business would be prepared to relocate part of the business from the UK to another country for tax purposes – with LBS businesses most likely to agree.*

Factors affecting tax planning decision making

5.16 To examine what drives these attitudes to tax, businesses were asked to what extent several different factors affected their tax planning decision making in terms of both their business taxes and their employment taxes.

5.17 Table 5.1 highlights the proportion of businesses that related each factor as influential in their tax planning.

Table 5.1 Proportion of businesses rating each of the following factors as ‘influential’ with regards their tax planning decision making for businesses and employment taxes⁴⁴

	Business Taxes			Employment Taxes		
	LBS	LC CRM	LC CC	LBS	LC CRM	LC CC
Base: All customers: <i>NB: Half of the businesses in the survey were asked about what influenced their business taxes and half were asked about what influenced their employment taxes</i>	(164)	(217)	(337)	(164)	(218)	(338)
	%	%	%	%	%	%
Ethos of company	91	87	80	83	83	74
Loss of reputation among customers, suppliers and/or other businesses	87	74	72	73	71	61
Deterrents and penalties	77	79	80	71	77	76
Own finance or tax department	87	71	52	69	62	43
Risk rating	65	62	46	59	63	41
Agents and advisors	53	65	71	44	60	56
General Anti-Abuse Rule	54	53	56	54	60	54
Employee attitudes	47	43	44	50	49	51
Press coverage of tax issues	49	32	27	48	33	27

Columns do not add up to 100% as businesses could give more than one answer

5.18 The influence of many of these factors appeared to be similar for both Business and Employment Tax planning, though a few factors seemed to exert more influence over one or the other.

⁴⁴ Half of the businesses in the survey were asked about what influenced their business taxes and half were asked about what influenced their employment taxes.



- 5.19 The ethos of the company was rated as influential by the highest proportion of businesses (particularly amongst LBS and LC CRM customers), closely followed by Deterrents and Penalties (similarly influential across all customer groups). These appeared to be equally influential on both Business and Employment Tax planning.
- 5.20 As shown in table 5.1, press coverage of tax issues was rated influential by under half of all businesses regardless of whether this was in relation to business or employment taxes (between 27% and 49% of businesses rated press coverage as influential), though LBS businesses were more likely than LC CRM and LC CC businesses to agree press coverage was influential⁴⁵.
- 5.21 Businesses were then asked about their views on the recent media attention surrounding large businesses and their tax strategies, as well as the behaviour of the large businesses themselves. Businesses were asked to what extent they agreed or disagreed with the following statements:
- The media coverage has no influence on my company's tax strategies
 - I feel that those corporations should not have pursued those tax strategies
 - I feel that I should look for similar opportunities for my company
- 5.22 Businesses views were mixed in terms of the media influence on their own tax strategy, with between about one third and two thirds of businesses agreeing that the media had no influence. Consistent with the results shown above in paragraph 5.20, lower proportions of LBS businesses agreed that the media coverage had no influence, suggesting that these largest companies are more likely to be influenced by media attention.
- 5.23 In terms of what businesses thought about the behaviour of other large businesses in the media, again to some extent the results varied depending on customer group. Lower proportions of LBS customers (25%), than LC CRM (40%) and LC CC customers (48%), felt that the corporations should not have perused those tax strategies.
- 5.24 That said, when businesses were asked whether they feel they should be looking for similar opportunities (to those pursued by other large companies featured in the media) for their own company, agreement was very low and consistent across all customer groups, with a little over 1 in 10 agreeing⁴⁶.

⁴⁵ Agreement with - *Media coverage has no influence on my company's tax strategies*: LBS 39%, LC CRM 59%, LC CC 69%

⁴⁶ Agreement with - *I feel that I should look for similar opportunities for my company*: LBS 13%, LC CRM 11%, LC CC 13%



Factors affecting Head Office Location

5.25 Businesses were asked which factors would influence their decision on the country in which to locate their Head Office. Table 5.2 shows these results.

Table 5.2 Factors influencing the country in which a business's Head Office is based

	LBS	LC CRM	LC CC
<i>Base: All respondents</i>	<i>(328)</i>	<i>(435)</i>	<i>(675)</i>
	%	%	%
Business related / Historical factors	85	81	77
Historical factors – where the office has always been	52	46	47
General business environment	29	31	26
Where our workforce have always been based	19	22	23
Labour costs	2	2	1
Tax rate related factors	11	9	5
Corporation Tax rates	7	6	4
More favourable tax conditions in other countries	3	4	2
Tax on company employees	1	2	1
VAT rates	1	1	-
Administrative burden related factors	6	2	2
Sector specific rules and regulations	3	-	1
Complexity of tax legislation in general	2	1	1
Cost of tax compliance	2	-	1

Columns do not add up to 100% as businesses could give more than one answer

5.26 Looking at the broad overall themes shown in the table (in bold), a large proportion of businesses cited “Business related / Historical factors” as those influential to Head Office location.

5.27 A smaller proportion of businesses (between one in ten and one in twenty) cited “Tax-rate related factors” as influencing the country where the Head Office was located. Within this category, Corporation Tax rates were the primary influencing factor: 7% of LBS businesses, 6% LC CRM businesses and 4% LC CC businesses reported that Corporation Tax rates would influence their decision on where to locate their Head Office.

5.28 Relatively small proportions cited reasons for Head Office location that related to the administrative burden of conducting business in certain locations, for example: Sector specific rules and regulations, the complexity of tax legislation in general, and the cost of tax compliance.



6 Influence of tax administration and policy change on the UK economy and individual businesses

Key findings

- 6.1 The majority of large businesses felt that the drops in Corporation Tax rates introduced between 2010 and 2013 were positive for the competitive position of their business and close to all felt they were very or fairly effective at maintaining the UK's economic position. In addition, around a fifth of businesses also claimed that they had felt encouraged to invest in existing UK activity and to place new activity in the UK.
- 6.2 Overall, around 95% of all businesses interviewed believed the six specific policy changes discussed had had either a positive effect or no overall effect on their businesses' competitive position. LBS and LC CRM customers were more likely to consider the package of changes as having a positive effect on their business than LC CC customers.
- 6.3 Although the range of policies discussed differed between the 2012 and 2013 study, respondents were more likely to be positive about the 'package' of changes discussed the 2013 TOPS compared to the package of changes discussed in 2012 wave of TOPS.
- 6.4 The introduction of RTI in April 2013 has seen a significant increase in the number of businesses mentioning this as the reason their administrative burden has increased, especially LC CC customers. In contrast, the proportion of businesses mentioning SAO legislation as an administrative burden has fallen each year since 2011.

Introduction

- 6.5 This chapter explores the response of large businesses to six specific recent changes to tax policy in the UK. It first explores the awareness levels of these changes amongst large business customers and summarises their views on how effective each policy will be in maintaining both the competitive position of their businesses and the competitiveness of the UK economy as a whole. The six specific pieces of legislation touched upon in the survey were:
- The Corporation Tax rate changes between 2010 and April 2013, having fallen from 28% to 23%;
 - Reforms to the Controlled Foreign Companies (CFC) regime;
 - Introduction of the Debt Cap, effective from 2009;
 - Increase in the maximum Annual Investment Allowance (AIA) for a temporary period of two years from £25,000 to £250,000;
 - The Patent Box reforms finalised in Budget 2012; and
 - Introduction of the Distribution Exemption for companies in 2009.
- 6.6 A more detailed summary of each of these changes is provided in the next section.



Summary of Tax Policy changes

- 6.7 **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 the Corporation Tax rate as a key way to increase UK competitiveness. As a result the Corporation Tax main rate has fallen from 28% to 23% as of April 2013. Further reductions are planned to bring the rate down to 20% by 2015.
- 6.8 The new **Controlled Foreign Companies (CFC)** rules, introduced in the Finance Act 2012, will better reflect the way that businesses operate in a global economy whilst maintaining adequate protection against artificial diversion of UK profits.
- 6.9 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.
- 6.10 The **Annual Investment Allowance (AIA)** is effectively a 100% first year allowance for businesses expenditure on almost all plant or machinery (apart from cars) which was previously capped at £25,000. An increase in the amount of AIA was introduced in January 2013 to apply for two years. By accelerating the relief on qualifying expenditure, the measure aims to provide an incentive to bring forward investment in capital expenditure.
- 6.11 The **Patent Box** reforms were finalised in the 2012 budget and involve a reduction to a Corporation Tax rate of 10% on profits attributed to patents and other similar intellectual property.
- 6.12 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.

Perceived impact of changes on businesses' competitive position

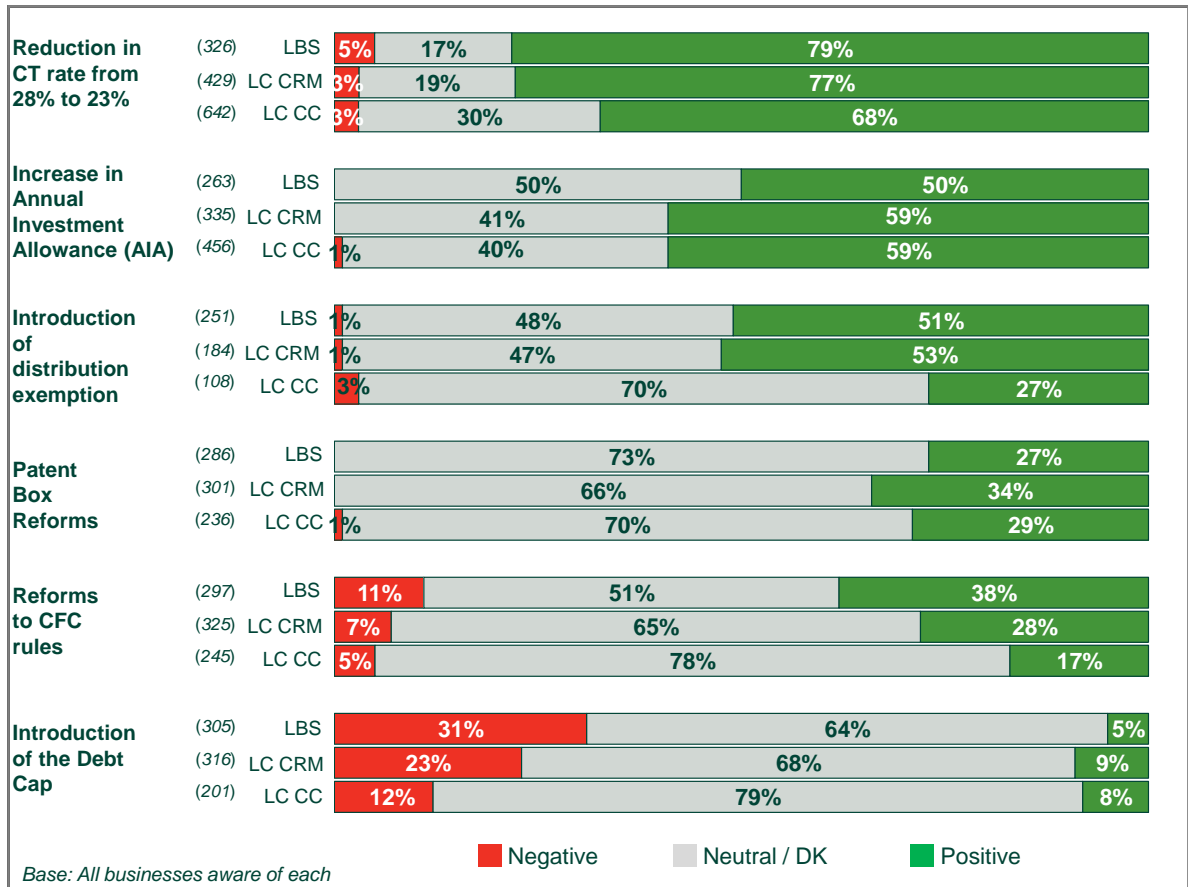
- 6.13 The Corporation Tax reforms were recognised by nearly all large business customers regardless of their customer group. The remaining five changes showed significant differences in recognition across the three customer groups – with LBS customers more likely to be aware of the changes and LC CC customers least likely to be aware of the changes⁴⁷.
- 6.14 These differences may be due to the lack of relevance of the reforms to different types of business.

⁴⁷ Between 77% and 93% of LBS customers were aware of the remaining policy changes, between 42% and 77% of LC CRM customers were aware of the remaining policy changes and between 16% and 68 % of LC CRM customers were aware of the remaining policy changes.



6.15 Where the business was aware of the tax policy change in question they were also asked whether they perceived there to be a positive or negative impact (or neither) on the competitive position of their business as a result of its introduction. Figure 6.1 summarises these responses.

Figure 6.1: Perceived effect of other policy changes of businesses competitive position



6.16 In summary, the reduction in Corporation Tax main rate and to a lesser extent the increase in Annual Investment Allowance and the introduction of the Distribution Exemption were perceived to have the greatest potential benefit to large business customers aware of the changes.

6.17 By contrast between 12% and 31% of large business customers felt the introduction of the debt cap would have a negative impact on the competitive position of the business.

6.18 Each of the policy changes is discussed in more detail through the remainder of this section.

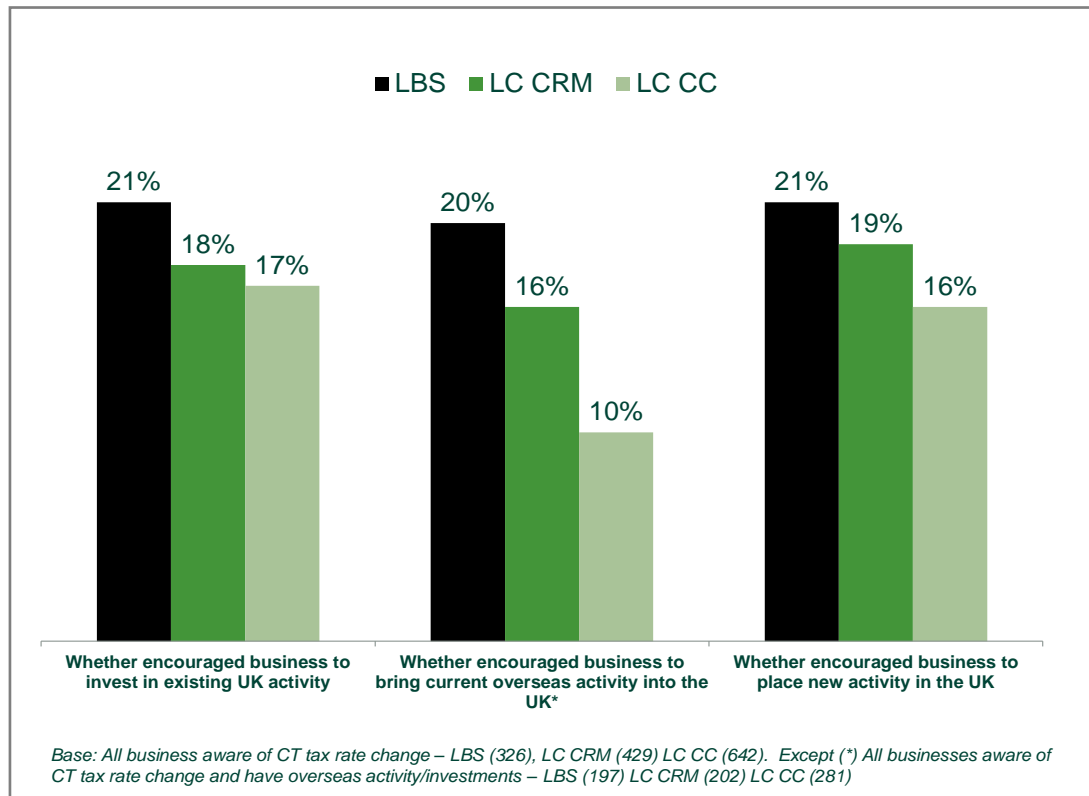
Reduction in the main rate of Corporation Tax

6.19 Over three-quarters of LBS and LC CRM businesses aware of the reduction in Corporation Tax rates felt the change would have a positive effect on their business with just over two-thirds of LC CC customers expressing this opinion.



6.20 Where businesses were aware of the Corporation Tax main rate reduction, they were also asked a number of questions on how the drop in rate had affected investment in UK activity, the responses to which are summarised in Figure 6.2 below.

Figure 6.2: Proportion of businesses reporting that the CT reduction has encouraged the business to invest/place new activity in the UK⁴⁸



6.21 At an overall level, 29% of LBS customers, 25% of LC CRM customers and 23% of LC CC customers reported that the drop in the main rate of Corporation Tax had encouraged the business to do at least one of the three activities listed above.

6.22 A fifth of LBS customers that were aware of the CT rate change stated they had been encouraged to invest in existing UK activity as a result of the change. A similar proportion also reported being encouraged to place new activity in the UK as a result of the change in CT rate. Of the LBS customers that had overseas activity or investments, a fifth also reported that the CT change had encouraged movement of their overseas activity into the UK. Response patterns for the LC CRM and LC CC customer groups followed a largely similar pattern; although LC CC customers were clearly less likely to have made plans to bring overseas activity into the UK.

⁴⁸ Whether businesses were encouraged to bring current overseas activity into the UK was only asked of businesses that were part of a larger foreign owned group or part of a larger UK owned group with overseas interests. Due to the way the questionnaire was set up not all businesses that were part of larger foreign owned group were asked whether they had overseas interests and were therefore excluded from this base. Further analysis has shown that answers have not been biased by this exclusion.



Debt cap

- 6.23 The introduction of the Debt Cap was perceived to impact negatively on the business' competitive position by 31% of LBS customers and 23% of LC CRM customers that were aware of the change. While LC CC customers were more likely to record a neutral response – around one in eight (12%) also stated it would have a negative impact on the business' competitive position.
- 6.24 Those aware of the Debt Cap reforms were also asked if its introduction had altered the capital flows within the business, although the overwhelming majority of customers said that it had not (LBS 94%, LC CRM 93%, LC CC 94%).

Distribution Exemption and CFC reforms

- 6.25 The introduction of the Distribution Exemption was generally viewed as having a positive effect on the competitive position of businesses. However, a smaller proportion of LC CC businesses (compared with LBS and LC CRM businesses) rated these changes positive, indeed they were more likely to rate these changes as having a neutral effect on the business's competitive position. When asked this in reference to the CFC reforms, two-fifths (38%) of LBS customers viewed these as having a positive effect on the competitive position of the business. Lower proportions of LC CRM and LC CC customers reported a positive impact (28% and 17% respectively) and in all three customer groups businesses were most likely to state that the policy had no impact ('neutral') on their businesses' competitive position.
- 6.26 Customers aware of the CFC reforms and with significant overseas investments were asked whether the reforms would results in either the management, ownership, operation or location of any of the following would move from UK to overseas:
- assets;
 - intellectual property;
 - trading operations; or
 - risks into the UK
- 6.27 Very small proportions of these businesses reported that the reforms *would* lead to the movement of at least one of the above: 12% of LBS customers, 6% of LC CRM customers and 8% of LC CC customers⁴⁹.
- 6.28 All businesses aware of the distribution exemption were also asked whether they had benefitted from the policy through the business repatriating cash to the UK. Two-fifths (42%) of LBS customers and close to half (47%) of LC CRM customers stated they had, whilst LC CC businesses were significantly less likely to have benefitted (16%).

⁴⁹ Breakdown of businesses reporting that CFC reforms would lead to the management, ownership, operation or location of any of the following from the UK to overseas:

Movement of assets: LBS 4%, LC CRM 3%, LC CC 2%

Movement of Intellectual Property: LBS 3%, LC CRM 2%, LC CC 5%

Movement of Trading Operations: LBS 4%, LC CRM 2%, LC CC 3%

Movement of Risks: LBS 7%, LC CRM 3%, LC CC 1%.



Annual Investment Allowance and Patent Box reforms

- 6.29 The increase in the Annual Investment Allowance (AIA) and the introduction of Patent Box reforms (as perhaps would be expected) produced almost no instances where businesses aware of the reforms perceived the policies to have had a negative impact on their business' competitive position. For the increase in AIA, the responses were split fairly evenly between those that stated it had had a positive impact and those that stated it had no impact ('neutral') on their business' competitive position. LC CC customers that were aware of the increase in AIA were then asked about their business' spend on plant and machinery in light of the reforms. Four fifths (80%) said that their spend was unaffected. However, 10% agreed that their spend had already increased and 12% said it would increase (or would increase further) as a result of the AIA reforms.
- 6.30 Where businesses reported awareness of the Patent Box reforms and confirmed that they had or could hold patents, they were also asked if the changes would affect their approach to patentable technology within the UK operation of their business. Over two-fifths (42%) of LC CRM customers said that the reforms meant they expected their business to invest more in developing patentable technology in the UK, far higher than the LBS customer group (29%). Over a fifth of all large business customers⁵⁰ felt the reforms would lead to the business locating more patents in UK subsidiaries while a quarter of more large business customers⁵¹ felt the reforms would lead to job creation within the UK arm of the business.

Comparing with 2012 results

- 6.31 Four of the policy changes discussed in the 2013 study were also discussed in the previous wave of the TOPS.⁵² Comparing result between waves shows there have been two areas of significant change between 2012 and 2013:
- There was a significant increase in the proportion of LC CRM and LC CC customers that perceived Corporation Tax rate reform to be positive for the competitiveness of their business⁵³. This is likely to be explained by the fact that Corporation Tax was reduced further between the two studies; and
 - The proportions considering the Patent Box reforms a positive introduction to their business had also increased significantly since they were last discussed in 2012⁵⁴.

⁵⁰ LBS 21% LC CRM 26% LC CC 22%

⁵¹ LBS 24% LC CRM 28% LC CC 31%

⁵² CT reforms, Patent Box, Debt cap and Distribution Exemption. That said, it should be noted in 2012 the Patent Box had not been rolled out and the CT rate reductions were lower than in 2013.

⁵³ In 2012 65% of LC CRM and 54% of LC CC customers felt the CT reform was positive – in 2013 77% of LC CRM and 68% of LC CC customers felt the CT reform was positive.

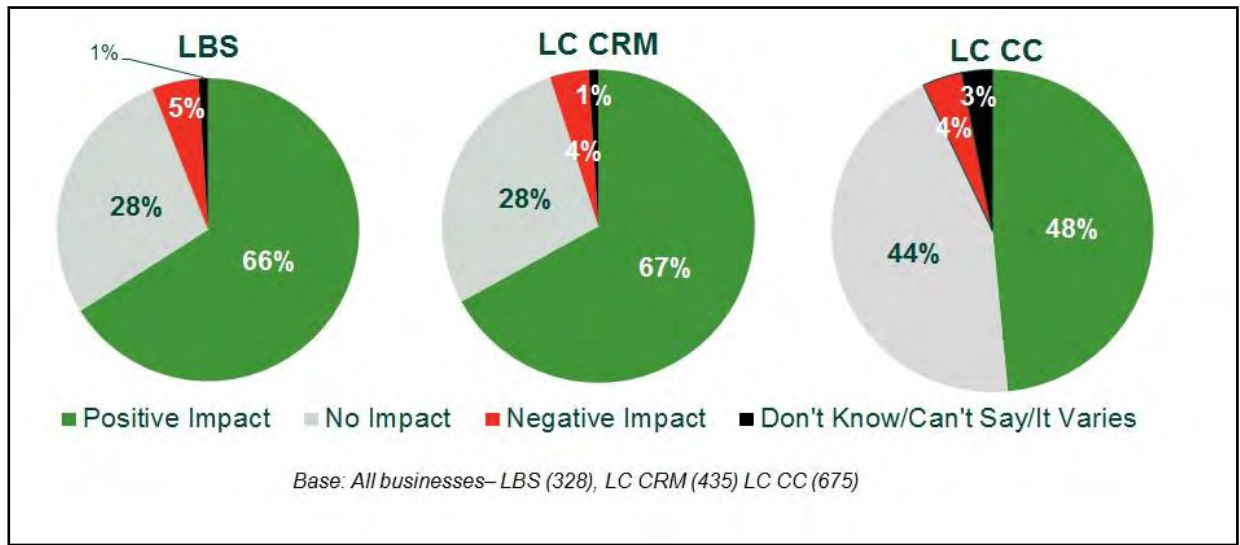
⁵⁴ In 2012 19% of LBS and 25% of LC CRM customers felt the Patent Box was positive – in 2013 27% of LBS and 34% of LC CRM customers felt the CT reform was positive.



Impact of all policy changes

6.32 After discussing all changes individually, businesses were then asked to consider whether all the tax policy changes introduced since 2009 would have a positive or negative effect overall on their business. Around 95% of all businesses believed them to have had either a positive effect or no overall effect on their business' competitive position⁵⁵, summarised in Figure 6.3 below.

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



6.33 LBS and LC CRM customers were more likely to consider the changes since 2009 to have had a positive effect on their business (66% and 67% respectively) than LC CC customers. Indeed, for LC CC customers this proportion was reduced to a half, and these customers were more likely to feel unaffected by the changes (44%).

6.34 Respondents were more likely to report being positive about the 'package of reforms introduced since 2009' in the 2013 TOPS than the 2012 survey.

6.35 LC CRM customers showed the biggest increase in positive ratings of the reforms introduced since 2009 between 2012 and 2013, rising from 48% considering the reforms to be positive in 2012 to 67% in 2013⁵⁶.

⁵⁵ LBS 94% LC CRM 95% LC CC 92%

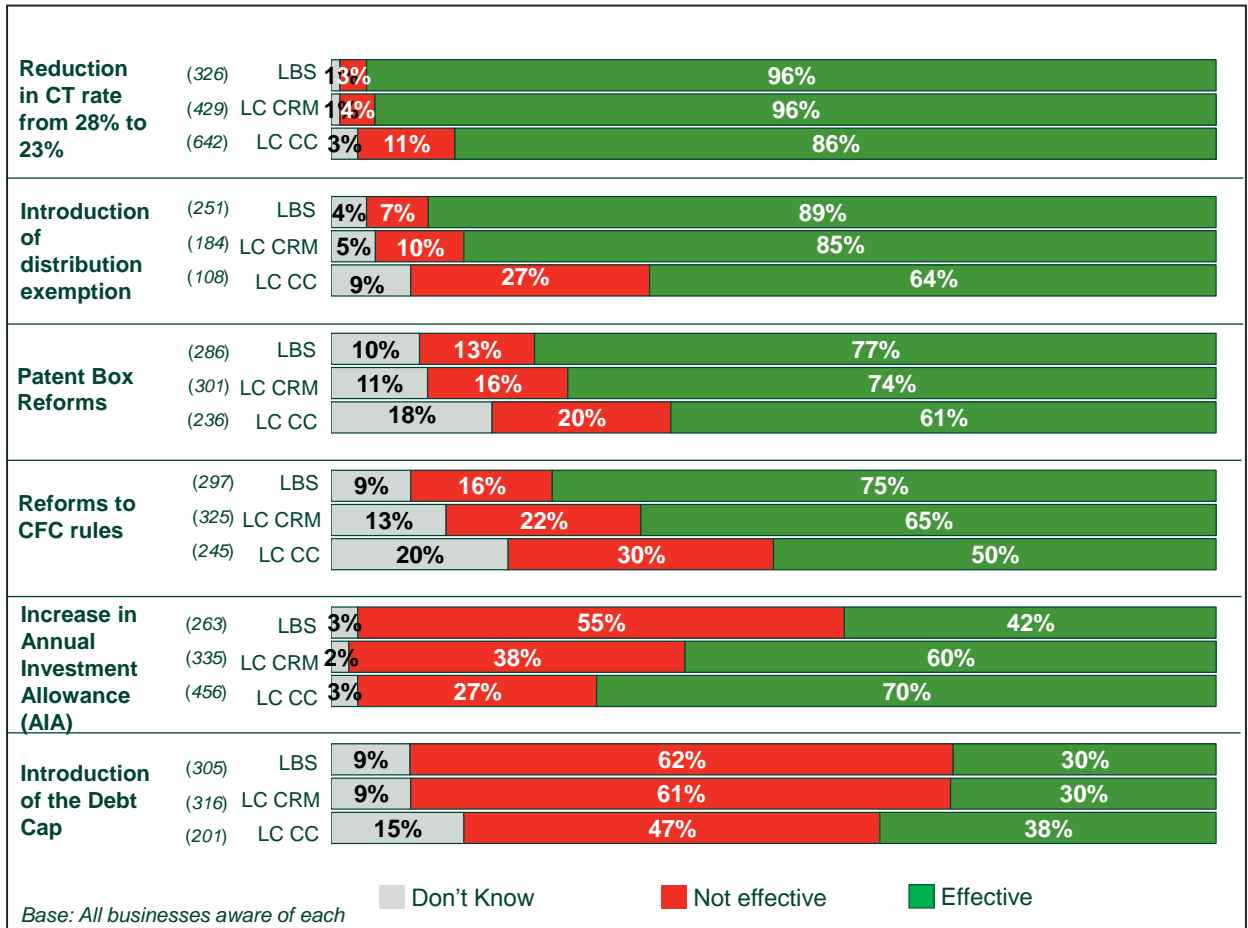
⁵⁶ The respective changes for LBS and LC CC customers were – LBS: 59% 2012 to 66% in 2013 and LC CC: 40% 2012 to 48% in 2013



Perceived impact of changes on competitive position of the UK economy

6.36 As well as the impact on their own business, large business customers were also asked further follow up questions about the perceived impact of these policy changes on the UK's competitive economic position as a whole; the responses of which are summarised in Figure 6.4.

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



- 6.37 Across four of the six policies tested in 2013, a significant majority of businesses aware of them felt that their introduction had been effective in maintaining the UK's competitive position (these four policies were the reduction in CT main rate, the introduction of the distribution exemption, the Patent Box reforms and the reforms to the CFC rules).
- 6.38 Specifically, the fall in the main rate of Corporation Tax was overwhelmingly considered to be effective in maintaining the UK's competitive position among LBS and LC CRM customers aware of the change (both 96% effective) and although lower, 86% of LC CC customers aware of the change also felt the same. Comparing these findings back to Figure 6.1 it is interesting to note that while not all businesses felt the reduction in main rate of CT to specifically help the competitiveness of their individual business, on balance nearly all felt it was effective in maintaining the UK's competitive position in the global economy.
- 6.39 The distribution exemption was also considered an effective policy introduction by a large proportion of LBS and LC CRM customers aware of the change (89% and 85% effectively). LC CC customers aware of the change were however more likely to feel this policy was not effective in maintaining the UK's competitive position (27% selected this option).
- 6.40 Similarly, the reforms for the CFC rules were considered effective by three-quarters of LBS customers aware of the change and nearly two-thirds of LC CRM customers aware of the change; however fewer LC CC customers aware of the change perceived them to be effective. When this is compared to Figure 6.1 there is a sharp contrast – while relatively few felt it would benefit the competitive position of the business most businesses felt the CFC reforms would be effective in maintaining the UK's competitive position.
- 6.41 The introduction of the Debt Cap was perceived by around three-fifths of LBS and LC CRM customers aware of the change and by nearly half of LC CC customers aware of the change to be not effective⁵⁷ in maintaining the UK's economic position as a whole.
- 6.42 The response to the effectiveness of the increase in Annual Investment Allowance (AIA) in maintaining the UK's economic position in the global economy was mixed. LC CC customers aware of the change were more likely to consider this policy as effective (70%) compared to 60% of LC CRM customers aware of the change and 42% of LBS customers aware of the change (among whom over half deemed it to be not effective in maintaining the UK's competitive position - 55%).

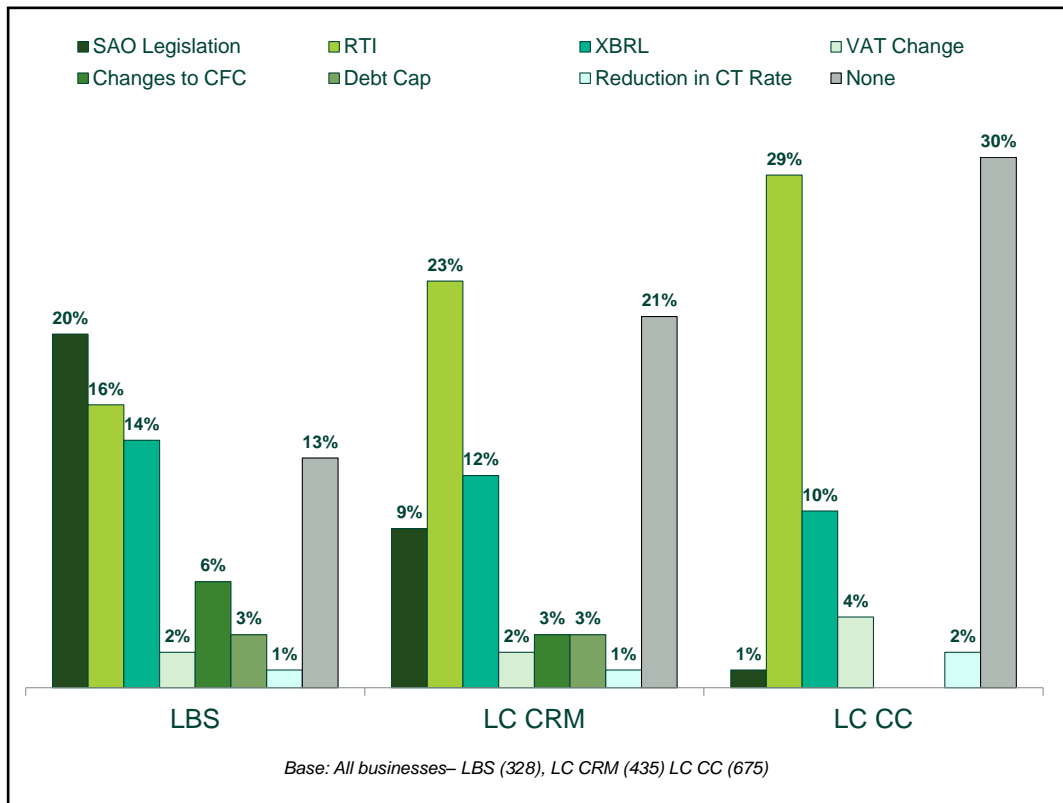
⁵⁷ It should be noted that "Not effective" does not necessarily mean detrimental to the UK's position in the global economy



Perceived impact of changes on administrative burden of tax compliance

6.43 Businesses were asked to name, spontaneously, the 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 (note this could have been a positive or negative impact). Figure 6.5 shows the top five tax policy changes mentioned for each of the three customer groups.

Figure 6.5: Tax policy changes with the biggest impact on administrative burden⁵⁸



6.44 The introduction of the SAO legislation was considered by a fifth (20%) of LBS and 9% of LC CRM customers to have had the biggest impact on their administrative burden. As discussed in chapter 3 – the SAO legislation was also shown to be a catalyst for introducing changes to transactions, systems and processes among large businesses. LC CC customers may not have been required to appoint Senior Accounting Officers.

6.45 The introduction of RTI in April 2013 was mentioned by a significant minority across all three customer groups, particularly by LC CC customers (29%).

6.46 The introduction of XBRL was spontaneously mentioned by 14% of LBS customers and was the second most commonly mentioned change amongst LC CRM (12%) and LC CC customers (10%).

⁵⁸ It should be noted it was not stated as to which direction the 'impact' was in (i.e. reducing or on increasing burden).



6.47 It should be noted that a substantial minority of businesses did not feel any specific policy changes had impacted the administrative burden imposed on their business. Nearly a third (30%) of LC CC customers did mention one specific policy, compared with 21% of LC CRM and 13% of LBS customers respectively.

6.48 When comparing these responses in the 2012 study, two key trends emerge:

- The introduction of RTI in April 2013 has seen higher numbers⁵⁹ of large businesses reporting that this has caused an increase in the administrative burden of tax compliance, especially LC CC customers. While the change was not mentioned by LC CC customers in 2012, it was mentioned by a minority of LBS (4%) and LC CRM (3%) customers; and
- The proportion mentioning SAO legislation as having an impact on administrative burden has significantly fallen year on year, down to 20% among LBS customers from 31% in 2012. Similarly where 15% of LC CRM customers mentioned it in 2012, the 2013 survey saw this proportion fall to just 9%.

⁵⁹ More businesses cited RTI as having had an impact on administrative burden compared to last year; however the proportions that stated that this impact translated into an *increase* in burden were similar. (In 2012 only 26 businesses named RTI as the biggest impact, of which 96% said this resulted in an increase in burden. In 2013 348 businesses chose RTI but similar proportions (94%) reported an increase).



7 Influences on tax paid by the business

Key findings

- 7.1 The majority of large businesses felt that the package of reforms put in place since 2009 will make tax avoidance less likely or have no impact on tax avoidance. LBS customers were more likely to state that these reforms would make tax avoidance less likely.
- 7.2 Across all three customers groups, between the 2011 wave of the TOPS and the 2013 wave of the TOPS there has been a significant decrease in the proportion of businesses stating that one of the outcomes of using agents/advisors is that they pay less tax. This should be interpreted in the earlier context of chapter 4 which highlighted that there was also marked decrease in the incidence of agents/advisors suggesting ways to reduce tax liability when compared to the 2012 of the TOPS.

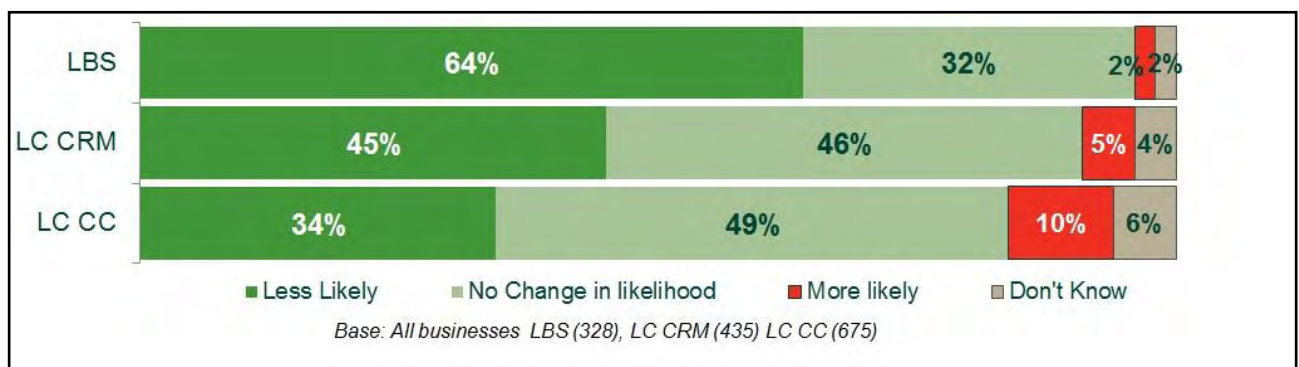
Introduction

- 7.3 This chapter explores how the recent tax policy changes discussed in chapter 6 have influenced the amount of tax paid by large businesses (if at all), including how businesses perceived the introduction of the policy changes to affect the likelihood of large businesses engaging in tax avoidance. It also reviews the role of agents/advisors and how the relationship between business and agent affects the amount of tax paid. It concludes by exploring the types of tax planning strategies undertaken by large businesses (including Advanced Pricing Agreements and 'effective CT rates.'

Perceived impact of reforms on likelihood to engage in tax avoidance

- 7.4 Businesses were asked to consider as a whole the tax policy changes that had been introduced since 2009 and give their opinion on whether they feel their introduction has made businesses (in general, rather than they themselves) more or less likely to engage in tax avoidance. Figure 7.1 summarises responses to this across the three customer groups.

Figure 7.1 Impact of recent tax policy changes on businesses' likelihood to engage in tax avoidance



- 7.5 LBS customers were more likely to state that the introduction of the tax policy changes would impact on large businesses' likelihood to engage in tax avoidance than the other two customer groups. Indeed, the majority of LBS customers felt it would reduce the likelihood of businesses (64%) avoiding tax.
- 7.6 By contrast under half of LC CRM and closer to a third of LC CC customers thought the policy changes would make businesses less likely to engage in tax avoidance. Further, one in ten LC CC customers predicted large businesses would be more likely to engage in avoidance as a result of the policy changes.
- 7.7 Comparing this against the 2012 wave of the TOPS showed a significant increase in the proportion of LBS customers who felt that the policies discussed during the interview would make tax avoidance less likely (58% of LBS customers felt the policies discussed in 2012 would make tax avoidance less likely compared with 64% 2013)⁶⁰.

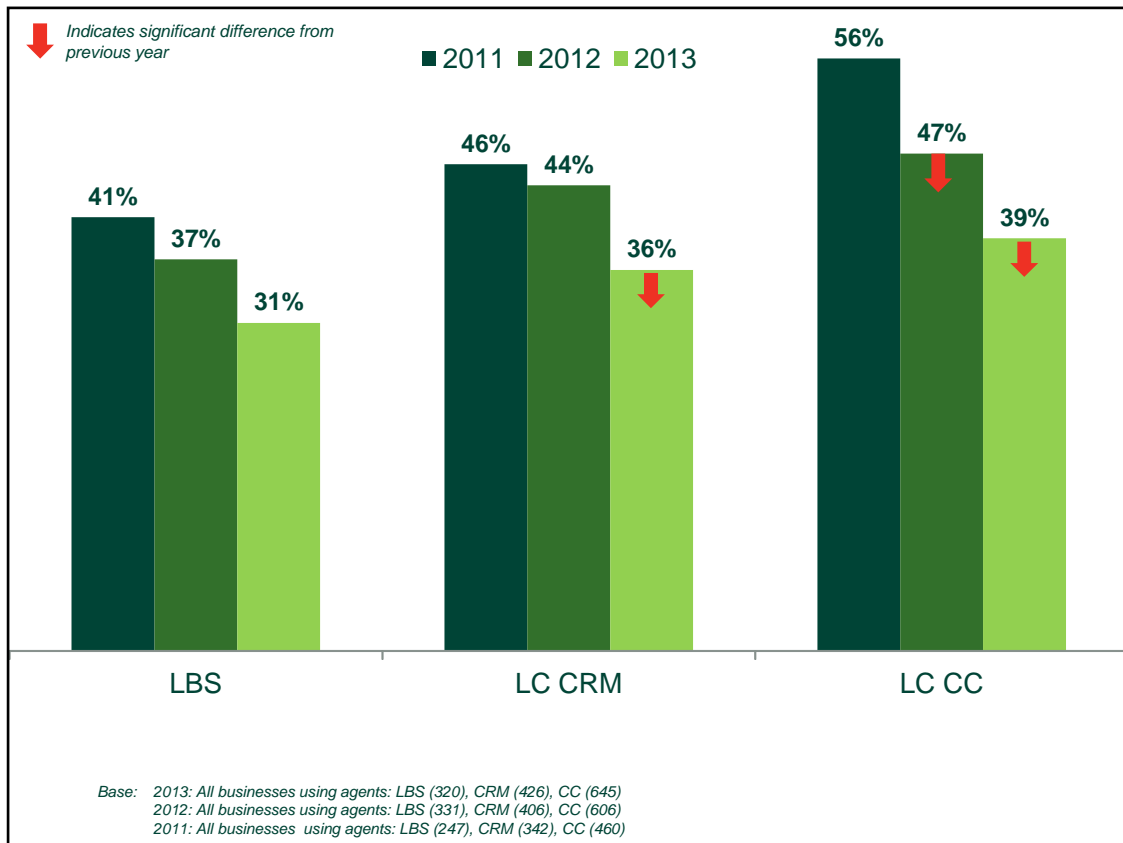
⁶⁰ This finding is caveated by the fact only 4 of the 6 policies discussed in 2012 were the same (CT reforms, Patent Box, Debt cap and Distribution Exemption). It should be noted in 2012 the Patent Box had not been rolled out and the CT rate reductions were lower than in 2013.



Impact of agents/advisors on the amount of tax paid by businesses

7.8 Throughout the three waves of this research, businesses were asked directly whether their use of agents/advisors resulted in them paying less tax. One noticeable finding that has emerged from the analysis of all three waves is a significant drop in agreement that the use of agents/advisors leads to large businesses paying less tax – and this section builds on the findings discussed in chapter 4. Figure 7.2 summarises the trends by looking at the results year-on-year.

Figure 7.2 Agreement that the use of agents/advisors leads to business paying less tax



7.9 Amongst LBS customers there has been a significant decrease since the first wave of research in 2011, falling from 41% to 31%. For LC CRM customers in 2013, 36% agreed that the use of agents/advisors led to businesses paying less tax, significantly lower than in the 2011 and 2012 studies (46% and 44% respectively).

7.10 The decreasing trend has also been most noticeable amongst the LC CC group with significant decreases in agreement year-on-year. Over half agreed in 2011 (56%), falling to 47% in 2012 and 39% in 2013.



- 7.11 Having asked this question across all three waves of the study, longitudinal⁶¹ analysis of response patterns could be performed amongst those who participated throughout the three years. This was carried out and is summarised in table 7.1
- 7.12 Although around a fifth of businesses gave a 'higher'⁶² level of agreement each year with regards to the statement that using agents/advisors results in the business paying less tax (LBS 17%, LC CRM 18%, LC CC 13%) - closer to three in ten (LBS 33%, LC CRM 28%, LC CC 30%) gave a 'lower' level of agreement each year.

Table 7.1 Longitudinal analysis – whether use of agents/advisors leads to the business paying less tax

	LBS	LC CRM	LC CC
<i>Base: All taken part in all three waves</i>	(117)	(132)	(144)
	%	%	%
Higher agreement across waves that the use agents/advisors leads to the business paying less tax	17	18	13
No change in agreement across waves that the use agents/advisors leads to the business paying less tax	22	33	28
Lower agreement across waves that the use agents/advisors leads to the business paying less tax	33	28	30
Fluctuation in agreement across waves that the use agents/advisors leads to the business paying less tax	28	21	29

⁶¹ Where customers took part in all three waves of the TOPS between 2011 and 2013 responses were analysed to help HMRC understand what proportion of customers changed their opinion at this question across the three waves.

⁶² The question was asked on a 5pt scale – a 'higher' level of agreement was defined as a customer who incrementally shifted their opinion closer to "strongly agree" each wave. By contrast a 'lower' level of agreement was defined as a customer who incrementally shifted their opinion closer to "strongly disagree" each wave.



Advanced Pricing Agreements and “Effective CT” rates

- 7.13 Businesses with either overseas investments or interests⁶³ were also asked whether they were aware that they were able to set up an Advanced Pricing Agreement⁶⁴. Again the pattern of responses differed across the three customer groups with over four-fifths (85%) of LBS customers with overseas interests aware this was possible compared with 62% of LC CRM businesses with overseas interests and only a quarter (24%) of LC CC customers with overseas interests.
- 7.14 Of the businesses with overseas investments, only a minority of these customers had an APA in place (16% LBS, 11% LC CRM and 3% LC CC).
- 7.15 Large businesses were also asked whether they had an ‘effective rate’ of Corporation Tax and whether this was used at senior levels to inform tax planning or strategy. A third of LBS customers stated that they had an ‘effective rate’ that was used to inform strategy (36%), compared to 31% of LC CRM customers and 22% of LC CC customers.

⁶³ Due to the way the questionnaire was set up not all businesses that were part of larger foreign owned group were asked whether they had overseas interests and were therefore excluded from this base. Further analysis has shown that answers have not been biased by this exclusion

⁶⁴ An Advance Pricing Agreement is an agreement between a business and HMRC that determines a method for resolving transfer pricing issues in advance of a return being made. The aim is provide the business with certainty for the duration of the agreement.



8 Conclusions

By Professor Lynne Oats, University of Exeter Business School

Large businesses are markedly different to other categories of taxpayer and as noted by the OECD (2013a: 84) 'present significant risks to effective tax administration'. Increasingly revenue authorities worldwide are concentrating expertise in managing this taxpayer population; a process that includes developing sound understanding of their unique characteristics and compliance behaviour. TOPS forms part of HMRC's attempts to gain insights into the tax management environment of large business. The following observations reflect the opinion of the author, and should not be taken to represent the views of either IFF Research or HMRC.

The third wave of the TOPS questionnaire was conducted over the summer of 2013; in the midst of ongoing public debates about the tax affairs of multinational companies, including the scrutiny of the Public Accounts Committee, the House of Lords Select Committee on Economic Affairs and the work of the OECD on Base Erosion and Profit Shifting. It is important to read the findings of this survey against this turbulent backdrop, aptly described by Oxford Professor Judith Freedman as 'torrid' (Freedman, 2013: 373).

Sensitivity to public mood does appear to have played a role in responses to some lines of questioning. For example almost all respondents reported having a transparent relationship with HMRC, however there were lower levels of agreement that they were transparent with the public and media regarding taxes. Most respondents indicated that businesses within the same grouping were treated in an even handed manner, however in relation to whether HMRC is even handed across all business, only about 35% of respondents agreed they were, which may indicate that HMRC has some further work to do to alleviate concerns about differential treatment.

Notwithstanding that most large businesses will have in-house tax expertise, the survey shows continued use of external advisors, although their use for different aspects of tax management varies between the three respondent groups. These differences may reflect the extent and depth of in-house expertise as well as the complexity of business including the type and frequency of operational and business decisions. The significant decrease in 2013, compared to 2011, in respondents saying they use agents' advice to implement strategies that would not otherwise be considered, indicates that external advisors are now used less for this purpose. Whether this reflects reduced demand for, or supply of, tax strategy ideas is not clear. The marked reduction in agreement that agents suggest ways of reducing tax liabilities compared to 2012 does suggest a shift in focus away from tax minimization, which could be attributable to a number of factors including increased concerns about reputational risk for both large businesses and their advisors.

Wave 3 of TOPS introduced a new strand of questions dealing with tax avoidance, evasion and planning. In relation to tax avoidance, 45% of LBS respondents agreed that tax avoidance is acceptable, compared to 32% of respondents from the LC CRM category and 23% from the LC CC category. These differences between businesses with CRMs and those with CCs could possibly reflect a more sophisticated understanding among the larger businesses of what tax avoidance may constitute, bearing in mind considerable differences of opinion in this regard. Larger business may be more likely to have more experienced tax directors who have better knowledge of the shifts in definition of 'tax avoidance' over time,



fuelled in part by publicity from tax campaigners and the media more broadly. The inclusion of 'tax evasion' for the first time in this survey has yielded some insights into sectoral differences, which are clearly worthy of additional research going forward. Importantly, proportionately very few respondents agreed that tax evasion is commonplace within their sector, although the proportion was slightly higher for LC CC businesses. The distinction between avoidance and evasion is still not well articulated in popular discourse. Gammie (2013), in an attempt to clarify it, notes "[t]ax avoidance is a function of the tax base..., tax evasion is a function of the mechanisms by which tax is collected and enforced."

In terms of tax planning, it is significant that the ethos of the business is stated as being an important influence for both business and employment taxes. The consistency of this across both types of taxes indicates a relationship between organisational culture and the approach of the in-house tax department to these taxes, which will almost certainly be dealt with by different personnel.

Finally, in terms of administrative burdens of tax compliance, the relative importance of recent initiatives has shifted slightly, which is to be expected. The importance of the Senior Accounting Officer legislation, for example, has diminished year on year, whereas the introduction of RTI is a new initiative that seems to be causing an initial increase in administrative burden in 2013. This speaks to the lag between the introduction of administrative innovations and their impact on administrative burdens of tax compliance for large businesses. As new measures are introduced, compliance costs will inevitably be higher in the early stages of implementation as businesses adapt to new requirements, then become less prominent as businesses embed the requirements in their processes and procedures. From a research perspective, it is a reminder of the importance of analysing such issues over time, which is one of the aims of the TOPS and LBPS surveys.

Overall, the TOPS survey, together with the sister survey LBPS, has helped to build a rich picture of large business tax management processes and relationships with HMRC. Co-operative compliance models (see OECD 2013b) for managing large business taxpayers are increasingly being adopted by other tax jurisdictions, and the extent to which best practices are shared is also increasing. Understanding the taxpayer population is a foundational concept in successful cooperative compliance to which this study makes a valuable contribution in the UK context.

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9 Technical Appendix

Overview of the research method

- 9.1 This report draws on the findings of interviews with HMRC's largest business customers: those dealt with by HMRC's Large Business Service (LBS), those dealt with by HMRC's Large and Complex group and allocated a Customer Relationship Manager (LC CRM) and those allocated a Customer Coordinator (LC CC).
- 9.2 The TOPS Wave 3 survey comprised 1,438 quantitative telephone interviews, mainly with Heads of Tax or Finance Directors.
- 9.3 The following numbers within each customer group were interviewed between the 24 May and 5 August 2013:

Table 9.1 Number of interviews achieved by customer group

TOTAL	LBS	LC CRM	LC CC
<i>N</i>	<i>n</i>	<i>n</i>	<i>n</i>
1,438	328	435	675

Table 9.2 Approximate population by customer group

TOTAL	LBS	LC CRM	LC CC
<i>N</i>	<i>n</i>	<i>n</i>	<i>n</i>
c.10,100	c. 800	c.1,300	c.8,000

- 9.4 As with previous TOPS and LBPS (Large Business Panel Survey) surveys, a near-census approach was taken for the LBS and LC CRM populations, meaning that these same customers are sampled for both surveys.
- 9.5 Due to the higher numbers of LC CC businesses, two separate random samples of these customers were selected by HMRC - one to be used for LBPS and the other to be used for TOPS.
- 9.6 Once sampled, the approach for surveying LBS, LC CRM and LC CC customers was the same: speaking to as many as possible within the fieldwork period.
- 9.7 The rationale for using a separate sample for LC CC customers for the TOPS survey was to reduce the survey burden on these businesses (i.e. so they were only invited to take part in one survey a year rather than two). It was also hoped that taking this approach would help to maintain response rates for this group more effectively⁶⁵
- 9.8 Where contact details were lacking on the database, telephone numbers and addresses were found, where possible, via online look-up services and manual desk research. All businesses

⁶⁵This decision was made after calculations from the first Large Business Panel Survey, (undertaken six months before the first wave of the Tax Opinions Panel Survey) showed markedly lower response rates for the LC CC customer group



that had viable addresses were sent a letter introducing the research and giving them the opportunity to opt-out.

- 9.9 Table 9.3 below shows how sample numbers have changed over the course of HMRC's programme of research with large businesses (LBS and LC CRM customers, were last contacted for LBPS wave 3, while LC CC customers were last contacted for TOPS wave 2). The table shows where numbers of eligible businesses have dropped due to falling out of scope since they were last contacted (e.g. because a business closed down or it has become company policy not to do surveys), or increased due to top-up sample being provided by HMRC ahead of the TOPS wave 3 survey.

Table 9.3 Sample selection for main stage fieldwork

	Sample available at last contact (TOPS wave 2)	Sample available at last contact (LBPS wave 3)	Out of scope following most recent contact (TOPS wave 3 / LBPS wave 3)	Top-up sample provided by HMRC for TOPS wave 3	Sample available for use in TOPS wave 3
LBS	n/a	662	58	n/a	604
LC CRM	n/a	1,015	99	n/a	916
LC CC	1,609	n/a	175	324	1,758

Questionnaire and screening

- 9.10 The construction of the TOPS wave 3 questionnaire involved an extensive period of development which included discussions with HMRC and a pilot telephone survey.
- 9.11 All pilot interviewing took place from IFF's Computer Assisted Telephone Interviewing (CATI) centre between Wednesday 19th April and Friday 24th April 2013. Ahead of the pilot, a warm up letter was sent at the end of March to introduce respondents to the survey and allow them the opportunity to opt-out. In total 26 interviews were achieved (3 LBS, 13 LC CRM, 10 LC CC).
- 9.12 Following on from this development work the final main stage questionnaire lasted an average of 20 minutes and fieldwork was conducted using CATI. Main stage fieldwork began on Friday 24th May and finished on Monday 5th August 2013.
- 9.13 A screening section at the start of the script was used to identify the correct respondent within each business - the person in the business with overall responsibility for dealing with HMRC, usually the Finance Director, Head of Tax or a Senior Accountant.
- 9.14 The eligibility of the business to take part in the research was also checked at this stage, in particular that the business should manage its own tax affairs.



Response rates

9.15 Response rates were calculated for each of the three customer groups. An overall response rate for the whole sample was also calculated. Businesses which chose to opt out of the research were classified as refusals for the purpose of these calculations. Each respondent was allocated to one of the following categories:

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

9.16 The response rate was calculated using the following formula⁶⁶:

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

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

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

⁶⁶ Thomas, M., 2002 *Standard Outcome Codes and Methods of Calculating Response Rates in Business Surveys at the Office for National Statistics, GSR Conference 2002, UK*; and Beerten, R., Lynn, P., Laiho, J. & Martin, J. 2001 'Recommended Standard Final Outcome Categories and Standard Definitions of Response Rates for Social Surveys', ISER Working Papers no 2001-23



9.17 The table below shows the TOPS wave 3 response rate achieved for each customer group in comparison with the previous two waves of TOPS research:

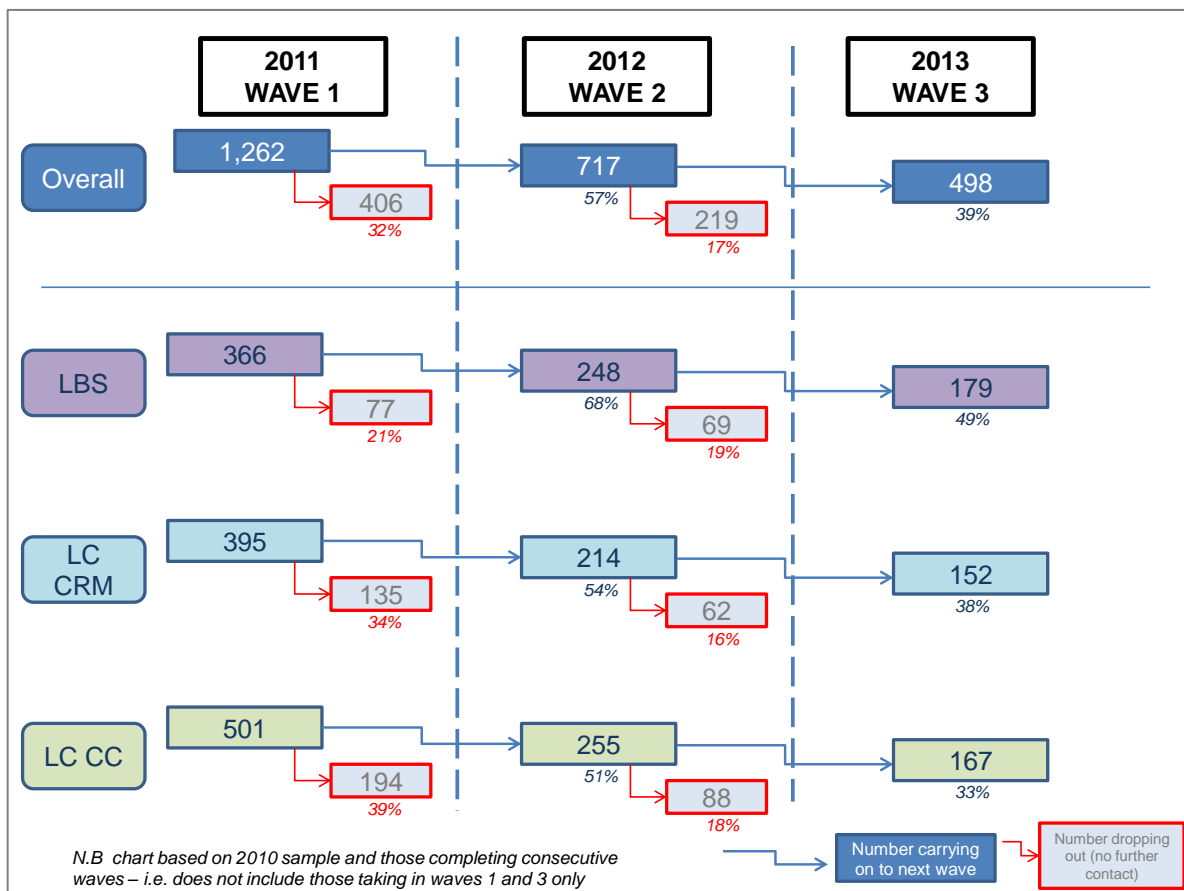
Table 9.4 Response rates achieved

	TOPS wave 3		TOPS wave 2		TOPS wave 1	
	Completed Interviews	Response Rate	Completed Interviews	Response Rate	Completed Interviews	Response Rate
LBS	328	55.0%	342	57.8%	366	58.7%
LC CRM	435	48.4%	422	47.4%	395	41.6%
LC CC	675	39.3%	639	40.7%	501	36.3%
ALL	1,438	44.8%	1,403	46.0%	1,262	42.8%

Attrition rates

9.18 Analysis was conducted on the rate of attrition to the original sample over the three years of fieldwork. Figure 9.1 highlights the number of large business customers taking part in wave 1 and, of these, the proportions that then went on to complete subsequent waves of the survey, as well as those who dropped out for good (i.e. no further contact was made at later waves).

Figure 9.1 Attrition rates between wave 1 and wave 3



Non-response analysis

- 9.19 Checks were run on the profile of complete interviews to detect non-response bias. Non-response bias can occur in surveys if the answers of respondents differ from the potential answers of those who did not participate. The danger of this is that overall results may not be fully representative of the overall customer group.
- 9.20 The scope for non-response analysis was limited to variables on the original sample database, which were sector, region and HMRC administrative data. Generally, this analysis showed only minimal differences (typically 0-4%) between the original sample and the profile of achieved interviews within each customer group.

Data linking

- 9.21 At the end of the survey, respondents were asked whether they would be willing to have their survey answers linked to administrative data held on their business by HMRC, on the condition that HMRC would not be able to identify any business that has taken part in the survey, regardless of whether data linking occurred or not. The following proportions agreed to have their data linked to their survey answers.
- 9.22 No data will be linked if permission was denied by the respondent.

Table 9.5 Proportion of respondents agreeing to data linking

TOTAL	LBS	LC CRM	LC CC
%	%	%	%
82	82	83	82

Data analysis

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



Longitudinal analysis

- 9.26 Where customers took part in this survey and also in wave 1 (2011) and wave 2 (2012), responses were analysed across the survey waves to help HMRC understand the longitudinal picture.
- 9.27 Longitudinal analysis variables were derived slightly differently from the previous wave to take into account the three waves of data. In the TOPS wave 2 report longitudinal analysis focused on whether experience had improved, got worse or stayed the same. For wave 3, four categories were derived, taking into account all three years of the survey.
- 9.28 Table 9.6 shows how the categories were defined. In instances where scores remained static between waves 1 and 2 and changed in wave 3 respondents were assigned to either the 'improved' or 'decline' categories. Where scores have gone both 'up' and 'down' over the three years respondents were defined as 'fluctuated'

Table 9.6 Longitudinal approach for wave 3:

Change in score W1-W2	Change in score W2-W3	Longitudinal analysis category
Improved	Improved	Improved
Same	Improved	Improved
Improved	Same	Improved
Declined	Declined	Declined
Same	Declined	Declined
Declined	Same	Declined
Same	Same	Same
Declined	Improved	Fluctuated
Improved	Declined	Fluctuated

