HM Revenue & Customs

Research report

Going Online: VAT & PAYE concept testing

Quantitative research to explore reactions of small PAYE and VAT customers to communication and support concepts

Business Customer Unit, HMRC

Customer Understanding Team
part of the Customer Units

About the Business Customer Unit (BCU)

Business Customer Unit (BCU) is part of Business Tax responsible for ensuring businesses pay the right amount of tax whilst improving our customer's experience and the overall UK business environment.

The BCU role is to help colleagues make customer focus a reality by understanding our Business Customers needs better and using that understanding to design better products, processes and service delivery.

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Research requirement

HM Revenue and Customs (HMRC) has been tasked to assist and encourage business customers to complete their VAT and PAYE (Pay As You Earn) returns online. From April 2010, the Government plan to make it mandatory that all VAT registered businesses with an annual turnover equal to or in excess of £100,000, and all newly registered VAT traders (regardless of turnover) will have to file their VAT returns online. In addition employers with fewer than 50 employees will be mandated to file their End of Year PAYE (EoY) returns online from April 2010, and their in-year forms (P45/ 46s) online from April 2011.

Some of these customers will employ agents or payroll bureaux to deal with filing VAT / PAYE returns for them. This research was not principally concerned with them, but rather with those who don't have a third party available (the 'unrepresented'), who will have to cope with the transition to online filing by themselves.

Ideally, as many of these customers as possible would make the transition to online earlier than the mandatory date. That way, they avoid last minute panics, iron out any unexpected problems well in advance, and reap the benefits of online filing early. To assist and encourage customers in the transition from paper to online filing HMRC plans to introduce targeted communications and support. A range of communication and support concepts have been developed based on previous qualitative research and the primary objective of this research is to test the likely impact and effectiveness of these VAT and PAYE communication and support concepts.

Who did the work?

HMRC commissioned IFF Research Ltd, an independent full-service research agency, to undertake quantitative research to explore customer's likelihood to react to the developed communication and support concepts.

When the research took place

The fieldwork for the research was carried out from the 11th March to the 31st March 2009.

Methodology and Sample

A quantitative methodology was used for this research which consisted of telephone interviews with two target audiences. Each interview lasted around 15-20 minutes.

The two target audiences were:

- *Small Employers* with fewer than 50 staff members, who made this year's EoY PAYE return either on paper or magnetic media and who do not use an intermediary for filing their PAYE return (referred to in this report as '**PAYE respondents**').

- *Small VAT traders* with fewer than 50 staff members (including sole traders) who have not filed any of this year's VAT returns online and do not use an intermediary for filing their VAT return (referred to in this report as '**VAT respondents**').

The sample was randomly drawn from the Dun and Bradstreet database from businesses that met the employee and turnover eligibility criteria. Within each interview the concepts tested were rotated to ensure they were not always shown in the same order thereby avoiding any bias towards a particular concept.

A total of 737 interviews were achieved. Of these, 333 were with small unrepresented employers not currently filing online (these were shown the PAYE concepts), whilst 404 were with small unrepresented VAT traders not currently filing online (who were shown the VAT concepts).

The 333 PAYE respondents were shown three communication concepts and two support concepts:

PAYE Communication concepts	
Good things to know	Sometimes people find it hard to see what's in it for them when asked to file online. But in fact there are quite a few benefits: • Online filing is faster • HMRC will send an instant acknowledgement that your information's been safely received • There are built-in safeguards to check that information has been entered in the right format, and that your PAYE calculations are correct. • The website is highly secure as shown by the yellow padlock sign at the bottom of the screen.
Not that different	People assume that moving online will be a hassle but filing online isn't really so different from doing a paper return. The online PAYE form is very similar to the paper one. It's got the same fields in the same order and HMRC have deliberately changed as little as possible. And there's no need to change your existing record-keeping system or software – all you have to do is enter the numbers on a screen instead of a piece of paper. Lots of small businesses have already switched and have found it a much smaller change than they expected.
Two thirds online	More and more people are moving online and filing successfully. Two-thirds of small businesses already file their end of year PAYE returns online and the number is growing fast. Visit the HMRC website to see how you can register for online filing now.
PAYE Support concepts	
Step by step guidance	To help you start online filing, HMRC will produce a clear, step by step guide on how to file PAYE returns online for the first time. The guide is a pdf document which you can download from the HMRC website. It takes you through the whole process right from the initial registration for online filing; telling you what information you need at each stage, and exactly what you need to do. It uses pictures to show what you'll see and everyday language with no jargon. You'll also find answers to common queries relating to the process making it clear and simple.
In a way that suits you	HMRC has worked with customers to make their new online filing systems as easy as possible. But if you do feel you need help, HMRC are making sure that it's available in a form that suits you. There are lots of ways they can offer this; face to face, over the phone, via written guides, exhibitions, events and open days. All of these are available nationally, within and outside normal working hours so you can choose a time and place to suit you.

The 404 VAT respondents were also shown three communication concepts and two support concepts:

VAT Communication concepts

Good things to know	Sometimes people find it hard to see what's in it for them when asked to file online. But in fact there are quite a few benefits: • Online filing is faster • HMRC will send an instant acknowledgement that your information's been safely received • There are built-in safeguards to check that information has been entered in the right format, and that your VAT calculations are correct. • The website is highly secure as shown by the yellow padlock sign at the bottom of the screen.
Not that different	People assume that moving online will be a hassle but filing online isn't really so different from doing a paper return. The online form is exactly the same as the paper one. And there's no need to change your existing record-keeping system or software – all you have to do is enter the numbers on a screen instead of a piece of paper. Lots of small businesses have already switched and have found it a much smaller change than they expected.
Get online instantly	Many people think that it's a drawn-out and complex process to register for online VAT filing. In fact, you can register and submit your first online VAT return in one single session. There's no need to wait for a PIN to arrive in the post, or to go through lots of validation checking before you can get on with it. As long as you've got five key facts like your VAT number and address, and when you first registered for VAT, you can set up a user ID and password, letting you file there and then.

VAT Support concepts

Step by step guidance	To help you start online filing, HMRC will produce a clear, step by step guide on how to file VAT returns online for the first time. The guide is a pdf document which you can download from the HMRC website. It takes you through the whole process right from the initial registration for online filing; telling you what information you need at each stage, and exactly what you need to do. It uses pictures to show what you'll see and everyday language with no jargon. You'll also find answers to common queries relating to the process making it clear and simple.
VAT demonstrator	Because people are often anxious before filing online for the first time, because they don't know exactly what to expect, HMRC have developed an online demonstrator of the VAT online filing system, which is an exact copy of the real thing, but where you can practice without using or submitting real data. You can access this from the HMRC website, or request a CD-ROM from HMRC.

IFF Research asked respondents a series of questions to determine how reassuring and credible the information from the concepts was, what they did and didn't like about the message and what action regarding online filing (if any) the concepts would encourage them to take.

HMRC have developed an attitudinal segmentation for small unrepresented VAT traders and employers according to their attitudes and behaviours towards IT and filing online and at the outset of the interview respondents answered a series of questions to determine which one of the following five attitudinal segments they fell into:

Segment name	Description	PAYE population estimates	VAT population estimates
Supercapables	Larger businesses comfortable conducting accounting tasks mainly using software	25%	23%
Simplicity Seekers	Online advocates who want tasks to be as straightforward as possible	4%	9%
Traditionalists	Micro businesses conducting tasks confidently by manual methods	29%	33%
Nervous Enthusiasts	Less experienced businesses needing support with accounting tasks	25%	20%
Insecure Sceptics	Under confident businesses with deep concerns about online filing	17%	14%

These segments were used during analysis to assess the relative likely impact of the concepts on each segment.

At the conclusion of the research the data obtained was weighted to reflect the HMRC population estimates by size and industry sector (based on ONS data).

Main Findings

Awareness and Barriers to online filing

Awareness of the introduction of mandatory online filing in 2010 is reasonably high amongst PAYE respondents (77%) but much lower for VAT respondents (33%). The PAYE awareness is higher among those businesses with a turnover of £1M+ (93%). The VAT awareness was highest among businesses in the retail and transport sector (49%) and for businesses with a turnover of £1M+ (44%).

Over three-quarters (78%) of PAYE respondents are aware that HMRC has offered financial incentives for filing online.

The barrier to online filing mentioned most often was the need for a paper record of returns submitted (PAYE 53%, VAT 56%). When more than one barrier was mentioned respondents were asked to nominate the main one and the top four 'main' barriers given for not currently filing PAYE and VAT returns online are:

- The business needs to have a paper record of returns submitted (PAYE 14% VAT 25%);
- Worried that more things can go wrong with online filing (PAYE 17%, VAT 12%);
- Little experience of using the internet (PAYE 18%, VAT 10%);
- Haven't had time (PAYE 12%, VAT 19%).

A higher proportion of PAYE respondents classified as Nervous Enthusiasts (25%) or Traditionalists (23%) stated "little experience of using the internet" as the main barrier.

A higher proportion of VAT respondents classified as Traditionalists (22%) gave "worried that more things can go wrong with online filing" as their main barrier compared to only 1% of those classified as Supercapables or Simplicity Seekers. Those classified as Insecure Sceptics were more likely to give "need a paper record of returns submitted" as their main barrier (33%).

Three quarters of PAYE respondents (76%) had seen previous material encouraging online filing of which 40% have gone on to find out more but still decided not to start filing online. Two fifths of VAT respondents (38%) have seen previous material encouraging online filing of which 26% of these businesses have found out more as a result. Amongst those classified as Nervous Enthusiasts 39% went on to find out more.

The degree of comfort with having to file PAYE and VAT returns online was measured by responses to a 10 point scale where 1 is the highest degree of discomfort and 10 the highest degree of comfort. One third of PAYE respondents express a high level of discomfort with the prospect (34% giving a rating of 1-3) and 30% express a high level of comfort by giving a rating of 8-10. Those classified as Insecure Sceptics expressed the most discomfort with 54% responding with a rating of 1-3. Those working within larger companies were more likely to be comfortable with 36% of those with 10+ staff and 42% of those with a turnover of £1M+ giving a rating of 8-10. Industry sectors with a high proportion of 8-10 ratings were finance and business services (33%) and education, health and public (34%).

Comfort levels are generally higher for VAT filing with 43% of VAT respondents giving a rating of 8-10. However, a quarter of VAT respondents have a high degree of discomfort with filing online (25% giving a rating 1-3). Those classified as Insecure Sceptics had the highest ratings of discomfort with 41% giving a rating of 1-3. As with PAYE, larger companies were more likely to be comfortable filing VAT

returns online with 67% of those with 20+ staff and 53% of those with 10-19 staff giving a rating of 8-10.

PAYE Communication Concepts

The messages from the concepts *Good Things to Know* and *Not So Different* received the highest rating on a 10-point scale for reassurance with mean scores of 6.7 and 6.8 respectively. A higher proportion gave an 8-10 rating for *Not So Different* (52%) than either *Good Things to Know* (46%) or *Two Thirds online* (37%). Amongst those classified as Insecure Sceptics a much higher proportion gave an 8-10 rating to the *Not So Different* message (41%) compared to *Good Things to Know* (28%) and *Two Thirds online* (24%). Likewise those classified as Nervous Enthusiasts rated the *Not So Different* concept highly with 60% giving it a rating of 8-10.

In terms of the credibility of the message on a 10-point scale *Not So Different* received the highest mean score (6.9) with 51% rating it 8-10. Of those classified as Insecure Sceptics 37% rated *Not So Different* as 8-10 compared to 20% for *Good Things to Know* and 30% for *Two Thirds online*.

Respondents were asked to rate the extent to which the concept increases their confidence in filing online. Just over a fifth (22%) rated *Good Things to Know* and *Not So Different* as having a great deal of impact on confidence. Once again those classified as Insecure Sceptics and Nervous Enthusiasts favoured *Not So Different* over the other two concepts. In contrast those classified as Supercapables and Traditionalists gave a higher proportion of a great deal of impact on confidence to the *Good Things to Know* concept.

Respondents were asked to state what particular parts of the information presented was new to them and what they disliked about the information. In terms of new information for the *Good Things to Know* concept it was "that you receive an instant acknowledgement" (9%) and for *Not So Different* concept it was that "the online form is not much different from the paper form" (14%). Key aspects disliked for all concepts were concerns over the security of the internet and a feeling that they were being forced to file online. Almost three quarters of respondents stated that there was "nothing" that they disliked about the three concepts.

Respondents were asked how likely each of the concepts would be to impact on specific future behaviour regarding filing online. The *Good Things to Know* concept had the highest likely impact for businesses to find out more from HMRC about filing online with 30% saying very likely and 33% fairly likely. The *Not So Different* concept scored highest with customers on the remaining three future behaviours with being more likely to file 2008/09 PAYE return online (17% very, 23% fairly), to start putting in place any necessary arrangements to file online before April/May 2010 (46% very, 34% fairly) and to think more positively about HMRC (25% very, 30% fairly).

Over half of respondents (54%) felt the most persuasive PAYE communication concept to be was *Not So Different*, compared to 17% that felt *Good Things to Know* the most persuasive and 13% who felt *Two Thirds online*.

PAYE Support Concepts

Of the two support concepts tested for PAYE on a 10-point scale for usefulness *Step by Step Guidance* rated higher (mean score 8.0) than *In a Way that Suits You* (mean score 7.4). *Step by Step Guidance* was favoured across all the HMRC attitudinal segments.

Respondents were asked which aspects of the concepts were useful/not useful. The top two useful aspects for *Step by Step Guidance* were that it "contains pictures and diagrams" (30%) and the "step by step nature of guide" (21%). The most useful aspects for the *In a Way that Suits You* concept are "the phone support" (41%) and "the face to face support" (21%). Aspects that make the concepts not useful were the fact that the business had no or limited access to PC/internet (*Step by Step Guidance* 3%) and a lack of time available to use the support offered (*In a Way that Suits You* 3%).

Similarly respondents were asked to what extent the support concepts increase their confidence in filing online. Overall the *Step by Step Guidance* achieved the highest rating with 50% saying that it would have a great deal of impact on confidence, however amongst those classified as Insecure Sceptics it was the *In a Way that Suits You* concept that had a higher impact with 37% answering a great deal compared to 25% for *Step by Step Guidance*.

The two support concepts were also tested in terms of the likelihood of each to impact on specific future behaviour regarding filing online. In terms of the likelihood to make use of at least one of these types of support offered both concepts had a combined very/fairly likely rating of 85%. *In a Way that Suits You* scored very slightly higher than *Step by Step Guidance* for likelihood to file your 2008/09 PAYE return online (24% very, 24% fairly), to start putting in place any necessary arrangements to file online before April/May 2010 (56% very, 28% fairly) and likelihood to think more positively about HMRC (32% very, 30% fairly).

Three quarters (76%) of PAYE respondents state that they would be more likely to use the *Step by Step Guidance* if it were possible to order a paper copy to be sent in the post. This figure rises to 82% of those classified as Traditionalists and 84% of those classified as Nervous Enthusiasts. However, these respondents would still use the guide if it was only offered in electronic media. Three fifths (60%) say they would be more likely to use the *Step by Step Guidance* if it was sent on a CD ROM. This figure rises to 74% of those classified as Nervous Enthusiasts.

VAT Communication Concepts

Of the three VAT communication concepts tested *Not So Different* received the highest rating on a 10 point scale for reassurance with a mean score of 7.2. Those classified as Nervous Enthusiasts rated this concept especially highly with 79% giving it a rating of 8-10. In terms of the credibility of message, once again *Not So Different* rated highly with a mean score of 7.1 compared to *Good Things to Know* (mean score 6.8) and *Get Online Instantly* (mean score 6.8).

Respondents were asked to what extent the VAT communication concepts increase their confidence in filing online. In total 29% said the *Not So Different* concept increased their confidence a great deal (compared to 24% for *Good Things to Know* and 19% for *Get Online Instantly*). The figure for *Not So Different* increases to 46% of those classified as Nervous Enthusiasts.

A greater amount of new information was perceived in the VAT communication concepts compared to the PAYE communication concepts. In particular 54% stated that *Get Online Instantly* provided new information. This new information included that you "received instant acknowledgement" (*Good Things to Know* 15%), that the "online form is not much different from the paper one" (*Not So Different* 23%) and that "you do not need a PIN" (*Get Online Instantly* 28%). Key aspects disliked for all concepts were concerns over the security of the internet and a feeling that they were being forced to file online. Similarly to PAYE, nearly three quarters of VAT respondents said there was "nothing" they disliked about the concepts.

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In terms of the likelihood of the concepts to impact on specific future behaviour regarding filing online the results varied. *Get Online Instantly* rated highest in regards to likelihood to find out more from HMRC about filing online (very likely 28%, fairly likely 36%), *Not So Different* highest for likelihood to file their return online before the 2010 deadline (very likely 34%, fairly likely 2%). All three concepts had a similar impact on the likelihood to think more positively about HMRC.

VAT Support Concepts

When asked how to rate how useful the two VAT support concepts would be on a 10-point scale, the *Step by Step Guidance* had the higher proportion of 8-10 ratings (66% compared to 57% for *VAT demonstrator*) with a mean score of 7.6 (7.2 for *VAT Demonstrator*). The *Step by Step Guidance* concept also consistently scored higher than the *VAT Demonstrator* across all HMRC attitudinal segments.

Aspects that were thought to make the concepts useful included "containing pictures and diagrams" (30% for *Step by Step Guidance*) and "the ability to practice the return" (50% for *VAT Demonstrator*). Three quarters of VAT respondents felt that there was "nothing" that they disliked about the two support concepts. Similarly respondents were asked to what extent the VAT support concepts increase their confidence in filing online. Overall the *Step by Step Guidance* had the highest rating with 43% saying that it would have a great deal of impact on confidence. This figure rises to 60% amongst those classified as Nervous Enthusiasts.

In terms of the likelihood of the concepts to impact on specific future behaviour regarding filing online a higher proportion said they would be likely to use *Step by Step Guidance* (very likely 53%, fairly likely 24%) than *VAT Demonstrator* (very likely 43%, fairly likely 27%). *Step by Step Guidance* was also had the highest likelihood of leading respondent to file their VAT return online (very likely 45%, fairly likely 25%). Both VAT support concepts were equally likely to lead respondents to think more positively about HMRC.

Half (51%) of respondents state that they would be more likely to use the *Step by Step Guidance* if it were possible to order a paper copy to be sent in the post. This figure rises to 75% of those classified as Nervous Enthusiasts. A third (36%) of respondents had previously used guides of information downloaded from HMRC website (a figure which increases to 51% of those classified as Supercapables/Simplicity Seekers).

Summary

PAYE – All three communication messages were seen as credible, but 'Good things to know' and 'Not so different' messages received the highest ratings for reassurance. Overall there was a strong stated preference for 'Not So Different' message.

Both PAYE support concepts seen as highly useful, however, the Step by Step Guidance received the highest ratings

VAT - All 3 communication messages were found to be reassuring. 'Not So Different' was the most reassuring for Nervous Enthusiasts but other segments show less distinction. There was a reasonably even split between stated preference for 'Get Online Instantly' and 'Not That Different'. Projections estimated slightly higher levels of action from 'Not That Different'.

Both the support concepts were seen as highly useful, however the Step by Step Guidance again received highest ratings. Both support concepts have high impact on confidence but Step by Step Guidance was more likely to increase confidence. The Step by Step Guidance was also likely to result in higher volumes acting.