



Research report

Going online: Small VAT Traders and Employers

Research conducted to segment small VAT traders and employers in terms of their attitudes and behaviour towards online filing of tax returns

Business Customer Unit, HMRC

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 (background to the project)

HMRC are currently implementing a programme to move both employers and VAT registered traders towards filing their returns online. From April 2010 it will be compulsory for all currently registered VAT traders with a turnover of £100k and all newly registered VAT traders (regardless of turnover) to file their VAT returns online. In addition, all employers with fewer than 50 employees will have to file their PAYE end of year returns online in 2010 and their in-year forms (P45s/P46s and some pension forms) from 2011. HMRC are keen to encourage as many businesses as possible to change to online filing prior to the mandatory date and have introduced a tiered level of incentives to encourage early migration for employers based on the year in which the return was filed online. To support the early adoption strategy, HMRC have recognised the need for targeted communications and support amongst this group of customers.

Research was required to help understand what needs to be done to assist small VAT traders and employers meet the deadline to file VAT and PAYE returns online. The purpose of the research was to build a segmentation of businesses, which are not using an agent to file their returns, to help inform what types of targeted communications would be most appropriate and what level of support these businesses require.

Who did the work (research agency)

GfK NOP conducted the research for this project.

When the research took place

Interviews for this study were conducted between 20th November and 12th December 2008.

Method, Data and Tools used, Sample

Interviews were conducted by telephone using CATI (computer assisted telephone interviewing) with VAT and/or PAYE registered businesses with fewer than 50 employees.

Businesses which used a third party for submitting both their VAT and PAYE tax returns were excluded from the research. However, if a business used a third party to submit returns for only one of the taxes they were registered for and used a third party for the other, they were included, but were only interviewed about the tax they were unrepresented for.

Respondents interviewed for the research were those responsible for VAT and/or PAYE within the organisation.

Sample for the study was drawn from the Experian Business database using a stratified random sampling methodology. A boost of self-employed respondents was also drawn from the GfK omnibus survey due to under-representation of this group of respondents in the main sampling frame. In addition a boost of newly registered VAT traders (registered within the last 12 months) was undertaken and the sample used for this element of the study was Experian's 'New Opportunities' database.

A total of 1,411 interviews were conducted, as follows:

Number of Employees	Unrepresented VAT	Unrepresented PAYE	Total unrepresented VAT or PAYE	Newly registered VAT	Total
1 - 4	778	311	877	89	966
5 - 9	206	157	240		
10 - 49	160	131	183	22	445
Total	1,144	599	1,300	111	1,411

The overall results were weighted to ensure the distribution reflected the unrepresented business population of small VAT traders and employers in the UK by industry and size. The weighting for the survey was taken from 2 sources, as follows:

- IDBR (Inter-departmental Business Register) population figures for businesses registered for PAYE and/or VAT with fewer than 50 employees
- Survey estimates on the proportion of unrepresented businesses by industry and size.

Main Findings

The main findings from the research are detailed below:

Filing online

Over two-thirds of employers (68%) unrepresented for PAYE and with fewer than 50 employees currently file their PAYE end of returns online, whilst 72% are aware that it will be compulsory from April 2010. A lower proportion of employers file their 'in-year' forms online (46%) and similarly fewer are aware of the mandate for filing these forms online from 2011.

In contrast to PAYE, just 19% of unrepresented VAT traders currently file their returns online and only 20% are aware that this is soon to become compulsory.

Approximately two-thirds of unrepresented employers (64%) who are not yet filing PAYE end of year returns online claim they will find it easy to meet the compulsory deadline for filing these returns online of April 2010, but 21% think it will be difficult.

Similarly amongst unrepresented VAT traders, 65% of all those not yet filing returns online thought it would be easy to meet the online filing deadline and 18% thought it would be difficult.

Usage of third parties and software for accounting tasks

Just under two-fifths of employers (38%) unrepresented for PAYE claimed to use a third party for tasks related to PAYE, other than submitting returns. Dealing with queries from or with HMRC was the task conducted to the greatest extent by third parties for these businesses.

Approximately a third of businesses (32%) unrepresented for VAT use a third party for VAT tasks and the main task conducted is auditing VAT figures at the end of the year.

Three-fifths of unrepresented PAYE employers (61%) and just under half (46%) of unrepresented VAT traders use a software package to conduct PAYE and VAT tasks, respectively.

Segmentation

Five distinct segments were identified through factor and cluster analysis of the data, which we named as follows: 'Supercapables', 'Simplicity Seekers', 'Traditionalists', 'Insecure Sceptics' and 'Nervous Enthusiasts'.

'Supercapables' comprised businesses with the highest turnover and had the most confidence in their tax administration skills. They had the highest propensity to use software to conduct accounting tasks and a high proportion thought it would be easy to meet forthcoming online filing deadlines. Given this profile they are unlikely to require much support to make the change to online filing.

'Simplicity Seekers' were very positive towards online filing in general and the most likely of all the segments to already be filing PAYE and VAT returns online. Although awareness of mandatory online filing for VAT was not high, a high proportion thought it would be easy to comply with deadlines. Raising the level of awareness of mandatory online filing dates should be the main support required by this group of businesses to make the change to online filing.

'Traditionalists' comprised businesses with the highest proportion of micro-businesses (1-4 employees) and the longest established. They were generally confident in their ability to conduct accounting tasks, but were more likely to be conducting these tasks using manual methods and had the lowest proportion of online filers. Awareness of mandatory online filing is not an issue for these businesses, the challenge for HMRC is to persuade them of the benefits of changing to online filing.

'Insecure Sceptics' were more likely to be well-established businesses and to find tasks related to PAYE and VAT difficult. Use of electronic methods to conduct accounting tasks was generally high, but they were less likely to be filing either PAYE or VAT online. These businesses were more likely to distrust the internet and were not supportive of HMRC's proposals to make online filing mandatory. In order to help these businesses move to online filing, HMRC will need to reassure them of the security of the online filing system.

'Nervous Enthusiasts' comprised a higher proportion of younger businesses with less accounting experience. They were less likely to be confident in their ability to conduct accounting tasks and relied more heavily on agents than other segments. Levels of online filing of PAYE and VAT returns were low amongst this group of businesses, although they did support HMRC's strategy of

moving to online filing. These businesses will need advice and reassurance to help them move to online filing as well as increased awareness of the mandatory online filing dates.