


## Development of the Compliance Perceptions Survey

---


Sharon Collard and Nick Smith  
December 2011

**Point of contact:**

Sharon Collard  
Personal Finance Research Centre  
School of Geographical Sciences  
University Road  
Bristol BS8 1SS

 0117 954 6859

 [s.collard@bristol.ac.uk](mailto:s.collard@bristol.ac.uk)

 [www.pfrc.bris.ac.uk](http://www.pfrc.bris.ac.uk)

**@Crown Copyright 2011 Published by Her Majesty's Revenue and Customs**

Disclaimer: The views in this report are the authors' own and do not necessarily reflect those of HM Revenue and Customs

© Crown Copyright 2011

Copyright in the typographical arrangement and design rests with the Crown. This publication may be reported free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright with the title and source of the publication specified.

Published by HM Revenue and Customs, December 2011  
[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## Contents

Contents .....	2
1 Introduction .....	1
2 Aims and objectives .....	1
3 Survey criteria .....	1
4 Research methods .....	2
4.1 Survey question development.....	2
4.1.1 Developing additional questions in 2011.....	3
4.2 Cognitive testing and piloting of proposed survey questions .....	3
4.2.1 Cognitively testing additional questions in 2011 .....	5
5 Key findings from the 2008 and 2011 cognitive interviews.....	5
5.1 Knowledge of the tax system and HMRC .....	5
5.2 General versus direct questions .....	6
5.3 People’s understanding of the term ‘tax evasion’ .....	6
5.4 People who use an agent to complete their tax returns.....	7
5.5 Perceived acceptability of tax evasion and intrinsic motivations .....	7
5.6 Asking about business taxes .....	7
5.7 The use of time-specific reference points .....	8
6 Summary .....	8

## 1 Introduction

In 2008, HM Revenue and Customs (HMRC) commissioned the Personal Finance Research Centre (PFRC) at the University of Bristol to develop a survey to explore customers' beliefs about and attitudes towards HMRC's tax compliance regime. Known as the Compliance Perceptions Survey, data was collected 2008, 2009 and 2010 by means of a public omnibus survey and an SME omnibus survey. In 2011, PFRC carried out further work to develop a small set of new questions for the Compliance Perceptions Survey in line with HMRC's strategic requirements.

This report describes the aims and objectives of the research and the research methods that were used to develop the Compliance Perceptions Survey. We also highlight some of the key findings from the research.

## 2 Aims and objectives

The aims of developing the Compliance Perceptions Survey were to provide HMRC with data on attitudes and beliefs which could be used to inform the development of future interventions, and to monitor changes in the deterrence against tax evasion. The specific objectives of the survey were:

- to understand people's attitudes towards, beliefs about, and perceptions of compliant and non-compliant behaviour;
- to ascertain the perceived levels of non-compliance and levels of acceptability;
- to identify the perceived risks (including the likelihood of investigation/or being caught) of non-compliant behaviour; and
- to understand the perceived consequences of investigation (penalties, criminal prosecution and social effects).

## 3 Survey criteria

The survey development was based on six criteria. First, the primary focus of the research should be customers' *perceptions* about the compliance regime, rather than their attitudes or beliefs. Put another way, HMRC was interested mainly in customer's awareness and understanding rather than their views or feelings about tax and tax compliance.

Secondly, HMRC was primarily interested in finding out what respondents think personally or prefer for their own lives, rather than what they perceive to be desirable for society generally.

Thirdly, the survey was intended to measure changes to people's perceptions of compliance and the compliance regime over time. It was envisaged therefore that the questions would be precoded rather than open-ended. The questions were not intended to provide information about *why* perceptions of tax compliance have changed or remained the same over time.

Fourthly, two sets of questions were required. One set was for employees, people not in work and self-employed people, which asked about tax on earnings (income tax). The second set was for small and medium sized businesses (SMEs) which asked about business taxes (Corporation Tax and VAT).

Fifthly, HMRC wanted the questions to incorporate people's extrinsic and intrinsic motivations when making decisions about tax compliance. Extrinsic motivation is broadly determined by three factors: reward, risk and effort-required. The four main drivers of intrinsic motivation are social norms, morality, altruism and fairness. Finally, the question sets had to be accommodated in a 10-minute module of omnibus survey questions.

## 4 Research methods

The Compliance Perceptions Survey commissioned by HMRC in 2008 was developed in three stages. First, draft survey questions were generated. Secondly, these questions were cognitively tested with members of the public and SMEs. Finally, the questions were piloted to test the survey questions and the delivery mode (face-to-face interviews in the case of employees, people not in work and self-employed people, and telephone interviews in the case of SMEs). The process for developing additional survey questions in 2011 involved generating draft questions and cognitively testing them.

In the following sections, we describe each of these stages in detail, with reference where appropriate to both the original development of the Compliance Perceptions Survey in 2008 and the development of additional questions for the 2011 survey.

### 4.1 Survey question development

In designing the Compliance Perceptions Survey in 2008, the first stage of the research was to generate a shortlist of questions designed for individuals. To do this, we reviewed questions used in a number of previous studies and mapped them against the research objectives. We took into account research carried out by the Swedish Tax Agency<sup>1</sup> and the Canadian Revenue Agency<sup>2</sup>, research undertaken by academics in the field of economic psychology<sup>3</sup>, and earlier research conducted by PFRC for HMRC on the feasibility of measuring the informal economy using a survey methodology<sup>4</sup>.

Where there were multiple questions covering the same topic, a process of selection was carried out as it was not feasible to cognitively test all of them. For each topic, we agreed with HMRC the questions we felt would work best based largely on clarity and ease of understanding. We also

---

<sup>1</sup> National Tax Board of Sweden Evaluation Unit (2001). *The public opinion on the tax system, tax evasion and compliance control: Results from a national survey performed by the Swedish National Tax Board in January-February 2001.*

<sup>2</sup> Environics Research Group (2006) *CRA Annual Corporate Survey.*

<sup>3</sup> Webley P, Cole M and Eidjar O-P (2001) The prediction of self-reported and hypothetical tax-evasion: Evidence from England, France and Norway. In: *Journal of Economic Psychology* 22 (pages 141-155); Welch M, Xu Y, Bjarnson T, Petee T, O'Donnell P and Magro P (2005) 'But everybody does it...' The effects of perceptions, moral pressures and informal sanctions on tax cheating. In: *Sociological Spectrum* 25 pages 21-52.

<sup>4</sup> Collard S and Smith N (unpublished) *Developing a methodology for collecting data on the informal economy.*

designed a number of new questions to address gaps in the coverage of the research questions. In devising the question shortlist, we deliberately included different types of questions (attitude statements, direct questions, scenarios etc.), to see which type of question construction worked best.

The shortlist of questions was refined over several iterations. Once a set of questions for individuals had been agreed, it was adapted for use with SMEs. A total of 36 questions were derived for cognitive testing with individuals, and 35 for testing with SMEs.

#### **4.1.1 Developing additional questions in 2011**

In developing additional questions for the Compliance Perceptions Survey, HMRC's three main areas of interest were: (1) public awareness of HMRC's 2010 spending review settlement; (2) public perceptions of HMRC's enforcement and compliance resource, its visibility and whether there had been any changes to its compliance effort; and (3) the credibility and proportionality of HMRC's enforcement and compliance activities. In order to identify existing survey questions that could possibly be added to the Compliance Perceptions Survey, we reviewed HMRC's customer survey and recent surveys carried out by other tax authorities. These were the US Internal Revenue Service Oversight Board 2010 Taxpayer Attitude Survey; the Australian Tax Office community perception survey 2009; the Canadian Revenue Agency Annual Corporate Survey 2010; and the New Zealand Inland Revenue Customer Satisfaction and Perceptions Survey.

We also conducted targeted internet searches of the Survey Question Bank, Google Scholar and Google to identify any relevant questions that had been asked in UK surveys or academic studies. Through these searches we identified a small number of potentially relevant questions from three sources: the British Social Attitudes Survey, an academic article<sup>5</sup> and a World Bank research report.<sup>6</sup>

A total of 12 questions were selected for cognitive testing with individuals and an equivalent set of questions was generated for SMEs. Most of these questions were drawn from existing surveys and modified where necessary to improve their fit with the existing Compliance Perceptions Survey and to make them relevant to the UK.

## **4.2 Cognitive testing and piloting of proposed survey questions**

Cognitive testing is used to explore, understand and explain the ways in which respondents answer survey questions. It allows researchers to ascertain whether or not a survey question works as intended, and whether respondents are able to answer a question accurately. Cognitive testing is usually carried out in one-to-one interviews. The interviewer probes the respondent to elicit what they understand a question to mean, and how they came to the answer they gave.

---

<sup>5</sup> Hartner, M, Rechberger, S, Kirchler, E and Schabmann, A (2008) 'Procedural fairness and tax compliance'. In: *Economic Analysis and Policy*, Volume 38, Number 1

<sup>6</sup> Coolidge, J and Ilic, D (2009). *Tax Compliance Perceptions and Formalization of Small Businesses in South Africa*. World Bank Policy Research Working Paper 4992.

In 2008, the question sets that had been developed for individuals and SMEs were cognitively tested in 32 face-to-face interviews, comprising 10 interviews with individuals (employees and people not in work), 13 interviews with self-employed people and nine interviews with SMEs.

In order to achieve the required mix of people, we used a combination of hall tests and pre-recruitment. Employees and people not in work were street recruited for interview at a central venue (commonly called a hall test). Self-employed people and SMEs were pre-recruited for interview. In order to maximise participation, people were not asked for their names, addresses or telephone numbers and received an incentive payment as a thank-you for taking part (a £10 shopping voucher for hall test participants; £50 shopping vouchers for pre-recruited self-employed participants and SME representatives).

The cognitive interviews varied in length from around 30 minutes to over an hour. PFRC researchers administered the questions and used a set of standard probes to explore issues such as understanding of the questions and the language used; whether or not respondents found the questions meaningful/relevant; how easy or difficult respondents found it to answer the questions; and whether or not respondents were happy to answer the questions. Based on analysis of the cognitive interviews and subsequent discussions with HMRC, draft sets of questions for a survey pilot were drawn up and refined over several iterations.

The survey pilot was carried out in 2008, to assess how well the questions worked in practice, and in particular to test the delivery mode – face-to-face administration in the case of the public omnibus and telephone interviews in the case of the SME omnibus. The SME question set was amended to take account of the fact that interviewers would not be able to use show cards and would have to read out the information instead. In total, 51 interviews were achieved in the pilot exercise:

- In-home face-to-face interviews with 30 members of the public administered by Computer Assisted Personal Interviewing (CAPI). The respondents comprised 15 self-employed people and 15 employees or people not in work.
- Telephone interviews with 21 representatives of SMEs, administered by Computer Assisted Telephone Interviewing (CATI). In order to replicate an SME omnibus survey, the sample only included senior decision-makers in the company, such as managing directors or finance directors.

Respondents who were employees, not in work or self-employed people received a £5 shopping voucher for taking part in the pilot. A £5 charitable donation was made on behalf of the SME representatives that were interviewed.

Based on feedback from the survey pilot, a small number of amendments were made to the question sets. The final question set for individuals comprised 15 questions in total; the SME question set had 17 questions. The question sets have been adapted slightly by HMRC since 2008. The questions used in the 2010 Compliance Perceptions Survey are provided in the Appendix.

#### **4.2.1 Cognitively testing additional questions in 2011**

In 2011, the possible additional questions that had been developed for the Compliance Perceptions Survey were cognitively tested by the same research team in exactly the same way as 2008. A total of 25 interviews were conducted comprising 10 interviews with individuals (employees and people not in work), five interviews with self-employed people and 10 interviews with SMEs. The interviews were between 30 and 45 minutes in length.

## **5 Key findings from the 2008 and 2011 cognitive interviews**

Analysis of the 2008 cognitive interviews highlighted a number of general issues that were taken into account in developing the Compliance Perceptions Survey. These included:

- Low levels of knowledge of the tax system and HMRC, particularly among employees and people not in work
- The use of general questions (e.g. HMRC treats taxpayers fairly) versus more direct questions (e.g. Do you think you are treated fairly by the tax system)
- People's understanding of the term 'tax evasion'
- How to deal with people who use an agent such as an accountant to complete their tax returns
- How best to capture information about the perceived acceptability of tax evasion and the intrinsic motivations for evading or not evading tax
- In relation to SMEs, whether to ask about Corporation Tax and VAT jointly as 'business taxes' or to mainly ask separate questions about each

In addition, a particular focus of the 2011 cognitive interviews was the use of time-specific reference points. We describe the key findings for each of these issues in the following sections.

### **5.1 Knowledge of the tax system and HMRC**

From both the 2008 and the 2011 cognitive interviews, it was clear that respondents generally had little difficulty understanding the sense and wording of the questions that had been developed. Even so, many of them found it difficult to answer the questions, mainly because they lacked knowledge of how HMRC worked and did not know how HMRC tackled tax evasion. This was particularly the case for employees and people not in work, who often felt that the questions were not relevant to them because they had little or no interaction with HMRC and therefore little or no knowledge on which to base their answers.

The self-employed and SME respondents found it somewhat easier to answer the questions, because they were more familiar with HMRC and the payment of tax was a more relevant topic to them. Even so, like the employees and people not in work, these respondents often felt they lacked specific knowledge about the topics covered in the questions. It was common for self-employed and SME respondents to use accountants to sort out their tax affairs, which may partly explain this lack of knowledge.



As we might expect with surveys of this kind, people's perceptions appeared to be influenced by a range of factors, including their personal experience, the experience of people they knew and recent national press coverage of issues such as MP's expenses and tax avoidance by multinational companies.

## **5.2 General versus direct questions**

In developing the Compliance Perceptions Survey, we deliberately included different types of questions (attitude statements, direct questions, scenarios etc.), to see which type of question construction worked best.

Respondents who took part in the cognitive interviews felt there were advantages and disadvantages to both general and direct questions. Although general questions offered a 'softer' approach, particularly when talking about tax evasion, respondents were reluctant to generalise beyond their own experiences. The advantage of direct questions, by extension, was that respondents could provide an accurate answer based on their own perceptions and experiences. When asking about tax evasion, however, some respondents felt very uncomfortable answering direct questions – they felt the tone of the questions was accusatory and that they had been put 'on the spot'. This was particularly the case among SME respondents.

As there was no clear-cut preference for one type of question over the other, it was decided to use a combination of both in the Compliance Perceptions Survey, based on respondents' understanding of the questions and ease of answering.

## **5.3 People's understanding of the term 'tax evasion'**

In the cognitive interviews carried out in 2008, respondents were asked to describe what the term 'tax evasion' meant to them, and which of the following three descriptions of tax evasion they felt was easiest to understand: tax evasion; tax cheating; or deliberate non-declaration or non-payment of tax. On the whole, respondents demonstrated a fairly good understanding of what constituted tax evasion, and felt that tax evasion was the easiest term to understand because it was the most commonly used and therefore the most familiar to them.

Analysis of the cognitive interviews indicated that individuals did not always equate cash-in-hand work with tax evasion, however. To ensure a common understanding among all respondents, it was therefore decided to include context-specific definitions of tax evasion for each of the three groups of respondents, as outlined in Box 1 below. The definition provided for employees/people not in work specifically referred to cash-in-hand work as an example of tax evasion.

### **Box 1: Tax evasion definitions used in the Compliance Perceptions Survey**

**Employees and people not in work.** By income tax evasion, we mean deliberately not declaring all the income that should be declared for tax purposes. For example, if someone works cash-in-hand and does not declare this money for tax purposes.

**Self-employed people.** By income tax evasion, we mean deliberately not declaring all the income that should be declared for tax purposes. For example, if a self-employed person either understates their income or overstates their expenses in order to reduce the amount of profit they declare.

**SMES.** By tax evasion, we mean deliberately not declaring all the business income that should be declared for tax purposes or deliberately overstating costs for Corporation Tax or VAT.

## **5.4 People who use an agent to complete their tax returns**

In order to collect accurate information about the burden of tax compliance, the cognitive interviews highlighted the need to distinguish between those people who complete a self-assessment tax return themselves and those who use an agent such as an accountant to complete their tax returns on their behalf.

A check question was therefore included, from which respondents were routed according to their answer. People who have submitted a self-assessment tax return themselves in the last year are asked about the time and effort they personally spent completing the return. People who have used an agent are asked about the time and effort they personally spent providing the information required by the person who completed the return for them.

## **5.5 Perceived acceptability of tax evasion and intrinsic motivations**

The cognitive interviews tested a range of questions about whether or not people felt that tax evasion was wrong, and about the intrinsic motivations for tax evasion. On the whole, respondents considered tax evasion to be wrong in absolute terms (i.e. legally wrong). Consequently, rather than ask about the extent to which people feel that tax evasion is wrong, it was felt to be more useful to focus on whether or not people consider tax evasion to be *acceptable*. A question on the acceptability of tax evasion was therefore generated for the Compliance Perceptions Survey. The survey also asks respondents for the main reason they would not regularly evade tax (e.g. because it is illegal, because of the penalties/consequences, because it is unfair to other taxpayers).

## **5.6 Asking about business taxes**

The cognitive interviews with SMEs highlighted that Corporation Tax and VAT tended to be regarded quite differently by respondents. As a result, separate questions are asked about VAT.

## 5.7 The use of time-specific reference points

For the additional questions that were developed in 2011, HMRC was interested to explore the use of a specific reference point, which for the purpose of the cognitive interviews was 2009.

Respondents were asked about the use of 2009 as a reference point: how easy it was to answer questions that compared their perceptions now with 2009; and whether it would be easier to answer the same questions if the reference point was 2010 or 'in the past 12 months'.

Analysis of the cognitive interviews suggested that using a specific year as a reference point was problematic for respondents. There was some preference among respondents for a less precise term to be used, and for the reference point to be sufficiently long ago for significant changes to have occurred and to have filtered into the public domain. The main issue with using any reference point, however, was that respondents felt they lacked knowledge and awareness to make any meaningful comparisons over time.

In the light of these findings, it was proposed that respondents only be asked to make comparisons over time where absolutely necessary. Should respondents be asked to compare over time, the findings suggest that a survey question should not refer to a specific year, but rather a more general phrase appropriate to the question topic.

## 6 Summary

The Compliance Perceptions Survey was commissioned in 2008 by HMRC to explore customers' beliefs about, and attitudes towards, the UK tax compliance regime. Further question development was carried out in 2011 in line with HMRC's strategic requirements.

A rigorous process of question development, cognitive testing and piloting was undertaken to generate the survey in 2008. Further question development and cognitive testing was conducted in 2011. The cognitive testing in 2008 and 2011 and the survey pilot in 2008 were carried out with a range of HMRC customers: employees, people not in work, self-employed people and SMEs.

Analysis of the 2008 cognitive interviews highlighted the following issues that were taken into account in developing the Compliance Perceptions Survey:

- people's generally low levels of knowledge of the tax system
- the inclusion in the survey of context-specific definitions to aid respondents' understanding of the term 'tax evasion'
- the use of a combination of general and direct questions in the survey
- the need to distinguish in the survey between people who complete a self-assessment tax return themselves and those who use an agent
- how best to ask about the perceived acceptability of tax evasion and the intrinsic motivations for tax evasion
- among SMEs, the need to ask separate questions about Corporation Tax and VAT, rather than about business taxes more generally.

A particular focus of the 2011 cognitive interviews was to explore the use of time-specific reference points. The findings suggested that respondents should only be asked to make comparisons over time where absolutely necessary.