



*Research report*

# HMRC Self Assessment: Non-filers research

**Personal Tax Customer & Strategy**

**July 2012**

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**SA Non Filers Research**

## *About Personal Tax Customer & Strategy (PT C&S)*

Personal Tax Customer & Strategy works with colleagues in Personal Tax and across HMRC to help develop our approach to implementing the customer centric business strategy. We use customer insight to help PT design, deliver and operate services for individual customers which

- improve customer experience
- maximise tax yield
- ensure that those who need help get the support they need, when they need it.

PT C&S also has a corporate role, to manage the relationship with the voluntary and community sector on behalf of HMRC.

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## SA Non Filers Research

### *Research requirement (background to the project)*

This research was commissioned to understand the reasons why some customers do not file their Self Assessment returns at all. Information on this audience is currently patchy as the SA return is the key document used by HMRC to keep the personal details of SA customers up to date. Such details include important information about sources and levels of income. Without this information, it becomes increasingly difficult for HMRC to engage with these customers from both a practical and targeted point of view, which in turn prevents HMRC from deploying a targeted approach to deliver behaviour change to clear legacy cases and prevent further non-filing. In addition, it is possible that some non-filers are not relevant to SA and can be taken out of the scheme – this identification could save HMRC time and money. The research outcomes were therefore required to build a rich demographic picture to enable HMRC to identify key customer types within the non-filing population, and to provide robust and meaningful insight into the underlying causes of non-filing behaviour covering customer attitudes, abilities, knowledge and circumstances.

### *When the research took place*

The first stage of the research -- telephone and face-to-face interviews - took place in w/c 12<sup>th</sup> March to w/c 9<sup>th</sup> April 2012. The second part – workshops – took place in May 2012.

### *Who did the work (research agency)*

The work was carried out by Solutions Research and Duckfoot Research & Development.

### *Method, Data and Tools used, Sample*

- A mix of telephone, face-to-face interviews with 94 participants were carried out across the first stage of the research. This was followed by 19 participants (who had been part of the original sample) taking part in 4 different workshops.
- At each stage, the following attitudinal segments were covered; Segment A – a history of non-filing over a number of years; Segment B - new to SA, not filed 10/11 return; Segment C - filing now, but have missed in the past; Segment D - currently not filing, but have done so in the past
- The first stage of research consisted of 55 telephone interviews and 39 face-to-face interviews. The second stage of the research consisted of 19 participants from the first stage, returning for workshops.

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### *Main Findings*

#### **Contextualising the sample: Participant perceptions and assumptions about HMRC**

It was clear that participants did not classify themselves in the same way that HMRC classified them within the HMRC database. Participants viewed their personal ‘story’ differently to HMRC’s statistical classifications, and there were many variables, combinations and personal circumstances across the audience.

Participants also held assumptions about HMRC, chiefly that HMRC had immediate access to all of a customer’s information. People assumed that there was a single entity called “The Tax Man”, and that their relationship with this entity was similar to that traditionally held between customer and accountant. They therefore imagined that HMRC knew everything about them automatically via their National Insurance number. When they encountered evidence that this was not the case, some non-filers then felt justified with their complaint that the different tax offices did not communicate with each other, so they had difficulty resolving issues.

Non-filing participants were unaware of several aspects of SA. The fact that *filing* their return was not the same as *paying* their tax was not always well-understood. For many, if they paid tax (e.g. via PAYE), there was a strong sense that they had fulfilled and discharged all tax-related obligations. There was a lack of awareness that the only way to get out of the SA process, or just resolve one outstanding return, was to engage with it – in fact participants thought that if they do not engage, the whole process may simply “go away”. Taken together, the consequences could be that participants often started as late filers, then became non-filers, then repeat non-filers, simply because they did not understand how the process worked or how to get out of it.

Compounding this, some participants had a ‘head in the sand’ attitude towards the SA process. They had little understanding of how penalties would be imposed and wrongly assumed that HMRC would be unable to take action against them. Some expressed the view that if the same were to happen in any other organisation, there would be a quicker turnaround to debt-collection but, for many, their reported experience with HMRC was of receiving a penalty notice that was not enforced or followed up. As such, the only consequences participants perceived for not paying a penalty were more letters. This perception was influenced by the previous penalty regime of ‘no penalty if no tax due’ and helped to make the letters feel easy to ignore.

For some, there was a lack of understanding that paying a penalty meant that they still had to file a return. Some participants viewed penalty-paying as an alternative to filing, i.e. the perceived cost of not having to file. This was further compounded by the language used in the penalty letters – i.e. a “penalty notice”, not a “reminder to file”.

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### ***Variables that impacted on filing behaviour***

Six key variables that could influence non- or late-filing were identified from the research sessions. From these, or a combination of these, potential audience segments could be derived.

The first variable was **knowledge of being in the system**, and belief of whether they should be in the system, which highly influenced filing behaviour. Some common situations were identified across the sample. A few people were confident that they were correctly in the system – these participants were fairly ‘low risk’, and not typically non-filers. Others believed that the situation was a mistake and they should not be in the SA process (e.g. sub-contractors receiving income after deduction of tax). Others believed that they were already out of the system (e.g. now on PAYE).

The second key variable related to the **belief of the need to pay tax**. Here, assumptions arose from the idea discussed above that “HMRC already know I pay tax” or, for some, the belief that they had notified HMRC about a change in situation and so had discharged all obligation to interact further.

**Perception of whether they owed tax** was the third key variable. Some believed that an SA return only needed to be filed when an individual was earning, or that SA was solely a means of reclaiming tax that has been over-paid. The previous penalty regime of ‘no fine if no tax due’ made sense to these customers and was often still believed to exist.

**Financial organisation** was also key in that the less financially confident participants were often found to be poorly organised, - some, for example, had primitive book-keeping systems (e.g. all financial papers contained in a carrier bag) and some struggled to make ends meet. Such people were more likely to struggle with the SA process and find it overly effortful.

**Emotional problems** were found to compound problems, particularly stressful issues such as a divorce, death or chronic illness, which could take over life to the extent that all financial matters were seen as low priority.

Finally, **competence and life skills** were also important variables. Some participants were functionally less able to cope, in that advancing age, poor reading or numeracy skills meant they could not complete tax forms alone and may have increasing difficulty in coping without further support. Their limited skills could leave them embarrassed to ask for help, even if they were aware that they needed it. Some also feared ‘getting it wrong’ and suffering legal ramifications.

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### ***Potential segments derived from the variables***

1. Those with emotional problems directly mapped onto a single segment, classified as **“Life gets in the way”**. They were generally well-intentioned and not unwilling to file, and did not question that they should be in SA, but SA simply felt a low priority in the overall context of their stressful lives. They often felt unable to cope with the additional burden of completing an SA form, and when communications arrived, they often adopted a ‘head in sand’ approach and did not open them. For this segment, the pressure of finances and penalties could work in different ways - for those earning the least, the £100 penalty or fear of tax to pay could be a real anxiety, while for others, with more money, it could feel easier to pay the penalty to ‘buy’ time and put off dealing with the situation. Both types of people strongly needed support and advice to help them through the process. A reminder of the escalating penalty regime may encourage them to resume and prioritise regular filing.

2. Variables such as knowledge of being in the system, poor financial organisation and low confidence and competence, could combine to create a second segment, classified as **“Not fully engaged”**. Such people were often lower-income traders, either self-employed or contracting, who were sometimes poorly educated with literacy problems. Some did not realise they should be filing, and others may have filed only sporadically. The key problem with this segment was their poor understanding of the SA process, and the expectation that someone should tell them what to do. They often did not file because they thought it unnecessary if they owed no tax, or could see the £100 penalty as an alternative to filing. When communications from HMRC arrived, they were often filed away to open at a later date, or ignored. Learning about the new penalty regime was transformative as they understood that the new penalties for failure to file on time could build up to a substantial amount of money.

The key need of this segment was simple, clear explanations and information, particularly surrounding areas such as why they needed to file, how to do it, what receipts they should keep, some simple guides about the penalty information and how to get out of SA when they needed to, as well as help in dealing with their ongoing problem. This segment would prefer to see the traditional model of support based on personal phone call or appointment. They were often happy to attend an appointment at their local tax office.

3. The third segment identified was linked to the variable of knowledge of being in the system, and belief of whether they should be in the system. They could be classified as **“Won’t file, won’t talk”** and had typically moved from self-employment to PAYE or social security benefits, possibly because of a business failure (which gave emotional cause to want to forget the past). They typically did not tell HMRC about their change in circumstances because they assumed that HMRC’s systems would link their move to PAYE or social security benefits and customers considered that this move in itself amounted to “informing the tax man”. Others could assume that someone else would do it for them, e.g. new employer or DWP.

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Such people might not acknowledge that there was an issue, as they were genuinely convinced that the fact they now paid tax monthly meant they were in the right, and that a mistake had been made by HMRC. This could make their typical attitude rather negative and/or belligerent. When communications arrived, they assumed that the letters were automatically generated from “blips” in the records, so they typically scanned then ignored them.

The segment appeared very hard to reach due to their conviction that HMRC had made a mistake and that the letters were not really meant for them. Gradually escalating threats would be of limited use, as their misassumption and denial of responsibility could emotionally insulate them. The key issue would be to make the letters feel personally relevant. Even a personalised greeting to a letter could be scanned and ignored so, in a perfect world, this segment would prefer a phone call with explanation and step-by-step instructions

4. Stemming from the same variable of knowledge of being in the system, and belief of whether they should be in the system was a further segment, classified as **“Please release me”**. Unlike the “Won’t file, won’t talk” segment above, these people (who also used to be in SA and had since moved to PAYE or benefits) were convinced that they had done everything in their power to tell HMRC that they should no longer be in SA, and argued that at some stage the process of internal communication had broken down because they were still getting letters and requests to file, and did not understand why, or what to do about it.

The key problem for this segment was a lack of clarity over the exact step-by-step process about how to leave SA. This could be compounded if they had previously and unknowingly failed to pay a bill or penalty and did not know how to remedy the problem.

They did not file because they thought they did not have to and thought that by informing HMRC that they were “out of the system”, they had fulfilled their obligation, and (like “Won’t file, won’t talk”), any subsequent communications were as a result of HMRC error. They felt utterly confused about what they should do next. When communications arrived, they typically read them, felt frustrated, phoned or wrote to HMRC, and assumed that the problem was fixed, until the arrival of the next letter, whereby they would carry out the above steps again. The key to supporting this segment therefore lies in providing them with simple instructions about how to leave SA (e.g. via a website or letter), as they were highly motivated to do so. They would happily file one more SA return if they understood why this was necessary, and that it would be the last (or next-to-last) one they would have to file.

5. A fifth segment could be classified as **“Can’t pay, won’t file”**, and could arise from a number of variables depending on the situation. Such people may have been involved with SA for a short period of self-employment and tried to file, but had since been “out of the system for years” (sometimes due to a business failing) and hence questioned the need to now file.

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Within this segment were people who were aware that if they filed they would have to pay taxes (which they could not afford), so avoided filing. Such people could be hostile towards HMRC, and often held the view that if enough time passed, long-standing debts would vanish (in the hope that they might simply be forgotten or not pursued).

They did not file because they felt unable to cope with the demands of re-engaging with the SA process and HMRC, both emotionally and financially. When communications arrived, they could become angry, as they did not wish to be reminded of a financially difficult time. Penalty notices could lead to anxiety, which could in turn result in a 'head in sand' attitude and lack of engagement with the process. Such people needed to know why they were required to file (even if only a nil return) when they had no money, or had previously been declared bankrupt, or been unemployed for years. Such people, felt they would benefit from personal contact, e.g. a phone call or invitation to the tax office to help them fill in the form.

6. A further segment could also arise from multiple combinations of variables as well as individual differences, and can be classified as "**Disinterested**". As suggested by the title, such people felt capable of filing, were aware of their responsibilities, often had some problems or issues to overcome, but fundamentally simply could not be bothered to file on time. The key problems with this segment were a combination of personal financial laziness, and lack of engagement and prioritisation of filing, combined with the mistaken perception that the consequences of not filing would be negligible.

Such people do not file because they see SA as a fundamentally unpleasant or boring task, or they have encountered a minor problem that would require effort to solve, and they choose not to make the extra effort and procrastinate instead. The £100 penalty was not seen as a major deterrent. This segment considered that direct contact would be of benefit, because speaking to them may trigger immediate action rather than further procrastination. Learning that the fine would now escalate to over £1,000 was said to be sufficient motive to act and the loss outweighed any gain to be had from ignoring SA.

7. The final segment, which can sometimes overlap with other audience segments, constitutes those who perceived that they had encountered an administrative **HMRC error**. Some of these claimed to have received penalty notices without ever receiving a form to fill out, or that they had filed on time and that HMRC lost the form – in essence, a situation whereby HMRC thought they had done one thing and they thought they had done another. Some such people claimed that they *did* file, and that they were being wrongly accused by HMRC. This could lead to a stalemate position with neither side backing down and increasing levels of frustration as they tried to communicate their 'case' to HMRC. When communications arrived, they could initially be very proactive and try to resolve the problem (for example, telephoning to inform HMRC of the error), but if the problem remained unresolved, they often became inactive and ignored communications because they no longer understood the issue and so did not know how to proceed.



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A few participants in this segment genuinely did not know why they were in the non-filer database – some claimed to have never filed late, or that they were not an SA customer at all (and had no recall of any communications). These customers typically agreed that if they had received a communication they would respond quickly due to confusion.

### ***Common themes across audiences***

As previously stated, some common themes and misperceptions emerged across segments. For non-filers specifically, “confusion” and “getting stuck in the system” were seen as overarching problems, as was a lack of understanding about how to resolve issues when something went wrong, particularly how to “get out” of the SA system. Although these were also seen in late filers, non-filers also typically had high levels of inertia, such that the most common response to communications, as seen in the segments above, was to ignore them. Inertia was sometimes compounded by a lack of comprehension about how tax is calculated and hence a feeling that HMRC were ‘out to get’ the maximum tax possible

Non-filing SA customers generally felt that they were ‘guilty until proven innocent’ – several reported a perceived HMRC assumption that they were trying to commit tax fraud, which could lead to resentment, particularly if they were trying to resolve issues. This impacted negatively on the customer-HMRC relationship, as they felt that HMRC should help them, not hinder them further, as when they tried to get help they could feel stonewalled. Some had received assurances that ‘everything has been sorted out’, but the letters kept arriving, which further drove inertia as people felt they had done all they could to resolve the situation, so started to ignore the letters.

### ***Reactions to communications***

Communications were typically ignored by non-filers so were, unsurprisingly, poorly recalled, and the “Moira” campaign had low awareness and engagement, or was only considered to be a date reminder message, i.e. not about current fines. The ‘Do you need’ flyer title did not engage non-filers, as it was typically read as an invitation to sign up for SA by those who wanted to do the opposite, so few people in the non-filers group read on from the title to a potentially valuable communication.

Recall of communications from HMRC was seen through the filter of their self-perception. For those who did not think they should be in SA, those who thought they had resolved an issue or those who thought they were now out of SA, the letters were often seen as “mistakes” so felt easy to ignore. Those who knew they were in the wrong were often driven by fear and confusion, which also manifested (in some non-filers) by an attitude of ‘if I ignore it, it will go away’.

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There was therefore a near-universal ignoring of ‘standard’ letters, i.e. those personalised by name, but not by content. Recall of more personal communications from ‘my tax office’, detailing their personal situation were better recalled, particularly when these had arrived following a telephone conversation. These letters could however be reported as bearing no relation to the previous call or communication, so felt unsatisfactory, and justified a lack of action.

The £100 penalty was well known and did not function well as a deterrent. Some saw it as the price for non-filing, others did not believe they would be charged, or believed that they would be able to claim it back. The change to escalating penalties was new information for this audience, and felt more likely to engage and interest them. Although there was a general lack of awareness of these (due to communications being largely ignored), for some, the information alone could overcome their inertia and trigger action, as £1,300 was seen as a non-trivial sum, and also differentiated the SA filing process from that of “paying tax”.

Personal contact felt key to this audience – for example, a phone call from someone to help (not debt-collection) or an appointment at the tax office. They felt this latter approach would offer multiple benefits – it would make them feel they were talking to an expert in the subject (i.e. not a call centre operative), and help them to actually resolve an on-going situation and move forward. The more vulnerable non-filers and those with long-term filing issues expressed an emotional need to make human contact and feel reassured, which they felt would be more difficult to achieve via a phone call.

### ***Further exploration of communication needs: Workshop findings***

There was a strong interest in more targeted communications for different ‘SA types’ – for example, those on PAYE, those who were self-employed, those who were on benefits etc. People often tracked their problems back to insufficient information at the start of the process. There was therefore a strong desire for explanatory joined-up communications at the very start of the customer journey, in the form of clear, step-by-step, jargon-free instructions. These should cover background information about SA (e.g. what SA is, why they are in SA), financial information (e.g. what they can claim for, what receipts they should keep), practical information (how to fill in the form, with examples, case studies and online tutorials of what to do), and contact details with signposting to further help. The most popular suggested format was a traditional leaflet or booklet that they could keep in their files.

Alongside offering customers simplified, clearer information written in layman’s terms, a shift in the customer-HMRC relationship may be helpful. Currently, non-filing participants have little desire to engage with HMRC, as their perception is that HMRC are out to ‘get you’, are perhaps confused themselves, and are both threatening and inconsistent. To engage, they must feel that HMRC can help, have a flexible, friendly approach and are in control of the tax-payers details. A shift in communications tone towards being supportive and willing to engage in a two-way relationship could move this towards a more desirable perception of HMRC

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being there to help. There was therefore strong interest in proactive, personal contact initiated by HMRC, or local office meetings when problems arise.

#### ***Further participant suggestions***

As previously stated, an option for personal contact was strongly liked, as confused and vulnerable people appreciate having someone to talk to and the more confident could see a chance to confront HMRC with its own inconsistencies. In addition however, the HMRC helpline could also be expanded and improved. A freephone number would be ideal, as would more staff on helplines to avoid long queues. Ideally, there would be a 'case manager' per person.

Finally, over the discussions participants did realise that non-filing could not go unnoticed, and that it was their responsibility to do so (although most of the perceived responsibility remained centred on paying tax rather than filing). They came to recognise that the SA return form was the sole mechanism by which HMRC could resolve their affairs and that completion of the form could be the quickest resolve. They also appreciated that escalating penalties were an obvious method of ensuring this. They suggested a "carrot and stick" approach, with a "carrot" to file early (e.g. incentivised early filing), and/or other help that recognises that most people are doing their best and may need help (rather than the default perceived assumption that they are trying to avoid paying tax). Some suggestions included payment plans for tax and accepting photocopies of documents (to minimise the anxiety of them being lost). This could be combined with a "stick" for filing late, such as advance reminders of the new penalty regime, and clear, warning-based communications that cannot be "filed in the bin."