

**Compliance Perceptions Survey:
Qualitative follow up research with
Small and Medium Enterprises**

TNS-BMRB Final Report

November 2012



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Summary

This project sought to follow up on HMRC's Compliance Perceptions Survey with 40 qualitative depth interviews with Small and Medium Enterprises (SMEs) to explore areas of interest in greater depth. The interviews explored respondents' understanding of tax compliance and tax evasion, views on the prevalence of evasion and the chances of detection, reasons for evasion and attitudes toward it, and perceptions of HMRC in dealing with SMEs.

Overall, respondents defined 'doing the right thing' in relation to their tax affairs as submitting full, timely and accurate information to HMRC in order to pay the appropriate amount of tax. Evasion was also generally understood, as a *deliberate* and *illegal* attempt to circumvent paying some or all of the tax due to HMRC.

There were three specific areas of respondent uncertainty identified in relation to tax evasion:

- How HMRC defined and responded to genuine error vs. punishable negligence;
- What the distinction between evasion and avoidance is; and
- Where the division of accountability lies between a business and their accountants or other external advisors.

Only a small minority of respondents admitted to participating in tax evasion themselves. Evasion is a little discussed topic due to its illegality, as well as carrying a social taboo around not paying one's fair share and a sense of betraying a social contract.

Respondents found it extremely difficult to estimate the wider prevalence of tax evasion; however, evasion based on the non-disclosure of cash-in-hand income was seen as likely to be widespread and practically undetectable by HMRC. Many expected a rise in evasion amongst SMEs going forward, primarily in response to the current financial climate and extremely difficult trading conditions.

Tax evasion was universally described as unacceptable; however, further probing revealed two distinct groups depending on the position of morality relative to business and social priorities. On the one hand, moral 'Absolutes' for whom evasion was simply immoral and could never be justified; and on the other, 'Relativists' holding that while evasion was

unacceptable in principle, it may be justifiable as a crisis response to save an otherwise failing business.

HMRC were sometimes perceived as inflexible and assuming a 'guilty until proven innocent' approach towards customers. This was seen as likely to prevent anxious SMEs from seeking advice and support should they have any doubts about their own compliance. Discussion revealed a low level of awareness of HMRC initiatives on tax evasion, but on prompting there was some interest in increased publicity around voluntary disclosure and detections.

Across the cohort there was considerable antipathy towards big business and wealthy individuals engaging in tax avoidance. This was based on widespread rejection of the technical/legal distinction between tax evasion and tax avoidance. Both were seen as morally equivalent, so the current system was viewed as indefensibly biased towards the interests of the latter wealthier group - those better able to pursue legal avoidance strategies. To some extent this was seen to embolden SMEs to attempt to evade tax they cannot themselves avoid.

The perception of an inflexible HMRC approach to SMEs, twinned with widespread resentment of tax avoidance, led to calls for HMRC to more emphatically signal its support in enabling SME compliance going forward; this may include clarifying HMRC's definition of evasion, highlighting support available and raising awareness of its enforcement activity.

1. Introduction

1.1 Research background

Tax compliance is a priority for HMRC, particularly among the SME population. HMRC has commissioned the Compliance Perceptions Survey on an ongoing basis, with the aim of understanding:

- What drives compliance behaviour, and the deterrent effect of HMRC activity; and
- What impact policy and environmental changes have on SME perceptions over time.

Following the 2011-2012 survey, qualitative follow up research was commissioned to explore issues of interest, including unclear or unexpected findings in the survey results, and to help deliver insightful findings overall.

1.2 Aims and objectives

As noted above, the overarching aim of this research was to explore in depth key findings from the 2011-12 Compliance Perceptions Survey.

The specific aims of the qualitative research were to explore:

- tax compliance behaviour and the deterrent effect of HMRC activity;
- perceived levels of non-compliance and levels of acceptability;
- attitudes towards, beliefs about, and perceptions of tax compliant and non-compliant behaviour;
- perceived risks of non-compliance;
- perceived consequences of investigation (penalties, prosecution and social effects); and
- awareness of HMRC's compliance initiatives.

1.3 Approach

The research comprised of 40 depth interviews selected on the basis of the following variables.

- Company size – Sole traders, 1-9 employees, 10-49 employees, 50-249 employees.
- Annual turnover – £15- 50k, £50-250k, £500k-1m, £1-10m, £10m+

- Industry type -Manufacturing/Production, Retail/Wholesale/Distribution, Professional/Business Services, Catering/Leisure, Motor Trades/Transport, Construction , and Other.
- Geographical area - including regions across the UK.
- Whether or not businesses were VAT registered – including those who were not VAT registered but were close to the VAT threshold (with a turnover of £50-76k).
- Whether businesses sold to the public – including potential cash-in-hand trades.

A full sample breakdown is provided in the appendices (section 9.1.2).

Interviews were arranged with the individual who had undertaken the survey most able to discuss compliance issues; in most cases this was the owner of the business or Finance Manager. Of the 40 interviews conducted, 35 were conducted face-to-face, with the remaining five interviews conducted by telephone¹. Fieldwork was conducted between 21st May and 6th June 2012. Interviews were structured using a topic guide, and lasted approximately one hour. All interviews were digitally recorded, transcribed and analysed using Matrix Mapping, TNS-BMRB's proprietary method of analysing qualitative material. Further details of the recruitment, interview and analysis processes, including the fieldwork materials used, can be found in the Appendix.

Throughout the report, interview quotes are shown giving whether the respondent's business is VAT registered or not; whether they deal in cash with customers; and the number of employees. For example:

VAT, No Cash, 1-9 Employees

¹ Telephone depths were used to access respondents in remote locations, and ensure quotas were achieved using limited available sample.

2. Interpretations of compliance and evasion

Interviews began with the respondent briefly describing the nature of their business, before exploring what they felt it meant to 'do the right thing' in relation to their tax affairs. This was followed by more explicit probing on what they understood by the term 'tax evasion'. This section unpacks these early discussions.

Perhaps not surprisingly, the term 'compliance' was not commonly used by respondents, although **doing the right thing** in relation to managing tax affairs was widely understood; specifically, as providing full and timely disclosure of business earnings so as to be charged the appropriate amount of tax by HMRC. Full and accurate internal record keeping was also frequently mentioned, including retaining receipts for all spending, expense claims etc.

In short:

'Paying the correct amount of tax, at the correct time'
(VAT, Cash, 10-49 Employees)

Following on from the above discussion, **tax evasion** was defined by respondents as a *deliberate* and *illegal* attempt to avoid paying the full amount of tax due to HMRC. Examples of evasion commonly given by respondents included:

- artificially inflating expense claims and/or expenditure;
- reducing the hours formally billed, taking the shortfall in cash; and
- not declaring all cash-in-hand income.

However, while the concept of evasion was broadly understood, there were some grey areas identified as potential sources of anxiety and/or error in dealing with HMRC, namely:

- respondents confused the meaning of avoidance and evasion, which reflected their view that big business 'avoidance' was morally equivalent to instances of evasion;
- they were uncertain whether, and how, HMRC distinguished between ignorance with negligence; and
- they were unsure of the division of responsibility for compliance between a business and their accountants.

Confusing avoidance and evasion: Understanding of the difference between avoidance and evasion was very mixed. While those with higher financial awareness made a distinction between legal tax avoidance strategies and illegal tax evasion, many respondents conflated

the two, assuming there was no difference and avoidance was illegal. Moral judgements were often attached; many felt that avoidance and evasion amounted to the same thing, but were unsure where they stood in relation to the law.

"If you're going to put it away off in a different country somewhere where it's not taxed, it's still wrong, it's illegal." (VAT, No Cash, 1-9 Employees)

The point was somewhat divisive and a minority of businesses viewed avoidance as 'efficient' and a key part of running a successful and competitive business. However, in these cases, respondents referred to small businesses.

"I think if you can avoid it and it's legal then you should because they will use every legal means to get what they can out of you and as long as you are doing everything within the tax laws, then that's fine." (VAT, Cash, 10-49 Employees)

To others avoidance was seen as morally equivalent to evasion and thus just as unadvisable. This perceived equivalence between evasion and avoidance was slightly more prevalent amongst sole traders, and possibly a reflection of varied financial awareness.

In some discussions the perception was raised that large companies, particularly multinationals, are in a far better position from which to practice legal tax avoidance due to greater resources and available expertise. This was considered an unfair advantage. The connection between these views and attitudes to evasion is discussed in Section 6.

"I think large businesses do [practice avoidance] because they will have tax experts employed. Small businesses no, probably small businesses, family run businesses, businesses that are smaller than ourselves they concentrate more on trying to keep the business going to make a profit, tax is maybe a secondary element." (VAT, Cash, 10-49 Employees)

Whether HMRC equates ignorance with negligence: Respondents were not always confident that they were fully aware of their obligations, despite their best efforts and intentions. In some cases there was concern that an error or oversight based in ignorance might be interpreted as an attempt at evasion. It was not always clear to respondents if HMRC would distinguish between errors due to ignorance, and negligence, and if so how the two cases might be treated.

Some respondents' behaviour might best be described as compliance without having confidence in their understanding; for example, one respondent described precisely following all HMRC instructions when preparing tax submissions to minimise the chance of non-compliance. Here, HMRC were viewed as 'rigid' and 'inflexible', with no option for a small business but to comply precisely with all requests.

"It's not necessarily a thought process, it's following guidelines and laid down procedures. I might not think they're right. I might think that – no it's not one size fits all but my opinions don't really come into what HMRC expect. That's expectations, it's black and white, and you do it whether you like it or not. I deliver what I am asked to deliver." (VAT, Cash, 50-249 employees)

Division of responsibility between a business and their accountants: Tax rules were perceived both as complex and continuously in flux, subject to frequent revisions and new processes. Those using external accountants commonly viewed them as a key support for ensuring compliance with their tax obligations. In many cases there was a sense of dependency, with records passed over to accountants and these more expert advisors trusted to make sense of the process of filing submissions to HMRC. This raised the question for respondents of who was (and/or should be) ultimately responsible and accountable to HMRC for any discrepancies or errors where no deliberate attempt has been made at evasion.

These interpretations of evasion provide a useful context for exploring views on the prevalence of evasion and attitudes to compliance overall.

3. Prevalence of evasion and chances of detection

This section explores respondents' views on the prevalence of tax evasion and the likelihood of detection and enforcement action being taken.

Direct experience of tax evasion: Despite researchers providing reassurance as to their confidentiality, during the interviews only a small minority of respondents admitted to participating in tax evasion themselves. This was explained as atypical behaviour. Explanations for these instances of evasion included:

- having been unaware of their tax obligations and effectively evading tax in error;
- having been unaware of actions taken by their accountant or other third party; and
- resorting to deliberate evasion in the face of 'desperate' cash flow problems threatening the ability of the business to trade.

It should be noted that the explanations given above may be post-rationalisations – respondents may have sought rational and acceptable reasons for evasion, but could have mis-remembered, forgotten or biased their answers towards behaviour they considered appropriate or justifiable. Reasons for evasion will be unpacked in greater detail in section 4.

Estimating the prevalence of evasion: Respondents found it difficult to estimate how widespread tax evasion was, a little-discussed issue both due to its illegality and the social taboo. Asking someone if they evaded taxes was viewed as socially akin to asking an individual's personal income. As such there are multiple disincentives to admit to participating in evasive behaviour and no perceived benefit in doing so.

"Nobody is going to walk out into the street and go, 'I evaded tax, check me out!'"
(No VAT, No Cash, Sole trader)

By contrast, in some cases respondents were perfectly happy to share their tax *avoidance* tips and experiences with others in their industry; this was viewed as community spirited and positive.

"There's an awful lot of information about taxation, perhaps between farmer to farmer where one person has maybe achieved a tax saving on something and passed that information along to other parties." (VAT, No Cash, Sole trader)

While the true extent of tax evasion was difficult for respondents to gauge, the dominant perception was of an increasing trend in recent years. Difficult trading conditions during the current financial downturn were assumed to be the main driver, with restricted bank lending causing significant cash flow issues for some SMEs.

When asked to comment on the prevalence of evasion specifically by SMEs, it was felt particularly hard to judge as smaller enterprises and sole traders receive relatively little business or wider media coverage. It was considered rare to hear news of a SME facing prosecution, as press stories generally reported high profile cases involving significant sums of money. Respondents also made assumptions about the likely prevalence of certain types of evasion based on how 'easy' they would be – i.e. easier to 'chip'² (see page 11) and use 'cash-in-hand' for evasion, as these arose as 'opportunities' and the SME could choose not to record this.

How would we evade? Evasion was seen as restricted to 'pockets' rather than endemic to the business community as a whole, with particular suspicion aimed at businesses dealing cash-in-hand.

“Anywhere that there is cash involved, there is the temptation to defraud the Revenue.” (VAT, No cash, 10-49 employees)

Size was also an issue, in that medium sized firms felt they had more safeguards in place when compared to sole traders and micro-businesses, who were assumed to run on less formal lines. There was no immediately obvious route to evasion for businesses without cash dealing or access to sophisticated financial and accounting knowledge. As such, medium sized firms struggled to identify potential opportunities for evasion. Reasons included:

- **No cash** – where all payments are processed electronically and money 'goes through the books' and can be thoroughly audited. However, the point was raised that more sophisticated evasion might be possible with the collusion of willing clients.
- **Lack of knowledge** – as mentioned previously, tax rules are viewed as complex and in constant flux. Respondents felt they lacked the knowledge of finance and of the tax

² Small quantities not declared, e.g. £50.

system required for successful evasion. The assumption was that evaders are self taught and/or assisted by accountancy websites.

- **Accountant control** – many firms were dependent on their accountants to manage their tax affairs. As such it was assumed that evasion would require awareness and collusion by the accountant; this was seen as high risk and unlikely, and thus likely to be restricted to a small minority of ‘dodgy’ firms.

Other forms of evasion identified and likely perpetrators: While sometimes struggling to identify opportunities to evade tax themselves, discussions of business in general revealed four relatively distinct forms of evasion. These were defined in terms of their complexity and the likely scale of the businesses involved. Each is now briefly described, with a more detailed summary provided below.

Cash-in-hand – assumed to be the most common form of evasion among small and medium businesses. As mentioned above, those operating cash-in-hand were to have a significant opportunity to practice evasion, with the informal cash economy seen as the ‘natural’ place for endemic non-disclosure of income.

| Type of Evasion? | Who is involved? |
|---|--|
| Cash-in-Hand | |
| <ul style="list-style-type: none"> • Cash payment of staff wages • Cash payment for stock • No knowledge required – people just know they can • ‘Try’ something and realise you can get away with it • Anecdotes from within sectors dealing in cash support these assumptions | <ul style="list-style-type: none"> • Widely assumed to be extremely prevalent • Small trades • Mini-cab drivers • Builders • Plumbers • Market traders, artisans • ‘Pockets’ of more open evasion in key trades |

Complex Manoeuvres – using sophisticated knowledge of the tax system and financial transactions to defraud. Perpetrators were assumed to be large, particularly multinational, companies with significant resources and financial expertise available. Here avoidance and evasion were sometimes conflated. In some cases this was down to ignorance of the distinction. Others simply rejected the distinction, holding evasion and avoidance as morally equivalent, with a belief that companies willing to use avoidance were also likely to attempt sophisticated evasion.

| Type of Evasion? | Who is involved? |
|---|---|
| Complex manoeuvres <ul style="list-style-type: none"> • Collusion with accountants • Collusion with clients • Draining revenue through other companies • Using complexity of rules and large quantities of money to mask tax evasion | <ul style="list-style-type: none"> • Offshore accounts in tax havens • Money laundering • Big businesses, with highly paid and sophisticated accountancy assistance. • Avoidance and evasion often conflated – considered similar enough (i.e. moral equivalence) |

Small business ‘rackets’ – These are established as temporary businesses with no intention of compliance, running on illegal grounds, rapidly opened and closed again.

| Type of Evasion? | Who is involved? |
|---|---|
| Small business ‘rackets’ <ul style="list-style-type: none"> • Whole businesses operating on illegal grounds • Temporary businesses – open and close rapidly • Informal economy in all dealings • Undeclared income | <ul style="list-style-type: none"> • Internet companies, temporary shops, warehouse outlets • Repeat offenders – ‘Directors’ using this as a trick – freedom to do so • Companies established with intention of bankruptcy |

Fudging/chipping – these were seen as activities most often practiced by businesses which were struggling or in decline. This included low-level attempts to reduce tax liabilities using cash, deferring payment to HMRC etc.

| Type of Evasion? | Who is involved? |
|---|---|
| Fudging/ chipping <ul style="list-style-type: none"> • Small quantities not declared, e.g. £50 • Deferring – claim intention to pay. Likely to pay full total but able to slip into non-payment • Skimming a small amount off each payment to avoid detection • Large businesses taking money from high level transactions | <ul style="list-style-type: none"> • ‘Chipping’ widespread among SMEs – barely considered evasion as the amounts are small • ‘Chipping’: high turnovers mask skimming of revenue • SMEs able to claim uncertainty about the difference between slowing and evading payment |

Chances of detection and enforcement action by HMRC: There was a common perception that the chance of detection and enforcement action being taken by HMRC was linked to the scale of evasion and the size of the business involved. Enforcement efforts

were assumed to be predominantly directed toward the pursuit of large scale, systemic or continuous evasion or wherever the financial reward was greatest. Lower level activities were considered impractical and less rewarding to pursue. In particular, small scale evasion based on cash-in-hand activities and non-disclosure of income by sole traders and SMEs were considered essentially invisible to HMRC. Similarly it was felt that low level 'fudging and chipping' could be managed carefully by smoothing monthly figures to avoid noticeable discrepancies, or at least delay detection.

For large businesses, evasion through the more 'complex manoeuvres' described above was viewed as carrying heavy risks if caught, based on media coverage of high profile prosecutions. This risk was assumed to be weighed up against the temptation of significant rewards should the attempt be successful. Big business was seen as willing to accept the risks of being detected, given the size of potential gains should evasion be successful:

"Proper money, temptation is greater, got to be..."

(VAT, No Cash, 1-9 Employees)

A minority of respondents in the sample mentioned their impression that the increased use of accountancy software packages and online filing of tax returns had increased chances of detection for evaders. However none had direct experience of this. Computerisation was simply assumed to have increased transparency and made it easier for HMRC to search for discrepancies or suspicious patterns

"I would hope with the advent of technology and stuff, it's more easy to be more controlled, and I imagine there must be some way of it being very searchable and very analysed." (No VAT, No Cash, Sole trader)

The subset of small business 'rackets' described above were seen as a slightly different case in that they were often setting out as criminal enterprises, operating in the informal economy with the expectation of eventual detection and with pre-conceived strategies to avoid the consequences.

"They open for a few months, sell some stock, declare themselves bankrupt and just seem to carry on regardless." (No VAT and close to threshold, Cash, 1-9 employees)

There was limited evidence that respondents assumed some taxes were 'harder' to evade and avoid detection than others, though many respondents felt unable to comment. PAYE

was considered 'simplest' for those working with cash-in-hand, while non-declared income was seen as a means of remaining below the VAT threshold for companies who were close to it.

4. Reasons for evasion

This section explores the perceived motivations for participating in tax evasion, as well as the assumptions underpinning these views. The main drivers of tax evasion (and to some respondents by extension, avoidance) were ascribed to **a combination of the moral character of the individuals involved and various external pressures**. These were considered to be interacting features of all cases of evasion, but applying to greater or lesser extents. Each is now explored in greater detail. It should be noted that only a very small minority of respondents admitted to participating in evasion; thus much of this discussion was based on perceptions rather than direct experience.

Moral Character: an individual's character traits were seen to drive their disposition towards tax compliance. 'Evaders' were assumed to be driven by faults in their social and moral values, political views on taxation, and family background or 'upbringing'. **The key unifying factor was held to be a 'sense of entitlement'**. This trait was described as fairly widespread across society but more prevalent at either extreme of the income scale, with references to both 'benefit scroungers' and those with access to 'super powered accountants'.

"The belief in their right to not have to pay...lots feel they can do what they want, they have earned the money. That's a cultural thing, a wider issue." (VAT, Cash, 1-9 employees)

Respondents also **characterised some as opportunists, not actively seeking to evade but willing to when a low-risk opportunity presents itself**. This opportunism was again linked to the idea of personal character and upbringing, that some will inevitably be predisposed to flout the rules.

External Pressures: Business context was the other key driver, or reason for evasion. In the face of financial pressure, businesses evaded in order to stay afloat.

"[Evaders are] not doing it deliberately; they're doing it because they're struggling, and they have a family to feed." (VAT, Cash, 1-9 Employees)

A cash flow crisis might prompt a business to evade tax in order to free up capital and keep trading. In this discussion **a perceived hierarchy of financial commitments emerges for businesses under pressure.**

- **Staff** must be paid as the business depends on them to continue operating and has a tangible responsibility to meet their needs.
- **Suppliers** must also be paid in order to maintain reputation and future business. There are often close working relationships involved and, as with staff, a sense of duty towards them.
- **HMRC** on the other hand were viewed as remote and ‘faceless’ with no immediate impact on the business if tax bills remain outstanding.

“It would be much harder to say no to someone face to face than it would be to just delay HMRC.” (VAT, Cash, 10-49 employees)

Other suggested reasons for evasion included more straightforward cases of negligence, ignorance and fear:

Negligence – This could be put down to a lack of communication with accountants and/or a lack of clarity over who was ultimately responsible for submitting accurate and timely tax returns. As mentioned in section 2, respondents were often unsure what approach HMRC would take to examples of this kind. To some extent this overlaps with the following issue, ignorance.

Ignorance – Was characterised as a company or individual working in good faith to submit accurate returns and pay the amount due, but with errors effectively amounting to evasion caused by an incomplete grasp of their obligations. This was potentially exacerbated by confusion as to how they might put the situation right without being penalised. Here, respondents sought more ‘openness’ from HMRC, demonstrated through communications that encouraged businesses to come forward to correct errors. This results in what one respondent called *“sticking their heads in the sand”*. Again this begins to overlap with the final issue of fear or anxiety.

Fear/Anxiety –stress when approaching a process which was seen as technical and complex was quite commonly reported. This was identified as an issue which partly related to skills, but also to confidence and familiarity. As such, some small businesses with little experience felt unable to cope, and expected this experience to be quite common. To prevent this occurring, respondents sought more reassurances from HMRC as to the correct approach to take.

It would appear that the reasons identified above act in combination rather than a direct line being drawn between a particular trigger and participating in evasion. Overall it was often challenging to discern between genuine motivations for evasion and those offered as post hoc rationalisations. Many respondents' answers were based on speculation as to the perceived motives of others or material they had read in the press.

5. Attitudes toward evasion

Overall, evasion was seen to be more acceptable when clearly driven by external pressures, and least acceptable when driven by greed. While routine tax evasion was viewed extremely negatively in moral terms, the motivation for evasion was considered relevant to the moral judgement. As such, a ‘desperate’ resort to tax evasion in order to protect a struggling business from failure was not held as a moral equivalent to more routine evasion due to greed or a political distaste for taxation.

While a resort to tax evasion was always considered wrong in principle, respondents were generally more forgiving of evasion where a business was struggling. The relative acceptability of an incident depended on:

- **Whether evasion was more compelled or chosen:** A resort to evasion as a desperate measure or business need was contrasted with evasion motivated simply by greed, which was roundly condemned by all respondents.
- **The material sum involved:** The impact evasion has on the public purse was a primary consideration, and cause for resentment of evaders. As such, there was less interest in ‘petty’ sums than in those which were seen to more directly and significantly damage the country’s revenue and public resource.
- **Number of instances:** An isolated incident, such as an atypical reaction to a genuine crisis was clearly distinguished from any attempt at more systematic and long term evasion, which was considered far worse.

These discussions were often tinged with a sense of resentment at perceived double standards between the tax treatment of ‘ordinary’ citizens and SMEs, versus the approach taken to big business and wealthy individuals, particularly those better able to pursue legal avoidance strategies. To some extent this was seen to embolden people to attempt to evade tax they cannot themselves avoid.

“There’s a lot of tax avoidance where larger businesses are getting away with it but the small businesses aren’t. Is that right?” (VAT, Cash, 1-9 Employees)

“People are now saying well why should I pay tax so that, you know, so these guys can go and they can have their duck ponds.” (VAT, No Cash, 1-9 Employees)

Particular irritation was also reserved for trades people and others systematically working cash-in-hand and not fully disclosing their earnings.

"They're getting away with it and I'm not." (VAT, Cash, 1-9 Employees)

Attitudinally, respondents were ranged across a spectrum of opinion when discussing tax evasion, and divided into two camps at opposing ends. While all agreed on some level that evasion was 'wrong' there was a divide between those with moral 'absolutes' who maintained evasion was always wrong in any situation, and 'relativists' who considered this depended on the circumstances. These group types are explored in more detail below.

Moral absolutes: This group felt that tax evasion could never be justified. It was considered an indefensible act which deprived society of funds for public services while others paid their fair share.

"It's totally black and white, it's against the law, don't do it, or take the consequences." (No VAT, No Cash, Sole trader)

"Anyone who gets done for [evasion] deserves what they get." (VAT, Cash, 10-49 Employees)

This group also tended to feel more unforgiving towards those making errors in their tax returns, seeing this as negligence and therefore a behaviour which constituted evasion.

"If you are deliberately avoiding it or [just] getting it wrong, you are still evading tax." (No VAT, No Cash, Sole trader)

However, it should be noted that the research effect is likely to have increased the extent to which respondents emphasised these views.

Relativists: This second group considered the facts of any given case, both in terms of the scale of evasion involved, and the circumstances motivating the individual or company to attempt it.

"I would say the majority of them who do it, are doing it because they're struggling." (VAT, Cash, 1-9 Employees)

“If you’re not profitable, or if you’ve got really poor cash flow and you’re living month to month, then you might see [fudging] as a way of covering yourself for a month and sorting it out next month maybe.” (VAT, Cash, 10-49 employees)

Changing Social Norms? ‘Social norms’ refer to individuals’ perception of the attitudes and/or behaviour of their peers and other community members. The research aimed to explore the divergence between people’s personal beliefs and their perceptions of others in respect of the practice and acceptability of tax evasion. Most respondents assumed a shift in social norms, with evasion increasingly likely, and perhaps acceptable, in response to extremely difficult trading conditions.

“If you know everyone does it, it becomes the norm and acceptable.” (No VAT, No Cash, Sole trader)

Arguments in support of this view tended to focus on the current financial climate and high unemployment. As such, it was felt that small scale evasion was tolerable where the perceived alternative was further job losses and the failure of more SMEs. As financial pressures rise, businesses that were usually morally opposed to evasion were expected to tip into it, thus increasing the number of evaders with ‘more acceptable’ motivations.

In particular, two forms of evasion were seen as likely to increase: non-disclosure of cash-in-hand income, and fudging/chipping. Both of these forms of evasion were viewed as the sort of low level activities likely to be attempted by newly struggling businesses which had not habitually evaded tax in the past.

This shift in acceptability was not universally supported. Those with a moral absolute position on evasion were unlikely to agree, maintaining the view that evasion cannot be justified under any circumstances. In their view, significant business pressure was not sufficient justification. Rather, as they believed businesses could always seek help from HMRC, they must be open in declaring their troubles and lacked any excuse. The assumption that help could always be sought was a critical difference between this group and other respondents who were less likely to feel that HMRC offered options for those who were struggling. This is explored further in section 6.

6. Perceptions of HMRC - fairness and resources

Interviews also explored respondents' experiences of dealing with HMRC and whether the department was viewed as treating business fairly, particularly in terms of achieving the right balance between 'carrot and stick', i.e. responding to customer needs with appropriate support or enforcement actions.

Direct experiences of dealing with HMRC ranged from satisfaction and noting how helpful the staff had been when called – '*talk to someone, they will listen*' – to deep resentment at perceived heavy handedness.

Perceived unfairness in treatment by HMRC was not observed to be a driver of attitudes to evasion.

'It's not their business to be fair; HMRC is there to enforce the law of government.'
(No VAT, No Cash, Sole trader)

Rather, a perception of inflexibility in HMRC's approach to its customers was more likely to encourage evasion. As such, HMRC was assumed to adopt a 'guilty until proven innocent' view of customers. This was rooted in the assumption that HMRC would not be able to help small businesses and would refuse to take their situation into account. Rather than coming forward to ask for help, and potentially alerting HMRC to potential problems, businesses therefore evaded instead.

"The way I view HMRC is that I don't expect them to make any allowances or any favours." (VAT, No Cash, Sole Trader)

"If they were seen to be more flexible and less of a closed door, it might be easier for people to ask for help." (VAT, No Cash, Sole Trader)

However, several respondents who had direct phone contact with HMRC were very positive about the 'human face' they had experienced. This would appear to suggest that these more negative assumptions are preventing some customers from making contact to discuss any problems, instead resorting to evasion.

Use of resources for enforcement: Respondents had quite consistent views on appropriate priorities for enforcement. It was felt that focussing resources on SMEs to increase tax revenues was counter-productive, yielding little revenue while driving some out of business. As such it was widely held that time and resources would be better spent in pursuit of large businesses and multinationals. This view was often reinforced by intense hostility to what was seen to be widespread tax avoidance by big business and wealthy individuals. More exceptionally, respondents in sectors where evasion was believed endemic, such as construction and mini-cab services, felt HMRC needed to crack down on widespread bad practice.

Several respondents mentioned seeing media stories on staff cuts at HMRC and these were viewed as counter-productive to the enforcement efforts if more resources were required. As respondents predicted a rise in evasion in response to the economic climate, they felt that HMRC would need higher staffing levels in order to respond to this.

7. Awareness of initiatives

This section explores awareness of HMRC's initiatives for encouraging compliance and their perceived deterrent effect.

Initially we asked respondents about their general awareness of initiatives to enable and enforce compliance, before probing more specific schemes. These included:

1. Increased Prosecutions – the *2010 Spending Review settlement included investment for HMRC to increase the number of criminal prosecutions fivefold by 2015.*
2. Campaigns for Voluntary Disclosure³ – these *target particular trade groups nationally by creating opportunities for disclosure within a certain time period before HMRC clamps down on those who do not disclose.*
3. Taskforces – these *are regional compliance interventions targeted at specific high-risk trade sectors, e.g. restaurants in the North West.*
4. New Penalties⁴ – *penalties are used to stop people who don't take reasonable care to get their tax right from gaining an unfair advantage. Three new penalties apply:*
 - i. *Inaccuracy penalty*
 - ii. *Failure to notify penalty*
 - iii. *VAT and Excise wrongdoing penalty*
5. Managing Deliberate defaulters programme⁵ – *close monitoring of known tax evaders.*

Overall, there was a very low awareness of initiatives, but the ideas were generally approved of and further deterrent measures were supported. Views on punishments were based on assumptions rather than experience, although HMRC was assumed to be tackling evasion more or less sensibly. There was no consensus view among the respondents on what punishment would fit the crime, with a range of preferences: from HMRC portraying itself as approachable, to those who believed that HMRC should come down hard, and 'name-and-shame' evaders by passing the information over to the national press.

Increased Prosecutions were associated with large businesses, and were not seen to have increased noticeably. Respondents assumed that prosecutions were unlikely to be reported

³ For further information, see: <http://www.hmrc.gov.uk/campaigns/introduction.htm>

⁴ <http://www.hmrc.gov.uk/about/new-penalties/>

⁵ <http://www.hmrc.gov.uk/about/tax-defaulters.htm>

for small companies, therefore it was difficult to gauge whether they had increased. Many assumed that detections would lead to automatic prosecutions anyway. However there was a positive reaction from most respondents toward the increased prosecution figures (noted above), with most believing that this was a good idea. Some concern was voiced by those who were more financially aware around weighing the costs and financial return of these prosecutions to HMRC, as well as a concern about the story behind the figures; for example, questioning what type of businesses were being prosecuted, and whether those prosecutions were resulting in convictions.

“[I wonder] whether the cost of what they are doing is actually economic or worthwhile, or is it just creating jobs?” (VAT, Cash, 10-49 employees)

Respondents’ answers in the qualitative research can be directly compared to their survey responses. While in the initial survey respondents reported an awareness of businesses being prosecuted for evasion, the qualitative interviews suggested this was predominantly for high profile cases involving large companies in the evasion of significant sums. In fact only a small minority of interviewees felt it likely that a SME regularly evading tax would eventually be identified and prosecuted, although this was not based on direct experience.

The deterrent effect was minimal for SMEs unless the examples were of businesses like theirs; otherwise it was not seen as relevant. Respondents showed a significant interest in gaining a better understanding of the chances of detection through increased communications about SME prosecutions. Knowing what would happen to them, and the likelihood of being caught would be a significant deterrent.

“Hearing these scare stories of massive bills – you do worry about it, but I don’t think I do enough. I don’t think HMRC do enough to promote what trouble you can get into if you don’t do it. That’s a real problem, they need to actively talk to more people about it – because it is really scary, what could happen.” (VAT, Cash, 1-9 employees)

Voluntary Disclosures were considered helpful, and chimed with an ideal for HMRC to be seen as an enabler, and flexible to SMEs. The tone of the message was recognised from other HMRC communications, such as Benefit Fraud posters and advertisements. It was generally seen to have a positive deterrent effect as it was ‘bringing people on board’.

“Yes, again it’s pretty straightforward. It’s spoken in a common language, and if you don’t come forward you haven’t really got a leg to stand on because they are official

bodies. They can't show compassion unless you ask for it." (Not VAT, No Cash, Sole trader)

However, as explored in section 6, there were concerns that HMRC may give harsh treatment to those that came forward, so only a minority of people would take up the opportunity, particularly in the current climate.

"I don't trust [HMRC] – I think they'd come down hard on [people making mistakes]."
(VAT, No Cash, 1-9 employees)

"I wouldn't be throwing a lot of money or manpower into it because maybe I'm sceptic but I don't think a lot of people would take that up, you know, especially in you know, with the times and with everything when things are – people are not going to suddenly in this day and age when things are so tight suddenly [develop] a guilty conscience about the tax" (VAT, No Cash, 1-9 employees)

There was no awareness of **Taskforces**, but it was assumed that equivalent operations existed already. Some respondents were very positive, but there was serious concern that this could victimise innocent businesses in the sector under target, and some saw it as being 'draconian'. It was perceived as a clampdown operation, rather than a programme having a deterrent effect.

"I feel sorry for legitimate traders, who, because they've [HMRC have] decided to pick on a sector, they'll go after innocent people, and make their lives a misery."
(VAT, No Cash, 1-9 employees)

Regarding the **Penalties Regime**, respondents were relieved to clarify interpretations of deliberate and accidental non-compliance. However many of the penalties were assumed to exist already and the deterrent effect is only effective if it is better publicised. While many respondents showed little interest in greater awareness as it was seen as an accountant's remit, those who managed their own affairs felt further publicity would be useful.

The **Deliberate Defaulters Programme** was assumed by respondents to be in place already. If someone has been non-compliant in the past, there is a chance they will do so again, and the process of laboriously filling in additional information for self assessment returns would be seen as a deterrent as well as an effective punishment.

“That’s fair enough, because that’s a deterrent in itself, isn’t it?” (VAT, No Cash, Sole trader)

As noted above, respondents expected it to be hard to monitor effectively as it is resource intensive, and there was a belief based on media stories that HMRC is losing resources due to downsizing.

Awareness of HMRC initiatives was commonly seen as the remit of an accountant rather than the business itself, so there was little sense of obligation to learn about these activities. It was expected and preferred that accountants would inform businesses of anything they needed to know. Most knowledge of HMRC activity stemmed from media coverage of high profile cases, rather than SME/sector specific stories in any trade press.

There was little sense among respondents of HMRC increasing its efforts, although it was considered appropriate that HMRC should be taking more action in the current economic climate.

There was quite a strong interest in learning more about what HMRC was doing in relation to evasion among small and medium businesses. Currently communications were felt to focus on the end of the tax year and deadlines, rather than support. HMRC was seen as having the capacity to transmit its message more effectively to people who need to hear it. Some respondents suggested HMRC should focus on TV and Newspaper Campaigns, not simply through the post, while others thought HMRC should concentrate on informing accountants as it was seen as their role to do so.

8. Conclusions

Overall, respondents did not feel confident in estimating the prevalence of tax evasion, given people's reservations about discussing these issues and the low level of media coverage given to small business affairs. When considering the likelihood of detection, respondents assumed that enforcement was likely to be under-resourced and that small business evasion, particularly involving cash-in-hand income, was all but undetectable by HMRC. This thinking was reinforced by the perceived low profile of enforcement activities and relatively little media coverage focussed on evasion by SMEs.

The economic downturn was assumed to have led to a rise in evasion due to cash flow issues. Here, financial pressures were seen to force businesses into situations where evasion became an option that they would not otherwise have considered. There was much stronger sympathy for these cases in which businesses were compelled to evade, as opposed to being motivated by greed alone.

Views on the acceptability of evasion depended on the position of 'morality' relative to the circumstances of the business and an employer's responsibilities to staff and suppliers, though views varied between more 'absolute' and more 'relative' positions on this question. However, a climate in which evasion was a more common occurrence did not appear to shift social norms around what is acceptable. Those with a more relative attitude to cases of evasion still judged according to the same circumstances, while those with a more absolute attitude found no grounds for evasion to be acceptable.

There is currently low awareness of HMRC initiatives, across all programmes discussed. HMRC was encouraged to increase publicity around voluntary disclosures and enforcement activity as a means of reassurance that evaders are deterred. Alongside this, respondents stated a need for HMRC to signal its support in enabling SME compliance at this time by showing flexibility in payment plans and supporting those who seek to 'do the right thing'. For those who struggled with cash flow issues, this flexibility was hoped to make a critical difference in their decision making - to nudge them towards choosing openness with HMRC instead of feeling driven towards evasion.

9. Appendices

9.1 Methods

This section expands on the project methodology briefly described under 'approach' in section 2. The full topic guide used by interviewers is given provided in section 9.2.

9.1.1 Recruitment

At the end of the 2011/12 Compliance Perceptions Survey respondents were asked if they were happy to be re-contacted in order to engage in a follow-up study. A qualitative sample was generated from those who agreed to be contacted. Field managers were fully briefed on the project and provided with detailed recruitment instructions and a screening questionnaire in order for the recruiter to assess respondents' eligibility to participate in the research. Respondents were recruited by telephone. All recruiters are members of the IQCS (Interviewers Quality Control Scheme). A confirmation letter was sent to recruited respondents.

9.1.2 Sampling Framework

| | London | South East | Northern England | Wales | Scotland | Northern Ireland | Total | |
|--|-----------|------------|------------------|----------|----------|------------------|-------|----------------------|
| Primary variable: | | | | | | | | |
| VAT Registered | 12 | 3 | 3 | 0 | 4 | 3 | 25 | |
| Not VAT Registered | 7 | 2 | | | 2 | 2 | 13 | |
| Not VAT & Turnover £50-76k | 1 | 1 | | 0 | | | 2 | |
| Selling to the public (potential cash) | 6 | 4 | 0 | 0 | 2 | 2 | 13 | 13 Public trading |
| Total | 20 | 6 | 3 | 0 | 6 | 5 | | 40/40 |

9.1.3 Fieldwork

Fieldwork was conducted between 21st May and 6th June 2012. Of the forty interviews completed, thirty-five were conducted face-to-face at the respondent's place of work, with the remaining five interviews conducted by telephone in order to meet quotas and reach respondents in remote areas.

All interviewers were experienced qualitative researchers and each depth interview was structured using a topic guide to ensure a consistent approach. The full topic guide is provided in section 9.2 for reference.

Each depth interview lasted approximately one hour; all were digitally recorded and subsequently transcribed to provide an accurate record of the conversation and support detailed analysis.

Addressing biases and eliciting valid data

Sampling: The relative success of respondent re-recruitment was not linked to their previous survey responses, and there were no indications that respondents who were inclined to be attitudinally non-compliant were less likely to participate in the research.

Method: When comparing the validity and richness of the qualitative data obtained from face-to-face or telephone interviews, researchers felt both approaches had advantages and disadvantages. Face-to-face enabled a stronger rapport, and all the uses of body language which help to build trust and put respondents at ease. On the other hand, the relative anonymity of the telephone could also put respondents at ease, and researchers suspected this was the case on several occasions. Overall, face-to-face interviews are generally preferable, but for this research it was felt that telephone interviews can also yield deep findings, where the respondent maintains a commitment to the interview.

Interviewing: Given the highly sensitive nature of the discussions, it was anticipated that respondents may be reticent about their own behaviour and their knowledge of evasion practices among others. They may also say what they expect is the 'correct' answer, rather than what they actually think. This could result in omissions, partial explanations and a bias towards actions they considered more acceptable than others. To address these conscious and subconscious inclinations, researchers emphasised their impartiality and the confidentiality of the interview. Discussing other people's actions, or potential actions, is far less sensitive than direct requests to discuss one's own behaviour. As the research was

concerned with perceptions of other people's actions, third person displacement could be used throughout the interview, and respondents were only referred to their own behaviour once rapport had been developed.

People are also prone to seek to rationalise their views for a researcher and seek a clear line of reasoning, which may not reflect a more nuanced and complex set of drivers of attitudes and behaviour. To address this, respondents were encouraged to compare different examples of evasion and build a sense of the relative strength of feeling for different issues. Although time factors and HMRC priorities limited the extent to which exercises could be used to probe and draw out variant attitudes more clearly, researchers also specifically sought to unpick and probe on discrepancies in views.

9.1.4 Analysis and Reporting

TNS BMRB uses a proprietary analysis method called Matrix Mapping. Based on the topic guide, the researchers' experience of conducting interviews and a preliminary review of the data, a thematic matrix was constructed and the transcript material was then summarised into this framework.

Researchers then reviewed the material and identified features within the data: defining concepts, mapping the range and nature of phenomena, creating typologies, finding associations, and providing explanations.

Key issues and underpinning features were then used to construct the reports. Verbatim quotes were also used to illustrate and illuminate the findings.

Interviews were charted onto the matrix until researchers identified a saturation point after which no new theoretical insights were emerging. On reaching this stage, the remaining transcripts were used to check for anomalies, differences and to substantiate the analysis developed.

9.2 Interview Topic Guide: HMRC Compliance Perceptions Survey – follow-up interviews

Aims:

- Explore awareness of HMRC's compliance initiatives.
- Explore tax compliance behaviour and the deterrent effect of HMRC activity.
- Explore attitudes towards, beliefs about, and perceptions of tax compliant and non-compliant behaviour.
- Explore perceived levels of non-compliance and levels of acceptability.
- Explore perceived risks of non-compliance.
- Explore the perceived consequences of investigation (penalties, prosecution and social effects).

1. Introduction

- Commissioned by HMRC; TNS-BMRB an independent research agency
- Nature of research - to explore SME understanding of tax compliance behaviour
- Purpose of interview (see above)
- Emphasise confidentiality; their views will be used, but not identifiable
- Interviews will be audio recorded and only available to research team, until anonymised completely
- Length of the discussion: approximately one hour

2. Background information

2 mins

- Brief background about the business
 - Nature / type of business
 - Any other companies/businesses they identify themselves with
 - Do they consider themselves a typical SME vs tradesperson etc
- Nature of contact with HMRC
 - In what instances, and how frequently, do they contact HMRC

3. Interpretations of compliance and evasion 5 mins

- Explore what respondent understands 'doing the right thing' to be in relation to their tax affairs
 - What does this entail
 - Is this their interpretation or HMRC interpretation – would they make a distinction
 - How widely held is this interpretation, among businesses
 - Does this differ between different types/sizes/ sectors of business – if so, in what ways
 - Any areas of difficulty, or particular burden
 - Any 'grey' areas of uncertainty or ambiguity as to how get it right
 - May include error (deliberate/ non-deliberate), failure to take reasonable care, late payments) etc
- Explore interpretation of '**tax evasion**' or not doing the right thing
 - What does this mean – is this different to not doing things right by accident. IF SO (*only cover the rest of the section if respondent sees a distinction between non-compliance and evasion*):
 - *How do they define tax evading behaviour; what does it entail*
 - *Examples of evasion*
 - *Explore any ambiguity around their definition of tax evasion*
 - *What are the 'grey' areas in evasion (linked to the above, on compliance), room for error or for doubt*
 - *Describe what tax avoidance is, by comparison*
 - *How widely held is this interpretation, among businesses*
 - *Does this differ between different types/sizes/ sectors of business – if so, in what ways*

4. Attitudes to prevalence of evasion and acceptability 25 mins

Researcher explain: from this point in the discussion we are focusing on tax evasion. This means people are behaving illegally, and are deliberately trying not to pay the right amount of tax.

- Explore perceptions of **prevalence** of evasion

- What types of businesses tend to evade tax
- When, and why, do businesses evade tax
- How businesses most commonly evade tax
- Explore whether some taxes are harder to evade than others e.g. VAT registration/3-line account threshold
- Explore the **circumstances** that can lead to evasion
 - What **constraints/factors** can make it more likely - the situations arising that place particular pressures on businesses
 - Probe cash flow; current economic climate; technical and management capabilities
 - Any other pressures on business that make doing the right thing difficult
 - What are the **justifications/ rationales** that businesses have for evading tax in these situations
 - Are these ever acceptable
 - Do some circumstances make it more acceptable than in other circumstances
 - (If acceptable) Explore the types of circumstances where evasion is more acceptable than others
 - When do these circumstances tend to happen/arise;
 - Explore whether there are certain income/turnover levels where evasion is more likely or acceptable
- (*Lower priority question*) Weighing up: in terms of the chances of being caught, and the severity of punishment, how does the prosecution of a business for evasion compare with prosecution for:
 - Benefit fraud
 - Money laundering
 - False trading
 - Reasons for views
- Overall, explore whether the examples of evasion are **common behaviour**
 - Where do they see themselves/ other people on a spectrum
 - Are most people who run businesses likely to interact with someone who is evading tax (whether this person is aware of it, or not?)
 - Have they discussed it much with their peers
 - Explore perceptions of how people decide what is acceptable
 - Upbringing/parental influence/business environment/morality

- Explore perceived role of media in influencing social expectations about what is normal
 - Explore where ideas for evasion come from and where businesses learn about it
 - Is this something most people running businesses are able to do, if they wished to
- Reflecting on the above: how should HMRC try to understand how businesses influence each other, and their ideas of what is OK

Researcher explain: we want to explore what people feel is normal, how this affects their behaviour – and how those ideas might not be accurate sometimes

- Refer to questions used in cognitive testing – see *** below; test questions with respondents:
 - How would they answer it
 - Does it get to the point we are interested in
 - Any suggestions for other ways to tackle this
- Explore perceptions of likelihood of detection
 - What proportion of businesses that evade tax get caught
 - Have the chances of detection increased or decreased in recent years
 - Reasons for this
 - Have the chances of prosecution, if detected, changed in recent years
 - Reasons for this
 - What type of evasion is most likely to be detected
 - What type of evasion is least likely to be detected
 - E.g. detection if failure to notify a business for ITSA and/or VAT
- (*Lower priority*) Explore understanding of how to ‘put it right’ if a business has not complied
 - E.g. If a friend/ fellow employer told you they hadn’t complied but didn’t know whether it was worth trying to make amends, what would you suggest they do?
 - Explore the options people have for coming forward to HMRC and correcting their situation
 - If they would not recommend coming forward, why not

5. Perceptions of fairness

5 mins

- Explore views on whether HMRC is fair in its treatment of businesses; Spontaneous, and probe:
 - Are ideas of fairness linked to how HMRC treats them, in relation to
 - Tone and customer service when they have contact
 - Their treatment in interventions on specific issues
 - Treatment compared to other types of business
 - The tax rate
 - If personal experience (direct) experience(s) with HMRC
 - Probe for examples
- Explore views on whether HMRC has got the balance between fairness and enforcement and compliance (carrot and stick) right
 - Whether HMRC is regarded as proportionate – what ‘being proportionate’ means in practice
 - Probe: does their education/support provided help businesses to do things right comply
 - (*IMPORTANT!*) Are views/ behaviour on payment of tax related to HMRC’s level of customer service?
 - Anecdotes, examples - stories/news/media/personal experiences/friends experiences and what messages these cases are portraying
 - Explore any perceived differences in how HMRC treats their business, and other businesses like them, compared with businesses in general
 - Examples or evidence of this/ what impressions are based on

6. Perceptions of resourcing and effort

5 mins

- Explore general perceptions of HMRC’s **compliance effort**
 - Whether compliance effort is at the right level, and reasons for this
- Explore perceptions about HMRC’s **level of resourcing**
 - Whether HMRC is putting more resource into compliance, or not
 - Whether this has varied over time; if so, in what way (impact of the economy etc)
 - What their views are based on – sources of information

- (Lower priority) Does HMRC's focus on deterrence help employers who are already doing it right to be accepting of their duties, or does it only serve to deter people who fear penalties

7. Awareness of HMRC initiatives

15 mins

Researcher note: spontaneous ideas/ awareness are the focus of this section. Probe in areas raised spontaneously.

- Explore spontaneous **general awareness** of HMRC initiatives to enable and enforce compliance
 - Explore any particular initiatives of interest
 - How they came to know of it – e.g. media and press, word of mouth, someone they know, tax agent etc.
- Explore perceptions of HMRC's efforts to communicate their initiatives
 - Do they feel well/appropriately informed of HMRC's approach
 - Any changes in HMRC's communications over time
 - Any changes in their awareness of actions HMRC is taking

Researcher: find out upfront which initiatives they are aware of and then probe on that basis. May include

- Awareness of **increased prosecutions. If aware:**
 - What it has meant in practice – any examples/ news or stories. If so,
 - What has its effect been so far – on their business / other businesses
 - Whether awareness/initiative has affected attitudes towards HMRC
 - How it made them feel/ want to act
 - How they came to know of it – press, word of mouth, etc

Researcher introduce example of prosecutions/press cuttings detailing prosecutions

- Explore general effects of this initiative. Spontaneous, and probe:
 - Whether the messages are credible, and reasons for this
 - Who they think this is aimed at – businesses like them or other businesses
 - Whether it translates into businesses believing anyone can get caught or just 'other businesses'

- Awareness of HMRC asking businesses to come forward voluntarily (*campaigns of voluntary disclosure*). **If aware:**
 - What it has meant in practice – any examples/ news or stories. If so,
 - What has its effect been so far – on their business / other businesses
 - Whether awareness/initiative has affected attitudes towards HMRC/ would influence future behaviour
 - How they came to know of it – press, word of mouth, etc

Researcher show poster of campaign comms (electrician or plumber).

- Explore reactions. Spontaneous, and probe:
 - Credibility of the messages (in the materials)
 - How effective could it be in their sector
 - Do they expect businesses would come forward; why/why not; reasons for this – ask for examples
 - Overall views of the campaigns approach
 - What are its strengths and limitations
- Awareness of **HMRC Taskforces** relevant to their sector—what they are understood to entail. **If aware:**
 - What they have meant in practice – any examples/ news or stories. If so,
 - What has its effect been so far – on their business / other businesses
 - Whether awareness/initiative affected attitudes towards HMRC
 - How they came to know of taskforces – press, word of mouth, etc

Researcher explain: this is targeted activity focused on a trade in a particular area. USE EXAMPLE FROM RESPONDENT SECTOR IF AVAILABLE

- Explore reactions to/views on the taskforce approach
 - Credibility of the messages
 - How effective could it be to their sector
 - Why/ why not – ask for examples
- Awareness of HMRC **Penalties; If aware:**
 - Which penalties are they thinking of (inaccuracy, failure to notify, wrongdoing)
 - Are they aware that penalties are higher for evasion than for errors (yes/no)
 - What it means in practice – any examples/news or stories. If so,
 - What has its effect been so far – on their business / other businesses
 - Whether affected attitudes towards HMRC
 - How they came to know about it – press, word of mouth, etc
 - Explore perceptions of whether more / fewer penalties are being handed out

- Where do these impressions come from
- Awareness of HMRC's approach to **closely monitoring businesses following deliberate tax evasion. If aware:**
 - What it has meant in practice – any examples/news or stories. If so,
 - Credibility of the message
 - What has its effect been so far – on their business / other businesses
 - Whether awareness/initiative affected attitudes towards HMRC
 - How they came to know about this approach – press, word of mouth, etc
- Overall awareness of **changes over time** in compliance
 - Extent to which businesses feel informed about HMRC's efforts to increase compliance
 - Whether good tax behaviour has increased/ decreased

Thanks and close

*** Questions for cognitive testing feedback

MBQ_N2 Please tell me to what extent you agree or disagree with the following statement.

“A lot of small and medium businesses think it is okay to under-declare their revenue, in order to avoid paying taxes.” (SC)

Strongly agree
 Agree
 Neither agree nor disagree
 Disagree
 Strongly disagree
 DO NOT READ OUT - Don't Know

ASK ALL

MBQ_N3 Please tell me to what extent you agree or disagree with the following statement.

“I think it is okay for small and medium businesses to under-declare their revenue in order to avoid paying taxes.” (SC)

Strongly agree
 Agree
 Neither agree nor disagree
 Disagree
 Strongly disagree
 DO NOT READ OUT - Don't Know