

## ***Research report***

# **Personal tax transparency**

Qualitative research with individual taxpayers exploring the subject of tax transparency and evaluating potential new initiatives to increase transparency in the personal tax system

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**Project Line of Sight**

## *About Personal Tax Customer Design Team*

Personal Tax Customer Design Team works with colleagues in Personal Tax (PT) 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

The Personal Tax Customer Design Team also has a corporate role, to manage the relationship with the voluntary and community sector on behalf of HMRC.

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**Project Line of Sight*****Research requirement (background to the project)***

As part of the Government's drive to introduce greater transparency into the tax system and to supplement responses to a public discussion document – *Modernising the administration of the personal tax system: Tax Transparency for Individuals* – PT C&S (HMRC) commissioned qualitative research amongst personal taxpayers to increase understanding of four areas:

- Customers' current levels of awareness, understanding and engagement with the tax system
- Responses to the consultation questions and transparency vision
- Response to ideas for increasing transparency - these included:
  - An online account that could let customers view and manage their tax online
  - The notice of coding (P2) made available online to PAYE, as well as self assessment customers
  - An online tax calculator that would enable customers to access information on their taxes and calculate the tax they are paying (available either as a mobile phone application or, an online version available through desktops)
  - Pre-filled tax returns and/or forms that are filled in with the information that HMRC holds about customers e.g. name, address, national insurance number and other tax information already reported to the department.
  - An annual tax statement that could include information such as how much tax customers have paid, how tax revenues are spent and information on how an individual's share of tax is spent.
- How information about tax should be presented by HMRC and other providers.

***When the research took place***

The fieldwork took place between the 13<sup>th</sup> and 23<sup>rd</sup> February 2012.

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

The project was conducted by Opinion Leader.

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**Project Line of Sight*****Method, Data and Tools used, Sample***

A series of 12 workshops, each lasting 2.5 hours, with a range of personal tax customers was conducted across the UK. The sample included PAYE only customers, Self Assessment customers, pensioners and a separate workshop with potential rule breakers.<sup>1</sup>

This is the first stage of research commissioned as a result of the above consultation. Further stages were later commissioned in order to inform the design of the Tax Summary product.

***Main Findings******Awareness, understanding and engagement with the current tax system***

- Participants typically expressed negative associations with the current personal tax system. Some thought they had to pay too much tax, some felt it was over-complicated (especially Self Assessment customers), some felt the system was disorganised and others were fearful of getting their taxes wrong. Other participants said that they did not know how their taxes were spent and wanted to know more about this.
- PAYE customers were typically less engaged with the tax system than Self Assessment customers because they were less involved in the process of determining the tax on their income.
- There was a range of awareness and levels of knowledge about the differences between National Insurance Contributions (NICs) and income tax, from some not knowing what the differences were to others having differing degrees of awareness of what NICs are used for. Some participants also spontaneously mentioned benefits and tax breaks which they saw as interlinked with the tax they paid.
- The current tax forms received a mixed response. The P60<sup>2</sup> and the online Self Assessment return<sup>3</sup> were typically perceived to be straightforward to understand (SA customers only for the latter), whereas the P2<sup>4</sup> and P800<sup>5</sup> were felt to be more difficult. Some felt that the P2 did not give a clear, personalised explanation of how their tax code was calculated, whereas some of the calculations in the P800 were perceived to be complex, and the specific terminology 'overpayment' and 'underpayment' was confusing for some. Participants were most familiar with the forms they had received

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<sup>1</sup> The HMRC customer segmentation organises personal tax customers into five segments based on their abilities and attitudes towards tax – the five segments are Willing and Able; Willing but Needs Help; Unaware; Potential Rule Breakers; and Rule Breakers. The segmentation was built on four key dimensions which were:

- awareness (of one's obligations);
- motivation (to comply with one's obligations);
- ability (to comply with those obligations);
- opportunity (to not comply).

<sup>2</sup> This is a breakdown of the income earned and benefits received by an individual in a year and the tax they have paid in that year.

<sup>3</sup> This is a form which needs to be filled in to calculate taxes paid by Self Assessment customers.

<sup>4</sup> This notice is sent to PAYE customers when their tax code changes.

<sup>5</sup> This is a notice to tell customers if they have under or overpaid tax for a previous tax year.

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such as the P60, P2 and Self Assessment forms, whereas the P800 was less familiar to people.

#### *Response to consultation questions*

- Participants expressed varying degrees of interest in finding out more about their tax. Those that were the most interested were motivated to find out more either because they wanted to reduce the amount of tax that they paid or because they had had problems with their tax affairs in the past and wanted to understand more about the system so that they could avoid getting into difficulties in the future. Those who were in PAYE and younger participants were typically less engaged with the personal tax system than others. Those in the 'potential rule breaker' group were typically more interested in their tax than other groups.
- Some participants wanted to know how the tax on their income was spent, but others did not want to know more either because they were not interested or because they thought that they may become annoyed at the amount of money being spent on things they did not approve of e.g. some benefits, foreign aid.
- Self Assessment customers recognised that they had responsibilities to accurately report their financial affairs via the Self Assessment return. PAYE customers typically felt that it was their employer's responsibility to get their tax affairs right, however some also thought that they had a responsibility to check the information provided by their employer.
- Participants expressed a range of levels of knowledge of the amount of tax and NICs they paid. Some knew the amount of income tax they paid but not how it was calculated, others knew the proportion of their income that was deducted as NICs. There was some awareness of different tax bands and individual's own tax allowances. PAYE customers typically said that they would contact their employer if they felt that their tax was wrong, whereas Self Assessment customers were more likely to contact HMRC, view the website or consult their accountant.

#### *Wish list of changes to the personal tax system*

- Participants spontaneously mentioned ideas which they thought would lead to increased transparency in the system; however, they believed that increasing transparency was only part of the solution to improving engagement with the system and making it easier to use. In order to achieve this participants suggested changes which simplified the system, provided greater personalised service, improved access to help and offered clear and relevant information:
  - Simplification of the system – e.g. clearer forms.
  - Increased personalisation of service – face-to-face help in tax offices, an online account, personal account managers, speaking to the same staff member on the phone if calling about the same problem, personalised tax notifications and letters, greater empathy from staff, ability to sign up for SMS/email notifications.
  - Improved access to help – a greater quality of advice via the telephone and face-to-face, reduced waiting times to call centres, freephone number, call back

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facility, ability to email, longer opening hours at local tax offices, training for self-employed customers about filing/allowances etc.

- Clearer and more relevant information – e.g. telling Self Assessment customers which tax reliefs and allowances they are entitled to claim for to reduce their liability, information about how their taxes are spent and reducing jargon/complicated language.

### *Response to transparency vision*

- The Government's desire for tax to be more transparent was appreciated by participants who felt that greater transparency would begin to address the power imbalance they perceived between HMRC and the customer.
- Participants saw increased transparency as a vehicle for helping them to claim all of the entitlements available to them and to help them understand the communications they receive from HMRC. They also felt that it was important in enabling them to understand the implications that different levels of income had on the amount of tax they would pay. This would, for example, allow people to make informed decisions about whether or not it was worth their while to apply for a higher paid job or if they are self-employed take on a job of a particular value.
- Participants broadly agreed with the transparency vision; however, some were sceptical about whether this would result in tangible benefits for customers and wanted to see examples of what the transparency vision would mean in practice. There was also some scepticism particularly from Self Assessment customers about whether increased transparency alone would lead to greater understanding of the tax system, which they perceived to be complex.
- There was some disagreement with the remit of the vision to encourage individuals to take greater responsibility for the accuracy of their tax. PAYE customers typically agreed that they had some responsibility for the accuracy of their tax, but felt that their employer had primary responsibility for this. Self Assessment customers were more accepting of their responsibilities regarding their tax affairs and welcomed greater transparency in the system.
- Some felt that the current vision placed too much onus on them to get their tax right and that it should be positioned as more of a partnership between them, their employer and HMRC rather than people taking full responsibility for their own tax affairs.
- Potential rule breakers expressed particularly strong levels of resentment at the onus being on them to take responsibility for their tax affairs.

### *Response to the concepts for increasing transparency*

- Participants felt that the concepts would be likely to have different levels of impact on transparency. They felt that the online account, the tax calculators and the annual tax statement would provide greater transparency whereas the pre-filled forms and P2 online would have little effect alone. Some participants across all of the groups said that they would use the online account and online tax calculator (either as a stand-alone desktop tool or an App based calculator). Self Assessment customers whose incomes varied considerably would use an online account/tax calculator most

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frequently, while PAYE customers would use it less frequently. Participants typically felt that the P2 online and pre-filled forms would be less useful and whilst some would opt to use them, they were perceived to have little utility, beyond saving time.

- Participants typically wanted access to the other online concepts via the online account, i.e. a one-stop-shop that included an online tax calculator, online notice of coding and information on how the tax revenues are spent, rather than having separate ways of accessing these.
- There was little interest in receiving information about their average or marginal tax rate. The terms marginal and average tax rates were not understood and when these were explained to participants few were interested in knowing what their marginal or average tax rates were
- There were mixed responses to the annual tax statement. Having a tax statement responded to participants' desire for access to information about how tax revenues are spent. Participants felt that the annual tax statement would demonstrate a commitment to transparency, which was welcomed. The idea of having additional information about how their own contributions to tax revenues are spent was well received by some participants in all groups. However, some participants did not want this additional information and felt that it might annoy them if they felt that their taxes were being spent on areas that they did not agree with; for example, paying for benefits for others. Others objected to resources being spent on sending out a paper-based annual statement. Participants expressed mixed views about the format, type and depth of information they wanted to receive. There was strong interest in having access to an online statement that could offer greater scope for personalising the information, whereas a paper based version was perceived to be of more limited benefit.
- The desire for information on their tax was especially strong in the potential rule breaker group and they felt that this would increase transparency about how tax revenues are spent which could lead them to have greater trust in the system.

### *Response to information about tax in other formats/from other providers*

- Some of the participants who had visited HMRC's main site felt that the current HMRC site presented information in a dry, complex way and they felt that it was important that tax information was presented in a more transparent and accessible way.
- Participants typically felt that other providers such as Citizen Advisory Boards, education providers and VCS providers should be encouraged to provide information about tax in a more accessible and informal way. These could appear in a manner similar to the Tax Matters site, which was well received.
- Although they liked the idea of other providers giving accessible information about tax, they wanted HMRC to be the source of this information to ensure that it was accurate and trustworthy.