

Finalising tax credits awards: tax credits customers' understanding, opinions and likely responses to different letter styles

HM Revenue & Customs Research Report 255

April 2013

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Published by HM Revenue and Customs, June 2013

www.hmrc.gov.uk

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Acknowledgements

Many thanks to Megan Gray, Adam Altoft and Corinne Harkins at HM Revenue & Customs for their advice and guidance throughout this project.

Thanks also to our many colleagues at Ipsos MORI who helped with recruitment, fieldwork and analysis, especially Walter Smith in our Edinburgh office; Chris Branson, Danielle McGuigan, Isabella Pereira, James Noble, Lewis Hill and Simon Riley in London.

Glossary

CCE	Childcare Element of Working Tax Credit
CTC	Child Tax Credit
DWP	Department for Work and Pensions
HMRC	Her Majesty's Revenue and Customs
JCP	Jobcentre Plus
WTC	Working Tax Credit

Key findings

- (i) The introduction of Universal Credit will mean that a number of working age benefits and tax credits will be replaced with one payment, run by a single delivery system. Between 2013 and 2017 tax credits customers will be asked to make a claim for Universal Credit, and when they do so, their tax credits award will stop. Customers will be sent a finalisation letter, informing them that their award is being finalised and they need to check or confirm their personal circumstances to ensure they have received the correct award.
- (ii) Ipsos MORI conducted 30 in-depth interviews with a range of tax credits customers to explore their understanding of, and responses to, a sample finalisation letter in order to identify the optimal design. The research also aimed to establish: the concerns that customers may have about the letter; where they would seek advice and information; and, how they may behave if they received the letter. It is important to note that participants were generally unaware of Universal Credit before being interviewed. As a result, throughout the report it is important to be aware that participants lacked a context for the letter; at the time of interview that had not made a claim for Universal Credit, and this may have informed their responses.
- (iii) Awareness of the forthcoming changes to the tax credits system and the introduction of Universal Credit among participants was low.
- (iv) Participants wanted more information on Universal Credit, including what it will mean for them personally. They suggested this could be provided along with the finalisation letter.
- (v) After first reading the letters, most confused it with a renewal notice. Many participants missed the references to Universal Credit altogether.
- (vi) Participants wanted the letters to contain a clearer narrative outlining what was happening and what they must do and by when, along with more information about Universal Credit. Participants suggested several improvements to the format and layout of the letter to make it easier to read.
- (vii) For both letters, participants were generally able to correctly identify the action required. However, some were not and others correctly identified the action required but for the wrong reason. Participants commonly said they would call the Tax Credits Helpline with any queries.
- (viii) Participants largely reported that they mostly understood the consequences of not checking the letter, believing their payment would end, the transfer to Universal Credit would not take place or that they would be over or under paid.
- (ix) The 30 day deadline to respond was considered motivational and most felt able to check and confirm the information required. However, the self-employed were less confident that they could meet this deadline or provide accurate in-year income data.

Executive Summary

Background

- (i) Tax credits, comprising Child Tax Credit (CTC) and Working Tax Credit (WTC) offers a system of financial support for families with children and people in work on low incomes. Between 2013 and 2017 the transition to Universal Credit is scheduled to take place. For this to happen, all existing tax credit customers whose awards do not end for other reasons will need to make a claim for Universal Credit, and when they do so, their existing tax credits award will need to be finalised.
- (ii) Those customers will be sent a tax credits finalisation letter explaining they must check that all personal information held by HM Revenue & Customs (HMRC) in relation to their award is correct. This information will be used to finalise their award.
- (iii) The research tested tax credits' customers understanding, opinions and likely responses to different letter styles designed to finalise their award. Two letters were tested: a 'check before' finalisation letter, to be sent to auto-finalisation customers who would need to check the information in the letter and only contact HMRC if any was incorrect; and, a 'reply before' finalisation letter to be sent to reply-required customers who would need to check the information in the letter and always contact HMRC, either to confirm the information or report any mistakes.
- (iv) A total of 30 face-to-face in-depth interviews were conducted with tax credits customers in February and March 2013 in Birmingham, London and Manchester. The interviews were divided among three research groups based on their previous renewal behaviour, focusing on those who were identified as being more at risk of not responding on time.
- (v) It is important to note that participants were generally unaware of Universal Credit before being interviewed. As a result, throughout the report, participants lacked a context for the letter; at the time of interview no participant had made a claim for Universal Credit. This lack of context may have informed their responses when subsequently asked about the letter.

Stopping tax credits and the transition to Universal Credit

- (vi) Participants were generally aware that some changes to the benefit system were planned but their level of knowledge was not detailed. Participants had little knowledge of the specific changes forthcoming to the tax credit system and the rollout of Universal Credit. Those who had heard about welfare reform typically referred to Housing Benefit or Child Benefit. While some participants said they had heard of Universal Credit, when prompted, they rarely knew what it was.
- (vii) Participants were therefore keen to have more information on Universal Credit. Many felt they would need information throughout the process of transition, even after they had applied for Universal Credit. They wanted detail on what it was, why it was being introduced, who was eligible and how the transition would take place, as well as more tailored information on how it would affect them personally.

Participants suggested that information about Universal Credit could be usefully provided with the finalisation letter.

- (viii) Participants said that if they had any queries about their tax credit award after receiving communications from HMRC, they would call HMRC directly. For more general information about Universal Credit, they would approach a range of sources, including: family and friends, Jobcentre Plus, the local council, Citizens Advice and the Internet (including the HMRC website).

Participants' understanding of the tax credits finalisation letter

- (ix) Participants were rarely able to correctly describe the purpose of the finalisation letter on first reading. The familiar format meant that many initially confused it with a renewals form. References to Universal Credit were also missed and those who did notice them were unsure of what it meant in relation to their tax credits award. Some did understand that the letter meant their tax credit payment was ending and expressed concern about why it was happening.
- (x) When prompted, participants generally read the letter more carefully and were able to establish that tax credits were ending and whether or not they needed to take action. Some reported being overwhelmed by the way the information in the letter was presented, leaving them confused about exactly what they needed to do, by when and how. For some, this was because of the volume of dates and numbers which distracted them from the central message. This was particularly true of participants reading the 'reply before' letter.
- (xi) Others were drawn to the information highlighted in bold but neglected the text in between, which left them feeling the messages in bold were contradictory. For example, where bold text was used in the 'check before' letter, "please phone us straight away" was followed by "you need do nothing more", leaving some unsure of the action required.
- (xii) Participants preferred "closing" to "cancelling" or "stopping" in the letter title, suggesting that the latter term implied they had personally done something wrong in relation to their award. In addition, for some participants, the "Review for period" element of the title reinforced the misconception that the letter was a renewal form.
- (xiii) To improve the letter, participants suggested a clearer narrative explaining what was happening and why as well as what the customer needed to do and by when. Participants also suggested that an explanation of Universal Credit was essential to ensure the content of the letter was fully understood. They felt this reassurance would still be required if they had initiated their being in receipt of the finalisation letter by making a claim.

Participants' response to the tax credits finalisation letter

- (xiv) Participants generally reported that if they received the finalisation letter they would call the Tax Credits Helpline, regardless of whether they received a 'check before' or 'reply before' letter. These participants often stated they would call to clarify the purposes of the letter and the actions required of them.

- (xv) For those required to contact HMRC to report their circumstances, this could mean they make the call without all the information needed to finalise their award correctly, possibly necessitating a second call.
- (xvi) For those only required to contact HMRC in the event of their personal details in the letter being inaccurate this might mean that they make an unnecessary call to the helpline.
- (xvii) Where others said they would not call the helpline, those who had read the 'check before' letter largely understood that they would not need to contact HMRC unless their details were incorrect. However, some 'reply-before' participants also said they would not call because they did not think they needed to. These participants believed that the letter was for their information only and that no action was required of them because their tax credit award was being finalised.
- (xviii) Participants often raised practical queries about how to get in touch, and while most knew they could call the helpline, some would have liked a reply slip included with the letter. In addition, a few also mentioned that being able to reply or check online would also help them finalise their award effectively. Some said that the cost of the call and a previous negative experience with HMRC also put them off calling.
- (xix) Participants largely believed there could be serious consequences to not checking or responding to the finalisation letter, including that payments would end or that the transfer to Universal Credit would not take place. Others were concerned about under or overpayments as well as delays in the payment of Universal Credit.
- (xx) Participants generally thought they would be able to respond appropriately to the letter within the 30 day deadline; this deadline motivated them to prioritise checking and/or responding. Some cited potential barriers that may prevent them from responding on time including major life events, such as a new baby, the breakdown of a relationship or bereavement. Others felt everyday life would get in the way. The self-employed were particularly concerned about the deadline due to the time and money required to compile the information needed to get their income details in order.

1 INTRODUCTION AND BACKGROUND

CHAPTER SUMMARY

- (i) Tax credits, comprising of Child Tax Credit (CTC) and Working Tax Credit (WTC), provide a system of support to help families. In April 2013 4.7 million families, which included some 7.8 million children, were claiming tax credits.
- (ii) Between 2013 and 2017 tax credits will be stopped, and many customers will move from the tax credits system to Universal Credit. The point at which an individual customer moves will depend on: their personal circumstances; and, whether they make a new claim, report a change of circumstances or are part of the managed migration process.
- (iii) After the customers' tax credits claim stops, they will be sent a finalisation letter. The letter will inform customers that their tax credit award is being finalised and that they need to check or confirm their personal circumstances to ensure that they have received the correct award.
- (iv) Ipsos MORI conducted 30 in-depth interviews with tax credits customers to explore their understanding of and responses to a sample finalisation letter in order to help HMRC identify the optimal design. It also aimed to establish the concerns that customers may have about the letter, where they would seek advice and information as well as how they would be likely to behave if they received the letter. These interviews were conducted in February and March 2013.
- (v) Participants were generally unaware of Universal Credit before being interviewed. As a result, throughout the report it is important to be aware that participants lacked a context for the letter; at the time of interview they had not made a claim for Universal Credit, and this may have informed their responses.

1.1 INTRODUCTION

This report contains findings from qualitative research conducted with a sample of tax credits customers. The research was undertaken by Ipsos MORI Social Research Institute on behalf of HMRC. This introductory section sets out:

- The context and background of the research;
- The research objectives;
- The methodology;
- The sampling and recruitment;
- The interviews and research materials; and,
- Interpretation of data.

1.2 RESEARCH CONTEXT AND BACKGROUND

Universal Credit aims to streamline the benefits system by replacing a number of working age benefits¹ and tax credits with one combined payment, run by a single delivery system within the Department for Work and Pensions (DWP). This new system is intended to make it easier for customers to understand their entitlements and to meet their responsibilities. Additionally, through greater personalisation and support, Universal Credit should help encourage more people to work or consider increasing their hours.

All existing tax credits awards will need to be finalised before the rollout of Universal Credit is complete. Many tax credit claimants will gradually move to Universal Credit, starting from October 2013 and ending in 2017.

There will be three main ways that people will move onto Universal Credit:²

- **New Claims** – These claims will be received from households who would otherwise have claimed tax credits or other benefits being replaced by Universal Credit. New Universal Credit claims will be phased in from October 2013, starting with claims from unemployed people and those on very low incomes.
- **Natural Transition** – These claims to Universal Credit will occur when existing tax credits customers have a change of circumstance that would require a new benefit or tax credits claim, for example finding a job, the birth of a first child or moving in with a new partner. As Universal Credit is a household benefit, this would also trigger the closure of any existing benefit or tax credits entitlements for others in the same benefit unit.
- **Managed Transition** – Managed transitions will occur where there has been no reported change of circumstances by tax credits customers and DWP initiates the transfer of an entire household from tax credits (and other existing benefits) to one Universal Credit entitlement. It is currently planned that this will begin at the end of 2015.

1.2.1 TAX CREDITS FINALISATION LETTER

Customers making a 'natural' or 'managed' transition will be sent a finalisation letter, explaining that their tax credits award must be finalised. In order to do this the customer will be required to check that all personal information held by HMRC in relation to their award is correct.

The letter will be accompanied by a form that will be pre-populated with the customer's details held by HMRC. Customers will have 30 days from receipt of the letter to confirm accuracy or inform HMRC of any discrepancies. If a customer does not respond, HMRC will take this as confirmation that the details are correct.

¹ Universal Credit will replace: Income-based Jobseeker's Allowance, Income-based Employment Support Allowance, Income Support, Child Tax Credits, Working Tax Credits and Housing Benefit.

² DWP: Universal Credit Policy Briefing Note 15 *'Managing the build up of claims to Universal Credit'*

1.3 RESEARCH OBJECTIVES

This research was conducted to help HMRC identify the optimal letter design for a tax credits finalisation letter. This letter must clearly explain why the finalisation is taking place and what action customers should take to ensure this is done as accurately and efficiently as possible. Specific objectives were to:

- Explore customers' initial reactions to the sample finalisation letter, and whether they understood it;
- Identify the likely behavioural response of customers to the finalisation letter;
- Identify potential queries which customers may have when they receive the finalisation letter; and,
- Establish what would be needed to create the optimum finalisation letter.

1.4 METHODOLOGY

Face-to-face in-depth interviews lasting up to an hour were conducted with 30 tax credits customers. Participants were split into three research groups based on their previous renewals behaviour.

A qualitative approach was adopted to enable interviewers to obtain thorough details of the participants' circumstances, experiences, and attitudes. This approach enabled interviewers to establish a rapport with participants and gain their trust, allowing them to explore sensitive issues, such as personal finance. In addition, this method enabled the interviewer to use stimulus materials to test the sample letters in detail with participants.

Interviews were conducted in participants' homes which helped put the participant at ease during the interview. This approach also generated additional observational data on relevant issues, such as how participants managed their mail. Paired interviews were conducted with ten couples as, in order to finalise a claim, the income details of both partners would be needed and so it was important to understand how this would be approached in couples and if any barriers existed.

Interviews took place in February and March 2013. Analysis of the findings was conducted throughout the fieldwork period through the collation of coded field notes and in regular analysis sessions with the interview team. As is common practice in qualitative research, all participants received a gesture of appreciation for their time of £30, or £50 for a paired interview from Ipsos MORI.

1.5 SAMPLING AND RECRUITMENT

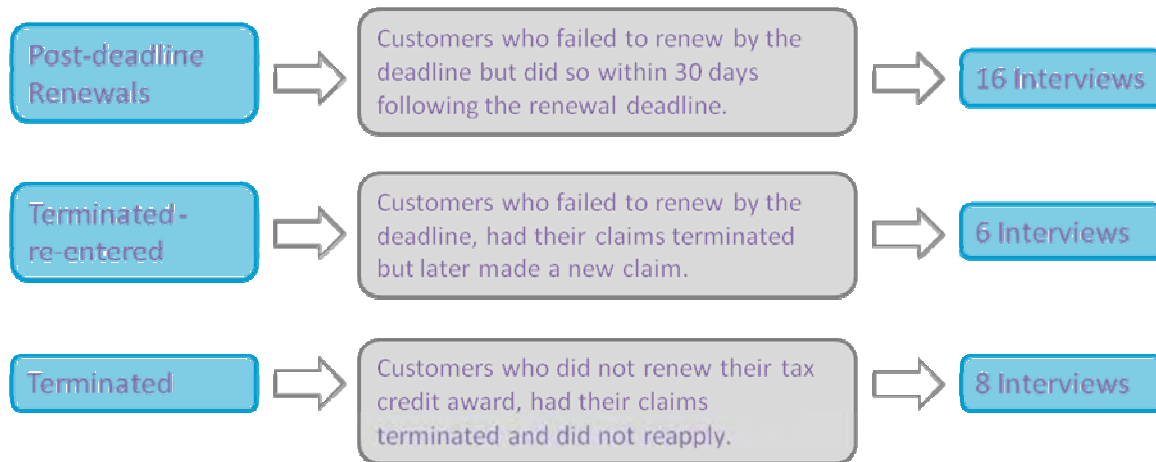
Participants were recruited to one of three research groups. The key characteristics of each group were:

- **Post-deadline renewals:** customers who failed to renew by the deadline but did so within the following 30 days.
- **Claim terminated but re-entered:** customers who failed to renew by the deadline so had their award terminated but then later made a new claim.
- **Claim terminated:** customers who did not renew their tax credit award by the deadline, had their awards terminated and did not reapply.

The sample was not representative of all those in receipt of tax credits. Participants were sampled on the basis that they were in a customer group at risk of not responding to communications about their claim on time, based on their previous renewal behaviour. Quotas were also set on award level (minimum (less than £1,800) and maximum awards), self-employment, household composition, length of award and language.

The sample was provided by HMRC from tax credits records. Participants were recruited by telephone after receiving a letter detailing the research and being given an opportunity to opt out. The research was conducted in three locations: Birmingham, London and Manchester.

The following diagram outlines the overall structure of the sample frame:



1.6 RESEARCH MATERIALS

Semi-structured discussion guides were used to ensure all topics were covered consistently and that key issues were explored. The discussion guide was tailored for the different types of renewal behaviour, and also for the different stimulus material.

Participants were presented with one of two sample letters intended for use with different customer groups. Participants were informed that HMRC may be sending the letter to tax credits customers regarding changes in the benefits system:

- **'Check before'** finalisation letter: designed to be sent to auto-finalisation customers who would need to check the information in the letter and only contact HMRC if any was incorrect. This was tested with 16 participants.
- **'Reply before'** finalisation letter: designed to be sent to reply-required customers who would need to check the information in the letter and contact HMRC to confirm the information or report any mistakes. This was tested with 14 participants.

Letters are for testing purposes only and are not necessarily an accurate interpretation of the final letter.

1.7 INTERPRETATION OF DATA

Qualitative research is illustrative, detailed and exploratory. It provides insight into the perceptions, feelings and behaviours of people rather than conclusions from a robust, representative sample. The findings in this report are taken from a very small sample of tax credit customers; as noted above, the findings are not statistically representative of all tax credit customers.

The word 'participant' has been used in reference to a tax credit customer who took part in the research. The strength of feeling attributed to a group of participants represents the customers involved in the research only and not the tax credits population as a whole. The perceptions of participants make up the majority of evidence in this study. Although such perceptions may not always be factually accurate, they represent the truth to those who relate them.

It is also important to note that participants lacked a context for receipt of the letter, since they had not made a claim for Universal Credit, which may have informed their response.

2 STOPPING TAX CREDITS AND THE TRANSITION TO UNIVERSAL CREDIT

CHAPTER SUMMARY

- (i) The level of awareness of changes to tax credits and the introduction of Universal Credit was very low. Participants generally had some awareness that changes were happening in the welfare system, but only referred directly to Housing Benefit and/or Child Benefit changes.
- (ii) Participants were initially alarmed to discover that tax credits were stopping, but were reassured that they will be replaced with Universal Credit.
- (iii) The main concerns about the transition to Universal Credit were that it could cause gaps in payment, result in an overpayment or involve extra paperwork. Those on higher awards were most concerned.
- (iv) Since participants were generally hearing about Universal Credit for the first time, they wanted more information: what it was, how it would work, and specifically how it would affect them personally.
- (v) Participants said they would call HMRC for queries about their claim. For more general information about Universal Credit, they would go to family and friends, Jobcentre Plus, the local council, Citizens Advice and the Internet (including HM Revenue & Customs' website).

2.1 INTRODUCTION

This chapter examines participants' awareness of changes to the welfare system, including the end of tax credits and the transition to Universal Credit. As most participants had not heard of Universal Credit, this chapter also describes the questions they had and the sources of information they would access to find out more.

2.2 PARTICIPANTS' AWARENESS OF CHANGES TO THE TAX CREDITS SYSTEM AND THE TRANSITION TO UNIVERSAL CREDIT

Participants were generally unaware of any changes that could affect their tax credit awards. When asked about potential changes to the welfare system, participants tended to discuss reforms to Child Benefit or Housing Benefit. However, even awareness of these changes was low. No participant mentioned Universal Credit without prompting. Those who had heard about changes to benefits more broadly tended to be in employment or self-employed.

Participants tended to associate any benefit change with cost savings or cuts, either to their level of award or its removal altogether. Although participants were not aware of Universal Credit, they were not surprised that changes were likely to happen to their tax credit award.

“Well the woman in the Jobcentre said basically it’s getting like America; if you don’t work you (don’t) get anything. That’s what she said to me wasn’t it; if you don’t work you don’t get any money.”

Female, terminated, Manchester

When prompted about Universal Credit, a few participants said they had heard of it. Again, these tended to be those who were employed or self-employed. However, they did not know its nature or purpose; some assumed that it would not affect them personally.

“I’ve heard politicians say it [Universal Credit] but it doesn’t mean much to me.”

Male, self-employed, re-entered, London

2.3 KEY QUESTIONS AND CONCERNS ABOUT THE TRANSITION TO UNIVERSAL CREDIT

Participants were concerned to discover that tax credits were stopping but felt reassured that Universal Credit would take their place. Some saw the change as a rebranding of tax credits, with the link between the two systems provided by the term ‘credit’. These participants were fairly unconcerned about the change.

“M: It wouldn’t overly concern me as long as the monetary value was there or thereabouts.”

“F: You know it’s like the council tax used to be the poll tax which used to be rates.”

“M: The name doesn’t bother me. It’s just is my income going to continue?”

Couple, terminated, London

Once they understood that the Department for Work and Pensions (DWP) would be administering their award, participants were less concerned that tax credits would be ending. As long as they received their money, they generally did not mind which government department dealt with the administration. However, some participants associated DWP with Jobcentre Plus, and projected bad experiences with Jobcentre Plus staff onto the administration of Universal Credit. Nonetheless, these participants still thought that they would be able to manage once DWP took over.

Other participants raised concerns about how the process of transferring to Universal Credit would be managed. Most tax credit customers receive payment of their award on a weekly basis; under Universal Credit, all payments will be paid monthly. Those on higher awards, who were more reliant on the money they received, raised concerns about the gap in payment between their tax credit stopping and Universal Credit starting. Those on lower awards were less worried. These participants assumed they would lose money overall. Participants who had received an overpayment in the past were concerned about incurring another as a result of the transition.

Participants believed that Universal Credit applications and tax credit finalisation will likely be an overly bureaucratic process requiring a lot of paperwork. This view was expressed particularly strongly by self-employed participants who spoke of the difficulties they already faced in providing accurate income information to HMRC. Self-employed participants commonly said that the organisation, cost and time required to get their accounts in order was the reason they had renewed late or had their award terminated.

“Sounds like another administrative headache for us.”

Male, self-employed, terminated, Manchester

2.4 INFORMATION, ADVICE AND FUTURE CONTACT WITH HM REVENUE & CUSTOMS

Those who had heard of Universal Credit cited family and friends (particularly those who worked in related jobs e.g. local authorities), Citizens Advice and the media as being the source of this information. Regardless of their level of awareness, all participants said they wanted more detail on Universal Credit, including: what it is, why it is being introduced, eligibility criteria and how the transition will take place.

Participants also wanted tailored information about how Universal Credit will affect them personally, including: changes to the value of their award, the timing of payments and what they need to do. It was suggested this information would still be needed even if they had already applied for Universal Credit, in order to reinforce what the change would involve.

In terms of seeking more information about how Universal Credit would affect them personally, participants frequently said they would go to HMRC. They referenced previous positive experiences of using the helpline to resolve queries about their award. Many said that when they received official communications about Universal Credit they would likely contact the organisation on the letter head; they did not mind if this was HMRC or DWP.

While some found it difficult to speculate as to their likely behaviour once DWP managed their award, they generally did not believe that they would have a reason to contact HMRC after the transition.

“If it is all going to be under this new system, the information should be held at DWP, that they should be able answer your queries, and understand what is going on.”

Couple, renewed late, Manchester

Those preferring to access information online suggested a web link could be provided on the letter; it was thought that by doing this, key messages could be reinforced via other channels. Some self-employed participants reported that they had accountants who they would rely on for support under Universal Credit.

3 PARTICIPANTS' UNDERSTANDING OF THE TAX CREDITS FINALISATION LETTER

CHAPTER SUMMARY

- (i) When interpreting findings from this chapter, it is important to remember that participants had yet to make a claim for Universal Credit. Therefore, as no participants had actually received a finalisation letter, all interviews were conducted on a hypothetical basis.
- (ii) Letters are for testing purposes only and are not necessarily an accurate representation of the final letter
- (ii) Participants could not correctly describe the intention of the finalisation letter on first reading, and often initially confused it with a renewals form. They commonly missed references to Universal Credit which meant that those who understood that their claim was ending were confused about the reason for this.
- (iii) Participants preferred “closing” to “stopping” or “cancelling” in the title; they felt the latter two implied that they had done something to cause their claim to end. They also thought the letter title should mention the transition to Universal Credit.
- (iv) The inclusion of the phrase “Review for period” in the header reinforced the misconception that the letter was regarding claim renewal and, to some extent, undermined the letter’s title.
- (iv) Participants generally found the volume of dates and numbers included in the letter confusing, and suggested they distracted them from the central message. Consequently, they were confused about what they needed to do, by when, and had to repeatedly read the letter to understand this.
- (v) Participants correctly understood that they needed to contact HMRC to confirm details (‘reply before’ letter) or inform it of any changes (‘check before’ letter). Some queried how they should get in touch and would have liked a return form to be included with the letter or the facility to complete it online.
- (vi) Participants commonly felt that an explanation of Universal Credit, included in or with the letter, would be both reassuring and ensure that it is fully understood. Additionally, some suggested that a narrative running through the letter, detailing what was happening and why, would help them understand the process, and crucially, what happens next.

3.1 INTRODUCTION

This chapter explores: how participants understood the letter, how they interpreted any actions needed, and their perceptions of how it would affect their award. It also discusses participants’ suggested improvements to the letter and explores the additional information requirements customers may have following receipt of the letter.

It should be noted that as participants had not made a claim for Universal Credit, their reaction to the finalisation letter could be different to a customer who has actually made a claim.

3.2 INITIAL REACTIONS TO AND OVERALL UNDERSTANDING OF THE FINALISATION LETTER

A few read the letter more than once, but most did not read it thoroughly. Only a small number of participants were able to correctly describe the intention of the letter on first reading. References to Universal Credit were generally missed.

Participants commonly confused the letter with a renewals form, regardless of whether they had been shown the 'check' or 'reply before' version. This assumption was prompted by the familiar format, including the need to check the details and contact HMRC with any change in circumstances. A few felt that the similarity with a renewals notice may have led them to disregard the letter. They suggested this risk might be greater if the letter had been received during or immediately after a renewal period.

“Looks and reads exactly the same as what we’ve received loads of times.”

Female, terminated re-entered, London

“If you hadn't said to me 'read this' I probably would have just opened it ... and thrown it, to be honest with you... because I'm so used to [this type of letter], it looks exactly the same as what I got for my Child Tax Credit.”

Couple, renewed late, Manchester

This confusion was particularly prevalent among participants on lower awards, who reported that they did not generally pay attention to communications from HMRC. Those on higher awards understood the message more quickly and paid more attention to what was being communicated.

Some couples queried why they always received duplicate copies of the same communication from HMRC. They reported that this caused confusion as they did not know whether the second copy had a different purpose to the first or was simply a duplicate. Once they established that it was a duplicate, one copy tended to be destroyed.

A few suggested that there was a risk that the finalisation letter could be mistaken for a duplicate renewal form, and be disregarded. Further, given that participants felt the finalisation letter looked very much like an Annual Review form, this risk also applied to those who are sent a finalisation letter during or just after the renewal period.

Where participants did not absorb the detail of the letter, this was because they felt it was too complicated. These participants were more likely to be those who struggled with paperwork generally, and said that they would seek advice from a friend or relative or contact HMRC for support.

Self-employed participants said they sometimes relied heavily on accountants to deal with all their financial paperwork. As a result, they said they would not pay attention to the detail in the letter and would pass it to their accountant.

Some participants were immediately drawn to the letter header which informed them that their award was about to stop. This resulted in concern because they had not understood that this would only happen after they had made a claim for Universal Credit; they believed that their payments would be stopped immediately and would not be replaced.

“I nearly died.... When I saw 'closing your tax credits', I thought 'I don't get this.’”

Couple, renewed late, Manchester

“So, the first thing you think is 'they're stopping my tax credits'. So that's horror there immediately.”

Female, renewed late, London

There was confusion about the purpose of the letter; most felt that key messages, such as why their award was stopping and what they needed to do, lacked clarity. Participants generally believed that the finalisation letter should clearly explain why the customer had received it so they would not need to figure this out for themselves.

When prompted, participants went on to read the letter more carefully. They could often identify that tax credits were ending and established that they would need to claim for a new benefit to replace their tax credits. However, a few were still confused about the purpose of the letter; they did not pick up on the transition to Universal Credit at all until this was explained to them.

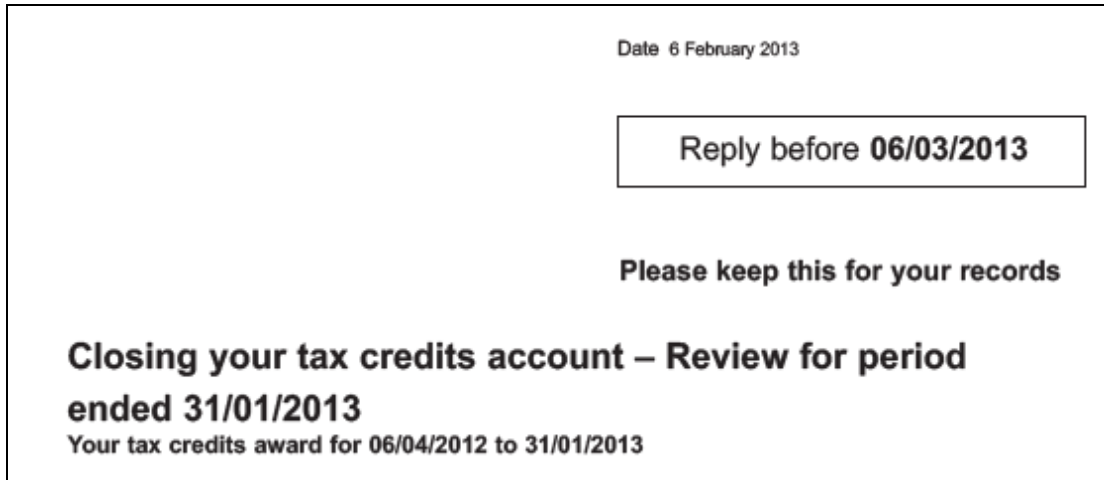
3.3 DETAILED REACTIONS TO THE FINALISATION LETTER

This section provides more detail on reactions to specific elements of the letter, including the title, tone and content; it explains how these impacted on participants, drawing out any specific differences between the ‘check before’ and ‘reply before’ letters.

Initial reactions to the letter

Figure 3.1 The 'reply before' letter: Letter header

****Letters are for testing purposes only and are not necessarily an accurate representation of the final letter****



Participants were largely drawn immediately to the title or headline. This worried them initially, particularly those on higher awards, until they read through more carefully and understood that their payments may continue under another system. Some participants reported that this concern would prompt them to call the helpline immediately.

Not all participants started reading the letter at the top. Others began with the 'Check/Reply before' box because of its prominent positioning at the top of the letter, its large size and outline. This gave an immediate indication that they needed to act by a set date (Figure 3.1).

"I can see a clear deadline. I've got to respond for that by the 6th of the 3rd. I can see a clear deadline which is good."

Couple, renewed late, Manchester

One participant suggested that this box should be on the left hand side of the page to stand out more while another missed it altogether until it was drawn to their attention.

Reactions to the title of the letter

Figure 3.2 Letter title: Closing your tax credits account

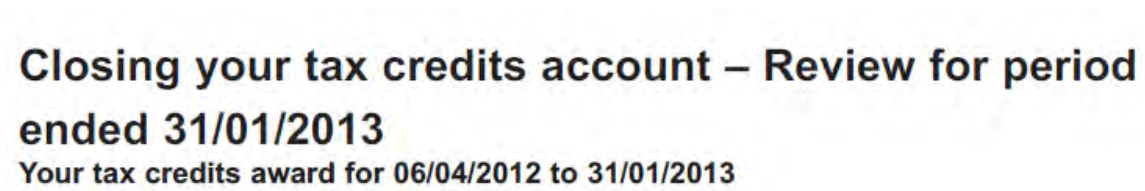


Figure 3.3 Letter title: Stopping your tax credits

Stopping your tax credits – Review for period ended 31/01/2013

Your tax credits award for 06/04/2012 to 31/01/2013

Participants were asked their opinions on the use of the terms 'stopping', 'closing' or 'cancelling' in the header. While some felt that there was no difference between the words used, most tended to prefer 'closing' to 'stopping' or 'cancelling'. They reported that 'stopping' and 'cancelling' felt personal; as if they had done something wrong to bring about the end of their award. They suggested that such terms might cause them to panic, particularly if they relied on their awards; in those circumstances, participants said they would immediately call HMRC (Figure 3.2; 3.3).

Although 'closing' was generally preferred, a few suggested it was ambiguous, especially when followed by the term 'review'. This was because participants interpreted it as meaning that their *award* for the last financial year had closed, and needed to be reviewed but that their tax credits *account* remained open. For these participants, this reinforced the misconception that the letter was simply about renewal. One participant suggested replacing the word 'Closing' with 'Review'.

"I'm reading it that it's closing the Tax Credit account for that year. I'm not reading it as it's closing the Tax Credit account full stop. It's closing it for that year and it'll carry on next year."

Couple, renewed late, Manchester

Regardless of their preferred terminology, some participants felt the title should mention a Universal Credit application at this point in order to make the connection between making the claim and receiving the letter explicit. Participants felt the use of terms like 'moving', 'replacing' or 'transferring' to Universal Credit would be less alarming than the messages tested. Participants also felt that this could offer them the reassurance that they may not lose this financial support.

"It looks like it's about closing it down only."

Female, Renewed late, Manchester

"It makes you think you are not going to get anything. Because cancel is like you are finishing... Or transfer...I don't know – or transfer would seem a bit more.... you know? Of your tax credits review system or whatever."

Couple, renewed late, Manchester

Reactions to the tone of the letter

Participants commonly reported that the tone of the letter was in line with what they would expect from HMRC or any government department.

“It’s what I am used to ... inoffensive.”

Couple, renewed late, Birmingham

Some felt the tone was tough, which made them feel as though they had done something wrong. This was largely a result of the wording used in the title but also due to the reference to a penalty payment in the ‘reply before’ letter.

“It has a threatening air ... it’s not neutral, it’s weighted towards penalising.”

Female, terminated re-entered, London

Although a tough tone would sometimes encourage claimants to respond, participants said this could be counterproductive as customers may fail to take action in fear of what the consequences might be.

Use of dates and numbers in the letter

Figure 3.4 The 'reply before' letter: The use of dates and numbers

Date 6 February 2013

Reply before 06/03/2013

Please keep this for your records

Closing your tax credits account – Review for period ended 31/01/2013
Your tax credits award for 06/04/2012 to 31/01/2013

MR FRANK PEACH
MRS PAULINE PEACH

National Insurance number AB 34 56 78 D
National Insurance number CD 55 56 66 B

We are contacting you to review this tax credits award which has ended because you have made a claim for Universal Credit or Pension Credit. We want to make sure that we paid you the correct amount for the award period shown above.

We are now ready to review your personal circumstances during the whole award period shown above and receive income details from you. **Please reply as quickly as you can.**

If you fail to tell us about changes to your personal circumstances this may affect your Universal Credit payments.

We decided on 06/02/2013 that your tax credits award for 06/04/2012 to 31/01/2013 is £2408.66 as shown in the **Payments** section.

If there are any changes you need to tell us about then your award may change. If you think this decision is wrong, you have 30 days from 06/02/2013 to appeal.

You must contact us by 06/03/2013 to confirm your circumstances and income. If we do not hear from you by then, any payments you have may have been wrong and you may have to pay back any overpaid tax credits. You may also have to pay a penalty and it may affect your **Universal Credit or Pension Credit payments.**

Participants were commonly distracted by the dates and numbers included, saying they diverted their focus from the text and made it difficult for them to understand what they needed to do (Figure 3.4).

While they often recognised the importance of having a prominent date or deadline, many found the way they were used confusing, making it difficult to identify which were most important.

“How many dates can you fit onto one page?”

Female, renewed late, Birmingham

“You’ve got all these dates and figures and things, you’ve basically got what, one, two, three, four, five, six, six lines telling you all the one thing. All I’m seeing here is dates and to be honest with you once you start seeing all these dates you just sort of flick through it, I’m not taking it in.”

Couple, terminated, Manchester

For the ‘reply before’ letter, the confusion over dates left participants generally uncertain about what they needed to do in order to meet their responsibilities. For example, some queried when they should reply before. They observed that the letter told them to do so: within 30 days; by the 6th March; and, “as quickly as possible”.

Customer understanding of the finalisation letter

Participants generally found the letter difficult to understand, describing it as “confusing” and “vague”. Others commented that it was too “wordy” and described it as “busy”, “cluttered” and “hard to read” (Figure 3.5).

Some reported being overwhelmed by the amount of information included in the letter. This led them to be confused about exactly what they needed to do, by when and how, stating that the letter was not clear enough about the action required.

However, others recognised the difficulty of finding the right balance between not overloading customers with information and providing the amount they need.

“There is quite a bit to read on that first page. Not a bit, over a bit but it is kind of close together, you see? So you could miss a few things. So you have to read it carefully.”

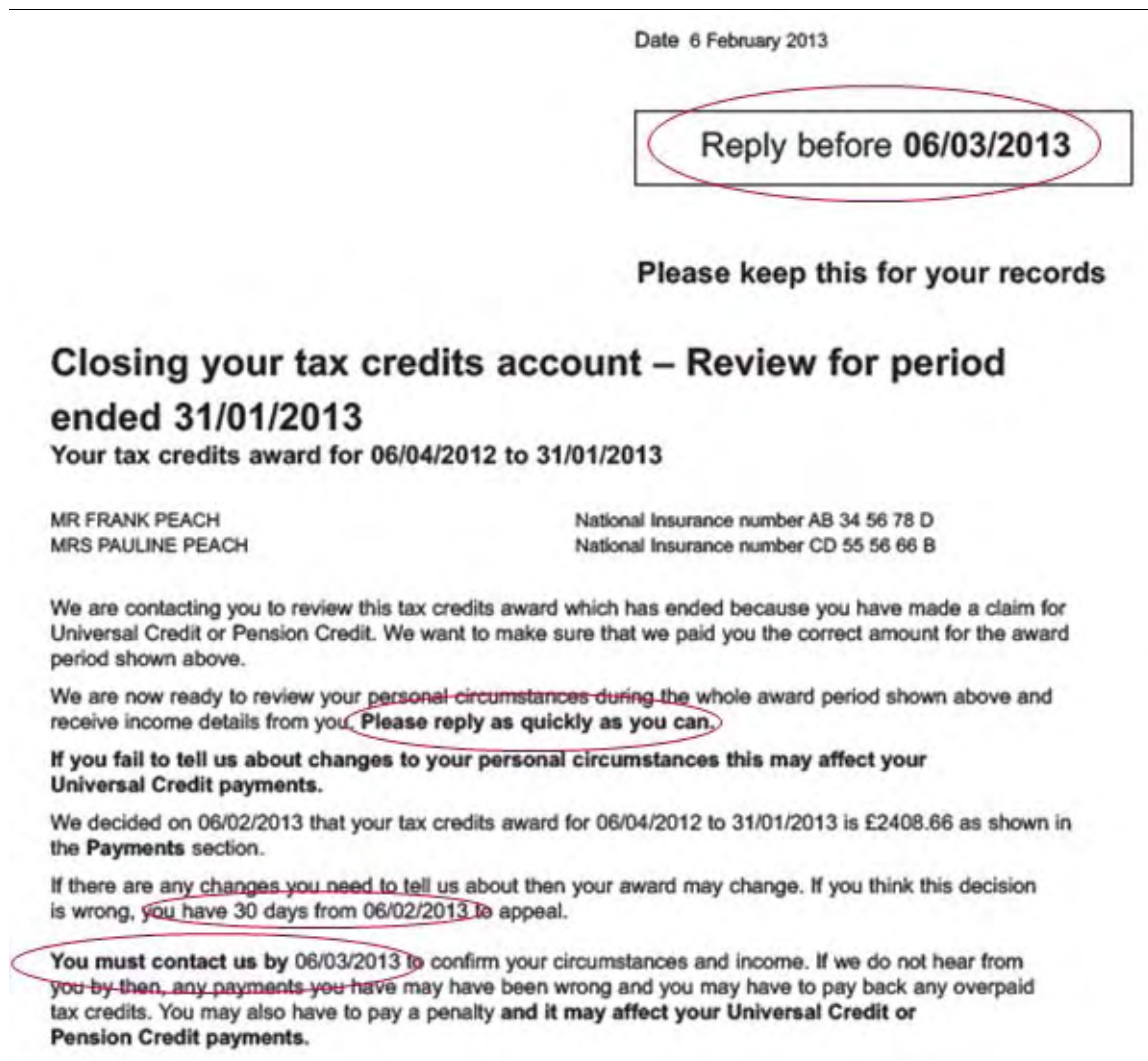
Female, renewed late, London

“It’s the clarity, and although there’s parts of it that are very clear, some of it goes into too much detail that then makes it complicated. There’s no like summary sheet at the end....”

Couple, renewed late, Manchester

Participants often had to repeatedly read the letter to understand what was required. Some reading the ‘check before’ letter particularly focused on the number of times the word “if” was used; it began six out of the nine paragraphs on the first page. This made participants feel that there were too many caveats, therefore making it difficult for them to know whether or not they needed to contact HMRC.

Figure 3.5 The 'reply before' letter: Identifying deadlines and important dates



While some could identify the deadline in the box as the most important date and felt this was clear, others were confused about what action they should take and when.

Participants reading the 'reply before' letter sometimes believed they did not have to make contact with HMRC if the information was correct, finding the letter contradictory, particularly where it says, "If you fail to tell us about changes...". Participants believed this meant they only needed to contact HMRC to notify them of a change.

Some assumed that because their tax credit claim was stopping no further action was required. These tended to be participants with low award levels who were unaware that their award was provisional and so did not know why they would need to finalise it.

"I can see there is a deadline ... but I would do nothing, as it says it is closing."

Couple, Renewed late, Manchester

Figure 3.6 The ‘check before’ letter: The need to contact HMRC

If you need to tell us about anything once you have completed your Award Review, **please phone us straight away**. If you do not have anything to tell us, **you need do nothing more** and we will not send you another notice for this year. This TC603U Tax Credits Award Review is also your Award Notice.

Participants also found the message in the ‘check before’ letter confusing, with the text suggesting customers need to be both active and passive in their responses. Participants tended to focus on the information in bold, so found a contradiction between, “Please phone us straight away”, and “You need do nothing more” (Figure 3.6).

They generally said they would call HMRC for clarity about what action was needed because they felt it was “safer” that way.

“If it’s all correct you need to notify them, because it says, “Please call us”.”

Male, Re-entered, Manchester

Figure 3.7: Customer right to appeal a decision

If there are any changes you need to tell us about then your award may change. If you think this decision is wrong, you have 30 days from 06/02/2013 to **appeal**.

Participants often highlighted the word ‘appeal’ but there was uncertainty about what they had the right to appeal against. Some were not sure if it applied to the decision to stop tax credits, the level of the award or the transition to Universal Credit (Figure 3.7).

“Would you be able to appeal for them ending it because of you getting one of the others? You could even say not necessarily just the amount; you might say, “Well no, I’m not applying for the Universal Credit, so why are you stopping this”?”

Female, terminated, Manchester

Finally, in the ‘reply before’ letter, the references in bold to Universal Credit and Pension Credit payments within the final sentence made some participants question the relevance of the letter to them, given that awareness of Universal Credit was low and none claimed Pension Credit. This left a few suggesting they would be less likely to take action.

3.4 SUGGESTED IMPROVEMENTS AND ADDITIONAL INFORMATION NEEDS

Participants suggested ways in which the letter could be improved. These are discussed throughout the remainder of this section.

Information about Universal Credit

Participants suggested that an explanation of Universal Credit was essential to ensure that the content of the letter was fully understood. Participants felt this information would be necessary, even if they had already applied for Universal Credit.

“I think there just should ... be a synopsis of exactly what is a Pension Credit and what is a Universal Credit. In a two-liner.”

Female, renewed late, London

While general information about Universal Credit was requested, some indicated they would be particularly interested in receiving details on who qualifies. They thought this would provide reassurance that they may continue to receive payments as well as whether there was likely to be any gaps in these.

“It seems a very low key way to announce a new system.”

Couple, terminated, Manchester

It was suggested this information should be included in a box on the letter, though some did say a separate information sheet or leaflet would be helpful. Participants thought presenting it in a 'question and answer' format would help them easily identify the details relevant to them.

Suggested improvements to the format of the letter

Some participants felt that the letter read as a series of disjointed statements which made it difficult for them to determine the steps to take next. Instead, they wanted a narrative that would lead them step-by-step through the process, from what was happening and why to what they needed to do and when.

“For me it's all upside down. It should be all about the claim for Universal Credit and Pension Credit.... And below it would be 'this is why you're able to claim for these things'... [and only then] 'this is our review for your current tax credits up until this period'.”

Female, renewed late, London

Participants wanted the letter to provide a link between tax credits and Universal Credit, making clear that, while tax credits were ending, another system would take its place. To get this message across, it was suggested that the focus of the letter should be on the transition process. Participants felt that this could be achieved by using language associated with change rather than finalisation and by making the next steps clear.

“It's not making it clear about it changing over to Universal Credit. They should put it in bolder print and they should say it's up to you to get it right. “

Couple, Terminated not renewed, Manchester

It was suggested that the letter could be more concise and simple, with less ambiguity. This would help reduce the level of repetitiveness, which participants felt created uncertainty about what customers needed to do.

“Make the next step obvious.”

Male, Self-employed, Terminated not renewed, Manchester

For both the ‘check’/‘reply before’ letters, participants suggested the key messages – that either they do not need to call if they have nothing to report or that they must contact HMRC by the deadline – are hidden among other content and are easily missed. Participants felt these messages should be made clearer by including them upfront at the beginning of the letter and making the text both bigger and bolder.

It was that felt the letter could be more consistent in the way the deadlines are presented, either using the “30 days” format or by giving a specific date but not both. Others suggested that the use of bullet points, or colour – like red similar to a final demand notice – could make this point stand out more.

“I would probably do that [the title] in a different colour. Red obviously for danger... [if it had been done in red then] I would have thought 'Why is that red? It's like a final notice.'”

Couple, renewed late, Manchester

A few also stated that simply referring to tax credits generally was vague and that the letter should directly mention the specific element the individual received. They reported that this would personalise the letter, therefore encouraging the customer to act.

Participants commented on the visibility of the helpline number, suggesting that it was too small and hidden at the top of the letter, where it was difficult to spot. Some also noted the lack of a return form or reply slip and felt that this would encourage more people to confirm their details or report changes. Others suggested an online system for responding would be ideal.

“I’d expect there to be a return form, to return by that deadline ... If they don’t send a form for me to sign and return back or to complete, I wouldn’t get back to them. I’d just say everything’s as is and that’s it.”

Couple, renewed late, Manchester

Information needs

Participants generally referred to the Tax Credits Helpline as being their first port of call for any help or advice they needed with their award. Given this, many suggested that on receipt of the finalisation letter they would call the helpline for further information or to clarify their next steps.

“I use the website sometimes, but I would, I think, go to the phone first and if they were putting you on hold for ages I would investigate.”

Couple, renewed late, Manchester

Assuming they were unable to get their answers from the helpline, participants cited a range of other sources of advice – both formal and informal – that they would turn to. Informal sources included family and friends, especially those who also claimed tax credits, and general internet searches. More formal sources included Direct Gov (now Gov.uk), Citizen’s Advice and, for those who had them, accountants.

“I would look online or we have to been to see someone in the library haven’t we, like a Citizens Advice person.”

Couple, terminated, Manchester

“If I am really stuck on forms and I really can't do it ... (I would go to) Manchester Advice or somewhere to get that extra help ... if it is something I don't understand how to do properly or I am appealing against something, then I will be more than tapping into those people.”

Couple, renewed late, Manchester

Anticipating the need for additional information, some participants suggested that the letter should include a link to a website containing frequently asked questions about both the transition from tax credits and Universal Credit more generally. It was thought that this would reinforce the key messages in the minds of the customers and may also reduce the burden on Tax Credits Helpline staff.

4 PARTICIPANTS' RESPONSE TO THE TAX CREDITS FINALISATION LETTER

CHAPTER SUMMARY

- (i) Almost all participants said that, upon receipt of the letter, they would automatically call the tax credits helpline.
- (ii) However, they would make the call to seek clarity or reassurance about the letter, rather than to finalise their claim.
- (iii) Although some participants said that the cost of the phone call and previous negative experiences with HMRC helpline staff may deter them from calling.
- (iv) There was confusion over the correct action to take in response to the letter. One of the main causes of this confusion was the similarity between the letter and the renewal form which customers are used to receiving.
- (v) Participants generally believed that there would be serious consequences to not checking the information on the form. However, a small number did not think it was important, either because they assumed it was a renewal notice or because they wished to stop claiming.
- (vi) They also largely felt that they would be able to check and confirm the information required. However, self-employed participants were less confident that they could provide accurate in-year income data; some suggested that they would only be able to provide an estimate.

4.1 INTRODUCTION

This chapter explores participants' responses to receiving the letter and the follow-up actions that they would take. It investigates the level of importance participants attach to complying with the letter and tests whether they are confident they could fulfil their responsibilities. Finally, it identifies whether they could supply the information required to finalise their award.

4.2 LIKELY BEHAVIOURAL RESPONSE TO THE LETTER

After being prompted to thoroughly read the letter, participants were generally able to correctly identify the action required.

“Well if that was me, and all the dates and amounts and stuff seemed fine, the personal circumstances, all the details didn't need changing, [then] I'd leave it.”

Female, renewed late, Birmingham

Some participants who were shown both letters were able to identify the different responses required to each.

“It's saying the same isn't it? But this one ('reply before') seems a little more forceful, because it is saying if you fail to tell us about your circumstances it may affect it ... like you need to contact them anyway, whether there's been changes or not. Whereas that one ('check before') is a little bit more friendly ... you just need to contact them if there is any changes.”

Female, terminated, Manchester

Some 'reply before' participants reported that they would call the helpline, not to finalise their award but to seek clarity about the purpose of the letter and the actions required of them.

Others said that they would call because that was what they usually did when they received similar forms such as their Annual Review. However, some of those receiving the 'reply before' letter said that they would not contact HMRC, because they confused the letter with the renewals pack and assumed it was a duplicate, or because they did not wish to renew their award and thought that ignoring the letter was an appropriate way to end it.

“If you hadn't said to me 'read this' I probably would have just opened it, just gone straight to the back and thrown it, to be honest with you... because I'm so used to [this type of letter], it looks exactly the same as what I got for my Child Tax Credit.”

Female, renewed late, multiple-benefit claimant, Manchester

Participants also raised practical queries about responding to HMRC. While it was often said that they would call, some wanted details about the channels they should use as it was not clearly stated in the letter.

“You just think 'I just have to phone the help line' because it keeps saying 'contact us', 'reply before', but not how to ... because maybe if they just had a website and you could tick a box confirming [what] you've received and [that] it's correct, that would be more straightforward.”

Female, renewed late, self-employed, London

Not all participants were positive about the prospect of having to call HMRC. Some said they were deterred by: the cost of calling, expected waiting times, and the perceived quality of information provided. Further, those participants who said they had renewed late and consequently experienced an overpayment in the past were particularly wary about using the Tax Credits Helpline, especially if they did not believe the situation was their fault.

“It can be horrendous trying to get through”

Female, renewed late, Manchester

“At one time I phoned and they said “Oh, you know, you'll just have to send the form back”, and then another time I phoned and somebody was really helpful ... There was a bit of inconsistency over it”

Female, terminated, Manchester

4.3 AWARENESS OF THE CONSEQUENCES OF NOT MEETING THEIR RESPONSIBILITIES

Participants suggested a number of possible consequences as a result of not responding or checking the personal details on the letter. Some believed that their payments would simply end or their transfer to Universal Credit would not take place.

Those who had experienced an overpayment thought it was likely this would happen again.

Others, from all claimant types, focused on the possibility of underpayment or delays in payment.

“So, obviously they're telling me I've got x amount of time to sort this out and if I don't then basically it's tough, you're going to lose some credits... I might have to pay some money back to them.”

Female, renewed late, multiple-benefit claimant, Manchester

Some participants discussed the possibility of appealing. However, as outlined in section 3.3, they were unsure what they could appeal against.

“They would obviously go ahead with their decision, making whatever amount, as their final payment. But then you would have to appeal – if you have not got back to them in that particular time you would have to end up appealing.”

Couple, renewed late, Manchester

Finally, the timing of when the letter is sent out may affect customers' responses to it. As discussed in section 3.2, a small number of participants said that if they received this letter during the renewals period they would likely ignore it.

“It looks too much like a generic annual letter – it doesn't stand out ... and for those, you usually don't respond.”

Female, renewed late, Manchester

4.4 PARTICIPANTS' ABILITY TO MEET THEIR RESPONSIBILITIES

Meeting the 30-day deadline

Participants' generally felt 30 days was sufficient time to check the details on the letter and respond, if needed. Some suggested that such deadlines are motivational and, were they given longer to achieve this task, then the more likely it would be that they put the letter to one side, which may result in them forgetting about it.

“A deadline date against it, a penalty if it's not back by that time, or you lose the entitlement, something like that.”

Couple, renewed late, Manchester

However, some said that missed deadlines were not always a case of disorganisation or forgetfulness and spoke of how they had missed the renewals deadline in the past due to major life events (such as having a baby, or a family crisis). They felt it likely that they could miss a 30-day deadline if similar circumstances occurred again.

As discussed in section 2.3, self-employed participants were another group who thought they might struggle to meet a 30-day deadline due to the time and money needed to get their accounts ready. Those who experienced significant seasonal changes in income, in particular, said this, as it could be difficult for them to afford an accountant at certain times of the year.

“It wants... what your income figures were for the previous year but generally we have to estimate it at that point because I haven't done my tax return until January.”

Female, renewed late, self-employed, London

This finding is consistent with previous research³, which found some self-employed customers would need up to six months notice to ensure that they could either prepare their accounts mid-year or instruct an agent to do so on their behalf.

Other participants felt that 30 days was simply too short and that 'everyday life' would be likely to prevent them acting in time. This was particularly true for those who worked and had children.

“I think 30 days is quite a short time actually... I can be away sometimes for a week so, you know, or if you're on holiday for a week. There are two week windows where you can't do anything about it all really ... I don't open my post sometimes for days.”

Female, terminated, Manchester

³ Hall, S, Leary, K & Greevy, H: *Qualitative research to explore the information needs of tax credits customers during their transition out of the tax credit system*, HM Revenue & Customs Revenue and Customs Research Report 189 (Ipsos MORI 2012)

Checking and providing income figures

Participants did not understand that they would need to check or provide in-year income data. Participants largely reported that the first place they would look for this information would be their P60 as this is what they normally do when they complete their renewal.

When the need to provide year-to-date earnings information was explained, it was suggested that they would look at all payslips or bank statements for the specified period and add together the earned income figures to calculate this. They were generally unaware that their payslips already provide their year-to-date income.

“I’ll tell you the tax I will pay for the year to date and yeah, I’d be able to get that information straightaway. I would just have to check my payslips from the 6th of April through to the 31st of January to see how much I’ve earned and send it to them and let them know.”

Couple, terminated, Manchester

“It depends on what time of year it is because if it’s just after the end of the financial year then yes I’d probably have my P60. I’ll have my P60 to hand because I would have just received it from work. Now if it’s in the middle in the year to be honest I probably don’t know where my most recent P60 is. I’d have to have a bit of a dig around to find it.”

Couple, terminated, London

CONCLUSION

HMRC is committed to ensuring it effectively communicates the actions required in terms of finalising tax credit awards to customers. Where customers have previously failed to renew within the deadline, this poses a significant challenge.

The level of awareness of forthcoming changes to the tax credits system and the introduction of Universal Credit was low. Some believed that their level of knowledge on this matter is likely to increase with time, particularly once they have made a claim for Universal Credit.

Participants wanted the letter tested to include more information about Universal Credit. In particular, they requested details on how the transition will impact on them. For many, this could provide reassurance that tax credits will be included in a new system, which may reduce the volume of calls to the helpline with general queries.

On first reading only a few participants were able to identify the purpose of the letter and most initially confused it with a renewal notice. This confusion could cause some to ignore the letter altogether, especially if it arrives during the usual renewal window as some may consider it to be a duplication of what they had already received.

Partly due to the confusion with a renewals notice but also because of the way the finalisation letter was written, participants found it difficult to read and were not able to clearly draw out the key messages.

Participants generally only read the letter more closely because they were prompted to do so. In order to encourage more to take immediate notice and to help them understand what was required, participants suggested providing a narrative about the transition, leading them step-by-step through: what is happening, why and, most importantly for them, what they need to do. This could be achieved through using bullets or subheadings in the text, and also by avoiding the excessive use of dates and numbers.

Participants often said they would contact HMRC upon receipt of the letter, irrespective of whether HMRC needed the participant to make contact to discuss their claim. This was mainly because participants were confused about the action they should take, rather than because they correctly understood their responsibilities. This may result in both unnecessary calls to the helpline, and also calls where the customer is not prepared with the information required to finalise their award.