



Research report

P2 Tax Coding Notice

Testing of P2 Tax Coding Notice Communication
amongst PAYE Customers

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About P2 Tax Coding Notice

The P2 Tax Coding Notice is a personalised communication informing the customer about their tax code and how it is created. It also provides an explanation of each of the coding items.

It is personalised to fit each customer's circumstances and asks customers to check that their information is correct and contact HMRC if it is not.

In most cases, customers do not need to contact HMRC after they receive a P2 Tax Coding Notice.

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Research Requirement

HMRC currently informs customers of the tax code that should be operated by their employers/pension providers by issuing a P2 Tax Coding Notice. HMRC sends out approximately 20 million coding notices a year generating approximately 1.2 million telephone calls. Earlier research showed that the layout and content of the P2 Tax Code notice often caused confusion and lead to customers contacting HMRC for reassurance purposes.

HMRC redesigned the layout and content of the P2 Tax Coding Notice and these were tested qualitatively with customer focus groups. This quantitative research was designed to further test the P2 prototypes with a larger sample.

This research aimed to:

- Test whether customers understood the purpose of a new P2 Coding Notice.
- Identify any sections of the new letter format which caused confusion.
- Understand the indicative customer behaviour upon the receipt of the notice.

When the Research Took Place

Fieldwork took place in September 2015.

Who Did the Work (Research Agency)

Research was conducted by TNS BMRB.

Method, Data and Tools Used, Sample

An online survey was conducted with members of the general public who are PAYE¹ (Pay As You Earn) customers. These respondents were contacted via the LSR online access panel². A total of 2000 interviews were achieved. The sample was recruited to represent the UK population demographics in terms of age and gender and was then weighted back to match the PAYE population³. Table 1 below shows the demographic profile of the survey sample in terms of gender, age, social-economic class and education.

Table 1 – Demographic profile of sample

	Sample Size	%
Gender		
Male	1000	50%
Female	1000	50%
Age		
16-34	620	31%
35-54	680	34%
55+	700	35%
SEC⁴		
ABC1	1253	63%
C2DE	701	35%
Prefer not to say	46	2%
Education		
Secondary school or less	551	28%
College/6 th form	668	33%
University graduate	550	27%
Postgraduate	161	8%
Other/refused	70	4%

HMRC tested two types of P2 Tax Coding Notice communications in this research:

¹ PAYE – Pay As You Earn: a method of paying income tax and national insurance contributions as deductions made by employers prior to an employee receiving their net earnings.

² The panel is run by Lightspeed Research, a sister company within the Kantar group

³ The sample was weighted to match the PAYE population in terms of the following specifications: Female (44%), Male (56%); Age: under 25 (7%), 25-34 (20%), 35-44 (19%), 45-54 (21%), 55-64 (16%), 65+ (17%); Region: NE (4%), NW (11%), Yorkshire and Humber (8%), East Midlands (7%), West Midlands (8%), East of England (9%), London (13%), South East (15%), South West (8%), Wales (5%), Scotland (9%), Northern Ireland (3%).

⁴ Social and Economic Grade classification is based on the occupation of the head of the household:

A:High managerial, administrative professional

B:Intermediate managerial administrative professional

C1:Supervisory, clerical and junior managerial

C2: Student, skilled manual workers

D: Semi and unskilled workers

E:Casual labourers, state pensioners, unemployed or living on state benefits

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- *Pensioner P2 Tax Coding Notice*; a three paged letter, including sections relevant to state pension
- *Job Expense P2 Tax Coding Notice* also in the form of a three paged letter, a more generic P2 Tax Coding Notice with Job Expense benefit added.

Each respondent was shown one type of communication. Respondents who were pensioners (identified at the screening stage) were shown a Pensioner P2 Tax Coding Notice. The rest of the sample was shown a P2 Tax Coding Notice with Job Expenses. The breakdown of pensioners and non-pensioners and communication type shown are as below:

Table 2 Communications tested

Pension Status	Sample Size	%	Communication Type Shown
Pensioner	568	28%	Pensioner P2 Tax Coding Notice
Non-pensioner	1432	72%	Job Expense P2 Tax Coding Notice

Respondents were asked about their comprehension of the P2. Additionally, they were asked what actions – if any – they would take as a result of receiving this communication. The individual sections of the P2 were segmented into ‘hotspots’. Within the context of the study, a hotspot is a pre-defined small fragment of the communication. Respondents were asked to select the hotspots they found helpful, neutral or difficult to understand throughout the communication.

Main Findings

Overall, the messages in both the P2 Tax Coding Notice pensioner and job expense versions were understood very well. More than nine in ten understood the main purpose of the pensioner version (97%) and job expense version (92%). Nearly 7 in 10 (69%) found the communications effective at providing information.

There were only a handful of sections causing minor levels of difficulty. Hotspots 3 and 9 (related to how the tax free amount is used and explanations of the tax free amount) were found most difficult to understand by pensioners with 16% and 10% of pensioners finding these hotspots difficult to understand respectively. Hotspot 9 was also found to be the most difficult by those who were shown the job expense version (12%). Neither of these hotspots was likely to generate a high volume of calls due to confusion. Overall 5% of the sample said they would call HMRC due to confusion from a hotspot.

When respondents were asked what they would do if they received this communication in the post, 70% selected only correct and/or neutral actions. 42% of the sample said they would call HMRC as a result of receiving the communication. This included 30% who would appropriately call if they thought there was an error with their tax code. However, less than a sixth (12%) of the sample said they would only call HMRC to confirm something or seek reassurance that no action was required; defined as a 'low value call'⁵). Those who have less engagement with the tax system or limited knowledge such as respondents who are younger, who are in their first paid employment or who have not heard of a tax code before were more likely to make a low value call.

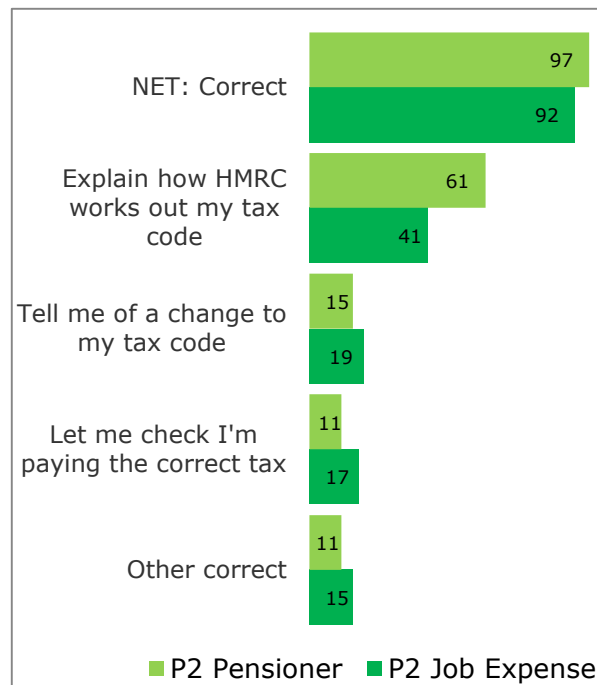
16% of respondents said they would go online for help. Those who would not use online options for seeking help/information said the HMRC website was too generic (28%), they lack sufficient tax knowledge (15%) or they were concerned about web security (14%).

⁵ Low value call was defined as those who said they would call to confirm something; call to ask if they need to provide any more information; call HMRC to find out if they need to do anything or call to find out whether they owe/are owed tax.

Customer Understanding

Respondents were asked about the purpose of the P2 Tax Coding Notice, having read through it once. Over nine out of ten understood the purpose of the letter. In terms of overall understanding of its purpose, there was not much to separate pensioners and non-pensioners. 92% of those who were shown the job expense version and 97% of those who were shown the pensioner version selected a correct answer. Among all respondents, 93% understood the purpose of the letter.

Chart 1- Pensioner and Job Expense P2 Tax Coding Notice Understanding (%)



Question (VC1): What do you think is the purpose of this communication? (Single coded)
P2 Pensioner Sample Size: 568
P2 Job Expense Sample Size: 1432

There were some sub-groups where understanding was significantly lower. For some of the sub groups, this could be attributed to a lack of experience and low engagement with the tax system. For instance, those who had not heard of tax codes were significantly less likely to choose a correct answer when asked about the purpose of the letter (79%) compared with those who knew about tax codes (94%). In addition, those who were 16-24 years old were significantly less likely to understand the purpose of the letter compared with older age groups; 84% of this age group chose a correct answer when asked about the letter's purpose.

Respondents were also asked about their views of the communication including how easy it was to understand its purpose and how clearly the information being communicated was, as well as its style, format and language.

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The P2 Tax Coding Notice was generally viewed positively, with high levels of agreement that its format and language were easy to read and communicated the purpose and information clearly.

Table 3- Use of Communication

	Agree (%)	Neutral (%)	Disagree (%)
The typeface/font was easy to read	80	17	3
I understand the purpose of the communication	74	20	6
The communication is visually clear	73	21	6
The tone of the communication is appropriate	72	23	5
It is easy for me to understand the language used	70	22	8
The document feels formal	70	25	5
I am confident I understand what the communication is telling me	69	22	9
I understand what actions, if any, I would have to take next	69	21	8
The communication is well structured	68	25	7
I would feel comfortable contacting HMRC for help if I needed to	68	22	10
It is easy for me to understand the content	67	24	9
Receiving this communication would make me feel better informed	64	28	8

Question (component measures): You will now see a short list of statements about the communication you have just seen. Please indicate how much you agree or disagree with them. Score scale: 1 to 5.

Agree- NET 4-5;

Disagree- NET 1-2.

Ranking number 3 is considered as neutral.

Sample size: 2000

Hotspot Analysis

Job Expense and Pensioner version of the P2 Tax Coding Notice were tested in the survey. Respondents who were receiving a pension were shown the pensioner version. The rest of the sample was shown the job expense version. Each letter was divided into sections which were called 'hotspots'. Hotspots were largely the same across the two letters with the pensioner letter including a few unique sections relevant to pensions. The table below shows the list of hotspots and what these hotspots were about.

Table 4- Hotspots in P2 Job Expense and P2 Pensioner Tax Coding Notice

Hotspot number	Message of the relevant hotspot section	Stimulus for each group
1	What is a tax code	Same hotspot across two prototypes
2	Calculation for tax-free amount	Different hotspot across two prototypes
3	How tax-free amount is used	Different hotspot across two prototypes
4	Please check information note	Same hotspot across two prototypes
5	Personal allowance explanatory note	Same hotspot across two prototypes
6	State pension note/Flat rate job expense explanatory note	Different hotspot across two prototypes
7	Tax Code L explanatory note	Same hotspot across two prototypes
8	Tax Code T explanatory note	Pensioners P2 only hotspot
9	Tax-free amount explanatory note	Same hotspot across two prototypes
10	Please keep tax code notice note	Same hotspot across two prototypes
11	Explanation of rights and obligations	Same hotspot across two prototypes
12	HMRC contact details	Same hotspot across two prototypes
13	Additional needs contact details	Same hotspot across two prototypes

Respondents' overall reaction to the letters was positive - on average two in three found at least one section helpful. Most hotspots were either found helpful or neutral; only a few hotspots stood out as difficult to understand. Hotspots 2 (calculation of the tax free amount), 5 (explanatory note on the Personal allowance), 6 (explanatory note on State pension or flat rate job expenses), 7 (tax code L note) were found most helpful by all respondents. Additionally pensioners shown the P2 pensioner communication also found hotspot 13 (explanation of services for disabled people) helpful.

Table 5- Hotspots found helpful or difficult to understand across P2 Tax Coding Notice

HELPFUL	DIFFICULT TO UNDERSTAND
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	P2 Job Expense	P2 Pensioner	P2 Job Expense	P2 Pensioner
Hotspot 1	30%	23%	1%	0%
Hotspot 2	45%	45%	7%	5%
Hotspot 3	40%	38%	9%	16%
Hotspot 4	27%	28%	2%	2%
Hotspot 5	42%	46%	6%	3%
Hotspot 6	36%	43%	6%	8%
Hotspot 7	38%	42%	6%	3%
Hotspot 8	N/A	38%	N/A	9%
Hotspot 9	39%	41%	12%	10%
Hotspot 10	21%	29%	4%	3%
Hotspot 11	19%	25%	2%	2%
Hotspot 12	32%	34%	1%	0%
Hotspot 13	37%	49%	3%	1%

There were only a couple of hotspots which were found difficult to understand by 10% or more of the sample. These were Hotspot 3 (explaining how tax free amount is used) and hotspot 9 (explanation of the tax free amount)⁶. Even though these hotspots were found most confusing, they are unlikely to generate a high volume of calls for clarification.

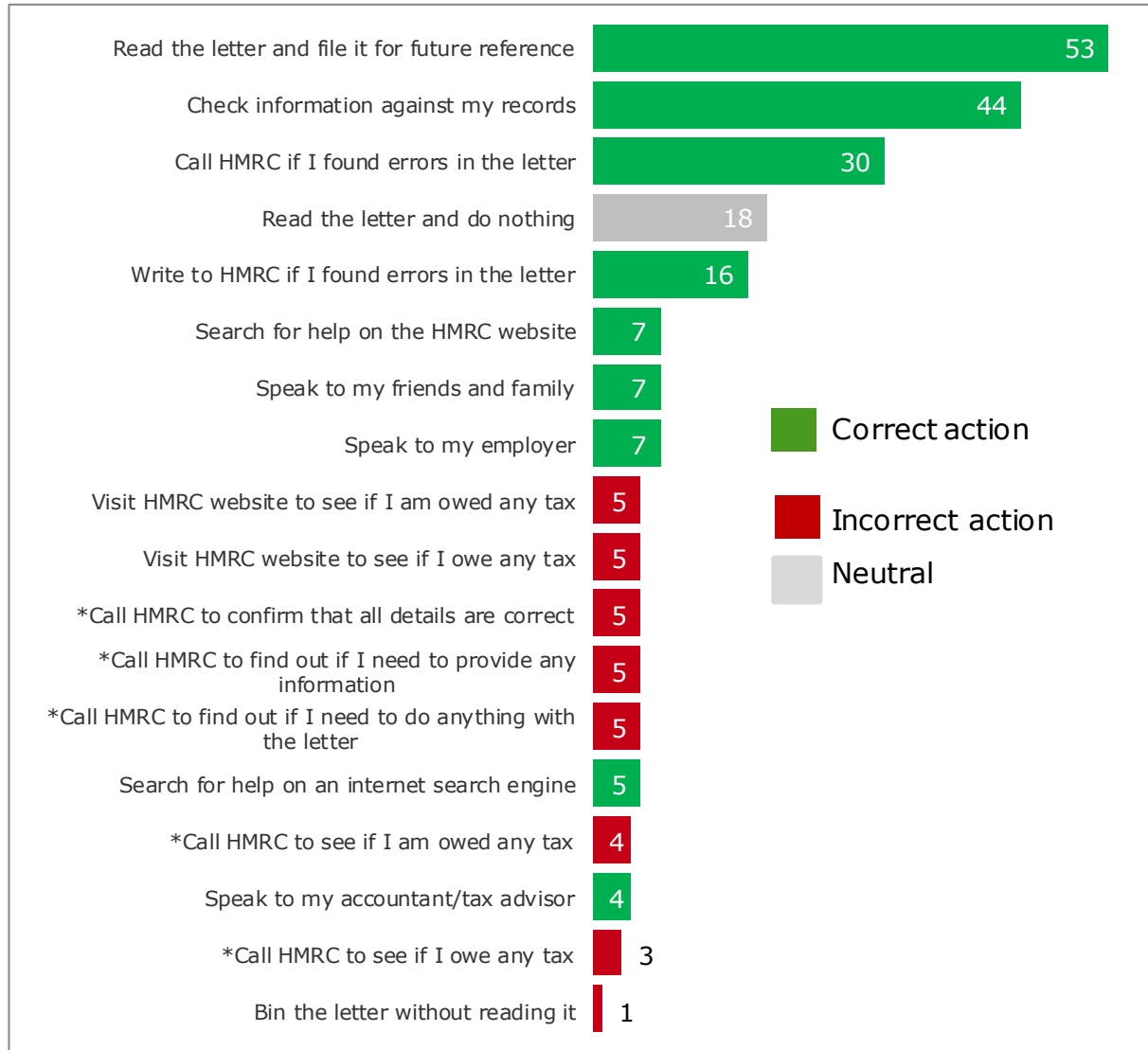
Impact of Communication

Respondents were asked what they would do if they received this communication in the post. Top three actions selected by respondents were correct actions which were 1) read letter and file it for future reference (53% of the sample selected this action), 2) check information against my records (44% of the sample selected this action) and 3) Call HMRC if I found errors in the letter (30% of the sample selected this action). The majority of the sample (70%) only selected correct and/or neutral actions.

⁶ Base sizes of those who found Hotspot 3 Pensioner, Hotspot 3 Job Expense and Hotspot 9 difficult to understand are 91,138, 233 respectively.

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Chart 2- What respondents would do upon receiving the P2 Tax Coding Notice (%)



Question (CA1): What would you do if you received this communication in the post? (Multi code question)
 Sample Size: 2000

However, 30% of all respondents indicated they might take one or more incorrect actions as a result of receiving the communication. This is mainly to seek confirmation that no further action is required or clarification about whether any tax is owed or refund due.

Overall, 42% of the sample said they would call HMRC as a result of receiving the communication. This included 30% who would appropriately 'Call HMRC if I found errors in the letter'. However, just under a sixth (15%) of the sample (including the 12% who would only call HMRC to confirm something or seek reassurance) said they would only call HMRC

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to confirm something or seek reassurance that no action was required; defined as a 'low value call'⁷.

Attitudes of respondents after receiving this communication from HMRC showed some difference in terms of the probability of making a low value call. Those who feel anxious or uncertain when they receive a communication from HMRC are significantly more likely to conduct a low value call than those who feel confident or do not feel anything particularly. 19% of those who feel anxious and 20% of those who feel uncertain when they receive a communication selected at least one low value call option compared with 11% of those who feel confident when they receive a communication from HMRC. Groups which were more likely to make a low value call are mainly those who had less knowledge and less engagement with the tax system. 38% of those who have not heard of tax codes before would make a low value call which is significantly higher than those who have heard of tax codes before (14%).

Of those who would call HMRC, slightly more than half (51%) stated that issues are resolved quicker over the phone and approximately two thirds (66%) said they simply prefer to speak to a real person.

16% of the sample said they would go online for help upon receiving a P2 communication. Among those who said they would not go online for help 28% said the website was too generic. Lack of tax knowledge (15%) and web security (14%) were also other issues mentioned by those who would not prefer to go online for help.

⁷ Low value call was defined as those who said they would call to confirm something; call to ask if they need to provide any more information; call HMRC to find out if they need to do anything or call to check to find out whether they owe/are owed tax.