



IFF Research

Awareness and Understanding of Taxation of Savings Interest

Prepared for HMRC
By IFF Research

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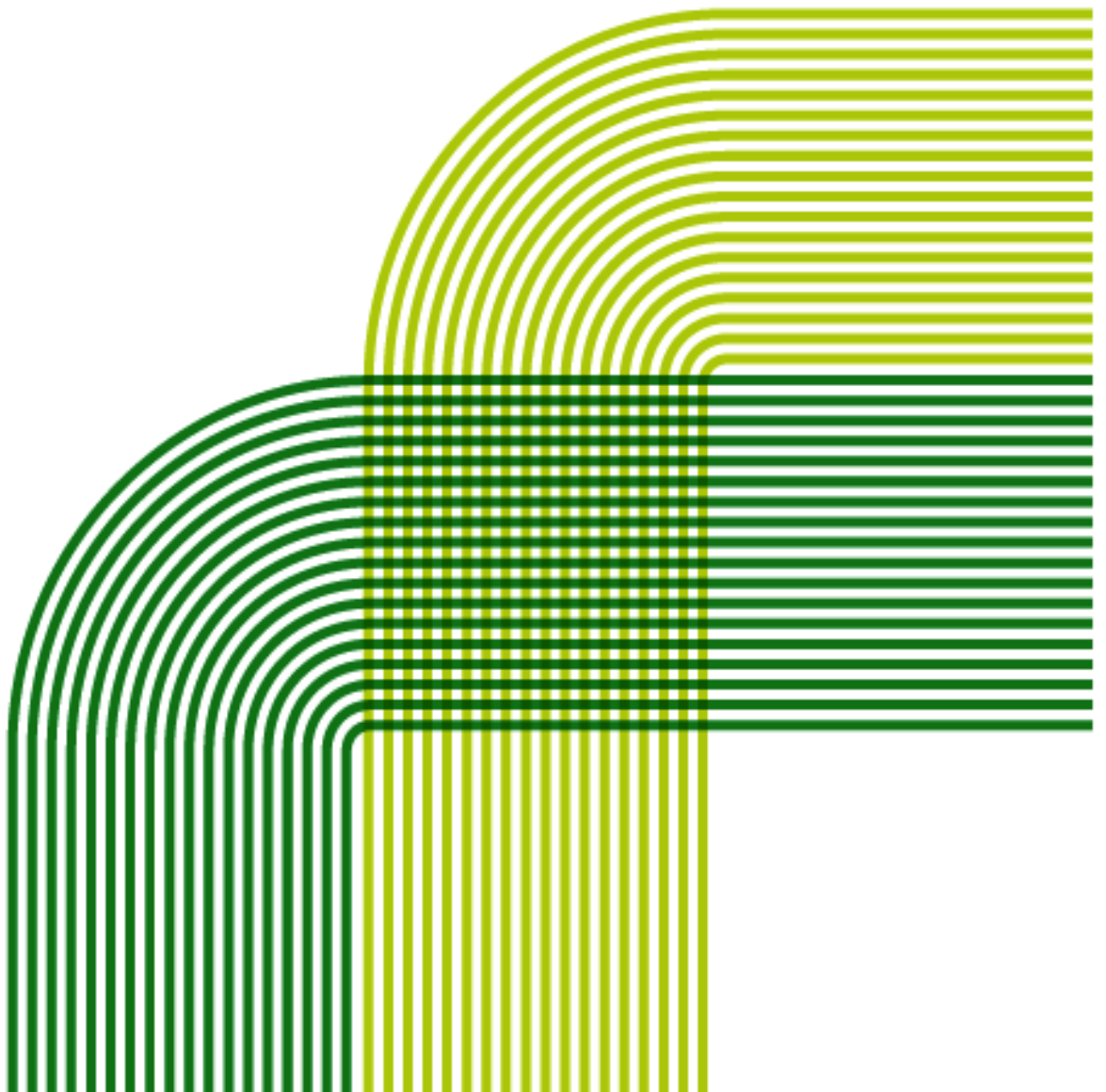
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1 Key Findings

Awareness and understanding

- 1.1 Awareness and understanding of savings interest was relatively low – many customers participating in the research did not know the rates at which their interest was paid. Most customers stated that they used savings accounts as somewhere to simply ‘store’ or ‘park’ money, i.e. “ring-fencing” their money. Savings accounts were frequently described as a place to keep money out of the way to avoid spending it and hold it in a separate place for when it is needed.
- 1.2 Awareness and understanding of taxation of savings interest was also relatively low. In this context most people expected tax on savings to be deducted ‘at source’ (many found it difficult to elaborate what they meant by ‘at source’), or automatically through banks/building societies. Indeed, few customers were aware of the Tax Deduction Scheme for Interest (TDSI) – often they were surprised and concerned that they did not know about it; and in the case of higher rate tax payers they were generally unaware that they had to notify HMRC and pay additional tax on their savings interest.

Responsibility for supplying information

- 1.3 Most customers felt that information about the amount of tax due on their savings interest should be supplied to them (rather than them having to take responsibility to find out). Customers were split almost evenly between thinking this information should be supplied by:
 - Both banks/building societies and HMRC; or
 - Just banks/building societies.

What would encourage the ‘correct’¹ behaviour?

- 1.4 There was a lack of awareness among most people taking part in the research over both the TDSI system and the most appropriate courses of action depending on individual circumstances. People often felt information should be provided:
 - When savings accounts are opened;
 - When people have a change in circumstances (e.g. retirement) or change of tax band; and
 - With an annual P60 tax statement.
- 1.5 People on lower incomes suggested that more information about registering for interest to be paid without tax deducted, or on claiming tax back, could be provided by banks/building societies (in branches, when opening savings accounts, on websites, through online banking accounts and as a specific line on bank statements). They also felt that simple communication messages would be most effective, outlining that they may be able to have interest paid without tax deducted or claim tax back.

¹ In this context “correct” behaviour means taking the action most appropriate for their personal circumstances (i.e. completing an R85 form if they are eligible for gross interest, completing an R40 form if they are eligible to claim tax back from HMRC and notifying HMRC of savings interest on which tax is due if they are a higher rate tax payer).



- 1.6 Most higher rate tax payers felt that personalised communication from HMRC or through their employer might be required to make more higher rate taxpayers take notice of their obligation to declare and pay additional tax on savings interest after deduction of 20% under TDSI. A staged approach to escalation was expected, initially raising awareness (with both general and personalised communication suggested), then warning of consequences before making clear that action is being taken by HMRC.
- 1.7 There was recognition among higher rate tax payers that ultimately some form of sanction/penalty would be most likely to drive compliance.



2 Executive Summary

Background

- 2.1 People with a bank or building society deposit savings account who are UK taxpayers are taxed on the interest that they receive on their savings.² From 6 April 2008, the tax has been deducted at the basic rate of tax – currently 20% - automatically by financial providers (banks and building societies). This scheme is known as the Tax Deduction Scheme for Interest (TDSI).
- 2.2 For the majority of UK tax payers, those who are on the basic rate of income tax, the automatic administration of TDSI by banks/building societies means that they do not have to take any action to ensure that they pay the right amount of tax on their savings interest. However, this is not the case for everybody. There are three groups of people where individual circumstances may mean that TDSI does not, by itself, achieve the right outcome for their savings interest:
- Individuals that are **eligible to get their interest paid without any tax deducted under TDSI (gross interest)**. These are the individuals who are not required to pay tax on any of their interest for example because their total income is below their tax-free Personal Allowance. These savers can register their accounts with their bank or building society so interest can be paid gross. To do this they can complete an HMRC R85 form or a similar declaration, which can be given to their account provider online, by telephone, in branch or by posting a completed form to the relevant bank/building society.
 - Individuals that are **able to reclaim some tax after deduction of 20% under TDSI, for example because some (but not all) of their interest falls within their tax-free Personal Allowance, or is eligible for the starting rate of tax for savings income**. Tax can be claimed back by completing and submitting an R40 form to HMRC.
 - Individuals that **have more tax to pay on their savings interest after the initial deduction of 20% under TDSI**, because they are higher or additional rate taxpayers.
- 2.3 In Budget 2015 it was announced that a new Personal Savings Allowance will apply from April 2016 for the first £1,000 of savings income (such as interest) received by most people³. This Personal Savings Allowance is expected to remove tax on savings interest altogether for 95% of savers.

Aims of the research

- 2.4 Prior to this Budget 2015 announcement, HMRC commissioned research in order to gain insight into the awareness, understanding and behaviour of its customers in relation to the taxation of their savings interest. Specifically, HMRC wished to understand:
- What drives behaviour, and would help more eligible **lower income** savers to register for gross interest and/or claim back tax they are owed in relation to their savings interest; and
 - What drives behaviour, and would encourage more **higher rate tax payers** to declare and pay the additional tax due on their savings interest, following the initial deduction of 20% under TDSI.

² Other than savings held within tax advantaged accounts, such as ISAs

³ Higher rate tax payers will only have a Personal Savings Allowance of £500 and taxpayers with any income chargeable at the additional rate (45%) will not qualify for the Allowance.



Methodology

- 2.5 A qualitative approach was adopted, which included 35 in-depth face to face interviews, and six focus groups. The interviews and focus groups were conducted with a range of customers, including students and pensioners.
- 2.6 This summary is based on everybody taking part in the research and while qualitative research will provide rich detail on individual circumstances, the aim of qualitative research is not to extrapolate findings to the wider population. Findings should therefore be interpreted in this context and should not be taken as representative of all people with savings accounts.

Awareness and understanding

- 2.7 Awareness and understanding of savings interest was relatively low – many customers participating in the research did not know the rates at which interest was paid.
- 2.8 Most customers stated that they used savings accounts as somewhere to simply ‘store’ or ‘park’ money, i.e. “ring-fencing” their money. Savings accounts were frequently described as a place to keep money out of the way to avoid spending it and hold it in a separate place for when it is needed.
- 2.9 Awareness and understanding of taxation of savings interest was also relatively low. Few customers were aware of the TDSI system – often they were surprised and concerned that they did not know about it; and in the case of higher rate tax payers they were generally unaware that they had to notify HMRC and pay additional tax on their savings interest. In this context most people expected all of the tax due to be deducted ‘at source’, or automatically through banks/building societies.
- 2.10 Relatively few customers taking part in the study had undertaken the ‘correct’ behaviour – that is to say few had:
- Completed an R85 form if they were eligible for gross interest;
 - Completed an R40 form if they were eligible to claim tax paid on savings interest back from HMRC; or
 - Declared and paid additional tax due on their savings interest following the initial deduction of 20% under TDSI if they were a higher rate tax payer.
- 2.11 Only a few customers had completed an R85 form (which was perceived to be straightforward) or had heard of the R40 form. Most higher rate tax payers were unaware that additional tax was due on their savings interest, following the initial deduction of 20% under TDSI. The few taxpayers that were aware of this fact had not made arrangements to pay this tax at the time of the interviews/focus groups.
- 2.12 There was a strong feeling that people should and would be interested in information about their tax obligations, and the potential to claim back tax on their savings interest (using the R40 form) or to register to receive savings interest without tax deducted (using the R85 form).

Responsibility for providing information

- 2.13 Most customers felt that information about what tax they are liable to pay on savings interest should be supplied to them (rather than them having to take responsibility to find out). Customers were split almost evenly between thinking this information should be supplied by:



- Both banks/building societies and HMRC; or
- Just banks/building societies.

People on lower incomes

2.14 Once aware of the TDSI system through taking part in the research, most customers felt they would complete the relevant forms to register for gross interest or claim tax back. Most people were driven by the principle that they should not overpay tax or that they need to maximise any available income. That said, some customers felt it would not be worth claiming back a relatively small sum of money (typically less than £10 per year) from HMRC.

People on higher incomes

2.15 Many customers felt they would not declare or pay the additional tax due on their savings interest, after the initial deduction of 20% under TDSI. These customers did not see it as their responsibility, felt it was not worth their/HMRC's time for a 'small' amount, and thought HMRC would contact them directly if it was important enough.

2.16 These people were not particularly concerned about repercussions – they felt there would be a staged approach if HMRC ever tried to collect the tax.

2.17 However, a small number of customers were concerned about HMRC 'catching-up' with them, or thought that declaring was the 'right thing to do', so said they would be likely to pay the full amount of tax that was due in future.

What would encourage the 'correct' behaviour?

2.18 There was a lack of awareness among most people taking part in the research over both the TDSI system and the most appropriate courses of action depending on individual circumstances.

2.19 For people in lower income groups, it was felt that a general awareness raising campaign would be appropriate. For the higher rate tax payers it was suggested that more targeted/personal communication may be required – a strong sentiment emerging from the groups was that they may 'claim ignorance'.

2.20 People often felt information should be provided:

- When savings accounts are opened;
- When people have a change in circumstances (e.g. retirement) or change of tax band; and
- With an annual P60 tax statement.

People on lower incomes

2.21 People on lower incomes suggested that more information about registering for gross interest/reclaiming tax on savings interest could be provided by banks/building societies (in branches when opening savings accounts, on websites, through online banking account and as a specific line on bank statements).

2.22 They also felt that simple communication messages would be most effective, highlighting that they may be able to pay less tax/claim tax back.



People on higher incomes

- 2.23 Most higher rate tax payers felt that personalised communication from HMRC or through their employer might be required to make people take notice of their obligation to declare and pay additional tax on their savings interest, after the initial deduction of 20% under TDSI.
- 2.24 A staged approach to escalation was expected, initially raising awareness (with both general and personalised communication suggested), then warning of consequences before making clear that action is being taken by HMRC.
- 2.25 There was a recognition among higher rate tax payers that ultimately some form of sanction/penalty is most likely to drive compliance.



3 Introduction

Background

- 3.1 Since 6 April 1991 people with a bank or building society savings account who are UK taxpayers are taxed on the interest that they receive on their savings. From 6 April 2008 the tax has been deducted at the basic rate of tax – currently 20% - by financial providers (banks and building societies). This scheme is known as the Tax Deduction Scheme for Interest (TDSI).
- 3.2 This TDSI scheme does not apply to Individual Savings Accounts (ISAs) and National Savings and Investments products, e.g. savings certificates or Premium Bonds, many of which are tax free. The majority of UK tax payers, are on the basic rate of income tax and the administration of TDSI by banks/building societies means that they do not have to take any action to ensure that they pay the right amount of tax on their savings interest.
- 3.3 There are three groups of people where individual circumstances may mean that TDSI does not, by itself, achieve the right outcome for their savings:
- Individuals that are **eligible to get their interest paid without any tax deducted under TDSI (gross interest)**. These are individuals who are not required to pay tax on any of their interest for example because their total income is below their tax-free Personal Allowance. These savers need to register their accounts with their bank or building society so interest can be paid gross. To do this they can complete an HMRC R85 form or a similar declaration, which can be given online, by telephone, in branch or by posting a completed form to the relevant bank/building society.
 - Individuals that are **able to reclaim some tax after deduction of 20% under TDSI, for example because some of their interest (but not all) falls within their tax-free Personal Allowance or is eligible for the starting rate of tax for savings income**. Tax can be claimed back by completing and submitting an R40 form to HMRC.
 - Individuals that **have more tax to pay on their savings interest after the initial deduction of 20% under TDSI**, because they are higher or additional rate taxpayers.
- 3.4 In Budget 2015 it was announced that a new Personal Savings Allowance will apply from April 2016 for the first £1,000 of savings income (such as interest) received by most people⁴. This Personal Savings Allowance is expected to remove tax on savings interest altogether for 95% of savers.

Aims and Objectives

- 3.5 HMRC commissioned research in order to gain further evidence on customer awareness and understanding of how savings interest is taxed. Among other matters, HMRC wished to understand:
- What drives behaviour, and would encourage eligible **lower income** savers to register for gross interest and/or claim back any tax they are due after deduction of 20% under TDSI; and

⁴ Higher rate tax payers will only receive a Personal Savings Allowance of £500 and taxpayers with income chargeable at the additional rate will not qualify for the Allowance.



- What drives behaviour, and would encourage **higher rate tax payers** to declare the additional tax due on their interest after the initial deduction of 20% under TDSI.

Methodology

- 3.6 A qualitative approach was adopted, which included:
- 35 in-depth interviews; and
 - 6 focus groups.
- 3.7 The interviews and focus groups were conducted with a range of customers, including students and pensioners, to ensure that customers from a range of ages and life stages participated. Among the pensioner customers there was a mix of those that paid tax and those that did not. It was assumed that students would be most likely to have an income below their personal allowance (if they earned anything at all) and in this context it was important to understand their awareness of how tax on savings is calculated if they held savings deposits.
- 3.8 The interviews were conducted face-to-face, with the exception of one that took place over the telephone. The interviews lasted approximately 45 minutes to an hour and took place between 4 February and 19 March 2015.
- 3.9 The table below shows a breakdown of the interviews.

Table 3.1: Face to face interviews achieved by income and location

AUDIENCE	London	Birmingham	Cardiff	Manchester	Glasgow	TOTAL
Students (assumption <£10,000)	1	1	1	1	1	5
Tax Payers £10,000 - £15,600	2	1	1	1	1	6
Tax Payers - <£10,000	2	1	1	0	0	4
Tax Payers - >£41,685	4	1	1	2	2	9
Pensioners - mixed incomes, some tax payers	2	2	2	2	2	10
TOTAL	11	6	6	6	6	35

3.10 The focus groups were conducted in London on 18 February, Watford on 19 February and Manchester on 24 February. Eight customers took part in each of the groups. The table below shows a breakdown of the focus group participants.

Table 3.2: Focus groups by location and structure

<i>Location</i>	London	Watford	Manchester
<i>Audience</i>	Group 1 (Tax Payers £10,000 - £15,600)	Group 3 (Pensioners – mixed income, some tax payers)	Group 5 (Tax Payers - <£10,000)
	Group 2 (Tax Payers - >£41,685)	Group 4 (Pensioners – mixed income, some tax payers)	Group 6 (Tax Payers - >£41,685)

Interpretation of findings

3.11 This report is based on qualitative research, and the findings show the spread of opinions among research participants. The nature of qualitative research means there can often be a wide range of differing views.

3.12 While qualitative research will provide rich detail on individual circumstances, the aim of qualitative research is not to extrapolate findings to the wider population. Findings should therefore be interpreted in this context and should not be taken as representative of all people with savings accounts.



4 Awareness and understanding of savings accounts and the TDSI system

Use of savings accounts

- 4.1 Most customers stated that they used savings accounts as somewhere to simply ‘store’ or ‘park’ money, i.e. “ring-fencing” their money. Savings accounts were frequently described as a place to keep money out of the way to avoid spending it and hold it in a separate place for when it is needed. This gives some context and background to the fact that awareness and understanding of savings interest and tax on savings interest was relatively low (this is discussed later in this section).

“For me, a savings account is just somewhere I can hide loads of money so I don’t spend it, so I don’t care how much more I’m getting from having it in there, I just want it away.”

Student

- 4.2 There were various methods of saving mentioned by customers across both the interviews and focus groups. Some put money into their savings accounts on a monthly basis, others stated that they regularly put money in and take money out of their savings account, and therefore do not really keep track of the amount they have in. A number of customers referred to some of their savings accounts as ‘holiday funds’ which they withdraw from annually.

“I’ve got a savings account for her (daughter) that I, you know, filter away quite regularly. Then I’ve got another one that I use for, like, holidays and stuff like that, so I put money into that.”

Tax payer earning between £10,000 and £15,600

- 4.3 Only a few customers referred to their savings accounts as an investment vehicle, meaning that they actively use their savings accounts as a way to build up their money through gaining interest. Where this was the case it was often amongst pensioners.

“If you can maximise your return, the basic concept is, if you can live off the interest, your capital is going to appreciate. If you’re taking more out than the interest is accumulating, then effectively you’re reducing your capital and if you reduce your capital that means that you’re going to run out of money after so many years.”

Pensioner

- 4.4 Some customers described interest rates as too low for them to use their savings accounts as a way of making money.

Awareness and understanding of savings interest

- 4.5 Generally awareness of the interest customers receive on their savings interest was fairly low. Customers fell into four categories of awareness/interest in their savings interest – each of which is discussed in more detail below.



No awareness or interest in savings interest

- 4.6 Most commonly customers had no awareness of their savings interest, and there was a spread of customers on different incomes in this category. These customers did not know the interest rates on their savings accounts, either in percentage or monetary terms and they did not check the interest they received. This lack of awareness often stemmed from a lack of engagement in the interest they receive, because the interest earned was not the main purpose of the account (rather it was used to 'ring-fence' money), or due to the rates being so low. A few thought they knew how often interest was paid, but this was often an estimated guess.

"Years ago when I was younger I used to. I had more interest in it then, but now with everything going in and out you don't tend to think... as long as you've got money in there you don't mind."

Tax payer earning between £10,000 and £15,600

Little awareness of savings interest

- 4.7 Some customers had little awareness of savings interest. Typically these customers knew roughly what the percentage rate of the interest they received on their savings was, and some were aware of the interest in monetary terms or how often their interest was paid.
- 4.8 These customers were not particularly engaged in the interest they received, again due to the rates being so low, and therefore did not check whether and what they were receiving in interest on their savings accounts.

"I couldn't tell you how much I'm getting. I used to be very aware of it but have let it slip. I know it's less than 1%. I think it's yearly."

Pensioner

Broad awareness of savings interest

- 4.9 Some customers had a broad awareness of savings interest. These individuals knew the monetary amount and percentage rate of the interest they received on their savings, as well as how often it was paid.

"I know it quite well. Roughly 2.89% AER."

Higher rate tax payer

- 4.10 Occasionally these customers mentioned that they checked to see if interest had been paid, but none mentioned checking the monetary amount against the percentage they were supposed to receive.

Detailed awareness and monitor savings interest

- 4.11 A few customers, who were all pensioners and higher rate tax payers, had a detailed understanding of the interest they received on their savings. They knew how often interest was paid and how much it was in both percentage and monetary terms.

"I know exactly what it is because when I go online it tells me the rate. I do all the banking as my husband isn't that interested. Maybe that's why I feel responsible and I know all the facts and figures."

Pensioner



- 4.12 These individuals reported that they regularly monitored and checked the interest they received and how much it was against the percentage they were supposed to receive.

Awareness and understanding of taxation of savings interest

- 4.13 There was low awareness that savings interest is taxed. Many customers were aware that Individual Savings Accounts (ISAs) were tax advantaged, but had not made the link that this means interest on savings in other accounts is taxed.
- 4.14 Customers were more likely to be aware of interest on savings if their account statement showed the deduction of tax.
- 4.15 Customers fell into four categories in their level of awareness and understanding of taxation of savings interest.

No awareness of taxation of savings

- 4.16 Most frequently, customers had no awareness that their savings interest was taxed. This was the case across the different levels of income, from students through to higher rate tax payers. Often these customers admitted they did not perceive interest received on savings as an income – and in that context were surprised it was taxed.

"I didn't know that there was any tax to be paid on interest."

Student

Aware but little understanding of taxation of savings

- 4.17 Some customers did know that tax applied on savings, although they did not know the rate at which this was taxed and that it differed by income, and there was some confusion about whether it was the savings or the interest on the savings that was taxed.

"I'd have thought everyone would pay the same. If you're saving at the same interest you should be all taxed equally."

Pensioner

Broad understanding of taxation of savings

- 4.18 Some customers had a broad understanding of taxation of savings interest. They were aware that taxation of savings existed and that the basic rate was 20%, however these customers had little awareness that this may differ by income.

"I believe it is 20%. So, if it is earning 4%, then only getting 3.2%."

Higher rate tax payer

Detailed understanding of taxation of savings

- 4.19 Some customers, primarily pensioners, had a comprehensive understanding of how taxation of savings interest works and differs by income. They were knowledgeable about the basic rate and the impact that their level of income has on the amount of tax that should be paid.

"I'm a non-tax payer so I'm allowed to earn up to £10,500 without paying tax on it [income up to]. Between £10.5 and £31k it is 20%."

Pensioner



Expectations on how tax on savings is collected

- 4.20 All customers, regardless of their level of awareness of taxation of savings, were asked how they would expect this tax to be collected.
- 4.21 In the context of limited awareness, most customers expected that all of the tax due would be deducted 'at source'. However, it was evident that some of those who stated this could not give any further information about the source and how they expected this to be done.

"I'd just assume it's, kind of, taken out of that, sort of, interest they put in, before they put it in."

Student

- 4.22 There was uncertainty amongst some customers as to whether this tax would be collected by HMRC or by the banks/buildings societies, with several customers mentioning that it would go to one of the two without indicating which.
- 4.23 There were a number of customers who were certain that tax is automatically deducted through banks and building societies. Pensioners were the most likely to mention automatic deduction.
- 4.24 There were some customers that did not know how this tax would be deducted at all.

"I don't know how they do it. Do they deduct it before it goes in..? I don't know."

Tax payer earning between £10,000 and £15,600

- 4.25 When asked how often they would expect this tax would be collected, most customers felt it would be collected annually, though others suggested monthly or quarterly. This was usually based on when their interest was paid.

"If you get monthly interest then monthly, or annually."

Higher rate tax payer

- 4.26 The terms gross and net were generally well understood by most customers – usually in the context of salaries.

The role of financial education

- 4.27 Customers, particularly in the focus groups, often acknowledged their own lack of understanding and awareness about savings interest and taxation of savings interest.
- 4.28 Stemming from these discussions, customers in the focus groups raised the importance of financial education. There was a general consensus that financial education should be improved.

"This then opens up a massive discussion about financial management or financial education because in our curriculum, we weren't taught this. So, obviously we've gone into adult life and we're still none the wiser."

Higher rate tax payer

- 4.29 There were a variety of suggestions made, which included:

- More general financial education at school;



- Information when people start working about the tax system and how tax bands work;
- More training and information through employers; and
- Provision of information about tax issues as people move up through the tax bands.

“It would be good to learn it in school, I guess. Also, I do think it's important that maybe once you do start paying tax, when you actually first get your proper job, because obviously there's a time when you're not liable to pay tax.”

Higher rate tax payer

Sources of information

- 4.30 Information on the taxation of savings is available on the gov.uk website, as well as from other non-government sources. However, very few customers had proactively sought information about taxation of savings interest, although most had searched more generally for information on tax issues (e.g. Self-Assessment criteria, tax code details, tax credits and pension contributions) and savings accounts at some point in the last few years.
- 4.31 The most frequently mentioned sources of information were online: HMRC website; bank/building society websites; independent websites (in particular Money Saving Expert); gov.uk; and the use of general internet searches. A number of customers could recall using these sources to find out information, and others stated that if they were to want any further information, these were the sources they would use.

“I would go to the HMRC website. I'd probably just go direct to the source to try and understand. To be fair, I have been on for other things in the past and it's quite well explained online. That would be my first port to call and possibly the bank, maybe, to ask.”

Higher rate tax payer

“Internet would be the first thing. I would go online and just Google it. There isn't a particular site that I'd go on...it sounds really daft but that Money Saving Expert is always a good place for advice.”

Higher rate tax payer

- 4.32 Word of mouth was also commonly mentioned as a source of information customers would use and trust, particularly talking to friends and family. Some customers highlighted that they had relatives or friends that worked in accounting and they would go to them for any advice or information if they needed it.

“Both of my brothers are accountants so I very much take advantage of that and they mainly deal with my financial affairs.”

Tax payer earning between £10,000 and £15,600

- 4.33 Some customers stated that they would go into their local bank/building society branch to talk to a staff member face to face. Others stated they would call their bank/building society or HMRC.

“Talking to somebody face to face is a lot different than reading it. As much as I'd understand it, I think I'd prefer someone talking to me and saying, “It's this, this and this.”

Student



- 4.34 A few mentioned getting information from the media, such as in newspapers, on television or on the radio, or stated that they would use an advice centre or financial advisor.

Responsibility for providing information

- 4.35 There was a distinct divide in opinion over who should be responsible for providing information on taxation of savings interest. Customer views remained broadly consistent even after the TDSI system was explained in detail to customers in each interview/focus group.
- 4.36 Customers were relatively evenly split between feeling that the banks and building societies *alone* are responsible for providing information and that *both* banks and building societies along with HMRC are responsible. Only a few felt that it was solely the responsibility of HMRC to provide information.
- 4.37 Customers who felt it was the responsibility of banks and building societies alone felt this was the case as financial providers are offering a service, and information provision should be part of that service. It was also felt that they are the ones that are 'looking after' the money and they are the source at which the tax is being deducted.

"The banks are there to provide you with a service, to look after your interests as a customer, to look after your money and make sure you're doing everything legal and by the book – that's why you use a bank and don't put it under your bed. It is down to them – they're making enough money off you so it is their duty to keep you informed."

Tax payer earning between £10,000 and £15,600

- 4.38 Customers who felt it was solely the responsibility of HMRC stated that this was purely because they run the tax system and that is where the tax is going.

"HMRC, they are structuring it and saying 'this is what we need off you.'"

Pensioner

- 4.39 Where it was felt that the bank/building societies and HMRC are collectively responsible for providing information, it was argued that the banks are those that are providing a service and information should be a part of this service, but that HMRC is ultimately responsible for ensuring the system works, and for providing transparent and consistent information for the banks to provide to customers. Therefore, it was felt that HMRC have to ensure that the system is understood.

"I would expect a leaflet to come through the post as well but to have the HMRC logo so you know it's real, that it's kosher and everything...that tells me that the bank or building society has had a conversation that they're working together."

Higher rate tax payer

- 4.40 Almost all customers strongly believed that information should be supplied to them, rather than having to seek it out themselves. Many customers made the point that you need to know what to ask for before being able to find out information about it. However (as discussed in Chapter 6) there were mixed views on whether personal communication would actually spur them to declare and pay.



- 4.41 Only a couple of customers (both pensioners) felt it was entirely the responsibility of individuals alone to find out about taxation of savings interest.

“If I say the building society it’s passing the buck really. They’re just minding my money so it’s not up to them to tell me to follow the law, I should do it myself.”

Pensioner



5 Experiences of lower earners

Awareness and sources of information⁵

Awareness of the R85 form

- 5.1 Some customers in the group eligible to receive savings interest without tax deducted were not aware of the R85 form, and were also unaware that they may be paying more tax on their savings interest than was due.⁶
- 5.2 Very few customers across the depth interviews could recall having heard of the R85 form, but most of those that had heard of it had completed it. There was a slightly higher level of awareness in the focus groups (particularly among pensioners), and again almost all that were aware had completed the R85 form. The small number of customers who had heard of the form but not completed it stated that they felt the amount they would save by doing so was too insignificant to make it worthwhile.
- 5.3 Customers who had completed the form stated that they got the information about the R85 form from their bank or the post office. Some had completed it in the bank branch, while others had completed it online.

Experiences of completing the R85 form

- 5.4 Of people who had completed the R85 form, most were not actually aware of how much tax they would save by doing so, but a key reason for completing the form was the principle that they should not overpay tax.
- 5.5 There were several triggers given by customers that influenced them to complete the R85 form:

- Some customers completed this form on behalf of children for a children's savings account, and were driven by the desire to ensure their children were getting all they could.

*"Because I wanted my money! Or rather, my kids wanted their money...
What's mine is mine, what's theirs is theirs."*

Pensioner

- Some mentioned wanting to maximise savings as much as possible;

"I don't want to pay tax unnecessarily."

Pensioner

- Some had been notified of the R85 on opening their account; and

"He gave me that information. It was just when I opened my account, he gave me a bit of information."

Lower earner with income of less than £10,000

⁵ Discussions on awareness were initially unprompted; however participants were then given a show card with details of the TDSI system, including who is eligible to use the R85 and R40 forms and what the purpose of each form is, to ensure that any lack of awareness was not simply due to unfamiliarity with the 'R85' or 'R40' titles. These are included in the appendix

⁶ It is possible that some people had completed in the past without realising it when opening savings accounts.



- For others a change in circumstance (e.g. retiring or having a lower income) meant that saving as much money as possible had become important.

“When you go down from a salary and a state pension to just state pension, anything you can save...to be fair, I would anyway because it’s just being sensible isn’t it? It’s like when you go shopping, if I can get the same thing a bit cheaper somewhere else I will do. It’s down to common sense.”

Pensioner

- 5.6 There were no improvements suggested to the design of the R85 form, and all of those that had done so felt it was very straightforward and easy to complete.

Awareness of the R40 form

- 5.7 Awareness of the R40 form was very low (lower than that of the R85 form) among customers. None of the depth interview customers could recall having heard of the R40 form, and only one focus group customer had. However this person had then gone on to find out that they were not eligible to complete it.
- 5.8 Consequently no customers taking part in the research had completed the R40 form. Almost all customers that were eligible to claim tax back were unaware that this was the case.

Impact on future behaviour

- 5.9 Once customers in both lower income groups (those eligible to pay less tax and those eligible to pay no tax) were aware of the R85 and R40 forms, the impact on their reported future behaviour (i.e. what they said they would be likely to do in future) was the same for both types of customer.
- 5.10 Almost all customers strongly felt that people should be better informed about the system.

“Obviously you need to know what the rates are and how the tax is going to affect you. I mean, there would be no point, I suppose, opening an account that doesn’t benefit you.”

Tax payer earning between £10,000 and £15,600

- 5.11 Some customers stated that they would now be likely to complete the relevant form in order that they do not overpay tax on their savings interest.

“The earnings that you get from savings accounts are so low anyway, I wouldn’t want them to be taxed if I wasn’t liable. Like, I would want to get as much money from my savings as I could.”

Lower earner with income of less than £10,000

- 5.12 The key factor driving the future behaviour of completing either the R85 or R40 form was the principle of ensuring they are not paying more tax on savings interest than is due.

“It’s the principle, yes, it’s not the price.”

Tax payer earning between £10,000 and £15,600

- 5.13 Other factors that would influence customers to complete the R85 or R40 form in the future included the need to maximise finances especially as they were earning a low income, having



a form that would be easy to complete and specifically only having to complete the form on one occasion (for the R85).

- 5.14 Reasons given for why customers may not complete the relevant forms in the future were lack of awareness, or if they were aware that the amount of money saved would not be worthwhile.

“If it were a couple of quid and a long form, I think I would probably be, “I can’t be bothered, if I’m honest...”

Student

Impact of the amount of money involved

- 5.15 While most customers on lower incomes initially said they were likely to take action, subsequent discussions in the focus groups suggested the amount of tax at stake would have an influence on some people, with a particular ‘tipping point’ that would make the sum involved significant enough to lead them to claim⁷. Only a few customers felt they would claim for an amount that was less than £10, whereas almost all said they would claim for anything above that.

“For £50, definitely, yes. You can buy with £50, a week’s shopping for me.”

Lower earner with income of less than £10,000

What could encourage the ‘correct’ behaviour and improve communication messages?⁸

- 5.16 All customers felt that low income earners would be interested to know if they are paying more tax on their savings interest than is due.

“Your income wouldn’t be that great, so you would certainly be wanting to know what’s happening to every penny that’s supposedly coming in and what you are due.”

Pensioner

Actions for HMRC

- 5.17 There were various suggestions for how HMRC could raise awareness and provide information to potentially eligible people on lower incomes. One suggestion was an awareness raising campaign from HMRC which could be on television, in newspapers, on the radio and across social media.

“To reach everybody they are going to have to go to an advertising campaign. Slotting an ad in between Coronation Street will catch a lot more people than a newspaper.”

Pensioner

⁷ NB: From the contextual information provided in warm up discussions most people in the low income focus groups had £10 of tax which could be claimed back / or paid without tax deducted. This lack of significant savings was more of a driver than low interest rates.

⁸ Both higher and lower income customers were asked for their views on this. Findings are a combination of these views, however views of both groups were very similar (e.g. there are no suggestions that higher income customers had for lower income tax payers that were not also mentioned by lower income customers themselves).



- 5.18 Other customers suggested that relevant information could be provided on the HMRC website and gov.uk, but that it must be easy to read.
- 5.19 Some customers suggested that communication should be more tailored and personalised, with suggestions for personalised letters to those that are eligible or a means by which eligible customers could have a more personal and tailored discussion about their circumstances with HMRC.

“A personal letter will have to go out. Some people might not understand what this means to them. Some won’t be able to fill in forms. So there will need to be an advice number as well to give help – further information or help with form filling.”

Pensioner

- 5.20 There was a suggestion that it is important to inform people that they might be paying more tax on their savings interest than is due when they reach retirement age or have a change in circumstances. Customers suggested this could be provided along with information about an individual’s tax code, provided by employers, or included in information distributed to those approaching the State Pension age.

Actions for banks/building societies

- 5.21 It was felt account providers also have a key role to play in disseminating information. Customers highlighted the importance of prominent information, both in bank/building society branches and on their websites. They also suggested that similar information could be provided in post offices, job centres and similar locations.

“A user-friendly type of web page with just the basic information, what you need to know, and help to fill the forms in so they are there to help you with everything.”

Tax payer earning between £10,000 and £15,600

- 5.22 Suggestions were also made by customers that information could also be provided when new accounts are opened by individuals and when there are changes in aspects of people’s account, for example, when upgrading from a student account.
- 5.23 Some customers also felt that banks/building societies should tailor information, either by sending a letter or including this information in bank statements (both online and paper versions).
- 5.24 There was recognition that banks and building societies probably provide this information in the ‘small print’ when a new account is opened, however no customers reported having looked at this information in regard to taxation of savings interest. Some customers suggested that this information should be made more prominent.



Communication messages and expectations

5.25 Customers had a number of suggestions for communication, including:

- Keeping information simple;
- Using clear language;
- Avoiding the use of lots of facts and figures; and
- Using images and keeping text/small print to a minimum.

5.26 Some customers also suggested that case study examples and examples in monetary figures rather than percentage terms could be useful.

“It sounds childlike, but that’s what most people want. They don’t want percentages of this or that where you are there trying to work out what that is in real terms.”

Tax payer earning between £10,000 and £15,600

5.27 In terms of the R85 and R40 forms themselves, customers suggested that they should be available from both banks/building societies and HMRC, in both online and in paper format. They also suggested there should be straightforward guides that are easy to follow for completing the forms, and some suggested that it could be useful if some of the form could be pre-populated. It is worth noting that these were the views of customers that had not completed the forms. Those that had completed a form (only the R85 had been completed by any customers) reported that it was easy to use.

5.28 Some customers noted that HMRC has quite a negative image, and is perceived as the body that tries to take money rather than give money back. Consequently they felt there would be a communication challenge for HMRC around informing people that they were trying to help people get money back, or not have to pay tax where it is not due.

5.29 Several participants suggested that a simple catch phrase could help. Some suggestions given in the focus groups are given below.

“We’re trying to give you some money back”

“You may have overpaid – here’s the way to get it back”

“Get something back”

Various lower income tax payers from focus groups



6 Experiences of higher rate tax payers

Awareness and sources of information

- 6.1 Awareness among higher rate tax payers of the requirement to declare and pay additional tax on savings interest, following the initial deduction of 20% under TDSI, was very low. Customers that were unaware were generally surprised and shocked that they did not know that this tax was due.

"I'm actually almost surprised. I don't know what the redress is but, I mean, for me, obviously it's just ignorance. I wasn't aware that that is the case."

Higher rate tax payer

- 6.2 There were a few customers who were aware that tax was due, but of these, none had declared or paid this tax at the time of taking part in the research.

- 6.3 Where higher rate tax payers were aware that tax was due, they had most commonly become aware of this while looking into other tax matters, for example when considering different savings options (e.g. ISAs), when researching whether they needed to complete a Self-Assessment or researching the implications of entering the higher rate tax band. They had generally looked at the details on the HMRC website, or on gov.uk.

"I found out on the gov.uk website. It's on there."

Higher rate tax payer

- 6.4 Some of the higher rate tax payers that were aware that tax was due knew that they ought to contact HMRC about this, suggesting telephone or email as the most likely way to do so.

Motivations for not declaring

- 6.5 However, customers who were aware that tax was due did not see it as their responsibility to let HMRC know about their tax affairs, and believed it was HMRC's responsibility to inform individuals when they owe tax, and to collect it proactively.

"Why should I go out my way to inform them of their job?"

Higher rate tax payer

- 6.6 The decision to not declare tax that was due was also partly driven by the fact that they perceived the amount involved as being very small. Customers felt like it was too 'trivial' an amount for HMRC to be concerned about it, or for it to be important enough for them to declare it.

- 6.7 There was also some concern that contacting HMRC to declare the tax due on savings interest could open up a general investigation into an individual's tax affairs, which they felt could 'open up a can of worms'. This was not necessarily because they had been avoiding paying other tax, but more out of a fear that there could be other areas in which they may be liable to pay more tax that they were currently unaware of.



“That is the problem because you do start talking to them and then all of a sudden there’s company cars and fuel allowances and stuff like that. You think to yourself, ‘Well if I do that, will they look into why I get a fuel allowance and why I’m driving around in a car that’s not in my name, it’s a pool car that nobody else uses,’ and daft things like that.”

Higher rate tax payer

- 6.8 One customer also suggested that they had been put off declaring their savings to HMRC because they anticipated being put on hold for a long time through the call handling centre.

Perceptions of repercussions for not declaring

- 6.9 Customers who were aware that tax was due, but who had not declared or paid this tax, were largely unconcerned about the potential consequences. This was often driven by the perception of the sums involved being relatively trivial.

“HMRC have bigger fish to fry!”

Higher rate tax payer

- 6.10 There was also a feeling that if HMRC were really concerned, it would contact individuals and ‘come after you’. Similarly, were any repercussions or penalties to be introduced, customers often expected that there would be opportunities to settle the matter before these came into play.

“Being honest with you it’s such a small amount and if they come and find me then fine. It’ll probably be, you know, a couple of hundred quid tops.”

Higher rate tax payer

Impact on future behaviour

- 6.11 Most higher rate tax payers who had been unaware that additional tax was due following the initial deduction of 20% under TDSI thought they would still be unlikely to declare and pay this tax in the future. A variety of reasons were given for this. Most customers felt that unless HMRC had specifically informed them that tax is due, they would feel little/no personal responsibility to declare and pay the tax – despite the legally being obliged to do so.

- 6.12 Some customers felt that there was ‘safety in numbers’ as there must be lots of higher rate tax payers who were unaware that they owed tax on their savings interest. They felt that they would be able to ‘claim ignorance’, unless HMRC contacted them specifically.

“If I hadn’t been fully made aware of it, I’d probably feel like I don’t have to do it.”

Higher rate tax payer

- 6.13 There was also a belief that the cost to HMRC of enforcing payment would outweigh the tax collected, therefore there was a view that HMRC would be unlikely to chase tax that was due. This led some customers to feel that it was not worth their hassle to declare it.

- 6.14 There were some customers who stated that they would not pay on principle, as they felt HMRC does not do enough to target the ‘real’ tax avoiders (typically this referred to certain companies perceived to be avoiding corporation tax), and others felt that would be ‘taxed twice’ by being



taxed on interest payments on sums which had already been taxed as earnings (in both high and low income groups). This point further illustrates how there was a perception among many customers taking part in the research that interest on savings is not an income – in the same way as salaries or other sources of income (e.g. property rental income).

- 6.15 That said, a few customers said they would now declare and pay all of the tax that is due on their savings interest, as they were concerned about getting caught out, feared that it would catch up with them eventually and were worried that they could end up with a large bill. A couple of customers felt it was just the ‘right thing to do’.

“If you've got pay it, you've got to pay it, haven't you? I mean, at the end of the day, you know, you don't want to get in trouble with the Inland Revenue.”

Higher rate tax payer

“I would actually just go back and say there's the money and please forgive me, sort of thing.”

Higher rate tax payer

Impact of the amount of money involved

- 6.16 Across the two focus groups with higher rate tax payers, an exercise was held to explore whether there was a ‘tipping point’ amount at which people would become likely to declare and pay the tax that is due. Views differed quite significantly between the two focus groups.

- 6.17 In the first group most customers stated that they would pay for any sum up to £2000, but at that point they became more hesitant, as they were concerned about being able to pay such a large or ‘daunting’ sum. Factors influencing this likely behaviour included being concerned that it would catch up with them and some sense of it being the ‘right thing to do’.

“I would have to contemplate really hard on that one because if the figure does go up quite substantially and it's like £2,000, yes I do know that I have to pay that but come on, £2,000 - that's a lot of money.”

Higher rate tax payer

- 6.18 This contrasted to the second focus group, where most customers said they *would not* declare and pay anything owed to HMRC that was less than £5000. This group of customers were generally not concerned about the repercussions unless the sum involved became more significant. Also, they did not see it as their responsibility to declare and still viewed the amount of tax owed as ‘trivial’.

“If it [tax owed] was less than £5,000 for me, I wouldn't be too concerned. If it started hitting £5,000 I think I'd be worried. If it's between £5,000 and £10,000 I would be.”

Higher rate tax payer



What could encourage the 'correct' behaviour and improve communication messages?⁹

Actions for HMRC

- 6.19 Many customers were unaware of their responsibility to ensure that they pay the right amount of tax on their savings interest. In this context there was a general consensus that HMRC should primarily be responsible for ensuring individuals declare and pay the right amount of tax on their savings interest, but consistency of messaging from HMRC and banks/building societies was stressed as important.
- 6.20 Some customers suggested that a general awareness raising campaign, similar to the Self-Assessment campaign, would be useful, with televisions, newspapers, radio and social media suggested as suitable methods.

"Nowadays, everybody's glued to their telly of an evening aren't they? So a quick TV advertisement."

Student

- 6.21 Other customers felt a more personalised approach should be taken, with communication from HMRC in the form of letters or an email. Some thought that all higher rate tax payers should be written to informing them that tax may be due. Another suggestion was that a tailored warning could be included with higher rate tax payers' P60s to inform them that tax may be due on their savings interest.

"I definitely think when people are hitting this bracket some kind of information needs to be sent out. Could they not know that when they do your P60? Surely most people who earn that money put savings away? If they put an awareness information leaflet in because you do read that as well. "

Higher rate tax payer

Actions for the banks/building societies

- 6.22 Customers also felt that banks could play an important role in communication, though they recognised that it may not be in their interest to do so, as customers may wish to move their investments to an ISA once they realise they are liable to pay tax on savings interest from other accounts.
- 6.23 Suggestions for actions that banks/building societies could take included:
- Writing to customers who owe tax on their savings interest (some customers had made the assumption that HMRC could notify the banks of which customers had income taxable at the higher rate of tax);
 - Putting information about liability on online account portals;
 - Standardising information that is given to customers; and
 - Providing information on liability to all new customers/when opening a new account.

⁹ Both higher and lower income customers were asked for their views on this. Findings are a combination of these views, however views of both groups were very similar (e.g. there are no suggestions that lower income customers had for higher income tax payers that were not also mentioned by higher income customers themselves).



6.24 Customers were asked whether they would have any concerns about banks/building societies holding details of individual's tax affairs/total income. Generally customers seemed comfortable with this idea (in fact some thought they already did), as they felt their bank already had sensitive financial information about them. There were a few customers that did have reservations about this, as they had a general distrust of banks (only banks were specifically mentioned, rather than building societies – it is not possible to say whether they were considered in the same way).

Actions for employers

6.25 There was also some suggestions that employers could take a proactive role in informing individuals that tax may be due on their savings interest if they pay higher rate tax on their earnings especially when an employee initially enters the higher rate tax band.

Role of sanctions

6.26 Customers were asked whether and when they felt sanctions should be introduced, in order to encourage those liable to declare and pay any tax on savings interest.

6.27 Some customers felt there should be some sort of 'amnesty' or 'grace period' given that there is currently a lack of awareness about how savings are taxed.

"They shouldn't be threatening but should have more information, and say it will cost people money if they don't do it."

Pensioner

"Scare tactics are your best bet. 'You're going to end up in prison, you're going to end up with a record.'"

Higher rate tax payer

6.28 It was also suggested that the idea of 'declaring' sounds onerous and different language may encourage more people to declare.

Types of communication

6.29 There was a high level of consensus that there should be both general and targeted awareness raising amongst those that may owe tax on their savings interest. There was an acknowledgement that this information must be 'out there' (e.g. on gov.uk), but customers felt that it needs to be communicated more proactively.

6.30 Generally customers felt that HMRC should take a more personal/approachable stance in the first instance but they then felt it was reasonable for HMRC to escalate the process and use more threatening communication following this, with a more serious warning outlining the consequences, then further communication stating that HMRC is now taking action to collect the tax that is due.

"Maybe to begin with you do it all the same to everyone and then 6 months to a year down the line after a huge publicity campaign when people can't pretend that they haven't heard or seen it, then it becomes a different matter and the publicity might be different but still targeted at everyone."

Higher rate tax payer



Appendix 1 – Case studies

R85 Experiences

Completed R85 form

- Pensioner
- Retired in July 2013
- Has a general interest in financial issues and believes it is very important to know details about taxation on savings as it is your money
- Completed the R85 form as a response to change in circumstance (retiring)
- States that their motivation was a pragmatic desire to save money where possible
- Did the research themselves
- Obtained the R85 form from the bank who completed it with them, described as a simple and straightforward to complete

Originally unaware but would now complete the form

- Tax payer with an income of less than £10,000
- Was not aware that interest on income was taxed but once they did realise thought they could potentially be eligible to claim
- Would definitely complete the R85 form now aware that they are eligible.
- Nothing in particular that could encourage them to do it, as it is a matter of principle
- Would not be influenced by amount of money
- Ideally it would be a form you could submit online
- Letters, social media or newspapers would be good way to make people aware

Originally unaware and would still not complete the form

- Pensioner
- No awareness or interest in interest on savings accounts or the tax they may be liable for on their accounts
- However, once informed about the R85 and being liable to claim back tax, they stated that they would not complete the form because it is not enough money to be worth bothering with
- Would only really be encouraged to do it if it became the law

R40 Experiences

Originally unaware but would now complete the form

- Tax payer with an income of between £10,000 and £15,600
- Not that interested or aware of the interest they receive on their savings accounts but did have a reasonable understanding of tax on savings interest and that it varies depending on income
- Stated that they were fairly aware of the different groups eligible for different tax but did not know anything about the forms you can fill in
- Once informed, stated they would be very likely to complete the R40 form
- Just being aware of the form has influenced the respondent to look into it
- If their husband encouraged this, it would further influence respondent to complete the form
- Realise it would probably be an insignificant amount but 'every little helps'
- Felt this information should be provided when you open an account

Originally unaware and would still not complete the form

- Tax payer with an income of between £10,000 and £15,600
- Had no awareness or interest in the interest they receive on their savings accounts and no awareness of tax on savings interest, and did not realise that it was taxed
- Did not realise they were eligible to claim back some of the tax, and had not heard of the R40 form
- Once informed about the R40 form, stated that she would need more information and to have a greater understanding before completing the R40 form
- Would probably only claim it back if it was a more significant amount of money
- Brother is an accountant so he might encourage filling in the form
- Should be able to download the form from the internet or have it posted



Higher rate tax payers – declaring to HMRC

Aware but not declared/paid*	Originally unaware but would now declare/pay	Originally unaware and would still not declare/pay
<ul style="list-style-type: none"> • Some respondents in the Manchester higher rate tax payer focus group • Had no declared despite knowing they were liable – felt they ‘should not have to do HMRC’s job for them’ • There was also a worry that once they do get in contact with HMRC it could ‘open up a can of worms’ • Felt it was said to be such a tiny amount of money in extra tax that it was not important to declare • Generally they stated that their savings would have to be into six figures for them to declare 	<ul style="list-style-type: none"> • Fairly well informed about the interest they receive on their savings • Aware that savings interest is taxed but did not think or like to think that it varies by income, just thought it was a flat rate • Feels that the middle band of tax payers (additional rate) are constantly ‘getting hit’ • Probably wouldn’t declare it and pay it if they knew they could get away with it • But would declare due to fear of it catching up with them and getting a large (historic) bill • Felt the liability to declare should be made really obvious by banks, or that tax should be deducted at source 	<ul style="list-style-type: none"> • Not at all aware of the interest they receive on their savings, and dip in and out of savings account so would be hard to keep track of • Did not realise interest on savings was taxed and that they were liable to declare and pay the higher rate of tax • Felt able to ‘claim ignorance’ as they did not know about it • As they have not been specifically told about it, feel they don’t need to declare or pay, especially as they do not have a significant amount of savings • Currently very unlikely to declare • Would be more likely to declare and pay if they got a personalised letter or email

** NB: This is not one single case study – rather a common response that emerged among one of the focus groups with higher rate tax payers*



Appendix 2 – Discussion Guide

HMRC TDSI GROUP Discussion Guide

Introduction (10 mins)

- **Introduce self**

- **Introduce IFF Research and work we are conducting for HMRC**
 - Thank you for agreeing to take part in this valuable piece of research.
 - The focus group will take about 90 minutes.

- **Confidentiality**
 - All the information we collect will be kept in the strictest confidence and used for research purposes only.
 - We will not pass any of your details on to any other companies. It will not be possible to identify any individual or individual company in the results that we report to HMRC and the answers you give will not be traced back to you.

- **Recording**
 - Permission to record
 - At the end we will ask if you are happy to have an anonymised version of this transcript provided to HMRC – no obligation to agree, absolutely up to you.

- **Subject**
 - Today's discussion will focus on the awareness and understandings of taxation on savings interest, specifically people's experiences of saving money in regular bank and building society deposit accounts.
 - HMRC are seeking to understand how much people know about how their account functions, particularly in terms of the interest paid.

ASK:

- **Customers' to introduce themselves**
 - Adapt depending on whether student/currently working or pensioner
 - Name
 - Where they study/work/what they did prior to retirement
 - Whether they save into a bank or building society/previously saved into a bank or building society
 - Whether they have set up any bank/building society accounts for their children?
 - What bank or building society savings accounts do they have?



Awareness and understanding of savings interest (10 mins)

- **How much do you know about the interest you receive on savings you have in a bank or building society savings account(s)?**
 - *Do you know how much interest you receive in percentage terms?*
 - *Roughly how much interest do you receive in monetary terms?*
 - *How often is your interest paid?*

 - *Do you check the amount of interest you have been paid? How often?*
 - *Do you check it against the percentage you are supposed to receive?*

- **How much do you know about the tax that may be payable on interest you receive in this account?**
 - *Do you know it is taxed at all?*
 - *Do you know what rates it is taxed at?*
 - *Do you know how this differs depending on income?*
 - *If yes, what is their understanding of this?*
 - *If no, would you expect everyone to pay the same tax, or different amounts? Why?*

- **How would you expect this tax to be collected?**
 - *By who / when?*

- **How important is it to know whether/how you are taxed on interest from savings accounts?**
 - *Have you sought out this information?*
 - *Do you think it is helpful to know this information?*
 - *Why would you say this?*
 - *Does it depend on the amount of interest?*
 - *Or are you just not interested?*
 - *How interested are you in this information?*

- **How much do you understand by the terms “gross” and “net” in relation to interest paid?**
 - *In relation to other financial incomes – for example salary?*

- **Have you ever filled out forms related to savings and tax for HMRC or your bank or building society?**
 - *What kind of forms?*

- **Have you ever been in touch with HMRC about savings?**
 - *When?*
 - *Why?*



Sources of information on savings/tax issues (10 mins)

- **Where would you look for information or guidance about savings and tax issues generally?**

USE FLIP CHART – WARM UP GROUP

PROBE FOR:

- GOV.UK
 - HMRC website
 - Independent website (e.g. Money Saving Expert)
 - Bank or building society website
 - Calling HMRC
 - Calling bank or building society
 - Accountant or tax advisor
 - Advice centre (e.g. CAB, Money Advice Service)
 - Friend/family
 - Other (specify)
- Have you ever looked for information from any of these sources?
 - How useful was this source for advice? Why?

- **Where would you expect to be able to find information about the tax you have to pay on any savings in a bank or building society account?**

PROBE FOR:

- GOV.UK
 - HMRC website
 - Independent website (e.g. Money Saving Expert)
 - Bank or building society website
 - Calling HMRC
 - Calling bank or building society
 - Accountant or tax advisor
 - Advice centre (e.g. CAB, Money Advice Service)
 - Friend/family
 - Other (specify)
- Have you ever looked for information from any of these sources on the tax you have to pay on any savings in a bank or building society account?
 - How useful was this source for advice? Why?

- **Who would you say is responsible for providing information about the tax you are liable to pay on savings in a bank or building society account?**

PROBE FOR:

- HMRC
 - Bank or building society
- Should you have to ask for this, or should it be supplied to you?
 - To what extent should people be responsible for finding this information out themselves?

- **What would be the best way to let people know about the tax they are eligible to pay on savings in a bank or building society account?**

- Why would you say this?
- How often should people be informed about what they are liable for?

PROBE FOR:

- Annually?



- *When their eligibility changes (e.g. income means they are in higher/lower tax band)*

Experiences of participants (30 mins)

GIVE BRIEF OVERVIEW OF TDSI AND THE THREE GROUPS USING SHOWCARD

Since 6 April 1991 people with a bank or building society savings account who are UK taxpayers are taxed on the interest that they receive on their deposits. This interest is known as “savings income”.

From 6 April 2008 the tax has been deducted at the basic rate of tax – currently 20% - automatically by financial providers (banks and building societies). This scheme is known as the Tax Deduction Scheme for Interest (TDSI).

It should be noted, the TDSI only applies to deposit savings accounts and not to Individual Savings Accounts (ISAs) and many National Savings and Investments products, e.g. savings certificates or Premium Bonds which are generally tax free.

For the majority of UK tax payers who are on the basic rate of income tax, the fact the TDSI is automatically administered by banks/building societies means they do not have to take any action (i.e. their savings income is taxed at the basic rate of 20%).

However – this is clearly not the case for everybody and depending on individual circumstances people may be:

Able to get their interest paid tax-free (gross interest);

- Individuals who do not pay tax – i.e. their income is below the Personal Allowance (currently £10,000) are not required to pay tax on savings interest. In order to ensure they are not taxed they need to register their accounts with their bank or building society so interest can be paid gross. To do this they must complete an HMRC **R85 form**.
- This can be done online, by telephone, in a branch, or by posting a completed HMRC R85 form to the relevant bank/building society.

Able to claim some tax paid on their interest back;

- Individuals whose taxable income is between the Personal Allowance threshold of £10,000 and £13,540 (not including savings interest) may only have to pay savings tax at a reduced rate of 10%.
- Individuals with some interest within the personal allowance, and some that is taxable (e.g. earnings of £9,900 are within the Personal Allowance threshold of £10,000, but interest of £150 takes them beyond this limit by £50).
- The overpaid tax can be claimed back from HMRC by completing and submitting an **R40 form** to HMRC to reclaim their overpaid tax.

Liable for additional income tax.

- Individuals who are higher/additional rate tax payers (most people start paying higher rate tax – 40% - on income over £41,865) are required to declare and pay additional tax on their savings interest to HMRC.
- **How aware are they of the rules for people in each of these circumstances?**



THOSE THAT MAY BE ABLE TO GET THEIR INTEREST PAID TAX FREE (GROSS INTEREST) BY COMPLETING THE R85 FORM

- Have you ever **heard** of the form you can fill in to get your savings interest without tax taken off (sometimes known as an R85 form)?

IF THEY HAVE HEARD OF THE R85 FORM

- How did you hear about it?
- When did you hear about it?
- Did you find out more information about it?
 - From where/why?
- Have you ever **completed** the R85 form?

IF THEY HAVE COMPLETED THE R85 FORM

- When did you actually complete the form?
- Why did you decide to complete it?
- What triggered you to complete the form?
- Did anything/anyone in particular encourage you to claim?
- Did you know how much tax you would be able to legitimately avoid paying by completing the form? Did this influence your decision?
 - How much was it?
 - Did this feel like a significant sum of money?
- Where did you get the form from?
- How was the experience of completing the form?
- Were there any problems or barriers when doing this?
 - If yes, what were these?
 - How were they overcome?
- Could anything have been improved about the process?
 - If yes, what?

IF THEY HAVE NOT COMPLETED THE R85 FORM

- Why did you not complete the form to ensure you do not have to pay tax on your savings?
 - PROBE FOR:
 - Was not sure where/how to get the form
 - Lack of information about how to complete the form
 - Did not understand the form when I got it
 - Did not think the amount I would save was worth the effort
 - Just too busy to complete the form
 - Did not think it applied to me
 - Other reason(s)
- Were there any particular barriers that prevented you from completing the form?
- Would knowing how much tax you could legitimately avoid paying by completing the form influence your decision?
 - Does this depend on how much you would save?
 - What sum of money would make it worthwhile?



IF THEY HAVE NOT HEARD OF THE R85 FORM

Interviewer/moderator to repeat explanation of circumstances under which they may be eligible to register their accounts with their bank or building society so interest can be paid gross, to check that participant has definitely not heard of this form [may wish to have example form available].

- If participant has actually completed one, ask section above.
- **Before today were you aware that you may be paying more tax than you are liable for on the interest from any savings you have in a bank or building society?**

If they were aware (but did not know about the R85 form):

- *Where did you get this information?*
- *Were you aware that it may be possible not to pay this tax?*
- *Had you considered looking into how to do this?*
- *Were there any barriers to doing so?*

- *What would impact your decision to register your account(s) with your bank or building society so interest can be paid gross?*
- *Are you clear on what it means to be paid 'gross'?*
 - *What is your understanding of what this means?*
 - *Is there a simpler way this could be explained to people? If so in what way?*

Ask whether aware or not:

- *Now that you are aware of the R85 form, how likely are you to register your account(s) with your bank or building society so interest can be paid gross?*
- *What would influence this decision?*
- *Does the amount of money you may save in tax influence how likely you would be to do this? In what way?*
- *Is there anything/anyone that would encourage you to do this?*

- *What would be the best way to provide information about this to people who may be eligible?*
- *Where do you think you should be able to get the R85 form from?*
- *What would make it easy to complete and submit?*

THOSE THAT MAY BE ABLE TO CLAIM BACK OVERPAID TAX ON INTEREST BY COMPLETING THE R40 FORM, AS THEY ONLY HAVE TO PAY TAX ON SAVINGS AT A REDUCED RATE OF 10%

- Have you ever heard of the form you can fill in to reclaim overpaid tax on the interest from savings from HMRC (sometimes known as an R40 form)?

IF THEY HAVE HEARD OF THE R40 FORM

- **How did you hear about it?**
- **When did you hear about it?**
- **Did you find out more information about it?**
 - From where/why?

- Have you ever completed the R40 form?

IF THEY HAVE COMPLETED THE R40 FORM

- **When did you actually complete the form?**



- **Why did you decide to complete it?**
- **What triggered you to complete the form?**
- **Did anything/anyone in particular encourage you to claim?**
- **Did you know how much you would be entitled to by completing the form? Did this influence your decision?**
 - *How much was it?*
 - *Did this feel like a significant sum of money?*

- **Where did you get the form from?**
- **How was the experience of completing the form?**
- **Were there any problems or barriers when doing this?**
 - *If yes, what were these?*
 - *How were they overcome?*
- **Could anything have been improved about the process?**
 - *If yes, what?*

IF THEY HAVE NOT COMPLETED THE R40 FORM

- **Why did you decide not to complete the form to claim back some of the tax you had previously paid but were not liable for?**

PROBE FOR:

 - *Was not sure where/how to get the form*
 - *Lack of information about how to complete the form*
 - *Did not understand the form when I got it*
 - *Was not sure how much I would actually get back (so not sure it was worth it)*
 - *Did not think the amount I would save was worth the effort*
 - *Just too busy to complete the form*
 - *Did not think it applied to me*
 - *Other reason(s)*

- **Were there any particular barriers that prevented you from completing the form?**
- **Would knowing how much you would have reduced the tax paid have been likely influence your decision?**
 - *Does this depend on how much you would save?*
 - *What sum of money would make it worthwhile?*

IF THEY HAVE NOT HEARD OF THE R40 FORM

Interviewer/moderator to repeat explanation of circumstances under which they may be eligible to claim back overpaid interest by completing the R40 form, as they are only liable to pay tax on savings at a reduced rate of 10%, to check that participant has definitely not heard of this form [may wish to have example form available].

➤ If participant has actually completed one, ask section above.

- **Before today were you aware that you may be paying more tax than you are liable for on the interest from any savings you have in a bank or building society?**

If they were aware (but did not know about the R40 form):

- *Where did you get this information?*
- *Were you aware that you had a right to reclaim overpaid tax on the interest from any savings you have in a bank or building society?*
- *Had you considered looking into how to do this?*
- *Were there any barriers to doing so?*

- *What impacted your decision not to claim back overpaid interest?*



- Now that you are aware of the R40 form, how likely are you to claim back overpaid interest?
- What would influence this decision?
- Does the amount of money you may save in tax influence how likely you would be to do this? In what way?
- Is there anything/anyone that would encourage you to do this?

Ask whether aware or not:

- Now that you are aware of this, how likely are you to claim back overpaid interest?
- What would influence this decision?
- Does the amount of money you may save in tax influence how likely you would be to do this? In what way?
- Is there anything/anyone that would encourage you to do this?

- What would be the best way to provide information about this to people who may be eligible?
- Where do you think you should be able to get the R40 form from?
- What would make it easy to complete and submit?

TIPPING POINT EXERCISE:

Fred has an income of £8,000 p.a.

He has savings of £1,000 which pays an annual interest of 1% - i.e. £10 gross interest this year.

He is unaware of the TDSI and therefore he is unknowingly having 20% of his interest automatically taxed this year (£2) – meaning he receives a net interest of £8 at the end of the year.

If you were in Fred's position and saw a poster explaining how savings income is taxed how likely would you be to:

- Complete an R85 form to ensure no further tax is deducted in future?
- Complete an R40 form to claim back any tax you might be entitled to?

MODERATOR:

Hand out the two forms – probe as to reasons why/why not?

Would it make a difference as to how you were informed about how tax on interest is calculated?

- How about if the amount of tax deducted was higher...?
 - £5?
 - £10?
 - £25?
 - £50?
 - £100?



- **How about if the amount of tax which could be claimed back historically was higher...?**
 - £5?
 - £10?
 - £25?
 - £50?
 - £100?

- **How about if Fred had to pay tax at the 10% rate and was entitled to claim some tax back...?**
 - £5?
 - £10?
 - £25?
 - £50?
 - £100?

THOSE THAT MAY BE LIABLE FOR ADDITIONAL INCOME TAX BECAUSE THEY ARE HIGHER/ADDITIONAL RATE TAX PAYERS (HAVE AN INCOME OVER £41,865)

- **Are you aware that individuals who are higher/additional rate tax payers (most people start paying higher rate tax – 40% - on income over £41,865) are required to declare and pay additional tax on their savings interest to HMRC?**

IF THEY ARE AWARE OF THIS

- **How did you become aware of this?**
 - PROBE FOR:
 - *From bank or building society*
 - *Through employer*
 - *HMRC*
 - *Friends/family or colleagues*
 - *Accountant or tax advisor*
 - *Independent website (e.g. Money Saving Expert)*
 - *Advice centre (e.g. CAB, Money Advice Service)*
 - *Other*

- **Can you say when you first became aware of this?**
 - PROBE FOR:
 - *Whether linked to entering this tax band or not*

- **Did you seek to find out more information about this? Why? Why not?**

- **Have you ever declared that you might be liable to pay additional tax on your savings interest to HMRC?**

Interviewer note: Add reassurances that there are many reasons people may have/not have declared, reassure them again about confidentiality and anonymity, and ask them to be as honest as possible...

IF THEY HAVE DECLARED THAT THEY ARE LIABLE

- **When did you declare this?**
- **Why did you decide to declare this when you did?**
- **Did anything/anyone in particular encourage you to declare?**



- **What repercussions, if any, did you think would be likely if you did not notify HMRC and pay your additional tax?**
 - *What did you think the repercussions could be?*
 - *How did this influence your decision?*
 - *Would your decision have been different if there were different repercussions? In what way?*

- **Did you know how much you would have to pay when you declared? Did this influence your decision?**
 - *How much was it?*
 - *Did this feel like a significant sum of money?*
 - *Would the sum you were liable for influence whether you declared (either because it felt like a trivial sum, or it felt like a significant sum)?*

- **What was the process for declaring and paying this additional tax?**

- **Were there any problems or barriers when doing this?**

- **Could anything have been improved about the process?**
 - *If yes, what?*

- **Is there anything that would have discouraged you from declaring this to HMRC?**

- **Are there any actions that HMRC could take to try to ensure more people declare and pay additional tax where they are liable for this?**

IF THEY HAVE NOT DECLARED THAT THEY ARE LIABLE

- **Were you aware that you might be liable to pay additional tax on your savings interest?**

- **What influenced your decision not to inform HMRC?**

Interviewer note: Add reassurances that there are many reasons people may not have declared, reassure them again about confidentiality and anonymity, and ask them to be as honest as possible...

PROBE FOR:

- *Was not clear that I was liable for additional tax on my savings*
 - *Was not sure how to tell HMRC about this*
 - *Lack of information about how to complete the form*
 - *Did not understand the form when I got it*
 - *Was not sure how much I would actually be liable for*
 - *Thought the amount was too trivial to be worth declaring*
 - *Thought the amount may be significant so was worried about having to pay*
 - *Disagreed with the principle of paying it*
 - *Just too busy to complete the form*
 - *Other reason(s)*
-
- **What repercussions, if any, did you think would be likely if you did not notify HMRC and pay your additional tax?**
 - *What did you think the repercussions could be?*
 - *How did this influence your decision?*
 - *Would your decision have been different if there were different repercussions? In what way?*

 - **Is there anything that would have encouraged you to declare this to HMRC?**



ASK ALL THAT ARE AWARE (WHETHER THEY HAVE DECLARED OR NOT)

- **Who do you think is responsible for informing HMRC if you are liable to pay additional tax on your savings interest?**
 - *Why do you think this?*
- **What would be likely to encourage more people to inform HMRC?**
- **What would be likely to discourage people?**
- **Are there any actions that HMRC could take to try to ensure more people declare and pay additional tax where they are liable for this?**

IF THEY ARE NOT AWARE THAT THEY ARE REQUIRED TO DECLARE AND PAY ADDITIONAL TAX

Interviewer/moderator to repeat explanation of circumstances under which they may be liable to declare and pay additional tax on their savings interest to HMRC, to check that participant has definitely not heard of this.

- If participant actually is aware, ask section above.
 - **Before today what did you know about the tax you are liable to pay on your savings?**
 - *Where did you get this information?*
 - **Now that you are aware of this, how likely are you to declare and pay additional tax on your savings interest to HMRC (if you are liable)?**
 - *What would influence this decision?*
 - *Why might you decide not to do this?*
 - *Does the amount of money you may have to pay influence how likely you would be to do this? In what way?*
 - *Is there anything/anyone that would encourage you to do this?*
 - **What would be the best way to provide information about this to people who may be liable?**
 - **Where should this information be available?**
 - **What would make it easy for people to declare and pay additional tax on their savings interest to HMRC?**
 - **Are there any actions that HMRC could take to try to ensure more people declare and pay additional tax where they are liable for this?**



TIPPING POINT EXERCISE:

Susan has an income of £45,000 p.a.

She has savings of £1,000 which pays an annual interest of 1% - i.e. £10 gross interest this year.

She is unaware that she needs to inform HMRC that she is on a higher rate of tax and her savings are currently taxed at 20% through TDSI automatically. This means she automatically pays £2 and receives a net interest of £8 at the end of the year.

However – as her interest should be taxed at 40% she should be paying £4 per year in interest and should only receive a net interest of £6.

If you were in Susan's position and saw a poster explaining how savings income was taxed, how likely would you be to inform HMRC about your savings?

MODERATOR:

Would it make a difference as to how you were informed about how tax on interest is calculated?

- How about if the amount of tax owed was higher...?
 - £10?
 - £25?
 - £50?
 - £100?
 - £250?
 - £500?

- How about if the amount of tax owed historically was higher...?
 - £10?
 - £25?
 - £50?
 - £100?
 - £250?
 - £500?



The future... (20 mins)

THIS SECTION IS ASKED OF ALL – PLEASE ASK FOR VIEWS ON EACH TYPE OF TAXPAYER (EVEN IF RESPONDENT NOT IN THAT GROUP)

GIVE BRIEF OVERVIEW OF CHANGES BEING MADE THAT WILL IMPACT ON THOSE LIABLE TO PAY NO TAX ON SAVINGS INTEREST AND THOSE WHO WILL BE ABLE TO CLAIM BACK OVERPAID TAX USING SHOWCARD

While the criteria above have been in place for a relatively long period of time, recent changes¹⁰ to the tax system/tax thresholds mean that more people are likely to be eligible to claim back some of the savings tax they have paid, or be entitled to gross savings interest (therefore paying no tax).

The wider changes in the tax and savings landscape which are likely to affect people include:

- **0% Savings tax rate** – to be introduced in April 2015. The government announced at Budget 2014 that it would abolish the 10% 'starting-rate' of tax for savings income and replace it with a new 0% rate.
- **The amount of savings income that the new 0% rate applies** - this will be increased from £2,880 to £5,000 from April 2015.
- **Changes to Personal Allowance.** Over the past few years there have been substantial increases in the rate of Personal Allowance – from £7,475 in 2011 to £10,000 in 2014. In the Autumn statement of 2014 it was announced the allowance would rise further to £10,600 in April 2015.

In summary, these changes effectively mean that as of April 2015, anyone with a total income of less than £15,600 will not pay any tax on their savings.

The introduction of the 0% savings tax rate also means that the number of people liable to pay tax on some, but not all, of their savings interest will increase.

- **What could a) HMRC and b) banks/building societies do to raise awareness among those that are eligible to pay no tax that this is the case?**
 - *What would help to heighten awareness?*
 - *Where could more information be provided?*
 - *In what format?*
 - *Do you think that people would be interested in this information?*
 - *Why would you say this?*
 - *What would make them more/less interested?*
- **Did you know parents/guardians need to inform banks/building societies if an account is for a child to ensure no tax is deducted from it?**
- **What could/should HMRC try to say to people to encourage them? What communication message(s) would work?**
- **What could/should banks/building societies try to say to customers to encourage them? What communication message(s) would work?**
- **How could HMRC improve the process?**
- **How could banks/building societies improve the process?**

¹⁰ This refers to changes from 6 April 2015 only – and not further changes announced at Budget 2015.



- **What could a) HMRC and b) banks/building societies do to raise awareness among those that are eligible to pay less tax that this is the case?**
 - *What would help to heighten awareness?*
 - *Where could more information be provided?*
 - *In what format?*
 - *Do you think that people would be interested in this information?*
 - *Why would you say this?*
 - *What would make them more/less interested?*
- **What could/should HMRC try to say to people to encourage them? What communication message(s) would work?**
- **What could/should banks/building societies try to say to customers to encourage them? What communication message(s) would work?**
- **How could HMRC improve the process?**
- **How could banks/building societies improve the process?**

GIVE BRIEF OVERVIEW OF CHANGES BEING MADE THAT WILL IMPACT ON THOSE LIABLE TO DECLARE AND PAY TAX AT HIGHER RATE TO HMRC, USING SHOWCARD

Many Higher Rate (HR) taxpayers are unaware that they are required to declare and pay the additional Income Tax on their savings interest to HMRC, as TDSI only automatically deducts tax at 20%.

- **What could a) HMRC and b) banks/building societies do to raise awareness among those that are liable to pay additional tax that this is the case?**
 - *What would help to heighten awareness?*
 - *Where could more information be provided?*
 - *In what format?*
 - *Do you think that people would be interested in this information?*
 - *Why would you say this?*
 - *What would make them more/less interested?*
- **What could a) HMRC and b) banks/building societies do to encourage/ensure those that are liable to pay additional tax declare this and pay the tax they are liable for?**
 - *What would encourage this?*
 - *Why would you say this?*
 - *What would make the process for informing HMRC easy?*
 - *What would encourage people to inform HMRC?*
 - *Why would you say this?*
- **What could/should HMRC try to say to people to encourage them to declare? What communication message(s) would work?**
- **What could/should banks/building societies try to say to customers to encourage them? What communication message(s) would work?**



- **How does this differ for:**
 - *Those that are unaware that they are liable for the higher rate of tax; and*
 - *Those that are aware they are liable, but do not inform HMRC?*

PROBE FOR:

- *Information vs sanctions for not informing/paying HMRC*
- *Ways in which this tax is deducted*
- **Hypothetically - how would you feel if HMRC informed banks/building societies that you were a higher rate tax payer?**
 - How about if banks and HMRC passed information to each other and changed the amount of tax deducted automatically – how would you feel about this process?



Final wrap up (5 mins)

- Check whether there is anything else they'd like to add that hasn't been discussed about TDSI or HMRC?
- And would you be happy for us to pass a transcript of this interview to HMRC, on an anonymised basis, so with any identifiers removed?

Yes	
No	

NOTE TO INTERVIEWER: Please record in the box below any comments customers would like removed from the transcript.

Section or reference point	Text/context:

As a thank you for your time, we are offering £40 as a personal cheque or donation to a charity of your choice. I'll just need to confirm some details:

Personal cheque
 Charity donation

Name of charity _____
(if applicable)

Name on cheque & postal address _____
 For personal cheque _____
(if applicable)

[For depth interviews only] Incentives will be processed at the end of the project – early March.



THANK RESPONDENT AND CLOSE INTERVIEW

I declare that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.			
Interviewer signature:		Date:	
Finish time:	Interview Length	Mins	

