



HM Revenue
& Customs

Research report

Small Business and Choice

A qualitative study to understand views on choice
in the tax system

Business Customer & Strategy

July 2015

Small Business and Choice***About Business Customer and Strategy (BC&S)***

Business Customer and Strategy is part of Business Tax.

The goal of BC&S is to maximise Business Customer compliance for HMRC at best cost for both HMRC and the customer. This is done by developing business tax strategies through customer understanding, working with teams in HMRC and across government departments.

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Research requirement (background to the project)

HMRC is striving to make managing tax easier, quicker and simpler for small business customers. Ipsos MORI was commissioned by HMRC to conduct qualitative research with small businesses to explore their views on being offered choice in the process of meeting their tax obligations. The research considered the following:

- Business awareness of specific simplification measures including: cash basis, simplified expenses and three line accounts for self assessment; and flat rate, cash accounting and annual accounting schemes for VAT.
- Awareness of the simplification measures and the reasons for decisions made in relation to choice.
- How best to present/communicate simplification measures so that the businesses can choose the most appropriate measures, and what support they would need to do so.
- Business views on alternative models for offering choice within approaches to managing their tax affairs (e.g. mandating or opt in) and the potential impact of this on small businesses.

When the research took place

The research was designed and carried out between February and April 2015. Fieldwork was undertaken between 13th and 26th March 2015 and took place across London, Nottingham, Bristol and Manchester.

Who did the work (research agency)

The research was undertaken by the Employment Welfare and Skills team working in Ipsos MORI's Social Research Institute.

Method, Data and Tools used, Sample

A qualitative approach was undertaken to this study. A total of 50 depth interviews were undertaken with small business, including 28 by telephone and 22 face to face. A cross-section of small businesses (below £10m turnover and fewer than 20 employees) were recruited for the research and quotas were set to include a mix of the following characteristics: age of business, use of an agent, turnover and legal status. Businesses were recruited through informal channels (a sample was not provided by HMRC).

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A sample profile is outlined below:

Type of small business		
Age of business	New (trading less than 1 year)	9
	Recently established (1-3 years)	18
	Established (more than 3 years)	23
Use of agent	Using paid agent	20
	Using informal agent	4
	Not using agent	26
Turnover	Under £30K	22
	£30-80k	16
	Over £80k	12
Legal status	Sole trader	30
	Partnership	5
	Limited company	15

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Main Findings

The main research findings are outlined below.

Decision-making process

Businesses' awareness and experience of using existing tax simplification measures were explored, in order to understand decision-making processes when faced with choice in the tax system. A total of six measures were explored covering both self assessment and VAT¹.

A number of key themes emerged from the research about the decision-making process with regards to the existing tax simplification measures, which have implications for HMRC communications on choices. These are:

1. There is a lack of active engagement in decision making

Businesses were usually aware of at least one simplification measure (and in some case several). However, the decisions made in relation to choice were often made passively rather than actively – with decisions prompted (or put in place) by an agent or HMRC. This highlights that more can be done to increase awareness of choices in supporting decision making.

A number of businesses in the sample were unaware of existing measures and did not believe they had engaged in decisions relating to choice. These businesses tended to lack confidence in managing their tax affairs, have lower turnover (under £15k) and lack experience of running a small business (for example, new sole traders).

2. Businesses aware of simplification measures receive information from their agent or HMRC at some point in the decision-making process

Gathering information is the first step in the decision-making process. Information typically came from speaking to a business associate or agent or by reading the HMRC website. Information was both purposively sought and passively received. Information from agents and HMRC was seen as authoritative and was generally sought by businesses before making a decision.

Agents in particular were seen as a very trusted source of information and advice because they were knowledgeable about both the business and the tax system.

“I would expect [our accountant] to point us in the right direction - his responsibility is to our business. Potentially we might miss out on an opportunity, but we rely on his expertise” (Recent, >£81k+, Partnership, Agent)

¹ Three line accounting, simplified expenses, cash basis (self assessment) and flat rate scheme, cash accounting, annual accounting (VAT).

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The type of relationship a business had with their agent also impacted on the information and advice they provided in relation to choice. For example, the relationship could empower choice where it was discursive and akin to a partnership (as was the case with a number of VAT registered businesses); whereas where control was deferred to the agent it could lead to disengagement from the system (this was more prevalent amongst sole traders with a low turnover).

HMRC's website was an important information source; however, businesses found it hard to navigate to the specific information they required and were unable to assess information in relation to the specific circumstances of their business.

3. Businesses have key considerations when making a decision

When reviewing the information gathered and the choices available, businesses primarily considered how far the choice would benefit their business – asking: Will it save time? Will it be financially beneficial? Will it bring greater certainty?

- **Will it save time** – time is a very important commodity to businesses, especially start-ups. Any measures that make it quicker to deal with tax obligations were welcomed as this enabled business owners to focus their time on growing the business – which is what they wanted to do.
- **Will it be financially beneficial** – the bottom line is critically important to small businesses and any mechanisms available to increase profit or improve cash flow were welcomed. Choices were weighed-up with this in mind.
- **Will it make it easier to meet tax obligations with certainty** – it was important for businesses (particularly those not using an agent for all their obligations), to be able to meet these in the simplest way and without error. Flat rate measures were singled out as being particularly helpful in making it easier to get tax obligations right offering simplicity and greater certainty.

Small Business and Choice**Case study**

Ann has been a self-employed childminder for 28 years. Her turnover is around £7,000 per annum. Years ago, someone from the child-minding body came out to inspect her and she told Ann about simplified expenses, explaining that she could attribute a certain percentage of her bills to business expenses. Ann has used this method when doing her tax return calculations ever since, in part because she finds it so much easier than having to work out exactly how much she has spent on food that the children eat, and petrol that she uses to drive the children around. Instead, she keeps a diary to record occasional, unusual expenses and can be sure she is giving the correct information. Ann acknowledges that the short form she gets sent by HMRC also saves her valuable time.

“It’s so much easier being able to apply a flat rate, it would be so difficult to have to work it all out separately, adding up all the receipts and so on, I’d get in a right muddle I know I would. At least I know this is right and it’s easy for me, you know”

4. Businesses were generally confident they had made the best decision around choices

Businesses that had made a decision were generally confident they had made the best choice for their business. Businesses had typically consulted what they believed to be an authoritative source of information and advice, such as an agent or HMRC and trusted that the decision had been correct.

The impact on the business had been as anticipated, with simplification measures saving the business time or money, or making it easier to meet their tax obligations.

“The VAT flat rate scheme is awesome, I don’t have to put all receipts on a spreadsheet and go through them, so it’s much easier to calculate” (Established, Sole trader, £81k+, Agent)

The impact of measures on key business decisions (such as whether or not to set up a business, to go above the VAT threshold; incorporate; or use an agent) was minimal. Hypothetically businesses suggested had they known more about the potential choices on offer, they might have amended their approach to managing and growing their business.

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5. Those who were unaware of simplification measures wanted more information on choices

Businesses generally expressed a desire for more information (both before and following engagement in the research) – particularly those who were unaware of simplification measures but confident dealing with tax issues. These were more likely to be businesses with a high turnover; that were VAT registered and used an agent. Importantly, businesses wanted this information to be easy to access and personalised.

Others were prepared to defer decision making. These ‘harder to reach’ businesses were likely to be less receptive to communications on choices. They include those who lacked confidence and were particularly fearful or distrustful of HMRC.

Views on choice for small business

Businesses were asked about their views on ‘choice’ following a discussion of their tax obligations and simplification measures. The purpose of the exercise was to understand business needs and how best to support choice. The following key points were noted:

6. Choice is highly valued by small businesses

Choice was highly valued and was equated with maintaining control over business decisions. Small businesses were seen as unique, requiring a more tailored and personalised approach. Flexibility of options was therefore seen as key - allowing the business to retain control over how they managed their tax obligations. Businesses wanted to make choices that best suited their situation, rather than having to abide by a blanket policy that did not suit their particular set-up.

*“Choice is a good idea as what's good for the goose is not always good for the gander”
(Recent, partnership, £81k+, agent)*

The general preference however, was for a limited number of choices, in order to streamline and simplify the decision-making process and prevent businesses becoming overwhelmed.

“I want to be asked do I want tea or coffee, not what would I like to drink” (Recent, Sole trader, £30-80k, No agent)

For this reason, there was an overall preference for HMRC to provide a ‘nudge’ in the right direction - offering its view on the best possible approach for a business, while allowing the business to retain ultimate control over decision making. This approach was thought to strike a good balance between ease and certainty.

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7. Information needs to be simple and tailored to enable businesses to make choices

It was recognised that with choice comes the responsibility to make the right decision for the business. Businesses therefore wanted it to be as quick and easy as possible to make decisions around tax choices. The onus was put on HMRC to bring simplicity and certainty to the process by providing clear and personalised information. As part of the study, the new 'your tax account' online digital service was explored and was very positively received, in part because of the ease of access and personalisation it brought to the provision of information.

Currently although information to support choice is available, it is deemed unwieldy, hard to navigate and review. This made it difficult for a small business to engage with information and filter out what was relevant/not relevant.

"It was click, after click, after click... and referring you back to the same page... there was a lot of clicking and just not getting anywhere" (Recent, Sole trader, £30-80k, No agent)

Case study

Amanda is the director of a printing company which has been trading for 5 years and has a turnover of £125k. She is confident in her understanding of tax issues but would prefer to pay an agent so that she has more time to focus on the business. She attends business networking seminars and groups, through which she became aware of certain measures such as the VAT flat rate scheme.

Amanda thinks it's very important to be able to choose the best option for her business in all things and, as a result, would like more information from HMRC to make the best choice about how to meet her tax obligations. Amanda suggested that HMRC could send an email containing a pdf document explaining the tax simplification measures.

Ultimately it was felt a more tailored approach would help to raise awareness of choices, encourage businesses to engage with information, and reduce the risk of businesses making poor decisions that could be detrimental to their business.

8. There is a need to raise awareness of choices through HMRC communications

It was suggested that HMRC could be more proactive in reaching out to businesses with information in order to raise awareness of choices. Information was expected to clearly convey the benefits of each choice and which type of business each choice would typically suit. Suggestions for how this could be disseminated included:

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- Online – via the HMRC website, a ‘One Stop Shop’, or online web chat or tutorial - although businesses might need ‘prompting’ to visit it.
- In writing – either in a letter or email.
- HMRC seminars – which some businesses attended when they first set up their business and regarded as a valued source of information.

The most appropriate stage to receive information on choices was at the start-up stage, when people first registered as self-employed or when they set up a limited company. This was explained as being the point at which they had the least tax knowledge and therefore the greatest need for information and education on taxes.

“At the beginning would be really helpful. You’re poking about in the dark” (New, Sole trader, <30k, Agent)

Subsequent junctures at which it would be useful to receive information on choices included: when logging onto file a tax return, at which point an information box could pop up on the screen; when registering for VAT; after the first year of trading, and when the turnover reached certain thresholds, such as £50k and £100k.

9. A sub-group are not interested in engaging with information on choices

As an exception some businesses did not want more information on tax choices. These business owners were particularly scared of engaging with or distrustful of HMRC, or lacked confidence understanding tax information and did not want to be involved in tax choices. They preferred to leave decision making to their agent and were more likely to prefer HMRC to opt them into or mandate a particular measure in order to save agent fees (where they did not have an agent). These businesses were unlikely to engage with information provided on choices and wanted either their agent or HMRC to be aware of choices and make the best decision for them.

“I find it all really confusing, my brain just gets scrambled and I have to send it all to someone else to do because I wouldn’t know what to do...I wouldn’t have the patience to do my own tax return, or the time..” (Recent, Limited company, £30K, Agent)

Deciding between the options

Businesses were asked their views on how HMRC should offer choice to businesses. Four stances were considered:

Option 1: HMRC offers guidance but free choice to businesses

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Option 2: HMRC provides a ‘nudge’, by offering their view on the best possible approach for the business

Option 3: HMRC opts the business into a particular measure, but provides business with the option to change

Option 4: HMRC mandates which measure the business uses

A number of factors were found to underpin business’ views on the type of ‘choice’ they preferred. Views were very much linked to the desire of businesses to maintain control, while expressing a need for personalised information to support decision making. The key factors underpinning views were:

- How confident the business was in making decisions about tax.
- How much control the business wanted.
- The extent to which HMRC was trusted to make sound assessments of business’ need.
- The perceived accessibility of information provided by HMRC on choices.
- The cost and time implications to the business.

Preferences relating to choice between the options are summarised in the below table.

Summary table: factors relating to option preference	
Options 1 and 2: guidance and / or a ‘nudge’	
Confidence in decision-making	Businesses that were confident in their understanding of the choices available were happy to be offered guidance but wanted to retain control over the final decision.
Control wanted over decisions	Businesses are keen to retain control, but want to receive personalised, accessible information to support this. Options 1 and 2 offer a good balance.
Level of trust in HMRC	If businesses mistrust HMRC to make the right decision for their business, then receiving guidance or a ‘nudge’ was preferred.
Use of an agent	Largely, businesses trusted their agent to make the correct decision for their business as they combined tax expertise with knowledge of the business.
Option 3: being opted-in	

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Confidence in making decisions about tax	If under-confident, the decision-making burden on the business is reduced if opted-in by HMRC, who it was said would have the best knowledge available (in relation to tax).
Concerns about lack of choice	Concern was expressed about businesses taking up a measure they had not fully considered. It was said clear and easy to review information regarding the decision should be provided to support this.
Lack of trust in HMRC	A lack of trust was expressed regarding HMRC’s ability to opt them into the most suitable measure, given they were unfamiliar with the business.
Option 4: being mandated	
Reduction in costs	For businesses currently paying agent fees, the option to mandate was said to save money by removing the need for an agent.
HMRC resource and responsibility	Businesses raised doubts that HMRC had the resource to provide the required level of tailored information to support option 4. They also questioned what would happen if the ‘wrong’ decision was made and where responsibility would lie.
Loss of control	This stance was generally seen as involving a loss of too much control for most businesses and did not align with the spirit of entrepreneurship that small businesses were seen to represent.
Lack of trust in HMRC	As with option 3, businesses did not always trust HMRC to make the best decision for their business.