



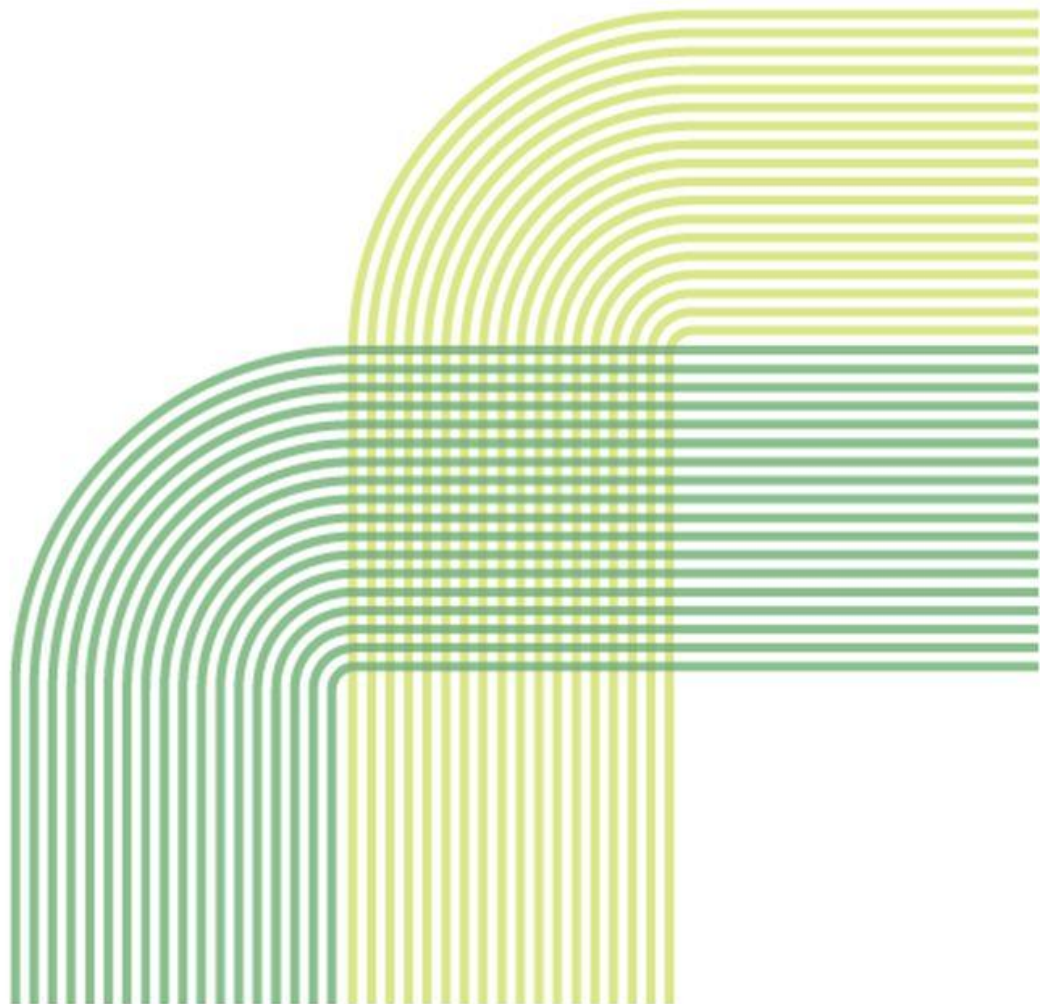
IFF Research

HMRC Debtor Behaviour

Prepared for HMRC
By IFF Research

June 2015

HM Revenue and Customs Research Report 402



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Published by HM Revenue and Customs, February 2016

www.hmrc.gov.uk



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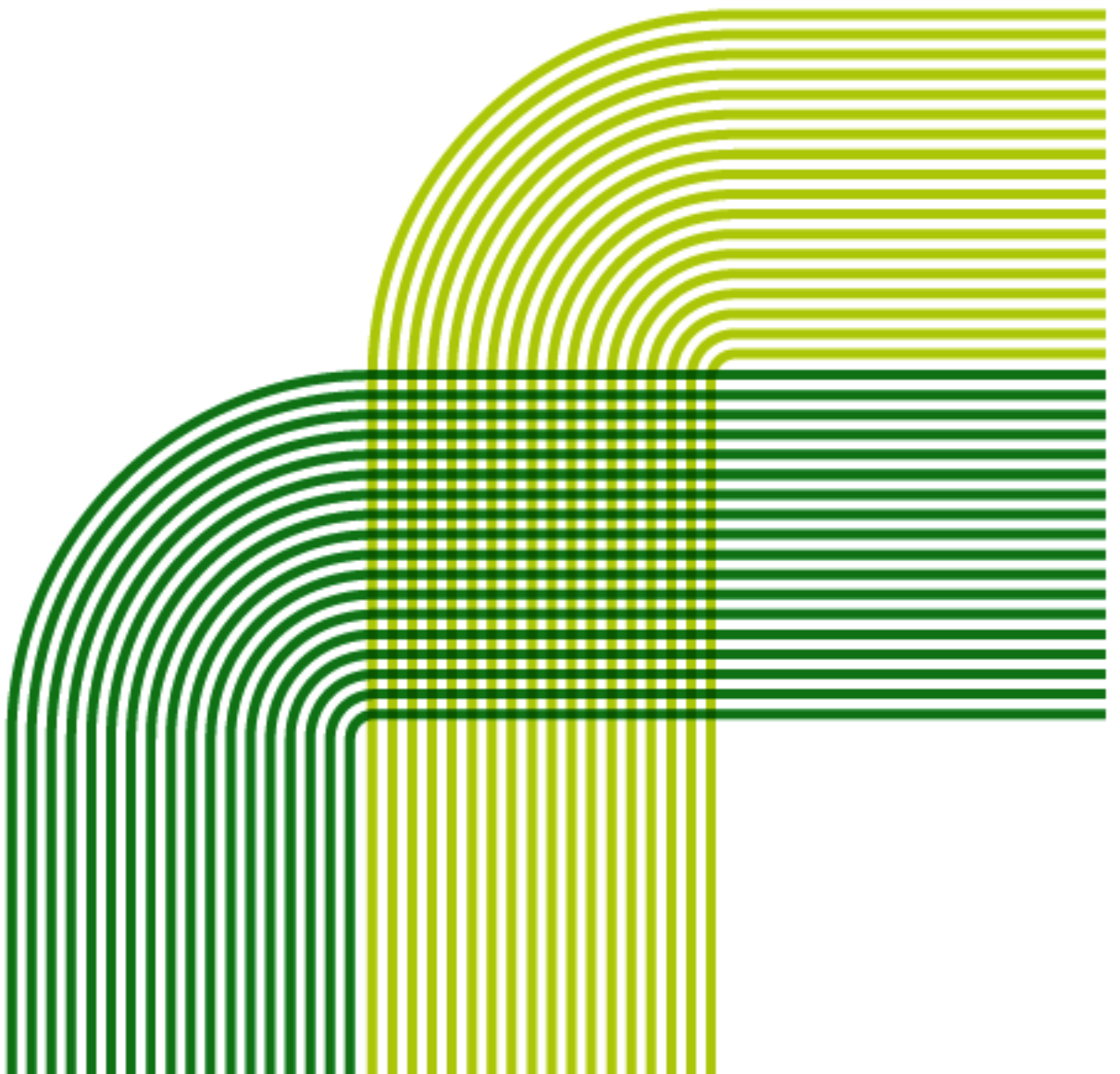
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1 Key findings

- 1.1 HM Revenue & Customs (HMRC) wished to understand the behaviour and decision-making of HMRC customers who are, or have recently been, in debt to HMRC, in order to identify how to encourage them to pay the sums owed when they are due. This included understanding how debtors' behaviour would change if they believed that their credit rating could be affected if they did not pay their tax debts, or if they believed that HMRC shared information about tax debt with credit rating agencies.
- 1.2 IFF conducted 48 qualitative in-depth interviews with individuals with a recently live HMRC debt. The principal focus of the interviews was a specific Self Assessment (SA) or Value Added Tax (VAT) debt. This study therefore encompassed both **individuals** (who were interviewed about a SA tax debt) and **businesses** (who were interviewed about a VAT debt). The research sought to draw comparisons between these two customer types, as well as between customers with high value (>£10k) and low value (<£8k) debts; and between those being pursued for tax owed, and those being pursued for sums incurred as a penalty for late or non-submission of a tax return¹.

VAT Customers – the circumstances surrounding their tax debts and payment behaviour

- 1.3 Among VAT customers, poor administration or cash flow problems tended to have driven late payment of VAT owed to HMRC. Sometimes these cash flow problems were symptomatic of more serious underlying problems with the financial viability of the business (particularly among Prime Assessment customers, i.e. those who had not filed a VAT return to HMRC).
- 1.4 For a few, however, late payment of VAT was part of a 'routine' cycle of juggling competing payments – their VAT debt was not a source of concern, but something they expected to pay when 'chased'.
- 1.5 VAT customers displayed broadly consistent models of thinking for prioritising payments - giving highest priority to those that immediately affected the ongoing functionality of the business (e.g. employee wages, key suppliers). They also prioritised any relatively small sums with a disproportionate impact in terms of hassle generated and impact on the business's ability to keep trading (e.g. business rents, suppliers and telecoms contracts). Where the business was experiencing more serious financial difficulties, 'firefighting' payment demands that were perceived to be essential to business viability were prioritised more strongly.
- 1.6 Most VAT customers were confident they would be able to get support from HMRC and negotiate a repayment plan with HMRC, and most had already succeeded in doing so. Many were repeat HMRC debtors, and so their confidence was rooted in experience of having successfully negotiated payment plans with HMRC before. The few first time debtors had typically been urged to negotiate by an accountant or friends.
- 1.7 VAT customers' knowledge of how and by whom credit ratings were compiled was mixed, but all knew that credit ratings were an assessment of the 'credit-worthiness' of a business that could impact on a business's ability to acquire future credit.

¹ These customer groups were defined as follows: **SA – Penalty only**: the debt is a penalty for non-submission or late return; **SA– Other**: these customers have filed a return but have not paid the amount owed; **VAT – Prime Assessment**: these customers have not filed a return and HMRC has assessed the amount owed; **VAT – Non-Prime Assessment**: these customers have filed a return but have not paid the amount owed.



- 1.8 VAT customers would be more concerned about their debt if they thought that tax debt could have an impact on credit ratings – principally due to its potential effect on the ongoing viability of their business (through impairing their ability to secure loans, credit cards, utilities, telecoms, etc.).
- 1.9 However, the idea that credit ratings might be impacted by VAT debt tended to make no material difference to how businesses would decide what to pay and when. For many, their business's difficult financial circumstances simultaneously made it unaffordable to pay the VAT debt and demanded a focus on making payments to ensure the business's short-term survival. Other common reasons for this included: the business already prioritising VAT debt as far as possible, due to other concerns about the severe consequences of not paying HMRC; the business having already assumed that VAT debt impacted on credit ratings; and the business having long-established, informal relationships with suppliers (giving them the ability to 'work-around' poor credit ratings).
- 1.10 Despite this, for a few VAT customers – those who had incurred VAT debts as part of a routine cycle of juggling competing payment demands – the thought that tax debt could have an impact on credit ratings might prompt a change in behaviour. They felt certain that VAT debt does not currently impact on credit ratings, and were strongly concerned about a deteriorating business credit rating impacting on their ability to win future work and secure necessary loans. These customers sometimes had money available to repay HMRC, and claimed that they might give a higher priority to repaying VAT debt, potentially by 'ring-fencing' funds to do so. Those suggesting they could ring-fence funds all had high value debts.

SA customers – the circumstances surrounding their tax debts and payment behaviour

- 1.11 SA customers had very mixed reasons for having incurred a debt to HMRC, leading to very different attitudes and behaviours towards the debt. These were:
1. **HMRC "misunderstandings"**, i.e. where customers were aware of HMRC chasing for a payment but considered that this was the result of a mistake on HMRC's part (usually relating to a year in which HMRC believed them to be self-employed, or their company to have been trading, when they reported that this was not really the case). These individuals did not feel that they owed money to HMRC, and consequently were not really weighing up repayment to HMRC against other priorities (they instead hoped that HMRC would eventually realise that an error had been made).
 2. **Financial hardship**, commonly arising from a rapid and unexpected decline in self-employment income (sometimes resulting from or exacerbated by the onset of a long-term health problem).
 3. **Disorganisation**, leading to late filing of SA returns (in a few cases attributed to a relationship break up, where the ex-partner had taken responsibility for tax returns).
 4. **Lack of understanding of tax rules** (most commonly involving an individual having worked for an employer through a recruitment agency and having wrongly assumed that tax on earnings had been paid by PAYE). These customers had been surprised to find out that they had incurred a tax debt, although they did not dispute the rationale for the debt.
- 1.12 For customers in the latter three categories, the HMRC debt often figured relatively low in their payment priorities. Payments deemed essential for everyday living (such as housing, electricity and water costs) were prioritised, particularly where there was an impact on other family members.



- 1.13 Those whose HMRC debt had arisen through financial hardship or disorganisation were particularly likely to have a range of other debts to consider alongside their HMRC SA debt. These individuals were sometimes prioritising other debts over HMRC, for a range of reasons: sometimes other debts were being more actively chased; sometimes it was psychologically more attractive to prioritise payment of smaller sums to several creditors, in order to reduce the number of creditors to whom money was owed; sometimes customers felt a sense of obligation to repay debts that they had knowingly entered into; and sometimes customers felt a stronger sense of obligation to repay debts towards creditors that had been willing to negotiate payment plans (i.e. a sense of 'reciprocity').
- 1.14 For some customers, the tax debt was perceived to be so large as to almost feel 'unreal', and consequently felt almost impossible for them to tackle (this was the case irrespective of whether the sum owed would be categorised as a 'low' or 'high' debt by HMRC). This was particularly likely to be the case where the tax debt had come as a surprise, either due to a lack of understanding of tax rules, or a perceived 'mistake' on HMRC's part.
- 1.15 Almost all SA customers had tried to discuss their debt with HMRC, even where the debt had arisen due to perceived "HMRC error". HMRC communications had conveyed a degree of seriousness regarding the situation, sufficient to trigger customers to make contact.
- 1.16 However, many customers found this contact difficult. By the time of the research, most customers had stopped trying to contact HMRC about their tax debt. In a few cases this was because individuals had negotiated payment plans or agreed debt reductions. The remainder tended to feel powerless and were simply waiting to see what would happen next.
- 1.17 In general SA customers understood that credit ratings are used by creditors to assess risk when deciding whether to lend money to an individual; and grasped how a low credit rating could impact on their lives (this understanding was sometimes based on direct experience of credit refusal).
- 1.18 Most said they would be more concerned about their debt if they thought that tax debt could have an impact on credit ratings, due to the possible impact on their future ability to obtain mortgages, credit cards, utilities and mobile phones.
- 1.19 However, it would be unlikely to affect the behaviour of most of those who took part in the research. This was either because they thought HMRC already shared data on HMRC debts with credit ratings companies, or that credit ratings are calculated by the Government (so that the potential for their debt to influence their credit rating already existed); or they already feared that their HMRC debt could have a more extreme impact (e.g. bankruptcy; prison); or they believed that their credit rating was already very poor; or they could not conceive of having any need for credit in the foreseeable future. In addition, in a few cases SA customers were already prioritising their HMRC debt.
- 1.20 There were, however, a small number who might perhaps change their current behaviour slightly, if they felt that HMRC might share information about their debt with credit rating agencies – for example, by renewing their efforts to talk to HMRC to resolve their debt / agree a repayment plan; by strengthening their resolve to stick to an agreed repayment plan; or by causing them to put HMRC debt on a level with other creditors (e.g. credit card companies) who are perceived to pursue payment more aggressively, when deciding what to prioritise.



2 Background, objectives and methodology

Background

- 2.1 HM Revenue & Customs (HMRC) is the UK's tax and customs authority, responsible for making sure that the money is available to fund the UK's public services and for helping families and individuals with targeted financial support.
- 2.2 HMRC is exploring a range of initiatives to ensure its customers pay what they owe on time, including through the use of 'soft' techniques. Behavioural economics suggests that individuals can be 'nudged' into a desired course of action – including by highlighting the risk and impact of non-compliance.
- 2.3 In this context, HMRC wished to understand debtor behaviour and decision-making about debt payment priorities – i.e. when faced with a range of debts, what do customers choose to pay first, and why – in order to identify how HMRC might influence debt repayment decisions. This included exploring how debtors' behaviour would change if they believed that their credit rating could be affected if they did not pay their tax debts, or if they believed that HMRC shared information about tax debt with credit rating agencies.

Objectives



- 2.4 Specifically, HMRC wished to understand:
 - How customers become indebted to HMRC;
 - How customers in debt to HMRC prioritise which debtors to repay;
 - Customer understanding of credit ratings and the situations in which a potential refusal of credit would be most worrying;
 - The extent to which credit ratings figure in taxpayer decisions about debts in general, i.e. whether to repay and how to prioritise these – and what this means for decisions about tax debt specifically.
- 2.5 Within this, HMRC was interested in how customer views differ by debt value and whether the customer is an individual (Self Assessment (SA) stream) or a business (Value Added Tax (VAT) stream). SA customers are individuals who are required to submit an annual tax return for their personal income on an annual basis, including nil returns. VAT customers are businesses that are registered, and have an obligation to submit VAT returns quarterly or monthly, even where they have nil returns.
- 2.6 The principal focus of interviews was a specific SA or VAT debt (either for tax owed, or incurred as a penalty for late or non-submission of a tax return). All participants in the research were, or had until recently been, VAT or SA customers in debt to HMRC.



Methodology

- 2.7 We adopted a qualitative approach to explore individuals' circumstances and decision-making in depth and detail. A total of 48 in-depth interviews were conducted with individuals with a recently 'live' HMRC debt. These each lasted around one hour, and were conducted by IFF Research from 28th February to 27th March 2015. A charitable donation of £25 (to a charity nominated by the participant) was offered by way of incentive.
- 2.8 As noted above (2.5), a key area of interest for HMRC was how customer views differ by **debt value** and **whether the customer is an individual** (SA stream) **or a business** (VAT stream). The sample was structured by these two primary characteristics (see table 2.1 below), with sufficient interviews conducted to generate insight for each of these specific groups. Grouping the sample into value bands above £8K and below £10K of debt was selected based on working assumptions around different values of debt possibly being associated with a different impact on the customers' credit rating.
- 2.9 There was a further, secondary factor in structuring the sample. This was the type of debt incurred. The definitions of these debt types are included in the table, in italics.

Table 2.1: The sample structure used for the in-depth interviews

	Audience	High value debt (>£10k)	Low value debt (<£8k)	TOTAL
	Self Assessment – Penalty only <i>Debt is a penalty for non-submission or late return</i>	-	7	7
	Self Assessment – Other <i>Have filed a return but have not paid the amount owed</i>	6	8	14
	VAT – Prime Assessment <i>Have not filed a return and HMRC has assessed the amount owed</i>	5	5	10
	VAT – Non-Prime Assessment <i>Have filed a return but have not paid the amount owed</i>	9	8	17
TOTAL		20	28	48

- 2.10 Research participants were recruited from lists of customer contacts supplied by HMRC. Prior to the research, HMRC wrote to all customers whose details might be supplied to IFF Research. This letter explained the purpose and subject matter of the research, explained how the findings would be reported back to HMRC, and gave respondents the opportunity to opt-out of the research study. Following a three-week period in which customers could opt-out, the customer lists were supplied to IFF and individuals were approached to participate in the interview.

- 2.11 Interviews were conducted as a fluid two-way dialogue, underpinned by a topic guide (a list of key questions to ensure the interview stayed on track and that all the key aspects were covered)².
- 2.12 Each interview was audio-recorded (with the participant's permission) and summarised in detail. The content of each interview was then reviewed by the researcher team in order to identify the key themes and implications. This analysis of each interview was then entered into an analysis framework to help make comparisons across all of the interviews (for example, to allow us to identify areas of commonality across interviews, or to identify patterns of differences between certain types of customer).
- 2.13 Please note that this is qualitative analysis, intended to understand individuals' circumstances and behaviour in depth and detail, rather than to be 'representative' or measure the incidence of these behaviours. Results therefore show the spread of opinions and give an indication of the relative weight of them rather than giving a pure quantitative measurement. The interviews achieved are not intended to be fully representative of all individuals and businesses with a VAT or SA penalty or debt (for example, as discussed at 2.22 to 2.25 below, the VAT customers interviewed were predominantly micro enterprises, rather than a representative cross-section of businesses).
- 2.14 In the absence of statistical measurement, we use terms such as 'many', 'some' or 'a few' to give a relative indication of the extent to which views were expressed or behaviours reported. The term 'many' is used to mean that a view or behaviour is fairly widespread within a particular group of customers; while, at the other extreme, 'few' indicates that a findings applied only to a small handful. 'Some' is used to indicate a middle-ground between 'many' and 'few'. For example, if looking at the views of all 27 VAT customers, 'few' is used to indicate findings observed among five customers or fewer; while 'some' is used to describe findings that apply to clusters of c.10 customers and 'many' is used to describe findings that apply to clusters of c.20 customers.
- 2.15 Although all participants in the research were, or had until recently been, HMRC customers in debt to HMRC, for simplicity, they are referred to as 'customers' throughout this report.

Profile of research participants

- 2.16 As noted above, the two broad customer types interviewed were SA and VAT Customers. The following section describes the profile of the 48 research participants interviewed across the key customer subgroups (i.e.SA Penalty Only, SA Other, VAT Prime Assessment and VAT Non-Prime Assessment).

SA – Penalty Only

- 2.17 **SA Penalty** customers are those who had not completed their SA tax return or who had submitted their SA tax-return late to HMRC. In total, seven SA Penalty Only customers participated in the study.

² Although the interview content was broadly consistent across all of the interviews, there was a slight difference in emphasis according to whether the customer was an individual (SA stream) or a business (VAT stream). SA customers were interviewed as individuals; we were talking to them about their personal tax affairs, and how their personal credit rating might affect their ability to obtain credit for domestic matters; whereas VAT customers were interviewed as businesses; we were talking to them about their organisation's tax affairs, and how their organisation's credit rating might affect their ability to obtain credit for business matters.



- 2.18 All seven respondents had a debt value of less than £8,000. Some of these customers were recipients of Child Benefit, disability benefits and Employment Support Allowance. A few were also current students. Some had accrued their debt after unsuccessfully trying to enter into self-employment or to start-up a business. These customers tended to report low levels of income and appeared to have relatively low levels of financial sophistication³.

SA – Other

- 2.19 **SA Other** customers are those who had completed their SA tax return in time but who have not paid the tax owed. In total, 14 customers participated in the study under this category, six of whom had incurred a debt of more than £10,000 and eight whose HMRC debt was less than £8,000⁴.
- 2.20 These customers came from a variety of employment backgrounds but included primarily self-employed workers aligned to one particular business including a Director of a division of recruitment consultants and a youth worker working for a charity for young offenders. Other participating customers operated on a more casual basis, including a graphic designer working as a freelancer for a signage company as well as a variety of websites. The sample also included a sole trader in the construction sector.
- 2.21 The higher levels of debt to HMRC were in most cases associated with individuals running their own businesses. Some of the smaller debts related to self-employment in the sense of being a contractor / working for an agency (rather than running a business); while other of the smaller debts had been incurred by individuals in a personal capacity.

VAT Prime Assessment

- 2.22 **VAT Prime Assessment** customers are those who had not filed a VAT return and HMRC has assessed the amount owed. Ten customers from this customer group were interviewed for this study.
- 2.23 These customers were predominantly micro businesses, amongst which there were several construction businesses, a nail salon, a plant hire firm, a stationery retailer, a food import firm and a business offering administrative and secretarial services. The debt value of participants was evenly split, with five owing more than £10,000 and the remaining five participants owing less than £8,000⁵. Almost all VAT Non-Prime Assessment customers perceived themselves to have a moderate level of financial sophistication.

VAT Non-Prime Assessment

- 2.24 **VAT Non-Prime Assessment** customers are those who had completed their VAT return but had not paid all of the tax owed. In total, 17 VAT Non-Prime Assessment respondents were interviewed for this study, nine of whom had a debt value of more than £10,000 and eight of whom had a debt value of less than £8,000. They predominantly perceived themselves to have a moderate level of financial sophistication, although a few had higher, and a few lower, levels of financial sophistication.
- 2.25 Most of the VAT Non-Prime customers were micro businesses, although three were small, two medium and one a large business⁶. The businesses involved were operating across a range of sectors including

³ Financial sophistication was self-classified by the respondent, by IFF administering a question at the end of every interview. Respondents were shown a series of statements about their understanding and ability to make decisions in relation to financial products and services, and were asked which one of the statements best described them.

⁴ Debts for SA customers ranged from £10,000 to £40,000 for those in the 'high debt category', and from less than £1000 to around £7000 for those in the 'low debt' category.

⁵ Debts for VAT customers ranged from £80,000 to £12,000 for those in the 'high debt category', and from around £2000 to just under £8000 for those in the 'low debt' category.

⁶ Defined by number of employees as follows: micro (less than 10 employees), small (10-49 employees), medium (50-249) and large (250+)



consultancy, retail, manufacturing, transport and services (specific examples included a micro business manufacturing and supplying advertising billboards, a packaging supplier, an airport parking company and an education and training company).

A note on the report structure

- 2.26 The findings for VAT and SA customers are distinctly different. For this reason, the remainder of this report describes the findings for each broad customer group separately – VAT customers in chapter 2, and SA customers in chapter 3.



3 VAT Customers – the circumstances surrounding their tax debts and payment behaviour

Background to HMRC debt

- 3.1 We asked Value Added Tax (VAT) customers how the situation of HMRC asking for payment of an outstanding VAT debt had come about.
- 3.2 Most VAT customers had got into debt with HMRC for one of two reasons. These factors applied to VAT customers more or less equally, with no clear pattern by debt size or type:
- The first common reason was **poor administration**. This was sometimes related to the departure of a specific employee (this tended to be either the person with the expertise in accountancy or book-keeping, with the businesses administration having floundered following their departure; or the person who had left arrangements in disarray);
 - The second common reason was **cash flow problems**. This was usually caused by seasonal and/or declining trade, or bad debtors/late payers. In a few instances the cash flow problems had been driven by difficulties in obtaining payment from a single major client. These cash flow problems were sometimes related to serious underlying problems with the ongoing viability of the business.
- 3.3 **A few VAT customers, however, had incurred VAT debts for a different reason.** For these customers, late payment is part of a **'routine' cycle of juggling competing payments**. VAT debt is not concerning for these customers – they expect to become indebted to HMRC at certain points in the year, and plan to pay the VAT debt when 'chased' for payment. These were all slightly larger firms⁷ (larger, relative to the micro businesses that made up the majority of the VAT customers interviewed), all had filed VAT returns (and so fell into the category VAT Non-Prime Assessment), and included customers with low value VAT debts and those with high value debts.

Payment behaviour

- 3.4 We asked VAT customers whether, at the same time as HMRC asking the business for this VAT debt, there were any other parties asking for significant sums. This was the starting point for a discussion of payment priorities – i.e. in a situation in which the business has various parties, including HMRC, asking for money at the same time, how the business decides what to pay and when.
- 3.5 Most VAT customers reported broadly consistent models of prioritisation, when deciding which debts and outgoings to pay first:
- Those affecting **ongoing functionality of the business** tended to be given a high priority (typically employee wages, rents, key suppliers, and telecoms);

The minute you have a bad debt to HMRC, they say that you need to prioritise paying them. And the financial advisers think they [HMRC] are the most important too. But for me, it is more important to keep the business trading and so we prioritise paying the wages of our operatives, family bills, rent. My own wages come last.

VAT Non-Prime Assessment, high value debt

⁷ As an indication of what we mean by 'larger', relative to the relative to the micro businesses that made up the majority of the VAT customers interviewed – all of these firms had 10+ employees and multiple sites.



- In addition, employee wages and some suppliers were given priority on the ground of ‘**moral duty to others**’, in terms of the impact of payment on individuals’ livelihoods;

If we delay payment [to suppliers] by three months because the cash flow is terrible, they have lost their house, their credit rating is through the floor...for the next six years. When their credit rating has repaired itself.... irreparable damage... is done and there is no reversing that.

VAT Non-Prime Assessment, high value debt

If it's a big company I'm going to, they can wait a week; the subcontractor is the small self-employed person... [who] can't wait a week for their money.

VAT Prime Assessment, high value debt

- Furthermore, rents, suppliers, and telecoms were often perceived to be relatively small sums (relative to employee wages or VAT debt), but with a disproportionate impact in terms of hassle generated by non-payment and their impact on the ability of the business to keep trading. These types of debts and outgoings were therefore deemed to be both **affordable and business-critical**. Some of these also tended to be set up as direct debits, and so were prioritised for payment by default, without a conscious choice being made;

Lots of direct debits just go out automatically – council tax, utilities etc. But we would not prioritise these over VAT necessarily – it is just that they go out anyway.

VAT Non-Prime Assessment, high value debt

- 3.6 By comparison, although unpaid VAT debt was perceived to have severe consequences (e.g. seizure of assets by HMRC, or HMRC winding the business up), these were perceived to be likely to apply in the longer term.
- 3.7 In addition, if the VAT debt was a larger amount, or if the business was facing more serious underlying problems with its viability, repaying VAT debt was often not affordable. This was the case for most of the VAT customers interviewed. These customers therefore tended to regard VAT debt as something to negotiate on and repay eventually, when business has resources to do so.
- 3.8 For those whose business was in difficulty, ‘firefighting’ payment demands perceived to be essential to maintaining business viability were prioritised over HMRC more strongly, with the rationale for this being that ‘otherwise no-one will get any money’. This applied to many of the Prime Assessment customers, as well as a few of the VAT Non-Prime Assessment ones.

If we can't continue trading then no one is going to get [anything] and everything diminishes doesn't it.

VAT Non-Prime Assessment, high value debt

If you don't pay them [the employees] they will not work. If they work, the company is there and HMRC can be paid. If the company is not there, you can't pay anything.

VAT Prime Assessment, low value debt



Communication with HMRC

- 3.9 VAT customers were asked about the current status of their VAT debt, including whether they had attempted to contact HMRC about it, what the outcome of this contact was, and whether the situation had been resolved.
- 3.10 Most VAT customers had been confident they could negotiate a payment plan with HMRC, even if they met initial resistance. In relation to the specific VAT debt that was the subject of the interview, most had tried to negotiate with HMRC and had succeeded in agreeing a repayment plan that they perceived to be manageable.
- 3.11 Most were repeat debtors to HMRC, had negotiated with HMRC before, and so were confident agreement could be reached. Even if they found HMRC to be initially resistant to negotiation on the repayment period for the debt, or to be variable in its stance on this (i.e. at times seeming more open to negotiation; at time less so), these customers knew from experience that they should persevere.

[I've] always found in the past that if you have such a problem, if you ring [HMRC] up, you can usually sort it out and they have been quite understanding in the past. They used to be a lot stricter on penalties but they have relaxed a lot of that now.

VAT Non-Prime Assessment, low value debt

- 3.12 A few of the VAT customers were first time HMRC debtors and thus first time negotiators. These individuals had often been urged to negotiate with HMRC by their accountant or friends (sometimes this advice had been accompanied by a warning about the potentially severe consequences of failing to negotiate, or of failing to adhere to a repayment plan, once agreed).

If you don't stick to [the repayments], HMRC come for the full amount. They're the first to be paid ... I know a chap who owes HMRC nearly £200K and they've made him bankrupt and taken his house off him.

VAT Prime Assessment, low value debt

- 3.13 There were, however, a few exceptions – customers who had tried to negotiate on the repayment period for the debt but who had not yet managed to reach agreement with HMRC. These were mostly first-time debtors, more often Prime Assessment customers with high value debts. The reasons for not having reached agreement with HMRC were varied and included: the customer having requested a face-to-face visit from HMRC, which had not yet taken place; and HMRC refusing to negotiate until the customer had filed a tax return.
- 3.14 A few VAT customers were also interested in HMRC helping them to pay money owed more regularly / sooner. This tended to be VAT Prime Assessment customers more than VAT Non-Prime Assessment ones, with both higher and lower levels of VAT debt. A mix of suggestions were spontaneously made, including HMRC making deductions of VAT at source, enabling customers to set up regular payment plans by direct debit, and giving customers the option of paying in advance (i.e. 'banking' the money with HMRC before it's due). Few VAT customers had taken their own steps to ring-fence VAT monies and, even where these attempts had been made in the past, they had tended not to work due to cash flow issues or the ring-fenced account being 'plundered' for other purposes.



Awareness and knowledge of credit ratings

- 3.15 VAT customers were next asked what they knew about business credit ratings.
- 3.16 All were aware of the potential impact a poor credit rating could have on their businesses. All knew that credit ratings are an assessment of the 'credit-worthiness' of a business that could be affected by late payments or non-payments to creditors, and which could in turn impact on a business's ability to acquire future credit.
- 3.17 For most, their knowledge about credit ratings is from personal experience of dealing with this in a business context, either when applying for credit or through checking the credit ratings of other businesses. Even those who claimed to have a low awareness of what credit ratings are, were able to explain this basic premise by using their pre-existing knowledge of how personal credit ratings work and applying this to a business context.
- 3.18 While awareness of credit ratings' fundamental purpose and potential impact was widespread, VAT customers were more variable in terms of their knowledge of how credit ratings are compiled. On the one hand, many were able to name one or two credit agencies, with Experian being the most commonly cited; and a few VAT customers demonstrated a more sophisticated knowledge of how the scoring system works and what kind of score would be required to be considered a reliable debtor.

Businesses are rated from various sources. Normally agencies pick up financial information in terms of how quickly businesses are paying – days beyond terms. They also look at your financial accounts to determine a rating out of 100. As long as you've got a rating above about 40 very few people comment. That's a 'credit-safe' rating.

VAT, Non-Prime Assessment, high value debt

- 3.19 On the other hand, some VAT customers were unsure of how credit ratings were compiled, with a few supposing that the government, or HMRC specifically, might be involved in generating credit ratings.

Potential influence of credit ratings on payment behaviour

- 3.20 VAT customers were asked whether they were concerned that an outstanding VAT debt to HMRC would affect their business's credit rating, and how they might react if they thought that tax debt could have an impact on credit ratings.

Would thinking that tax debt could have an impact on credit ratings be of concern?

- 3.21 In theory, this could be a concern for many VAT customers:
- Most claimed it could be a concern due to its potential effect on their ability to obtain loans, credit cards, and contracts on utilities, telecoms, and rents in future – all of which might undermine the **ongoing viability of the business**. This concern applied equally across customers with lower and higher levels of VAT debt, and to both VAT Prime Assessment and Non-Prime Assessment customers.

[If] I wanted to expand the business and I wanted to go for credit I think it would be a deal breaker, I think it would be a massive. If you don't have a good rating, you don't get credit. If you don't get credit you can't build the business, basically you're stagnating.

VAT, Prime Assessment, low value debt



- For a few, there was concern that it could affect personal financial arrangements, as they believed that personal creditors would easily identify the relationship between them as a private individual and their business. Where this was an issue, this was often heightened by concern about how this might ultimately **impact on others**, such as their partner, or children.

Would thinking that tax debt could have an impact on Credit Ratings make a material difference to payment behaviour?

- 3.22 Despite these theoretical concerns, the idea that credit ratings might be impacted by VAT debt tended to make no material difference to how businesses might decide what to pay and when.
- 3.23 Most would be no more likely to prioritise payment of the VAT debt, even if they thought HMRC was sharing information about tax debt with credit rating agencies. There were a mixture of key reasons for this, that applied more or less equally across customers with lower and higher levels of VAT debt, and across both VAT Prime Assessment and Non-Prime Assessment customers:
- The business's straitened financial circumstances making it unaffordable to pay the VAT debt and entailing the prioritisation of payments to ensure the business's ongoing short-term viability. **This appeared to be the most powerful barrier to concern about credit ratings making any material difference to payment behaviour;**

In all honesty all you are trying to do every day, especially when cash flow is poor, is firefight.

VAT, Non-Prime Assessment, high value debt

- The business already prioritising VAT debt as far as possible, due to other concerns, such as fear of the business being wound-up, or having their assets seized by HMRC;
- The customer having already been making decisions about who to pay based on an assumption that VAT debt impacts on credit ratings;
- The business having long-established, informal relationships with suppliers, meaning that they assume they might be able to work-around poor credit ratings. In these instances, the business assumed that their relationship with the supplier would mean either that the supplier would not bother to check their credit rating, or – if checked and found to be poor – that the supplier might be prepared to excuse the poor credit rating. In addition, some made the point that, if their suppliers were to go unpaid in order to prioritise payment of the VAT debt to HMRC, then this would have a more immediate negative impact on supplier relationships than that driven by a potential deterioration in their credit rating.

*When your cash flow is tight, you know your credit rating could be affected.
You have to pay your trade creditors first or you don't have a business.*

VAT, Non-Prime Assessment, high value debt

- 3.24 For a few VAT customers, an additional factor was that they perceived the value of their VAT debt to be too small to carry much weight in formulating their business's credit rating. This sentiment was always expressed by VAT customers whose VAT debt to HMRC was of a lower value.

The amounts I suspect you're talking about individually are quite small. I don't think the credit rating agencies would be concerned.

VAT, Non-Prime Assessment, low value debt



- 3.25 For those whose business was in difficulty⁸, the possibility of HMRC sharing information with credit rating agencies tended not to be motivating, as businesses think about how they can survive before they start thinking about their tax obligations. These businesses were taking a short-term view of finances in order to ensure survival (whereas maintaining positive credit ratings was seen as more of a mid to long-term concern). Some of these ‘struggling’ customers were also aware that their credit ratings were already poor, thus making a potential impact on credit ratings less motivating in encouraging repayment.
- 3.26 A few VAT customers, however, went against the grain of these findings. These were the customers who had incurred VAT debts through late payment as part of a ‘routine’ cycle of juggling competing payment demands (discussed at 3.3). For these customers, if they thought that tax debt could have an impact on credit ratings, there potentially would be a ‘hard’ impact, because:
- They believed VAT debt doesn’t impact on credit ratings currently unless this results in a County Court judgement;
 - They were concerned about a deteriorating business credit rating impacting on their ability to win future work and secure necessary loans;
 - Despite their having cash flow problems at times, they sometimes do have money available to repay HMRC.
- 3.27 For these VAT customers, if they thought that tax debt could have an impact on credit ratings, repayment of the VAT debt might be given higher priority and/or the business might make arrangements to ‘ring-fence’ monies in order to pay VAT demands (for example, by setting funds aside in a separate bank account). Again, these were all slightly larger firms (larger, relative to the micro businesses that made up the majority of the VAT customers interviewed), all had filed VAT returns (and so fell into the category VAT – Non-Prime Assessment), and were being pursued by HMRC for a mixture of low and high value debts.

Would thinking that tax debt could have an impact on credit ratings have any other scope to influence customer payment behaviour?

- 3.28 Although most VAT customers would be no more likely to prioritise payment of the VAT debt, even if they thought that tax debt could have an impact on credit ratings, for many, there was ‘softer’ potential for this to influence their behaviour. Many VAT customers spontaneously suggested that, if they thought that tax debt could have an impact on credit ratings, and HMRC made clear the potential impact on credit ratings in its communications with its customers, then this might encourage the customer to contact HMRC sooner to seek to negotiate a repayment plan.

HMRC should say, “This debt is due. We invite you to give us your best proposal for paying. If it is not acceptable...we will...contact you to try and make a deal. If...you refuse to pay, we reserve the right to share [information with credit rating agencies].”

VAT Prime Assessment, low value debt

⁸ As noted above, this applied to many of the Prime Assessment customers, as well as a few of the VAT Non-Prime Assessment ones.



4 SA Customers – the circumstances surrounding their tax debts and payment behaviour

Background to HMRC debt

- 4.1 As with the Value Added Tax (VAT) customers, we asked Self Assessment (SA) customers how the situation of HMRC asking for payment of an outstanding SA debt had come about.
- 4.2 There were a wide range of circumstances leading to SA customers incurring a debt to HMRC, leading to different attitudes and behaviours towards the debt. The main groups of circumstances were:
- **Financial hardship:** This most commonly resulted from a rapid (and unexpected) decline in self-employment income, which in some cases resulted from or was exacerbated by the onset of a long-term health problem.
 - **Disorganisation:** This resulted in late filing of SA returns (and in some cases the only money owing to HMRC was a penalty for late filing). In a few cases, individuals attributed their disorganisation to a relationship break up because their ex-partner had previously taken responsibility for tax returns.
 - **Lack of understanding of tax rules:** Individuals in this group had been surprised to find out that they had incurred a tax debt. They did not dispute the rationale for the debt but had not expected it. Most commonly customers in this group had been working for an employer through a recruitment agency and had assumed that the tax on their earnings had been paid by PAYE. There were also examples of lack of understanding of tax implications of pensions and capital gains.
 - **HMRC “misunderstandings”:** Individuals in this group did not feel that they owed money to HMRC. They were aware of HMRC chasing for a payment but considered that this was the result of a mistake on HMRC’s part. Customers in this group included those who had incurred a debt relating to years when they reported their company had not been trading (but HMRC thought it was), when they were not self-employed (when HMRC considered they were) or where there had been misclassification of some of their income.
- 4.3 Within the groups whose tax debt had been triggered by financial hardship or disorganisation, there were some instances of repeat debtors. In the latter two groups, the debt discussed for the research tended to be the first time that the customer had owed money to HMRC. There were no obvious patterns by size of debt with all 4 groups containing some individuals who owed larger sums and some who owed smaller sums.

Payment behaviour

- 4.4 We asked SA customers whether, at the same time as HMRC asking them for this SA debt, there were any other parties asking for significant sums of money. This was again the starting point for a discussion of payment priorities – i.e. in a situation in which the individual has various parties, including HMRC, asking for money at the same time, how they decide what to pay and when.
- 4.5 The group who considered their debt to be a function of an HMRC misunderstanding were not really weighing up the payment of this against other payment priorities. They did not consider it to be a real debt and were generally hoping that HMRC would eventually realise that there had been an error and that they would no longer be asked to pay any money.



HMRC are last on the list. If they had treated me fairly and listened when I told them originally that I had never had a 2nd job, it could all have been sorted out then.

SA Penalty Only, low value debt

I don't see why I should have to pay HMRC when I have given them all the information; they keep billing me all this money but in my understanding, it is not my problem. I have supplied all the information, something has gone wrong at their end and I have got fed up of telling them this now.

SA Other, low value debt

- 4.6 Customers in the other three groups were considering the HMRC debt in the round with other expenditure and the HMRC debt often featured relatively low down in their list of payment priorities.
- 4.7 Payments that were considered necessary for day-to-day living (e.g. housing costs, electricity, and water) or continued employment (e.g. car in some cases) were prioritised, particularly where they affected other family members.
- 4.8 Where customers had other existing debts (more common when the HMRC debt resulted primarily from financial hardship or disorganisation) individuals were sometimes prioritising other debts over their HMRC debt for a range of reasons including that:
- They were prioritising **debts that were being more actively or frequently chased** (with credit card debts often cited for this reason);
 - In cases where the sum owed to HMRC was quite large, individuals were prioritising paying several creditors smaller sums (rather than paying one large sum) because **reducing the number of organisations that they owed money to had a strong psychological attraction**;
 - They were prioritising **debts that they have knowingly entered into, as they feel a stronger sense of obligation to repay** the debt. This really affected those whose debt had come about as a result of misunderstanding of tax rules; while they appreciated that their lack of knowledge/understanding was ultimately their fault, they did not feel the same obligation towards their tax debt as towards other debts (for example a debt on a credit card) that had consciously incurred;
 - They felt a **stronger sense of obligation towards other creditors with whom they had agreed payment plans**. In these cases individuals felt a sense of 'reciprocity' – because their creditor had been willing to discuss an alternative way of repaying the debt (usually repaying smaller sums over a longer period) then the individual felt that they were honour-bound to prioritise this payment. (In one or two cases individuals had arranged a plan of this nature with HMRC and were prioritising it over other debts for this same reason).
- 4.9 For some customers, their HMRC debt felt almost impossible to tackle. These customers considered the amount owed to be very large (even if it is not necessarily what HMRC would consider large) to the point where it felt almost 'unreal'. This was compounded particularly in cases where individuals had not been expecting to incur any kind of debt at all. With penalties added for non-filing and the addition of interest some felt that their debt was spiralling out of control and despaired of their ability to address it.



Communication with HMRC

- 4.10 SA customers were asked about the current status of their SA debt, including whether they had attempted to contact HMRC about it, what the outcome of this contact was, and whether the situation had been resolved.
- 4.11 Almost all SA customers had tried to discuss their debt with HMRC. Even individuals who felt that the tax debt was simply the result of an error made by HMRC had tried to make contact to discuss this. The communications that individuals had received about their debt had conveyed a sufficient degree of seriousness to ensure that letters were not ignored when they were received.
- 4.12 However many customers had found making contact with HMRC problematic. Those who felt the issue was the result of an error on HMRC's part felt that they had been unable to convey this to HMRC and several of those who felt that they did not have the financial resources available to meet their payment felt they had been unable to discuss alternative payment plans. The most common difficulties that individuals raised were:
- A lack of continuity of discussions through speaking to different people each time;
 - Perceived "indifference" from HMRC;
 - Lack of acknowledgement of contact in subsequent communications (e.g. ongoing receipt of penalty notices even when they believed that the issue had been left with HMRC to get back in contact)
 - Understanding that HMRC had agreed that the debt did not have to be paid, only to receive letters requesting payment several weeks later.
- 4.13 By the time of the research, most customers had stopped trying to contact HMRC about their tax debt. In a few cases this was because individuals had negotiated payment plans or debt reductions (for example monthly instalments on their debt). In cases where this had happened, individuals were generally committed to sticking to these plans because they felt HMRC had behaved fairly towards them.
- 4.14 The remaining customers were waiting to see what would happen next. Many of these customers felt a strong sense of helplessness or powerlessness. In a small number of cases, customers understood their case to have been passed to the HMRC enforcement team and were envisaging that they would be declared bankrupt or would receive contact from bailiffs as a result.

You hear about people if they owe money to the tax man they, you know, they do send bailiffs and that round. You hear about people going to prison...

SA Other, low value debt

- 4.15 These customers tended to feel that if they could speak to someone at HMRC who had access to their records and who could explain what potential payment options might be open to them then they would be able to resolve the matter. Those who had incurred a debt as a result of what they perceived to be an error on HMRC's part were not willing to pay the outstanding amount unless it could be proved to them that it had been correctly calculated. Those in the other three groups nearly all felt unable to pay the full amount they were being asked to pay in one go and so felt they needed to discuss alternatives. Some of these customers expressed a view that HMRC should make the offer of a dialogue about the debt more obvious in initial communications and include the contact details of the correct team to speak to and place more emphasis on this than the ultimate sanctions of not paying.



- 4.16 A few SA customers stated that they would appreciate HMRC making it easier to pay the tax owing from self-employment either by deducting it at source (in cases where individuals were employed by recruitment agencies) or setting up more regular payment plans including the use of direct debits or paying tax in advance (i.e. 'banking' the money with HMRC before it's due).

Awareness and knowledge of credit ratings

- 4.17 SA customers were next asked what they know about credit ratings. All SA customers understood that credit ratings are used by creditors to assess risk when deciding whether to lend money to an individual. Many were able to name at least one credit agency, with Experian most commonly mentioned. Knowledge about credit ratings tended to come from personal experience of applying for credit or though checking their personal credit ratings with an agency.
- 4.18 Customers mentioned a number of examples where a poor credit rating could have an impact on their lives, such as preventing them from getting a mortgage, loan or car finance.
- 4.19 Not all had knowledge of how credit ratings were calculated although, by and large, all were clear that non-payment of a debt could result in a poor credit rating. Some mentioned that having credit in a number of places could help to build a good credit rating (so long as debts were repaid on time).

I know that it is hard to get started but the more finance and credit cards you have, the more ratings you will get and they will go up.

SA Other, low value debt

- 4.20 A minority of SA customers believed that there was one central body who deals with all credit ratings (which some believed to be a Government body).
- 4.21 Some also felt that debts to Government bodies (including HMRC) could influence their credit score. The remainder felt that they would be concerned if they thought that tax debt could have an impact on credit ratings, because of the impact that it might have on them in the future
- 4.22 In general SA customers understood how a low credit rating could impact on their lives (sometimes through direct experience). In theory most said they would be concerned if they thought that tax debt could have an impact on credit ratings, due to the possible impact on their future ability to obtain mortgages, credit cards, utilities and mobile phones.

Potential influence of credit ratings on payment behaviour

- 4.23 SA customers were asked whether they were concerned that an outstanding SA debt to HMRC would affect their credit rating, and how they might react if they thought that tax debt could have an impact on credit ratings.
- 4.24 Although the thought that tax debt could have an impact on credit might cause concern, it would be unlikely to affect the behaviour of most of those who took part in the research either because;
- (As mentioned above) They thought HMRC already shared data on HMRC debts with credit ratings companies, or that credit ratings are calculated by the Government;
 - They already feared that their HMRC debt could have a more extreme impact (such as bankruptcy or prison) than affecting their credit rating;
 - They believed that their credit rating is already so low that sharing of information about HMRC debt would have no impact on it;



- They do not perceive any need for credit in near future (some of those who were living in social housing and in receipt of welfare benefits did not envisage a situation where they would need credit); or
 - In a few cases because they were already prioritising their HMRC debt.
- 4.25 However, there were a small number who would perhaps change their current behaviour slightly, if they thought that tax debt could have an impact on credit ratings, by:
- Trying harder to talk to HMRC again to resolve their debt or agree a repayment plan;
 - Being more likely to stick to a repayment plan (where this has already been agreed with HMRC);
 - Put HMRC debt on a level with other creditors (such as credit card companies, where these were perceived to chase more aggressively) when deciding what to prioritise.

All other debts affect credit ratings but are more pressing, more imminent than an HMRC debt. There is more impact if don't pay right away. It will affect your credit rating and you get your electricity or phone cut off, or court action. If you don't pay your HMRC debt, from what I can see, it is a small amount of interest.

SA Penalty Only, low value debt

- 4.26 This minority of customers included people with a range of debt types, but was more likely to be those with low value debts, or those with penalty-only debts.



5 Conclusions

5.1 The main conclusions that can be drawn from this research are that:

- The main causes of Value Added Tax (VAT) debt to HMRC are poor administration and cash flow problems. However in a few cases, late payment of VAT is part of a general coping strategy whereby many debts are not paid until they have been chased several times. The routes into Self Assessment (SA) debt are more varied and stem from financial hardship, disorganisation, a lack of understanding of tax rules and sometimes (as far as individuals are concerned) from HMRC errors or misunderstandings of their circumstances.
- Some SA customers consider their debt to be a high priority to pay but for many it is not. In cases where individuals believe there has been a misunderstanding on HMRC's part then they do not treat it as a debt and are assuming that eventually the debt will be cancelled. For others, day to day living expenses are prioritised as well as some other debts (either because they are smaller and more manageable, because they have been more consciously incurred or because individuals feel they have been treated more reasonably by the creditor).
- When businesses are repeat debtors - as many VAT debtors are - then they are confident in their ability to negotiate a repayment plan with HMRC (even if they meet initial resistance). Advisors – both formal and informal – also appear to play a role in encouraging businesses to negotiate.
- SA debtors feel less confident in being able to negotiate repayment arrangements; however, most do try to discuss their debt with HMRC. They have often had difficulties navigating HMRC structures and can feel a bit helpless as a result. Many found making contact with HMRC problematic (e.g. due to a lack of continuity or perceived “indifference” during discussions with HMRC staff). Some customers lack financial knowledge or confidence, or simply have limited financial resources at their disposal, so this can make them feel vulnerable.
- The VAT customers that took part in our research felt they might take their tax debt more seriously if they thought that tax debt could have an impact on credit ratings – principally due to its potential effect on the ongoing viability of their business (through impairing their ability to secure loans, credit cards, utilities, telecoms, etc.). However, the thought that credit ratings might be impacted by VAT debt tended to make no material difference to how businesses would decide what to pay and when. For many, their business's difficult financial circumstances simultaneously made it unaffordable to pay the VAT debt and demanded a focus on making payments to ensure the business's short-term survival.
- Similarly, most Self-Assessment customers would be more concerned about their debt if they thought that tax debt could have an impact on credit ratings, due to the possible impact on their future ability to obtain mortgages, credit cards, utilities and mobile phones. However, it would be unlikely to affect the behaviour of most of those who took part in the research. This was for a range of reasons – either they thought HMRC already shared data on HMRC debts with credit ratings companies, or that credit ratings are calculated by the Government; or they already feared that their HMRC debt could have a more extreme impact (e.g. bankruptcy; prison); or they believed that their credit rating is already very poor; or they could not conceive of having any need for credit in the foreseeable future.



- Only a minority of our sample of customers in debt to HMRC might therefore be swayed in practice by the thought that tax debt could affect their credit ratings:
 - Among businesses with VAT debt, those who could be influenced are generally those for whom late payment is part of a cyclical coping strategy. These businesses are very much aware that their debt does not affect their credit rating unless their case reaches the County Court and they need a strong credit rating to run their business effectively. Some of these customers might be persuaded to plan their VAT payments better and potentially to ring-fence VAT monies.
 - Among the minority of our sample of Self-Assessment customers who might change their behaviour by the thought that tax debt could affect their credit ratings, the change in behaviour would be to perhaps encourage greater tenacity in dealing with HMRC contact centres or perhaps to give their HMRC debt the same priority as other creditors (e.g. credit card companies) who are perceived to pursue payment more aggressively.



Appendix 1 - Illustrations of the circumstances surrounding VAT customers' tax debts and their payment behaviour

The following four illustrations (starting overleaf) show how these behaviours and decision-making models apply in the context of individual VAT customers' situations.



VAT – illustration 1:



Example of a 'cyclical' late payer where, if they thought that tax debt could have an impact on credit ratings, they might be prompted to alter their payment behaviour



VAT customer, Non-Prime Assessment, high value debt, 'larger' business



How the debt arose

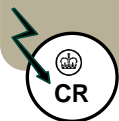
The business has substantial outgoings and poor cash flow at times. They are regularly in arrears to HMRC and see it as part and parcel of managing cash flow and juggling payments – they pay HMRC when the money to do so becomes available. They recognise the debt is of their own making.

They prioritise payment of outgoings that are deemed essential to the ongoing viability of the business, including staff wages, rents and key contractors. They also prioritise payments on bank loans due to 'punitive' penalties for defaulting. They have negotiated payment in instalments to HMRC – they were confident they would be able to; having done so many times.

Payment behaviour



If they thought that tax debt could have an impact on credit ratings



The customer is knowledgeable about credit ratings and is confident that they are not currently impacted on by HMRC debt. If they thought that tax debt could have an impact on credit ratings, this would be very concerning. Their relationships with key suppliers are relatively formal and they believe a poor credit rating could have a major impact on their ability to access loans, overdrafts and utilities contracts that are essential to their continued trading. **They would consider setting up a separate account to ring fence VAT monies to ensure regular payment in the light of this.**

The VAT system is quite a nice system to play because the penalties don't kick in until the third or fourth warning, so you are effectively getting an interest free loan.

VAT Non-Prime, high value debt

The rating is important everywhere... If I have a meeting with somebody... before they will start dealing with me, they will just search... It does worry me... it's how you're known in business – your identity is your credit scoring.

VAT Non-Prime, high value debt



VAT – illustration 2:



Example where, if they thought that tax debt could have an impact on credit ratings, this would be a concern in theory, but would be unlikely to materially influence payment behaviour in practice



VAT customer, Prime Assessment, low value debt, small business



How the debt arose

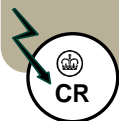
The customer's business partner was responsible for filing VAT returns and did so late on two successive occasions – which was ultimately a factor in his quitting the business. The business is currently experiencing wider financial difficulties. They recognise the debt is of their own making. This was their first experience of being in debt to HMRC.

Initially they were prioritising wages (due to these being business-critical, and because they have a perceived responsibility to their staff), alongside rent, utilities and telecoms (as these were business critical and more affordable). Their accountant, however, warned them that HMRC could really “knock your business” if they didn't pay, and advised them that an affordable repayment plan might be agreed. Although HMRC's stance varied, with perseverance a plan was put in place.

Payment behaviour



If they thought that tax debt could have an impact on credit ratings



In theory, if they thought that tax debt could have an impact on credit ratings, this would be a concern. It could affect their ability to lease essential equipment or obtain loans to expand the business. **In practice, however, they have already assumed their VAT debt might affect their credit rating; the business has limited funds to pay due to cash flow problems; and their accountant has already warned of the severe consequences of not paying. They do, however, suggest that a potential impact on credit ratings be mentioned in letters from HMRC to encourage them to enter into a dialogue with HMRC about repayment.**

The wage bill was a priority...the suppliers were certainly ahead [of HMRC], it's a matter of keeping the business ticking over, suppliers keep my business ticking over, HMRC is a sort of debt that wasn't actively disturbing my business.
VAT Prime, low value debt

We were in dire straits really bad, you know Cheques were bouncing...it all boils down to how much cash you have in the bank.
VAT Prime, low value debt



VAT – illustration 3:



Example where, if they thought that tax debt could have an impact on credit ratings, this would be unlikely to make any material difference to behaviour, as the business is not reliant on credit and they are already paying what they can afford to HMRC



VAT customer, Non-Prime Assessment, low value debt, small business



How the debt arose

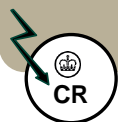
The customer considers their industry to be in decline. Their business has had major cash flow problems over the last five years. In addition, as a seasonal business, it generates most of its sales in the summer and relies on these sales to 'get through the winter'. With the value of summer sales now being lower than in previous years, the business has struggled to find funds to pay their VAT bill. They recognise the debt is of their own making.

The customer tends to prioritise payments to debtors who take the most immediate punitive action (such as fines, or threats of legal action). Utilities and telecoms suppliers fall into this category. Similarly, HMRC imposing a fine was a factor in their contacting HMRC to arrange repayment of the VAT debt. A payment plan is already in place, to pay HMRC £50 a month towards the VAT debt. On the other hand, they also tend to prioritise payments to suppliers who are accommodating (i.e. reciprocity also appears to influence payment decisions).

Payment behaviour



If they thought that tax debt could have an impact on credit ratings



The customer is nearing retirement and has no plans to take out any large credit agreements such as mortgages or loans (as ultimately they intend to wind the business up). The customer thinks the business could manage with a poor credit rating because of the informal relationships they have with suppliers. **Furthermore, despite prioritising other payments above the VAT debt, the business feels it is paying HMRC all that it can afford, and therefore there is nothing that could prompt them to pay more.**

For a debt like HMRC it is something you can chip away at with a small amount of money. If I need product Z because I have run out [and] I owe the supplier £500, I have got to pay them that £500 to keep the business.

VAT Non-Prime, low value debt

If I can't pay what I owe there is very little I can do about it. I still have to have a supply [of goods to sell] or pay wages or whatever so it wouldn't have any effect on any of those decisions.

VAT Non-Prime, low value debt



VAT – illustration 4:



Example where the VAT customer is ambivalent about repaying the HMRC debt because of their perceived intransigence over negotiating a repayment plan



VAT customer, Prime Assessment, high value debt



How the debt arose

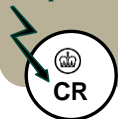
The customer was unable to find the paperwork for the business's VAT returns after his business partner left the company. The customer was also unable to find the business's password to submit tax returns online and was informed by HMRC he would have to wait two months to receive a new password. As a result of this, the business missed the VAT return submission deadline.

The customer has a number of competing debts including suppliers, a bank overdraft and insurance. Has arranged payment plans for each of these after being threatened with court action. There is also an element of reciprocity involved as he feels he has a 'duty' to pay creditors who demonstrated flexibility by negotiating a payment plan. By contrast, he has a more ambivalent attitude towards his HMRC debt because of the perceived difficulties he has had dealing with them. So far, HMRC have not agreed a repayment plan with him and so his VAT debt remains unresolved.

Payment behaviour



If they thought that tax debt could have an impact on credit ratings



The customer is not very concerned about credit ratings. He is aware his credit rating is poor already and has become accustomed to finding alternative ways to operate without the need for credit. The customer claims he would be more likely to repay the VAT debt if he was able to negotiate a repayment plan with HMRC that made repayments affordable.

I think with HMRC and the VAT debt I have stepped back a bit, due to the grief I have had trying to pay them and offering them the money. I think, 'you will get it when it comes', because all the other [creditors] have said 'yes we can set up a payment plan, this is what we need, this is what you owe, so fine not a problem'. But with HMRC it was just grief every time.

VAT Prime, high value debt

The credit ratings mess everything up, but after a while you just get used to it, you just have to work to get things...if you can get credit it is a bonus but if you can't, well it doesn't really stop you. I may not have a mortgage but I am renting a house

VAT Prime, high value debt



Appendix 2 - Illustrations of the circumstances surrounding Self Assessment customers' tax debts and their payment behaviour

The following four illustrations (starting overleaf) show how these behaviours and decision-making models apply in the context of individual Self Assessment customers' situations.



SA – illustration 1:



Example where an SA customer is currently feeling helpless over their position in relation to their debt to HMRC



SA customer, penalty only, low value debt

How the debt arose



Registered as self-employed as part of a Jobcentre Plus initiative. Secured a work contract but was unable to complete the first month because of inability to fund living expenses. Did not receive any payment because of not completing this first month hence never had any self-employment income. However incurred a penalty for not making an SA return. Now returned to claiming Employment and Support Allowance (ESA).

Not currently paying anything towards debt. Has made several attempts to contact HMRC through local offices. At one point someone from HMRC filled in a form for him to explain his situation. He believed that this stopped the demands for a short while but then they started again.

Payment behaviour



If they thought that tax debt could have an impact on credit ratings



Would have no impact on behaviour. Has a very low credit rating anyway (if it had been better he might have used a credit card to get him through his first month of employment). Is also under the impression that if he is unable to get the debt resolved then ultimately HMRC can send him to prison. Has a bit of a fatalistic attitude towards this as believes that his lack of funds means there is nothing further he can do to resolve the debt. But if he had any money then he would prioritise the HMRC debt.

“I had a bad credit rating before all this. I’d rather they said come down to our office and sit down and explain it to us and we’ll write it off. But it’s just going on and on and on. And they keep adding money on and it’s just putting a burden on me, someone who’s struggling in life as it is.”
SA Penalty only, low value debt

“I would prioritise HMRC obviously if I could because maybe if you could get money to pay them, then you would not go to prison, then pay your bank loan or whatever you’ve got after.”
SA Penalty only, low value debt



SA – illustration 2:



Example where, if they thought that tax debt could have an impact on credit ratings, then this might result in more action being taken to address the debt



SA customer, penalty only, low value debt



How the debt arose

Customer set up a small business while he was still a student but failed to complete a self-assessment return for one of the years he was trading. Was aware that he had to do it but found the form intimidating and kept putting off completing it. Ultimately did not believe he would owe tax because earnings were below the threshold. Incurred an initial penalty of £800. Debt now stands at £2,000 with interest. Feels this is unfair / disproportionate.

The customer contacted HMRC once he realised interest was being applied to the debt, as that made it more important to sort out. HMRC has agreed to freeze interest on the debt for time being. Customer needs to contact HMRC again to arrange a payment plan but hasn't got around to doing this yet. The customer has prioritised most other debts/payments over the HMRC debt - rent, utilities bills, student debt, overdraft, credit cards. Also in process of starting new business, and money for that has been a priority over the HMRC debt.

Payment behaviour



If they thought that tax debt could have an impact on credit ratings



This would push the HMRC debt up the priority list. The new business requires funds and he may need help from external sources. In this context, his personal credit rating becomes very important to preserve. In part debt has been caused by disorganisation and a potential impact on his credit rating would make him work harder to address this.

"I was also thinking ok I'll probably would get a fine sort of thing, but I was not prepared, totally not prepared for the fine that actually came my way, and then with interest on top of it and it growing at an alarming rate. That was just a shocker really"

SA Penalty only, low value debt

"One of the main reasons for me not paying [is] because I do want to dispute it, but there's no way for me to dispute and explain the circumstances that I was in at the time, personal ones in particular. That's the main reason for me not paying really, I kind of think that the second I start paying I've succumbed"

SA Penalty only, low value debt



SA – illustration 3:



Example where, if they thought that tax debt could have an impact on credit ratings, then this would not change behaviour greatly because the individual does not envisage any immediate need for credit



SA customer, Other debt, low value debt



How the debt arose

Self-employed contractor who often works abroad. Separated from his wife who had been looking after his finances. Shortly afterwards he received numerous bills that hadn't been paid including the mortgage, council tax, utilities etc. and a debt relating to unpaid SA tax and NI contributions with HMRC.

He has paid off the utilities and sorted some of the debts but the HMRC one is still outstanding. He does not feel that he can afford to pay the HMRC debt in one go and wishes to discuss a repayment plan. He has tried to contact HMRC about repaying the debt in stages but found it difficult to find the correct person to speak to. Around three months ago, he believes that he arranged for HMRC to send him a letter outlining possibilities for repayment. However, this letter has not arrived and he has just received further statements of the amount he owes.

Payment behaviour



If they thought that tax debt could have an impact on credit ratings

Does not feel that it would change his prioritisation of debts at all. He does not envisage any need for credit in the short to medium term. He is currently living with relatives and any vehicle that he is likely to use will be provided by his employer. He does not personally use credit cards (the credit card bill was his ex-wife's).



"If they wanted, they could arrange an interview, or send me a letter, 'How are you willing to pay? Are you willing to pay £100 a month?' I've had nothing like that whatsoever."

SA Other, low value debt

"They weren't willing to talk to be honest. All they were interested in was the [sum of money owed in SA tax and NI debt].... They said they'd get back to me but nothing happened."

SA Other, low value debt



SA – illustration 4:



Example where HMRC debt is currently being prioritised because of a sense of reciprocity over the fairness with which HMRC responded to a request to negotiate a repayment plan



SA customer, Other debt, high value debt



How the debt arose

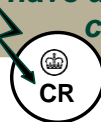
Customer works in the clothing business in a merchandising and sales role. The job involves a lot of travel abroad. After the customer's employer was bought out by another business, the sales staff were asked to carry on working for the new business but on a freelance basis. They were promised that they would receive a bonus which could be used to pay their Self-Assessment tax bill. However the employer went into liquidation before this bonus was paid leaving the individual with a tax bill of over £20,000.

The individual spoke to a debt advisory company (which has some Government backing). This agency helped him to negotiate with HMRC and a repayment plan was agreed where he pays £100 a month. Further down the line, an HMRC advisor told him that he could pay the money direct to HMRC (and bypass the debt advisory company) and this is what he did. In the near future, he is hoping to pay off some of the debt in lump sums through selling his house and through money received from inheritance. The fact that he was treated reasonably by HMRC means that he prioritises making his payment to HMRC above everything other than his mortgage. He is more ambivalent towards repaying his bank loan because the bank has not been willing to negotiate a repayment plan.

Payment behaviour



If they thought that tax debt could have an impact on credit ratings



Strong sense of reciprocity means that HMRC debt is already prioritised. His fear about the enforcement powers that he perceived HMRC to have, combined with the large sum of money involved, mean that he knew that the debt had to be addressed as soon as he received the first demand.

"Because I was able to talk to someone it dispelled the fear of the monolithic great non-communicative organisation that's just going to trundle through your life and that's what made the difference, that's the biggest thing that's made a difference to me"
SA Other, high value debt

"[I don't think they could share information with credit rating organisations], otherwise half the country would have one [a poor rating], all the self-employed people at any one time may have an issue with it and it would be a lot of 'getting all tied up in red tape' and legal arguments everywhere"
SA Other, high value debt



Appendix 3 – In-depth Interview Topic Guide: Self-Assessment

HMRC Debtor Knowledge

J5476

Date 1/2/16

In-depth Interview Topic Guide:
Self-Assessment

Face to face (c.60 minutes)

A Quota group

- INTERVIEWER – PLEASE CONFIRM PARTICIPANT QUOTA GROUP:

Customer type	High value debt	Low value debt	Total
Self-Assessment – Penalty only	0	7	7
Self-Assessment – Other	10	7	17
VAT – Prime Assessment	5	5	10
VAT – <u>Not</u> Prime Assessment	8	8	16
Total	23	27	50

- INTERVIEWER, IF AT ANY POINT IN THE INTERVIEW THE RESPONDENT BECOMES UNCOMFORTABLE TALKING ABOUT THE TOPIC:
 - TRY INDIRECT QUESTIONING STRATEGIES SUCH AS ASKING ABOUT ‘PEOPLE IN SIMILAR SITUATIONS’
 - REASSURE: It’s worth me saying again that your feedback will be reported so you remain completely anonymous; HMRC will not know whom we have spoken to; and it will greatly help if you feel able to answer all our questions frankly
 - NOTE THAT RESPONDENTS MAY REFUSE TO ANSWER SPECIFIC QUESTIONS
- NOTE ON TERMINOLOGY:** IF THE RESPONDENT DOESN’T UNDERSTAND THE TERM ‘**CREDIT RATING**’ TRY SAYING ‘**CREDIT SCORE**’ INSTEAD
- IF A SELF-ASSESSMENT-PENALTY ONLY CASE, THROUGHOUT** PLEASE LISTEN CAREFULLY FOR, AND EXPLORE, HOW PARTICIPANTS FEEL ABOUT THIS AS A PENALTY CHARGE RATHER THAN A DEBT RESULTING FROM AN UNPAID TAX FROM A COMPLETED SELF-ASSESSMENT.

B Introduction to the research (2 minutes)

- Introduce self
- Introduce IFF Research – independent research agency
- Subject:
 - IFF Research has been commissioned by HM Revenue & Customs to help HMRC understand the experiences of their customers when they owe Self-Assessment money to HMRC, and how HMRC can encourage customers to pay on time.



- I realise you may have paid off any Self-Assessment money owed to HMRC already, but we're still interested in your experiences and decisions when HMRC was asking you to pay money owed.
- You were randomly selected by HMRC as someone who might be able to help them understand more about these experiences. Your feedback will be reported so you remain completely anonymous – no individuals will be identified.
- Permission to record for researcher use only confirmed
- Participation is voluntary and – although it will greatly help if you answer all our questions frankly – you may decline to answer specific questions if you wish
- As a thank you IFF will make a £25 donation to the charity of your choice; we will confirm your choice of charity at the end of the interview

C Participant introductions and background (3 minutes)

- My first few questions are about your background, just to help put what we're about to talk about into context.
- Please can you tell me a bit about what you do for a living, and your sources of income?
- PROBE: And are you an employee, or self-employed, or something else?
- EXPLORE RESPONDENT'S ROLE WITHIN ANY BUSINESS(ES) THEY ARE INVOLVED IN

D The customer experience of owing Self-Assessment money to HMRC (10 minutes)

- As I mentioned earlier, our aim is to talk to you about your experiences of HMRC asking you to pay an outstanding Self-Assessment debt. How did this situation come about?
 - READ OUT TO ALL: This would have been for Self-Assessment tax; or for a penalty – for example, for completing a tax return late or not sending a tax return to HMRC when they expected you to.
 - INTERVIEWER - WE ARE HAPPY FOR THE OTHER DEBTS TO HMRC TO BE DISCUSSED IN PASSING WITHIN THE INTERVIEW, BUT PLEASE KEEP IN MIND THAT OUR INTEREST LIES IN THE SPECIFIC OUTSTANDING SELF-ASSESSMENT TAX DEBT/PENALTY.
- What's the current situation with this? PROBE: Has it been resolved?
 - IF SO: How?
 - IF PAID HMRC: What was it, specifically, that prompted you to pay in the end? Why?
- For how long [IF RESOLVED: were HMRC asking for payment / IF ONGOING: have HMRC been asking for payment]?
- What are / were your reasons for not paying [sooner]? PROBE: Why else?
 - IF FEELS MONEY OWED WAS NOT JUSTIFIED: Why do you feel HMRC's asking for money wasn't justified?
- Did you consult any sources of information or advice about paying this money? IF SO: What? What was the result?
- Did you speak to anyone about it? IF SO: Who? What was the outcome?



- Have you spoken / did you speak *to HMRC* about this? IF SO: What was your thinking about approaching them? And what was the result?
- IF NOT SPOKEN TO HMRC: Why not? What, if anything, might persuade / have persuaded you to do so?
- How do you feel about this situation, of HMRC asking for payment of an outstanding Self-Assessment debt?
- What do you think HMRC has done / will do about this situation?
 - PROBE: For instance, if you don't make a payment, what will happen?
- Is this the first time you've had a debt owed to HMRC? IF NO: What prompted you to pay in the past?

E Current prioritisation of payments to HMRC vs. others (15 minutes)

- And at the same time as HMRC asking you to pay this Self-Assessment debt, do you/did you have any other parties asking you for money?
 - IF YES: Were there any of these that you decided to pay off instead of the Self-Assessment payment HMRC was asking for? Which one(s)? Why? [INTERVIEWER TO NOTE COMPETING PAYMENT REQUESTS **AND ORDER OF PRIORITIES**]
 - IF RESPONDENT SEEMS ILL AT EASE DISCUSSING THIS: It's worth me saying again that your feedback will be reported so you remain completely anonymous and it will greatly help if you feel able to answer all our questions frankly. REVISIT ABOVE QUESTIONS IF NEEDED.
- Are there any other HMRC debts that are more of a priority than a Self-Assessment debt? If so why? If have others but they are not more of a priority, why?
- Roughly speaking, in a situation where you have HMRC and other parties asking for payment at the same time, what is your order of priorities? Why? [INTERVIEWER TO NOTE COMPETING PAYMENT REQUESTS **AND ORDER OF PRIORITIES**]
- And **after you've taken this view on who to pay first**, is there anything that can cause a particular payment to be pushed up your order of priority? IF YES: What? Why? [INTERVIEWER TO NOTE ANY **TRIGGERS**]
 - PROBE: If this happens, do you look for any information or talk to anyone about this? IF SO: What? How does this inform your thinking?
- I'm interested in how the possible consequences of not paying HMRC Self-Assessment money they're asking for, compare with the consequences of not paying other parties. I'm going to give you a series of situations in which a couple of parties might be asking you for money and I'd like you to say honestly which you feel is more important to pay **and why**.
 - SHOW SERIES OF PAIRS OF CARDS. FOR EACH, ASK RESPONDENT WHICH IS MORE IMPORTANT TO PAY OFF FIRST **AND WHY**
 - Mortgage vs. HMRC SA debt
 - A Credit Card bill vs. HMRC SA debt



- A Council Tax bill vs. HMRC SA debt
- An electricity, water or gas bill vs. HMRC SA debt
- A telecoms bill vs. HMRC SA debt
- A supplier or subcontractor bill vs. HMRC SA debt
- Any other HMRC debt vs HMRC SA debt
- INTRODUCE 2-3 COMPETING PAYMENT REQUESTS MENTIONED BY RESPONDENT EARLIER, VS. HMRC
- NOTE WHICH IS THE PRIORITY; EXPLORE FULLY PERCEIVED CONSEQUENCES OF EACH
- **LISTEN PARTICULARLY CAREFULLY FOR, AND EXPLORE, ANY MENTIONS OF CREDIT RATINGS**
- NB – RESPONDENT MAY SAY THAT (E.G.) THEY NEED GAS OR ELECTRICITY SUPPLY WHICH CAN BE CUT OFF, WHEREAS HMRC DOESN'T SUPPLY ANYTHING. TRY TO GET BEYOND THIS MORE 'HIGH LEVEL' RATIONALE: What do you see as the *other* possible consequences of having an HMRC Self-Assessment debt? PROBE: What *else* might happen?
 - PROBE UNTIL RESPONDENT HAS NOTHING FURTHER TO SAY
 - **LISTEN PARTICULARLY CAREFULLY FOR, AND EXPLORE, ANY MENTIONS OF CREDIT RATINGS**

Payment priority (please tick one party from each row)				Reasons
Mortgage		HMRC SA debt		
A Credit Card bill		HMRC SA debt		
A Council Tax bill		HMRC SA debt		
An electricity, water or gas bill		HMRC SA debt		
Telecoms bill		HMRC SA debt		
Supplier or subcontractor bill		HMRC SA debt		
Any other HMRC debt		HMRC SA debt		



Other: _____		HMRC SA debt		
Other: _____		HMRC SA debt		
Other _____		HMRC SA debt		

F Exploration of knowledge of credit ratings (10 minutes)

- Changing the subject slightly, can you tell me what you know about credit ratings? Apologies if any of these questions seem too obvious – please imagine you are explaining credit ratings to someone who has never heard of them before.
 - What are they for?
 - Who generates them, and how? What information is used to produce someone’s credit rating?
 - And what effects can they have on you?
- How confident are you of this? Why? Where does this knowledge come from?
- As far as you know, what is your current standing, in terms of credit rating? PROBE: Positive, negative, no knowledge of rating? Where does this impression come from? PROBE TO UNPICK DEFINITE KNOWLEDGE FROM ASSUMPTIONS / INFERENCES
- IF NOT MENTIONED BY RESPONDENT, EXPLAIN THAT A CREDIT RATING IS CHECKED AS A WAY OF ESTABLISHING HOW LIKELY SOMEONE IS TO BE ABLE TO PAY MONEY BACK WHEN GIVEN CREDIT; AND CAN LEAD TO AN APPLICATION FOR CREDIT BEING TURNED DOWN
- In what sorts of situations would you need a good credit rating? PROBE: What sort of credit agreements do you already have in place,?
 - NOTE ALL MENTIONS ABOVE ON CARDS; THEN
 - SHOW SET OF CARDS (ALL CARDS IN FRONT OF RESPONDENT AT ONCE, INCLUDING SPONTANEOUS MENTIONS BY RESPONDENT ABOVE):
 - Mortgages
 - Renting property
 - Credit cards
 - Loans
 - Energy bills
 - Car, buildings or contents insurance
 - Mobile phone contracts
- WITH ALL THESE CARDS IN FRONT OF RESPONDENT, ASK: In what situations would being turned down for credit be most concerning or worrying? Why? ESTABLISH AN ORDER OF PRIORITY AND PROBE FOR REASONS.



- INTERVIEWER – WE WANT THE RESPONDENT TO TAKE INTO ACCOUNT THE REALITY OF THEIR CURRENT SITUATION, AND CONSIDER THIS WITH A VIEW TO THE FUTURE IN GENERAL (e.g. while the ability to get a mortgage may be important, if they already have one and are unlikely to need another one, this would remove this as a serious concern)
- PROBE: Have you any direct experiences of this? IF SO: In relation to which types of credit agreement? How did you feel about this at the time? What concerned you most about it?
- PROBE: Do you feel any differently if other people, such as family or colleagues, are affected? IF SO: In what sorts of situations might this crop up?

Types of credit agreement	Order of concern (i.e. 1 is most concerning)	Reasons
Mortgages		
Renting property		
Credit cards		
Loans		
Energy bills		
Car, buildings or contents insurance		
Mobile phone contracts		
Other: _____		
Other: _____		
Other: _____		

- And do you think that your personal credit rating could ever affect your ability to get credit for these sorts of things in a business / work context?
 - IF YES: In what ways?
 - ALL: Where does this impression come from?

G Influence of credit ratings on payment priorities (5 minutes)



- IF NOT FULLY EMERGED ALREADY¹: I'm interested in how much a possible impact on your *credit rating* influences your decisions about what to pay and when.
 - INTERVIEWER – PROMPT WITH NOTES MADE EARLIER ABOUT PRIORITIES FOR PAYMENT; AND TRIGGERS THAT CAN CHANGE THIS PRIORITISATION – E.G. “You said earlier that you tend to pay X, Y and Z first, but then A, B and C can cause some payments to move up the order of priority.”
 - How much of a role does the possible impact on credit ratings influence these decisions? In what circumstances? Why?

H Potential influence on payment priorities of HMRC debt affecting credit ratings (15 minutes)

- IF NOT FULLY EMERGED ALREADY²: Have you ever been concerned that an outstanding debt to HMRC would affect your personal credit rating?
 - IF SO: What prompted this concern? What effect did this have on your payment behaviour at the time (if any)? Why?
- IF NOT FULLY EMERGED ALREADY³: If you knew HMRC shared information about outstanding debts with the agencies that compile credit ratings, would this have any effect on your payment behaviour? Why?
 - **KEY PROBES:**
 - IF YES: In what way(s)? Why?
 - IF NO: Why not?
 - INTERVIEWER – NOTE CAREFULLY HOW RESPONDENT REACTS, E.G. “I THOUGHT THEY ALREADY DID THAT”
 - IF RESPONDENT BELIEVES HMRC DOES THIS ALREADY EXPLORE: Where does that impression come from?
- And if you knew HMRC shared information about outstanding Self-Assessment debts with the agencies that compile credit ratings, what effect would this have on your payment behaviour in the following situations? Which payment would you see as more important to pay, **and why?**
 - **REVISIT** SERIES OF PAIRS OF CARDS. FOR EACH, ASK RESPONDENT WHICH THEY WOULD SEE AS **MORE IMPORTANT TO PAY OFF FIRST AND WHY**
 - Mortgage vs. HMRC SA debt
 - A Credit Card bill vs. HMRC SA debt
 - A Council Tax bill vs. HMRC SA debt
 - An electricity, water or gas bill vs. HMRC SA debt
 - A telecoms bill vs. HMRC SA debt

¹ INTERVIEWER – IF VIEW HAS PARTLY EMERGED, PLEASE ERR ON SIDE OF CAUTION AND EXPLORE MORE THOROUGHLY AGAIN HERE, E.G. USING PHRASES SUCH AS “JUST TO CHECK...”.

² INTERVIEWER – IF VIEW HAS PARTLY EMERGED, PLEASE ERR ON SIDE OF CAUTION AND EXPLORE MORE THOROUGHLY AGAIN HERE, E.G. USING PHRASES SUCH AS “JUST TO CHECK...”.

³ INTERVIEWER – IF VIEW HAS PARTLY EMERGED, PLEASE ERR ON SIDE OF CAUTION AND EXPLORE MORE THOROUGHLY AGAIN HERE, E.G. USING PHRASES SUCH AS “JUST TO CHECK...”.



- A supplier or subcontractor bill vs. HMRC SA debt
 - Any other HMRC debt vs HMRC SA debt
 - INTRODUCE 2-3 COMPETING PAYMENT REQUESTS MENTIONED BY RESPONDENT EARLIER, VS. HMRC
- NOTE WHICH IS THE PRIORITY; WITH REASONS – MAKE NOTE AGAINST TABLE COMPLETED IN SECTION E
- Imagine you had an outstanding Self-Assessment debt with HMRC in the future, and they were approaching the point where they would share information about this debt with agencies that compile credit ratings. What would you want HMRC to tell you about this, in this situation? Why?
 - PROBE: In what way should they inform you? What specifically would you want to know? What else?
 - How would you react to this? Why?
- How do you think customers in a similar situation to yourself might react? Why?
- If you were HMRC, what would you say to customers about this, to encourage them to pay or contact HMRC sooner? What sort of words would you use to say this? (e.g. warning about potential effect on credit ratings).
 - What has worked (i.e. encourages you to contact and/or pay organisation you own a debt to) for previous debts you have had (in terms of type of communication and messaging of that communication)?
 - At what point should HMRC undertake this action?
 - Are there different stages of escalation, and how should these differ (e.g. initial letter through to ‘final warning’) in terms of language and possible threat of sanctions (e.g. impact on credit rating)?

I Final comments (5 minutes)

- What, if any, other comments or suggestions would you like to add regarding this subject?
- Finally, just for us to get a sense of the mix of different people we’re speaking to, which of the following three statements would you say comes closest to describing your own attitude towards financial products?
INTERVIEWER - SHOW CARD AND CODE RESPONSE:

I have a very good knowledge and understanding of financial products and services; I like reading the financial pages of newspapers and I like to make my own choices about financial products and services	1	
I have a reasonable knowledge of personal finance products and services and I am able to weigh up the advice of finance professionals when choosing a product to suit my personal circumstances	2	
I generally rely on other people to help me with finding the products which are best for me	3	
DO NOT SHOW: Don't know	4	



INTERVIEWER – PLEASE COMPLETE:

As a thank you for your time, we are offering £25 as a donation to a charity of your choice. I'll just need to confirm some details:

Name of charity _____

These payments will be made to charities in early April.

THANK RESPONDENT:

On behalf of IFF Research and HM Revenue & Customs, thank you very much for your time.

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



Appendix 4 – In-depth Interview Topic Guide: Value Added Tax

HMRC Debtor Knowledge

J5476

Date 1/2/16

In-depth Interview Topic Guide:
VAT

Face to face (c.60 minutes)

A Quota group

- INTERVIEWER – PLEASE CONFIRM PARTICIPANT QUOTA GROUP:

Customer type	High value debt	Low value debt	Total
Self-Assessment – Penalty only	0	7	7
Self-Assessment – Other	10	7	17
VAT – Prime Assessment	5	5	10
VAT – <u>Not</u> Prime Assessment	8	8	16
Total	23	27	50

- INTERVIEWER, IF AT ANY POINT IN THE INTERVIEW THE RESPONDENT BECOMES UNCOMFORTABLE TALKING ABOUT THE TOPIC:
 - TRY INDIRECT QUESTIONING STRATEGIES SUCH AS ASKING ABOUT ‘OTHER BUSINESSES IN SIMILAR SITUATIONS’
 - REASSURE: It’s worth me saying again that your feedback will be reported so you and your business remain completely anonymous; HMRC will not know whom we have spoken to; and it will greatly help if you feel able to answer all our questions frankly
 - NOTE THAT RESPONDENTS MAY REFUSE TO ANSWER SPECIFIC QUESTIONS
- **IF A VAT PRIME ASSESSMENT CASE, THROUGHOUT** PLEASE LISTEN CAREFULLY FOR, AND EXPLORE, ANY VIEWS ON THE FACT THAT THE DEBT IS BASED ON HMRC’S ASSESSMENT OF WHAT THE CUSTOMER OWES, RATHER THAN BEING BASED ON AN ACTUAL VAT RETURN

B Introduction to the research (2 minutes)

- Introduce self
- Introduce IFF Research – independent research agency
- Subject:
 - IFF Research has been commissioned by HM Revenue & Customs to help HMRC understand the experiences of their customers when they owe VAT money to HMRC, and how HMRC can encourage customers to pay on time.
 - I realise you may have paid off any VAT money your business owed to HMRC already, but we’re still interested in your experiences and decisions when HMRC was asking you to pay.



- You were randomly selected by HMRC as someone who might be able to help them understand more about these experiences. Your feedback will be reported so you and your business remain completely anonymous – no individuals will be identified.
- Permission to record for researcher use only confirmed
- Participation is voluntary and – although it will greatly help if you answer all our questions frankly – you may decline to answer specific questions if you wish
- As a thank you IFF will make a £25 donation to the charity of your choice; we will confirm your choice of charity at the end of the interview

C Participant introductions and background (3 minutes)

- My first few questions are about the background to your business, just to help put what we're about to talk about into context.
- Please can you tell me a bit about what your business does, how long it's been established, and how many people it employs?
- What's your role within the business? And what involvement do you have in making decisions about payments to creditors?

D The customer experience of owing money to HMRC (10 minutes)

- As I mentioned earlier, our aim is to talk to you about your experiences of HMRC asking for payment of an outstanding VAT debt. How did this situation come about?
 - READ OUT TO ALL: This may have been for unpaid VAT and/or penalties and surcharges; or for payment of the amount of VAT that HMRC assessed that you owe, if you have not completed your return.
 - INTERVIEWER - WE ARE HAPPY FOR THE OTHER DEBTS TO HMRC TO BE DISCUSSED IN PASSING WITHIN THE INTERVIEW, BUT PLEASE KEEP IN MIND THAT OUR INTEREST LIES IN THE SPECIFIC OUTSTANDING VAT DEBT/PENALTY.
- What's the current situation with this? PROBE: Has it been resolved?
 - IF SO: How?
 - IF PAID HMRC: What was it, specifically, that prompted you to pay HMRC in the end? Why?
- For how long [IF RESOLVED: were HMRC asking for payment / IF ONGOING: have HMRC been asking for payment]?
- What are / were your business's reasons for not paying [sooner]? PROBE: Why else?
 - IF FEELS MONEY OWED WAS NOT JUSTIFIED: Why did your business take the view that HMRC's asking for VAT money wasn't justified?
- Was anyone else within the business involved in this decision-making process? IF SO: Who? How did they influence the decision?
- Did you consult any external sources of information or advice about paying HMRC? IF SO: What / whom? PROBE: Any accountants or agents? IF SO: Whom? What was the result?
- Did you speak to anyone *else* about it? IF SO: Whom? What was the outcome?



- Did you / your business speak *to HMRC* about this? IF SO: What was the thinking behind approaching them? And what was the result?
- IF NOT SPOKEN TO HMRC: Why not? What, if anything, might persuade / have persuaded you to do so?
- How do you feel about this situation, of HMRC asking for payment of an outstanding VAT debt?
- What do you think HMRC has done / will do about this situation?
 - PROBE: For instance, if you don't make a payment, what will happen?
- Is this the first time you've had a debt owed to HMRC? IF NO: What prompted you to pay in the past?

E Current prioritisation of payments to HMRC vs. others (15 minutes)

- And at the same time as HMRC asking the business for this VAT debt, were there any other parties asking you for significant sums?
 - IF YES: Were there any of these that the business decided to pay off instead of the VAT payment HMRC was asking for? Which one(s)? Why? [INTERVIEWER TO NOTE COMPETING PAYMENT REQUESTS **AND ORDER OF PRIORITIES**]
 - IF RESPONDENT SEEMS ILL AT EASE DISCUSSING THIS: It's worth me saying again that your feedback will be reported so you and your business remain completely anonymous and it will greatly help if you feel able to answer all our questions frankly. REVISIT ABOVE QUESTIONS IF NEEDED.
- Are there any other HMRC debts that are more of a priority than a VAT debt? If so why? If have others but they are not more of a priority, why?
- In a situation where you have various parties, including HMRC, asking the business for money at the same time, how do you decide what to pay and when?
 - Who's involved in these decisions? What influence do they have?
- In this situation, what is the order of priorities? Why? [INTERVIEWER TO NOTE COMPETING PAYMENT REQUESTS **AND ORDER OF PRIORITIES**]
- And **after the business has taken this view on who to pay first**, is there anything that can cause a particular payment to be pushed up the order of priority? IF YES: What? Why? [INTERVIEWER TO NOTE ANY **TRIGGERS**]
 - PROBE: If this happens, do you consult any external sources of information or advice about this? IF SO: What or whom? How does this inform your thinking?
- I'm interested in how the possible consequences of your business not paying HMRC VAT money they're asking for, compare with the consequences of not paying other parties. I'm going to give you a series of situations in which a couple of parties might be asking you for money and I'd like you to say honestly which you feel is more important for your business to pay **and why**.
 - SHOW SERIES OF PAIRS OF CARDS. FOR EACH, ASK RESPONDENT WHICH IS MORE IMPORTANT FOR THE BUSINESS TO PAY OFF FIRST **AND WHY**
 - A business rent bill vs. HMRC VAT debt
 - A business rates bill vs. HMRC VAT debt
 - An electricity, water or gas bill vs. HMRC VAT debt



- An telecoms bill vs. HMRC VAT debt
 - A supplier or subcontractor bill vs. HMRC VAT debt
 - Employee wages vs. HMRC VAT debt
 - Other HMRC debt vs HMRC VAT debt
- INTRODUCE 2-3 COMPETING PAYMENT REQUESTS MENTIONED BY RESPONDENT EARLIER, VS. HMRC
 - NOTE THE PRIORITY; EXPLORE FULLY PERCEIVED CONSEQUENCES OF EACH
 - **LISTEN PARTICULARLY CAREFULLY FOR, AND EXPLORE, ANY MENTIONS OF CREDIT RATINGS**
- NB – RESPONDENT MAY SAY THAT (E.G.) THEY NEED GAS OR ELECTRICITY SUPPLY WHICH CAN BE CUT OFF, WHEREAS HMRC DOESN'T SUPPLY ANYTHING. TRY TO GET BEYOND THIS MORE 'HIGH LEVEL' RATIONALE: What do you see as the *other* possible consequences to your business of having an HMRC VAT debt? PROBE: What *else* might happen?
 - PROBE UNTIL RESPONDENT HAS NOTHING FURTHER TO SAY
 - **LISTEN PARTICULARLY CAREFULLY FOR, AND EXPLORE, ANY MENTIONS OF CREDIT RATINGS**

Payment priority (please tick one party from each row)				Reasons
A business rent bill		HMRC VAT debt		
A business rates bill		HMRC VAT debt		
An electricity, water or gas bill		HMRC VAT debt		
Telecoms bill		HMRC VAT debt		
Supplier or subcontractor bill		HMRC VAT debt		
Employee wages		HMRC VAT debt		
Other HMRC debt		HMRC VAT debt		



Other: _____		HMRC VAT debt		
Other: _____		HMRC VAT debt		
Other _____		HMRC VAT debt		

F Exploration of knowledge of credit ratings (10 minutes)

- Changing the subject slightly, can you tell me what you know about business credit ratings? Apologies if any of these questions seem too obvious – please imagine you are explaining credit ratings to someone who has never heard of them before.
 - What are they for?
 - Who generates them, and how? What information is used to produce a business's credit rating?
 - And what effects can they have on your business?
- How confident are you of this? Why? Where does this knowledge come from?
- As far as you know, what is your business's current standing, in terms of credit rating? PROBE: Positive, negative, no knowledge of rating? Where does this impression come from? PROBE TO UNPICK DEFINITE KNOWLEDGE FROM ASSUMPTIONS / INFERENCES
- IF NOT MENTIONED BY RESPONDENT, EXPLAIN THAT A CREDIT RATING IS CHECKED AS A WAY OF ESTABLISHING HOW LIKELY A BUSINESS IS TO BE ABLE TO PAY MONEY BACK WHEN GIVEN CREDIT; AND CAN LEAD TO AN APPLICATION FOR CREDIT BEING TURNED DOWN
- In what sorts of situations would your business need a good credit rating? PROBE: What sort of credit agreements do you already have in place, for your business?
 - NOTE ALL MENTIONS ABOVE ON CARDS; THEN
 - SHOW SET OF CARDS (ALL CARDS IN FRONT OF RESPONDENT AT ONCE, INCLUDING SPONTANEOUS MENTIONS BY RESPONDENT ABOVE):
 - Mortgages
 - Renting property
 - Credit cards
 - Loans
 - Energy bills
 - Car, buildings or contents insurance
 - Mobile phone contracts
 - Trade credit



- WITH ALL THESE CARDS IN FRONT OF RESPONDENT, ASK: In what situations would being turned down for credit, in a business context be most concerning or worrying? Why? ESTABLISH AN ORDER OF PRIORITY AND PROBE FOR REASONS.
 - INTERVIEWER – WE WANT THE RESPONDENT TO TAKE INTO ACCOUNT THE REALITY OF THEIR CURRENT SITUATION, AND CONSIDER THIS WITH A VIEW TO THE FUTURE IN GENERAL (e.g. while the ability to get a mortgage may be important, if they already have one and are unlikely to need another one, this would remove this as a serious concern)
 - PROBE: Have you any direct experiences of this? IF SO: In relation to which types of credit agreement? How did you feel about this at the time? What concerned you most about it?
 - PROBE: Do you feel any differently if other people, such as business partners, colleagues or family, are affected? IF SO: In what sorts of situations might this crop up?

Types of credit agreement	Order of concern (i.e. 1 is most concerning)	Reasons
Mortgages		
Renting property		
Credit cards		
Loans		
Energy bills		
Car, buildings or contents insurance		
Mobile phone contracts		
Trade credit		
Other: _____		
Other: _____		
Other: _____		

- And do you think that your business credit rating could ever affect your ability to get credit for these sorts of things in a personal context?
 - IF YES: In what ways?
 - ALL: Where does this impression come from?



G Influence of credit ratings on payment priorities (5 minutes)

- IF NOT FULLY EMERGED ALREADY⁴: I'm interested in how much a possible impact on your business's *credit rating* influences your business's decisions about what to pay and when.
 - INTERVIEWER – PROMPT WITH NOTES MADE EARLIER ABOUT PRIORITIES FOR PAYMENT; AND TRIGGERS THAT CAN CHANGE THIS PRIORITISATION – E.G. “You said earlier that your business tends to pay X, Y and Z first, but then A, B and C can cause some payments to move up the order of priority.”
 - How much of a role does the possible impact on your business's credit ratings influence these decisions? In what circumstances? Why?

H Potential influence on payment priorities of HMRC VAT debt affecting credit ratings (15 minutes)

- IF NOT FULLY EMERGED ALREADY⁵: Have ever been concerned that an outstanding VAT debt to HMRC would affect your business's credit rating?
 - IF SO: What prompted this concern? What effect did this have on your payment behaviour at the time (if any)? Why?
- IF NOT FULLY EMERGED ALREADY⁶: If you knew HMRC shared information about outstanding VAT debts with the agencies that compile credit ratings, would this have any effect on your payment behaviour?
 - **KEY PROBES:**
 - IF YES: In what way(s)? Why?
 - IF NO: Why not?
 - INTERVIEWER – NOTE CAREFULLY HOW RESPONDENT REACTS, E.G. “I THOUGHT THEY ALREADY DID THAT”
 - IF RESPONDENT BELIEVES HMRC DOES THIS ALREADY EXPLORE: Where does that impression come from?
- And if you knew HMRC shared information about outstanding VAT debts with the agencies that compile credit ratings, would this have any effect on your payment behaviour in the following situations? PROBE: Which payment would your business see as more important to pay, **and why?**
 - **REVISIT SERIES OF PAIRS OF CARDS. FOR EACH, ASK RESPONDENT WHICH THEY WOULD SEE AS MORE IMPORTANT FOR THEIR BUSINESS TO PAY OFF FIRST AND WHY**
 - A business rent bill vs. HMRC VAT debt
 - A business rates bill vs. HMRC VAT debt
 - An electricity, water or gas bill vs. HMRC VAT debt
 - An telecoms bill vs. HMRC VAT debt

⁴ INTERVIEWER – IF VIEW HAS PARTLY EMERGED, PLEASE ERR ON SIDE OF CAUTION AND EXPLORE MORE THOROUGHLY AGAIN HERE, E.G. USING PHRASES SUCH AS “JUST TO CHECK...”.

⁵ INTERVIEWER – IF VIEW HAS PARTLY EMERGED, PLEASE ERR ON SIDE OF CAUTION AND EXPLORE MORE THOROUGHLY AGAIN HERE, E.G. USING PHRASES SUCH AS “JUST TO CHECK...”.

⁶ INTERVIEWER – IF VIEW HAS PARTLY EMERGED, PLEASE ERR ON SIDE OF CAUTION AND EXPLORE MORE THOROUGHLY AGAIN HERE, E.G. USING PHRASES SUCH AS “JUST TO CHECK...”.



- A supplier or subcontractor bill vs. HMRC VAT debt
 - Employee wages vs. HMRC VAT debt
 - Other HMRC debt vs HMRC VAT debt
 - INTRODUCE 2-3 COMPETING PAYMENT REQUESTS MENTIONED BY RESPONDENT EARLIER, VS. HMRC
- NOTE WHICH IS THE PRIORITY; WITH REASONS – MAKE NOTE AGAINST TABLE COMPLETED IN SECTION E
- Imagine HMRC were asking your business to pay an outstanding VAT debt in the future, and they were approaching the point where they would share information about this VAT debt with agencies that compile business credit ratings. What would you want HMRC to tell your business about this, in this situation? Why?
 - PROBE: In what way should they inform you? What specifically would you want to know? What else?
 - How would your business react to this? Why?
- How do you think businesses in a similar situation to yourself might react? Why?
- If you were HMRC, what would you say to business customers about this, to encourage them to pay or contact HMRC sooner? What sort of words would you use to say this? (e.g. warning about potential effect on credit ratings).
 - What has worked (i.e. encourages you to contact and/or pay organisation you own a debt to) for previous debts you have had (in terms of type of communication and messaging of that communication)?
 - At what point should HMRC undertake this action?
 - Are there different stages of escalation, and how should these differ (e.g. initial letter through to 'final warning') in terms of language and possible threat of sanctions (e.g. impact on credit rating)?

I Final comments (5 minutes)

- What, if any, other comments or suggestions would you like to add regarding this subject?
- Finally, just for us to get a sense of the mix of different people we're speaking to, which of the following three statements would you say comes closest to describing your own attitude towards financial products?
INTERVIEWER - SHOW CARD AND CODE RESPONSE:

I have a very good knowledge and understanding of financial products and services; I like reading the financial pages of newspapers and I like to make my own choices about financial products and services	1	
I have a reasonable knowledge of personal finance products and services and I am able to weigh up the advice of finance professionals when choosing a product to suit my personal circumstances	2	
I generally rely on other people to help me with finding the products which are best for me	3	
DO NOT SHOW: Don't know	4	



INTERVIEWER – PLEASE COMPLETE:

As a thank you for your time, we are offering £25 as a donation to a charity of your choice. I'll just need to confirm some details:

Name of charity _____

These payments will be made to charities in early April.

THANK RESPONDENT:

On behalf of IFF Research and HM Revenue & Customs, thank you very much for your time.

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:
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Finish time:	Interview Length	Mins
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