Understanding the impact of taxation cycles: Business experience and compliance behaviour of Small and Medium Sized Enterprises

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Contents

1. Key Findings

This report details the findings of a qualitative investigation into reporting and payment cycles for small and medium sized enterprises (SMEs). The research explored how well business cycles fit into current taxation cycles and how they could be integrated, looking in particular at increased frequency of reporting and payment. The methodology entailed in-depth interviews with 40 SMEs, 16 of whom were reconvened in an online discussion to further develop the findings.

Understanding businesses and their cycles:

- Overall, SMEs felt their business and tax cycles fitted together well.
- Approaches to payment and reporting varied by SME size and turnover, complexity, cash flow, financial confidence and degree of organisation.
- Based on these factors, four types of business were identified: *simple; more complex and structured; cash flow conscious;* and *open to improvement***.** These could be identified by sector (cash flow conscious businesses typically coming from sectors with variable or seasonal income) and age of business (open to improvement businesses being newer having experienced errors), as well as other factors.

Responses to more frequent reporting and payments:

- Frequent payment was valued for managing cash flow, though practical implementation raised some concerns.
- More frequent reporting held little initial appeal, being associated with administrative burden and seen as 'controlling' by *simple* businesses.
- However, particularly for those *open to improvement,* breaking down reporting and payment was hoped to help with accuracy of returns and their overall control of the business.
- Those who had moved to more frequent cycles experienced the transition as largely positive, with a better financial position and alignment to business cycles.

Implications and communications:

- Communications need to address SMEs' emotional and practical concerns and actively state what integrated reporting and payment can do, as most did not see benefits until presented.
- As the key benefits and concerns differed by business type, communications should address these specific issues.
- Smaller*, simple* businesses valued their autonomy and straightforward cycles, so need reassurance that change would be easy, free and supported. *More complex and structured* businesses need to hear the benefit of an adjusted system, that it could fit their structures, and handle the volume and nature of operations. *Cash-flow conscious* businesses want to avoid 'shocks', so seek a system to help, not limit, ability to manage cash flow. Finally, those *open to improvement* are responsive to multiple benefits, if confident the transition is easy, efficient and supported.

2. Executive Summary

Introduction to the research

Small and medium sized enterprises (SMEs) report their liabilities and make payments to HMRC in a variety of cycles, ranging from weekly to annually. Previous evidence suggested voluntary tax compliance could be encouraged if taxation cycles were better aligned with existing activities. The primary aim of this qualitative research was to understand how a range of businesses fit their taxation cycles within their business operations, and to explore practical and attitudinal implications of moving to more frequent reporting and payment for tax.

The research was undertaken over two phases: Phase 1 comprised 40 face to face/telephone in-depth interviews with SMEs across a range of size, turnover, age of business, sector, and use of an accountant. In Phase 2, 16 participants were reconvened for an online discussion group and forum to develop Phase 1 findings.

Key findings

Understanding businesses and their cycles: All SMEs in this research had some kind of financial system in place to meet their business needs and tax obligations. Over time, they had established their own way of organising this, which meant most felt their business and tax cycles fitted together relatively well. Their approaches to tax reporting and payments varied according to several factors, namely: size and turnover, complexity of the business, nature of the business' cash flow, confidence dealing with tax (and support available), and their financial organisation.

Based on these factors, four types of SME were identified:

- *simple*: typically smaller (for the SME population), simple operations which they operated flexibly, for whom taxes (usually SA) were relatively straightforward
- *more complex and structured*: a more formalised structure (both in the form of accountants and accounting software) in place, used to manage taxes, typically on the larger end of the SME spectrum in turns of turnover and number of employees
- *cash flow conscious*: tended to experience peaks and troughs in income and needed to actively manage it. Some had issues aligning their tax and business cycles
- *open to improvement*: typically lacking experience and/or organisation, often reliant on support, and looking for ways to make taxes easier to manage

Responses to more frequent reporting and payments: As SMEs were broadly satisfied with the way their tax and business cycles fitted together, most struggled to think how they could be better integrated. However, some suggested improvements that might help with their priorities to save time, money, and manage the business better. Suggestions included automating processes via more integrated systems and linking data to produce information of use to the business, while a few businesses spontaneously mentioned more frequent payments to smooth out their cash flow.

Many SMEs could see that paying smaller amounts more frequently could enable them to better plan their finances and avoid 'shocks', especially for taxes paid annually (e.g. CT). Additionally, some felt it fit with their current activities, for both tax and other payments (e.g.

utilities bills). However, for others who ‘dipped’ into money set aside during quieter periods, paying more frequently would lose this flexibility. Some also felt they would lose out on interest accrued on the money they set aside.

Reactions towards more frequent reporting were predominantly negative, due to associations with administrative burden and the sense it was for HMRC, rather than the business. Most saw no or few obvious benefits, although businesses which were more open could see advantages to breaking down reporting over the year, in helping to have a better overview of the business ‘position’ nearer to real time. Other advantages cited by these businesses were improved accuracy of calculations and a reduced need for an accountant. These advantages and disadvantages were felt to varying degrees across different types of business, outlined below.

Simple SMEs and *more complex and structured* SMEs took little interest in more frequent reporting and payments. Whilst at different ends of the spectrum in size and operations, both had a system in place which was already tailored to their needs, so were reluctant to make changes. It held greater appeal among SMEs who had experienced issues managing their cash flow and tax obligations historically. *Cash flow conscious* businesses saw more frequent payments as a way of addressing some of their challenges with cash flow, although they were concerned about the loss of flexibility and access to money. SMEs *open to improvement* saw increased frequency as potentially helping them improve their control and organisation of their tax affairs and business more widely, which could also reduce their reliance on accountants.

Those who had moved to more frequent VAT reporting and payments (from quarterly to monthly) had done so for various reasons, primarily motivated by cash flow challenges, but also anticipated it would align with their business cycles. For most, the transition had been less burdensome than expected, helped cash flow and synchronisation of their business. Negative experiences had been driven by complications related to payment timings.

Making more frequent reporting and payments work for SMEs through a more integrated system: As the research developed, it emerged that one of the central needs for SMEs, in terms of making more frequent reporting and payment cycles work for them, was an ‘integrated system’ for paying and reporting taxes. Making such an integrated system work was explored primarily in the second phased of the project.

Businesses had a number of common expectations and needs from a more frequent, further integrated system; namely that it was user friendly, accessible, adaptable to their own business and efficient. Some hoped it might also cut costs (through reduced need for accountant support), and at the least they expected it to be free. Reassurance about data security was important, including that it was managed by a trusted supplier – which they expected to be HMRC, or their current provider. All expected help to be at hand throughout, both at set up and during the process and delivery mostly online but supplemented by a helpline.

Different types of business had their own particular needs regarding the system itself and the transition**.** For example, *small, simple businesses* would potentially need to change recording method, so expected that any software would be easy to use, free and well-supported by HMRC. *More complex and structured* businesses anticipated significant challenges if any integrated system did not fit their current systems and structures, so expected reassurance and technical advice about software compatibility. They also wanted a system capable of holding different types of data (controlled via access rights) to oversee the business more effectively. The transition for *cash flow conscious* businesses depended on their current recording method, but they expected it to be relatively easy. Some saw the potential positive impact of having continual information on the business to hand, but had concerns about how payments would work in practice. *Open to improvement* businesses, which were typically unconfident or disorganised, anticipated issues if transition was not easy, but expected to receive support and guidance to help them. Especially among newer businesses, there was an appetite to increase their capabilities and self-reliance in the longer term.

Communicating the benefits of more frequent reporting and payment cycles: The benefits of a transition were not obvious to most businesses without prompting. In this research, a number of potential benefits were presented, including efficiency, reassurance of avoiding error, clarity, certainty, less need for an accountant and tailored advice. Responses to messaging differed by business type:

- *Simple* SMEs need reassurance that any change would be easy and time-saving rather than onerous; and that HMRC would help (e.g. through tailored advice), rather than control. Making it optional would support this.
- *More complex and structured* SMEs were likely to be resistant to the change, but messages which emphasised benefits to the business had the potential to resonate with this group. They also needed to be reassured about compatibility with the business' software and wider structure.
- *Cash flow conscious* SMEs were likely to respond to messages about clarity and certainty, as they were keen to increase their control over their business through management of cash flow. The potential impact of reducing reliance on accountants was also potentially appealing. Communications for this group would also need to address concerns about payment timings and offer flexibility, which was a key concern.
- *Open to improvement* SMEs responded to a wide range of benefits. In particular, reassurance that the system would help reduce errors was felt to increase self-reliance (and potentially reduce need for support), and clarity and certainty was appealing to those who looking to better organise and control their business. As lack of confidence and experience was the main barrier for this group, messages need to highlight the benefits and reassure of its simplicity and offer of support.

Moving forwards: The findings highlight variation in approaches to reporting and payments, and differing degrees of interest in more frequent cycles. Businesses that were *cash flow conscious* or *open to improvement* found the concept most appealing, either because they experienced challenges with their cash flow or lacked experience and planning capabilities and sought new ways of managing better. *Simple* and *more complex and structured* SMEs, who were both largely content with the status quo, were least likely to be open to change.

To identify and target businesses, features such as size and turnover, sector, nature of cash flow and age of business could be used. *Cash flow conscious* businesses, for example, were typically working in sectors with variable income e.g. farming, construction, import and export trades and retail, and were likely to have interacted with HMRC regarding issues e.g. negotiated payment plans. Businesses which were *open to improvement* were more likely to be newer businesses, smaller and may also have experienced issues in the past.

To maximise uptake, communications then need to relay key messages, tailored to the business type, both highlighting benefits providing reassurance about different concerns, as detailed above.

3. Introduction

3.1 Background

Small and medium sized businesses report their liabilities and make payments to HMRC in a variety of cycles, ranging from weekly to annually. The various tax reporting and payment cycles can be complicated for businesses to manage and align with their financial cycles. Unstructured or irregular bookkeeping procedures are quite common among this business population, while finances across the year may be subject to cash flow problems from delayed invoices or other financial ups and downs. Complications specific to taxes can also arise, such as for businesses whose accounting year is different to the Corporation Tax (CT) year, or those paying through self-assessed business income tax (SA) for the first time who do not take into account the fact they must make an advance payment equal to 50% of tax owed for the previous year. These planning, financial and administrative challenges can increase the risk of non-compliance.

Previous evidence suggested that voluntary tax compliance could be encouraged if taxation cycles were better aligned with existing business activities[1]. HMRC sought to build on this evidence and focus on Small and Medium-sized Enterprises (SMEs) that pay Corporation Tax (CT), or pay self-assessed business income tax (SA), with or without VAT (VAT registered).

3.2 Aims and objectives

The primary aim of the research was to **understand how a range of businesses fit their taxation cycles within their business operations** and to explore **practical and attitudinal implications of moving to more frequent reporting and paying for tax**.

In particular, it sought to:

- Explore how reporting cycles fit with SMEs' activities and current attitude to compliance and administrative burden
- Identify ways in which taxation and business cycles might be better integrated
- Explore how more frequent reporting would be or has been implemented using a system that supports better integration of taxation and business cycles and the impact of this – including perceived benefits, drawbacks and potential barriers
- Explore what effect more frequent reporting through this system could have on compliance and administrative burden of reporting

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[1] Valrie Chambers, Anthony P. Curatola (2012), Could Increasing the Frequency of Estimated Tax Payments Decrease Delinquency Rates Among the Self-Employed?, in Toby Stock (ed.) Advances in Taxation (Advances in Taxation, Volume 20) Emerald Group Publishing Limited, pp.1 - 28

- Suggest what HMRC should consider in order to maximise uptake of more frequent reporting and payments in a way that increases compliance without over-burdening.

3.3 Methodology, sample and recruitment approach

3.3.1 Methodology

The research was undertaken over two phases, using an iterative approach. Phase 1 comprised 40 in-depth interviews exploring current experience and initial responses to more frequent reporting and payment. In Phase 2, 16 participants were reconvened on an online discussion forum to build on and develop the emerging ideas from Phase 1. The detail of the approach is provided below.

Phase 1 comprised 40 depth interviews to explore businesses' current experience of reporting and payment, and responses to the concept of increased frequency and greater integration of the taxation and financial cycles. Twenty-three interviews were conducted face-to-face, enabling researchers to see participants' files, systems and gain a detailed understanding of the way they managed their finance and tax. The latter 17 interviews were conducted over the phone, and used to validate the emerging findings.

Researchers used a topic guide covering themes such as key business activities and how these interact with tax requirements; how tax and business cycles could be better integrated, and how this would affect their business and tax compliance; and views and attitudinal implications of reporting and paying for tax more frequently. Topic guides are included in Appendix A.

Interviews were digitally recorded, with participant consent. Data was thematically organised and analysed using a matrix mapping approach. This entailed entry of all summarised data into an analytical framework to allow systematic coding, sorting and thematic analysis. This robust analysis method allows researchers to draw out the diversity of opinions expressed by participants, as well as identify common themes across interviews.

Phase 2 constituted an online group discussion, reconvening 16 of the businesses who took part in the first stage. Participants logged onto an online forum at an agreed time to participate in a group discussion, facilitated by an online moderator. Participants responded to a variety of tasks in turn, some of which were private and others which were shared as a group, for participants to react to others' ideas and discuss their thoughts and views together. The forum remained open for a week, for participants to share further thoughts and views.

This phase of the research built on ideas suggested in Phase 1 about how business and tax cycles could be better integrated through the use of software (i.e. a system), and how this could allow more frequent reporting and payments to work for businesses. Information and visual material were presented to participants to help prompt their thoughts and views. Businesses were invited to think about how this system might work, and how introducing more frequent cycles through it might impact on their business; this included exploring the perceived benefits and challenges to adopting and implementing it.

There were several benefits of using an online discussion and forum. The division of tasks between private and shared allowed researchers to capture both types of response. It also gave participants a 'peer' space to share their experiences and ideas, which participants were motivated by as a way to gain practical advice to help them. Whereas in a focus group, participants would speak one at a time with limited time, the online discussion and forum offered more space to reflect, respond in their own time and for all to actively contribute. Furthermore, the length of the forum (lasting a week) meant that there was further opportunity to follow up on responses and share further thoughts, leading to more data being collected overall. Lastly, from a practical perspective, an online discussion and group was more convenient for SMEs, and enabled a range of businesses to be gathered from across the country.

3.3.2 Sample

Phase 1: Primary sample criteria included tax/taxes reported and paid: these were Corporation Tax (CT), Self-Assessed Income tax (SA), with or without VAT (i.e. those who were/ were not registered and reported/paid VAT). The typical cycles for reporting and payment were yearly for CT and SA, and quarterly for VAT. The sample also included 8 businesses who had already moved to more frequent VAT reporting and payments. The majority of these had moved from either annual or quarterly to monthly VAT reporting; one of the businesses in this category had not transitioned, but had always been monthly.

In addition to the type of tax/es reported and paid, a mix of business size and turnover, age of business, sector and use of an accountant/agent were achieved.

The achieved sample frame is shown below – with businesses which moved to more frequent reporting in brackets. A more detailed version is included in Appendix B.

SMEs	**Corporation Tax**		**Self-Assessment**		**TOTAL**
Taxes	With VAT (registered)	Without VAT	With VAT (registered)	Without VAT	
TOTAL	16 [5]	4	5 [3]	15	40
Size					
Sole trader	3	1	4 [3]	9	17
2-9 employees	6 [2]	3		6	15
10-49 employees	4 [3]		1		5
50-249 employees	3				3
Turnover					
£15k-£29k	1[2]			7	8
£30k-£49k				5	5
£50k-£99k	3	2	3 [1]	3	11
£100k-£249k	1	1[3]	[1]		3

[2] Assumed voluntary registration
[3] Above VAT threshold, but reason unknown for no VAT – not covered within research interview

£250k-£499k	3 [1]		[1]		4
£500k-£1 m	2 [1]	1[4]			3
£1-39m	6 [3]				6

Phase 2: for the online phase, the sample included a spread of businesses across the taxes, and was weighted towards those who could see more benefits in more frequent reporting and/or payments. It included 3 businesses which had changed their reporting and payment cycles, and a mix of age of business, sector and use of agent was also achieved.

The achieved sample frame is shown below. A more detailed sample frame is also included in Appendix B.

SMEs	**Corporation Tax**		**Self-Assessment**		**TOTAL**
Taxes	With VAT (registered)	Without VAT	With VAT (registered)	Without VAT	
TOTAL	7 [3]	2	-	7	16
SIZE					
Sole trader		1		6	7
2-9 employees	5 [1]			1	6
10-49 employees	2 [2]				2
50-249 employees	1				1
TURNOVER					
£15k-£29k	1			4	5
£30k-£49k				2	2
£50k-£99k	1	1		1	3
£100k-£249k					
£250k-£499k	2 [1]				2
£500k-£1 m		1			1
£1-39m	3 [2]				3

4 Above VAT threshold, but reason unknown for no VAT – not covered within research interview

3.3.3 Recruitment

A free-find approach was used to recruit participants whose businesses had not increased frequency of reporting and payment in the past. HMRC provided sample for the small number of businesses who had changed frequency of reporting. Recruiters screened all participants using a questionnaire, and they were offered £60 to participate in the research in acknowledgement of their time, which was offered to them or as a donation to charity.

4. Understanding businesses and their taxation cycles

This section provides an overview of business and their activity cycles. It covers business' approach to their operations and tax requirements, the way these fit together and differences by type of business. Section 4.1 describes the businesses that took part in the research and identifies factors that dictated their modes of operation. Section 4.2 presents a typology of businesses, by the key behavioural and attitudinal traits driving their attitudes and approach to reporting and paying taxes.

4.1 Businesses and tax cycles: an overview of businesses

SMEs' business cycles typically included a range of activities, including managing income and outgoings, reviewing performance and profitability, and the extent to which they made plans for the future. The formality and frequency of these varied, but businesses commonly had a financial system in place from which they drew information for these tasks.

The sophistication of this financial system varied by business, ranging from pen and paper, Excel spreadsheets through to accounting software. It served multiple purposes - both helping meet business needs and manage effectively, as well as providing information for HMRC to meet tax requirements.

> *"I don't do it for the accountant only; I also do it for myself, knowing what you're going to pay your tax and NI, knowing how your business is doing, some kind of control really." (*Sole trader, £30-50k, SA)

Businesses organised their information system to suit them, and had learned to work around their tax requirements and align these with their business activities. As preparing information and keeping a financial record of business activities was 'business as usual' for most, meeting tax requirements meant little extra work - usually manual back-checks of information accuracy before submission. Furthermore, most businesses kept money aside throughout the year for their taxes out of good practice – especially if they had had experiences of being 'caught out' in the past. However some (usually those with more variable or unpredictable income, common among sectors with seasonal work) acknowledged they had to dip into this, if needed e.g. to cover unexpected costs during their quieter periods.

Reporting and paying for tax (taxes included in this research were: Self-Assessed Income tax (SA), Corporation Tax (CT) and VAT) was embedded in the business because non-compliance was not considered an option. As such, businesses tended to be familiar with the existing HMRC system and had found ways of working around it throughout the years. Nevertheless, newer businesses were still in search of ways (e.g. changing their tax year) to make their business and tax requirements fit together better, as their business was evolving continually and they were less accustomed to reporting and paying taxes.

As most felt that their tax and business cycles fit together well currently, there was no immediate call for change or improvement among most SMEs interviewed.

Whilst all businesses in this research shared some common aspects such as a financial system and attitude to taxes, the nature of their operations varied. These variations were based on several factors, which also drove approaches to tax reporting and payment:

- **business size and turnover:** businesses in this research ranged from sole traders with small turnovers (lowest band £15-30k) through to higher turnover (£1-39m) and a team of employees (typically 10-49). Sole traders with lower turnovers tended to manage information in a more informal manner, reviewing their business performance usually once a year or whenever they found the time. Conversely, larger SMEs typically had more formal arrangements in place, including forecasting and budgeting.

- **complexity of business:** among the participants, some were involved in complex trade, for example import/export of valuables therefore had more complex invoicing cycles. In light of this, regular and structured managing and reviewing of financial information was necessary to enable timely payments and to pre-empt cash flow complications.

- **nature of cash flow:** some of the SMEs interviewed acknowledged that a consistently steady cash flow was essential for operating smoothly. This could be dictated by high value orders that could not always be planned in advance. For other businesses operating in peaks and troughs a healthy cash flow meant they were able to manage unpredictable income more effectively.

- **confidence dealing with tax and support available:** while established businesses had no trouble dealing with finances and tax, some businesses were still finding their feet and lacked financial confidence. Lack of confidence often meant employing an accountant to get support. Where support was not available, businesses solely relied on their own system and reviewed information as and when suited. Where businesses experienced in dealing with taxes used agents, they typically took an advisory role as well as helping the business to meet their tax obligations.

- **financial organisation:** the way businesses kept and organised information could be tied to type of work, sector, size and turnover and varied from recording information using pen and paper and storing receipts in a box to more sophisticated software. Some used software that was specific to their industry, or accommodated their recording to the particularities of their client base e.g. expectation of delayed payments.

4.2 Business typologies

Based on differences in the aspects outlined above, businesses could be grouped into four typologies: simple; more complex and structured; cash flow conscious; and open to improvement. These four groups are generalised types designed to draw out key themes based on factors influencing approaches and views to reporting and payments. There may be some overlap between some of the categories but businesses within these typologies tend to differ attitudinally and behaviourally.

A summary of the key characteristics of these groups can be found below:

Simple	■ Typically smaller businesses (often sole trader) ■ Relatively simple accounts and business model, matched by simple recording methods e.g. Excel, pen and paper ■ Flexible with their finances and value autonomy
More complex and structured	■ Higher turnover, usually with team of employees ■ More complex operations; managed by accountants and accounting software, often tailored to the business
Cash flow conscious	■ Conscious of cash flow due to nature of income ■ Likely to have experienced issues in the past - actively plan and manage to prevent further problems in the future
Open to improvement	■ Typically newer businesses ■ Lacking in financial confidence and/or organisation; although still likely to have a financial system in place ■ Open to making things simpler and /or more organised

Simple businesses were smaller in terms of size and turnover, with relatively straightforward accounts, often run by a sole trader. Any seasonal variations were managed by being flexible with their finances, often using personal savings to cover for any business expense when necessary.

Businesses in this group typically used simpler and/or 'self-made' methods to record business related information such as Excel spreadsheets and keeping receipts in boxes corresponding to every month of the financial year. Some businesses in this group handled information independently, while others turned to an accountant or family member/friend for support, depending on financial confidence.

The tax this business typically reported and paid was SA. As a result of fairly limited "traffic" and simple transactions, these businesses cited the least issues meeting their tax requirements, which typically involved brief and straightforward processes. Their tax cycle was typically on an annual basis and they spent no more than a few hours submitting information and doing final figure checks. Their size and simplicity allowed them to review information both for business and tax purposes flexibly and they valued the autonomy their business afforded them. They tended to be reluctant to change their ways as they feel this would compromise their ability to deal with business and tax management when it suits them best.

> *"It works relatively well for me because I do it early in the season, just before I get busy…if I'm going to have a bill, I've got a little bit of savings put away"* (Sole trader, £15-30k, SA)

More complex and structured businesses on the other hand, typically had a higher turnover, with up to 49 employees. They generally operated a more complex business due to their size and sector (examples being engineering and manufacturing). They also used more elaborate accounting software to manage business and employee information, often tailored to fit the particulars of their business, for example tailored to their specific sector. A few businesses also reported having two different accounting systems (examples included Fuse Metrics together with MAAS, and Oracle with Rapid - the latter being specific to airlines).

More complex and structured businesses were confident managing financial information, and had more formalised reviews which were used to budget and forecast, typically through monthly meetings with an in-house accountant. Cash flow tended to be steady but when issues like delayed payments arose, these were typically managed well by advanced planning.

In line with their systematic approach to business management and more complex structure and activities, businesses in this group often required dedicated processes and human resources to meet tax requirements. More complex and structured businesses often needed to report and pay for a range of taxes including SA, CT and VAT. In many cases, accounting software used to manage business and employee data was also used for information for HMRC, making business and tax related information easy to collate and calculate.

> *"It's fine, it's historically been like that so we're used to it…we're quite organised so it doesn't really cause any issues"* (2-9 employees, £500-1million, CT)

SMEs in this category tended to use an accountant for multiple purposes, including back-checking figures at the end of year. CT was seen as a more 'complex' tax, and businesses often sought help from accountants for these returns; on the other hand, they were more comfortable submitting SA and VAT returns, typically using software to help them with this. Systems and structures (including their staff) were central for these businesses in enabling them to keep on top of tax requirements and business performance at once.

Cash flow conscious businesses ranged from sole traders to businesses with much larger size and turnover, and were typically in sectors with variable or seasonable income (e.g. agriculture or construction).These businesses tended to review financial information regularly and plan ahead by forecasting and budgeting to prepare for accommodating unpredictable cash flows, as this was a particular challenge for them.

Businesses in this group had varying levels of confidence in managing and dealing with financial information – including some taxes being dealt with themselves (primarily VAT / SA). For other taxes they were reliant on an accountant (primarily CT – for the reasons stated above). However, the support of an accountant was often needed to help them effectively manage cash flow irregularities, as much as for taxes directly.

Businesses in this group tended to be responsive to commercial pressures and were the most likely to experience, or have experienced issues with aligning their tax and business cycles. Some had made adjustments to make their business and tax cycles fit better, often after having experienced "shocks" (primarily for CT) which resulted in negotiating with HMRC to delay payments. These include changing their financial year in ways that mean they are able to make payments at a time when cash flow was healthy; negotiating suppliers' payment frequency to accommodate tax payments and make payment arrangements with clients timed to help them make tax payments; temporary borrowing; and increasing tax frequencies.

More generally, these businesses made efforts to be flexible to accommodate their cash flow situation, including dipping into money during months where they received less income. This rarely applied to money set aside for VAT, which was usually reported and paid quarterly, and only did for CT, which most reported and paid yearly. CT was generally seen as money that was 'theirs' until the point it was paid, and some talked of the benefit of accruing interest to maximise the benefit of this money set aside.

> *"I'm conscious there are times when I do have to think about dipping into the savings if I want something; I think maybe I'll start paying it as it comes in, you may end up in a*

position where you end up overpaying slightly, that's not the end of the world when you get a nice surprise later" (Sole trader, £50-100k, CT)

Open to improvement businesses were typically smaller in size and turnover/sole traders and tended to operate a simpler model. Unlike the simple businesses, they were typically looking for ways to improve the way they managed their business, either due to lack of experience, confidence or organisation. Newer businesses were prevalent in this category.

While the nature of their business operations varied, a defining factor was that they tended to seek support and reassurance from an accountant or others and were nervous about dealing with HMRC, as they wanted to get it right but lacked confidence and/or organisation. They were nervous about handling financial information, which they collected electronically and physically but tended not to have established reviewing patterns.

In light of their low confidence and less experience in dealing with tax, open to improvement SMEs often adopted a trial and error approach to their businesses and tax management. Some businesses cited experiences of missed deadlines or leaving reporting and payment to the last minute, resulting from lack of engagement with tax in general and/or nervousness when dealing with HMRC.

> *"When you get reminders, that's when you start doing it"* (2-9 employees, £50-100k, CT and VAT)

This group tended to acknowledge that they would like to be able to self-serve as their business model and tax obligations were fairly simple. This drove their appetite to experiment with new or different ways of dealing with tax within the context of their business. Businesses in this category reported and paid a range of taxes, and expressed interest in breaking down those which were annual (SA, CT) into more lots across the year.

5. Responses to more frequent reporting and payments

This section explores how businesses' current approach to, and views about reporting and paying taxes (outlined in section 4) informed their responses to the concept of more frequent reporting and payments via an integrated system. Section 5.1 explores suggested improvements to aligning tax and business cycles, and initial thoughts on what an integrated system could look like. Section 5.2 outlines the different responses to more frequent reporting and payments, including differences by business type. Finally, section 5.3 looks at what lessons can be learned from businesses which have already moved to more frequent reporting and payments.

5.1 Further integration of business and tax cycles

As outlined in section 4.1, participants in this research were broadly satisfied with the way their tax and business cycles fit together at present. Established businesses had, over time, become accustomed to aligning them and found their own mechanism to do so. Furthermore, those who had experienced issues typically made adjustments to ensure they could meet their tax requirements. This meant that few spontaneously mentioned a desire to improve the way they currently reported and paid taxes and for it to be better integrated with their business cycles.

Where suggestions for improvement were made (spontaneously and when prompted), they were focused around three main areas: automating processes through connecting software and HMRC systems, linking data to produce useful information for businesses, and more frequent payments– detailed below.

Firstly, some businesses felt better integration should automate processes through software (i.e. an enhanced system that better integrated their taxes with their business), to speed up and ease tax reporting and payments. Those using accounting software envisaged this to be through their software (e.g. SAGE, XERO) being connected to HMRC systems, and having a 'one touch system' to generate and export figures automatically when data was input. Some drew on Real Time Information (RTI)[5] as an example of how this might work.

Those who did not spontaneously mention this had mixed views, once prompted. Some felt it would help them save time and money, improve their chances of meeting deadlines, and even reduce their need for reliance on an accountant. On the other hand, there were concerns raised about privacy of data, primarily from larger SMEs who were worried about who would access their large amounts of data and some smaller businesses which were not currently using software and were more wary. Some also raised questions about how it would work in practice - especially for CT, which was seen as a more complex tax. Smaller businesses who

[5]From April 2013, the PAYE system was replaced by Real Time Information (RTI). Under RTI, employers report details of staffs' salaries each payday, i.e. in 'real time' rather than at the end of the year, via software.

just paid SA income tax also anticipated this could mean more frequent contact with HMRC, which was not desired.

> *"If I'm inputting this stuff on the software and the software is actually interactively communicating with HMRC, that means I don't have to pull data on my software to put on to HMRC"* (2-9 employees, £500k-1million, CT)

Some participants also suggested that their business could benefit from a more integrated system, if it produced information that, as well as being used to report taxes, could also be useful for business management. For example, this might work through software that would use reported data to produce a visualisation of the company's finances. Additionally, they suggested HMRC could provide some personalised advice to businesses. Access to this additional business information could help with modelling and planning, enabling them to manage their business in a 'smarter' way overall. However, if there were delays in information, due to late payments for example, businesses worried this might not provide an accurate representation of the state of the business after all.

> *"It would be nice to have some feedback, whether it be pie charts…my energy company, every time I log in I can see a chart of usage, compared to last year; it would help me understand." (2-9 employees,* £250-500k, CT and VAT)

Lastly, a minority of participants spontaneously mentioned more frequent payments as a way of better aligning tax and business cycles. These businesses saw the ability to spread payments throughout the year as a useful way of avoiding large lump sum payments at the end of the year, which in turn would help to manage the business overall.

These suggestions for ways business and tax cycles could be better integrated reflected the priorities of SMEs overall – namely, a desire to save time and money and to improve the overall management of the business. Business management included both finances - relating to cash flow, but also more widely, the ability to plan and strategise looking forward.

5.2 Responses to more frequent reporting and paying of taxes

These priorities of saving time and money, and effectively managing the business and its finances were also the factors which informed businesses' views on more frequent reporting and payments.

In relation to more frequent payments, views were largely driven by perceived benefits and disadvantages for cash flow – alongside other practical considerations.

As well as those who had spontaneously mentioned this (see section 5.1), many businesses acknowledged, when prompted, that there were advantages to cash flow if payments were spread over the year. This was particularly in relation to CT, as a tax which was typically reported and paid annually, and for some businesses involved a relatively large bill. Particularly those businesses who had experienced surprises or shocks at the end of the year hoped these could be prevented through more frequent payments.

> *Quarterly would be really good, not monthly as monthly is too small a snapshot whereas quarters gives a more accurate picture especially given the ups and downs of our business*"(2-9 employees, £250k-500k, CT and VAT)

In addition, some businesses felt that it would fit into their existing business and tax activities. For example, for those who were already putting aside money for paying their taxes and not 'dipping' into it throughout the year, handing this over to HMRC straight away made little difference to them. Furthermore, businesses were used to regular payments for other outgoings, such as their utilities or phone bills, therefore more frequent payments could align with these activities. For businesses reporting and paying CT and VAT, it was suggested that increasing CT from yearly to quarterly payments could help better integrate their taxes also.

> *"It's a much more planned approach. Monthly is more helpful rather than money being kept there, doing nothing"* (Sole trader, £50-100k, CT and VAT)

Not all businesses could see these advantages, however. Whilst the majority of the businesses in this research kept money aside for taxes, those with fluctuating or unpredictable incomes typically 'dipped' into this money when required. These businesses saw more frequent payments as reducing this flexibility, and they raised concerns about potentially being left in financial difficulty over their leaner months- they would need flexibility in payment timings for this to work for them. As well as losing access to money, these businesses were also more likely to see financial loss also, in the form of interest accrued on the money kept in a savings account. Some felt that they would need to be compensated in some way, either financially or through some other benefit e.g. allowances in relation to payment timings, for this.

> *"If we're paying more frequently, then this means that money is leaving the business and we're not making the most of this asset…while it's with us we have option of what to do"* (1-9 employees, £500-1million, CT)

Some businesses also raised concerns about how more frequent payments would work in practice. This related both to how it would work in relation to their own business cycles (an example being businesses which knew they received late payments) and also in relation to CT in particular, which was seen to be more complicated. Therefore, they would need clarity on how it would work in reality, in order to overcome these concerns.

Lastly, for those who reported and paid VAT quarterly, many felt that this was frequent enough; on the other hand for CT as it was a yearly payment there was more appetite for breaking down payments. It was only where businesses benefited from reclaiming VAT from cash flow (and therefore business) perspective that they were willing to adjust their VAT cycles to be more frequent (see Section 5.3)

Whilst more frequent payments presented some benefits, few businesses saw advantages to more frequent reporting, which was instead associated with the type of administrative burden that SMEs actively sought to avoid. Where accountants were used, businesses saw a potential cost, as well as time implication.

> *"I think it's good that it's only yearly..... I don't like filling out the return.... I wouldn't want to have to worry about it, I want to get on with running my business."* (Sole trader, £30k-£50k, SA)

For CT particularly, reporting (in larger organisations especially) involved more complex calculations and in some cases, involvement of auditors. Added to the lack of obvious benefit, most businesses were satisfied with the current frequency of reporting, so had little appetite to increase it.

As well as the practical barriers, for some (in particularly smaller) businesses reporting and paying SA only, it also raised negative feelings towards HMRC, as it was perceived to be 'controlling' and a change *for* HMRC, rather than to help businesses themselves. In order to find it appealing, businesses would need their current assumptions to be challenged, and to know how more frequent reporting could be of benefit to them.

> *"It seems like big brother…the idea of being self-employed is to not being told what to do - who am I working for HMRC or myself''* (Sole trader, £30-50k, SA)

Businesses which were more open to the idea were largely driven by a desire to better manage or control over business and tax affairs. These businesses felt that by breaking down reporting over the year, that it could help them keep on top of, and have a better overview of what was happening in the business. Those who were less confident in reporting also hoped it could improve the accuracy of their calculations if done nearer to the time of the data being recorded. It was also perceived to potentially remove or reduce the need for an accountant, if reporting were able to be done more efficiently through an automated system.

For different types of business, these advantages and disadvantages to more frequent reporting and payments were felt in varying degrees. This also meant they had different needs, driven by their particular attributes.

Simple businesses were not keen to report and pay more frequently, as they typically had simple operations and fit their tax administration at a time that suited them; therefore, they had no desire to make changes. This type of business was the least likely to recognise any benefits that more frequent reporting and payments would have, especially as they were likely to have limited involvement with taxes if they were only reporting and paying SA. Instead, they anticipated it would add to their workload (although they acknowledged that, in practice, it would not be likely to be too difficult to make this change). Moreover, it was likely to create negative feelings towards HMRC, as they felt it was a change made solely in their interest and these businesses (which were typically sole traders and valued their autonomy) were most sensitive to feeling 'controlled'.

In turn, these businesses were unlikely to move to more frequent reporting and payments unless it was made mandatory, and wanted it to be optional. To make it more appealing, they would need to be reassured of its benefits and its ease.

> *"I think it can add to my administrative workload, rather than make it simpler...because, on top of keeping my own records I would be required to input them into a software, which is a task I currently don't do. The mandatory task to input data on a regular basis for the Government, I think that is controlling by definition."* (Sole trader, £30k-50k, SA)

More complex and structured businesses also, on the whole, did not want to move to more frequent reporting and payments. Some saw the benefit of more frequent payments to help cash flow, especially if they had experienced issues previously (especially for CT) and acknowledged it could be feasible, but there were a number of concerns raised about how it would work in practice. This related both to how it would fit their systems and structures, which were formalised and had been tailored to their business needs, as well as the amount of data any integrated system would need to be able to handle, given the nature of their operations. To be of more interest to these businesses, they would need to understand how it would work in practice.

> *"There's no advantage at all for big companies to reporting more frequently because when the auditors are around everything has to be dropped to accommodate them and it doesn't just impact on us, but also on Bank Staff and on Creditors who have to drop everything for the auditors."* (10-49 employees, £1-39million CT and VAT)

Cash flow conscious businesses were likely to take interest in more frequent payments, if it was perceived to help with their cash flow (e.g. by spreading payments). Furthermore, some thought this would enable them to have a better overview of their business overall. However, they were also most likely to be concerned about timings of payments and 'loss' of access to money (i.e. flexibility) and the money itself (from accrued interest). Therefore, some expected HMRC to 'compensate' for these losses, for example, through incentives, such as a discount, or to be given flexibility or allowances in relation to the period of time within which they would need to pay.

> *'If it was staggered.... I'd be happy to accommodate a 6 month delay and pay CT each quarter and then my VAT... it would be more streamlined and less of a chunk."* (50-249 employees, £500-1million, CT and VAT)

Businesses which were **open to improvement** tended to find the concept of more frequent reporting and payments appealing, and would be potential early adopters if the system and transition were made easy. These businesses were those most likely to be experiencing or to have experienced challenges and would be looking for ways to help address these issues. However, as they were typically not very confident, they would need support and guidance to do this.

> *"You pay your bills monthly why not your tax? As long as it's not more expensive to do it that way...either by way of HMRC adding interest, or by way of extra charges by having to set up Direct Debit."* (Sole trader £15-£30k, SA)

5.3 Lessons from businesses which had moved to more frequent reporting and payments

As outlined in section 3.3.2, some of the businesses that participated in this research had already made arrangements that allowed them to report and pay towards their VAT requirements more frequently – mostly from annual/ quarterly to monthly.

Drivers to moving to more frequent reporting varied, depending on business needs and circumstances: some had been prompted through their own initiative, whilst for others they were advised or obligated to do so. The majority of the businesses in this sample which had opted to increase VAT reporting frequency were motivated by cash flow challenges (i.e. were **cash flow conscious** businesses) encountered in the past. These businesses also anticipated it would align well with their business cycles.

> *"The price of the product that we supply, that we take commission on has rocketed, it [is] even more important for us to keep control of our cash, because the VAT on import has grown and grown so it's really important that we have the possibility to get the money on import back as soon as possible"* (10-49 employees, £1-39million, CT and VAT)

The experiences of these businesses highlight some key lessons:

Firstly, many of these businesses had anticipated that the implementation of the change to be administratively burdensome, but most acknowledged that moving to more frequent reporting had quickly become business as usual, and also saved them accountant fees as they submitted information independently.

Furthermore, expectations about alignment with business cycles were met for most: one business who had moved to more frequent reporting (from quarterly to monthly for VAT) after receiving professional advice to do so, found that it fit well with its existing monthly reviews and preparation of business and financial information; the business felt that it had enabled easier reconciliation and a more seamless process. These businesses also commented on a positive impact on their cash flow albeit this not being the key driver to the change.

> *"It synchronises preparation and everything works to the same date"* (10-49 employees, £1-39million, CT and VAT)

Where businesses had increased VAT reporting and payments to reclaim VAT on a monthly as opposed to a quarterly basis, the impact on cash flow was significant, and some wanted to report even more regularly as this had helped them.

> *"In an ideal world, if we had incurred a large amount of VAT we would like to be able to submit a claim for the VAT before a monthly return. If we import a large amount of product on the 1st of the month we then have to wait a whole 28-30 days...the money is not turning around quick enough so it doesn't fit with our business cycles*" (10-49 employees, £1-39million, CT and VAT)

Examples of negative experiences were uncommon, where this had been the case, it was where the change had been imposed by the main buyer, and due to the business' payment arrangements – which involved delayed payments of up to three months. Moving to more frequent reporting and payments had led to commercial activities being complicated, rather than simplified as a result of this.

These experiences from businesses which have already transitioned highlight some of the key advantages and disadvantages that need to be addressed and communicated effectively for businesses that have not yet moved to more frequent reporting and payments.

6. Making more frequent reporting and payments via an integrated system work for businesses

This section explores ways in which more frequent reporting and payments could be made to work effectively for businesses, through the medium of a system (software) which better integrated tax and business cycles (building on ideas suggested in Phase 1 of the research). Section 6.1 explores in further detail the practicalities of what a system could like, including the key features businesses expect it to include, the anticipated impacts and challenges of the transition, and what they need it to do to work for them. Section 6.2 looks at the support and guidance businesses want and expect to be provided to help them through transition and beyond. Finally, section 6.3 explores communications, specifically what benefits are likely to appeal to businesses, to which types, and the key messages that are likely to resonate with them.

6.1 Developing a more integrated system

In the second phase of research, businesses were asked to think in further detail about how a system (software) could support better integration of taxation and business cycles, in turn enabling them to report and pay taxes more easily and potentially at a greater frequency. This built on some of the initial ideas of such a system, which were suggested by businesses in Phase 1 (see section 5.1). This included presenting to participants the idea and some visual examples of a 'utility style' bill, where their tax liability could be shown through data submitted on a regular basis onto an app or software, which would prepare an automatic return which the business would then submit to HMRC. HMRC would then process the data and tell the business what their tax bill was. The findings below reflect views from both phases of the research.

Across all businesses, there were a number of common features which they expected and required from an integrated system, reflecting their key priorities of saving time and money, and managing their overall business effectively.

They expected that an integrated system would be:

- **easy to use**: user-friendly, and accessible
- **efficient:** does not double up on information submission, and makes it easier
- **secure:** data is safe, and software provided by HMRC (or HMRC approved) or their current software provider
- **suits business type and systems:** tailored or easily adapted to their business , preferably
- **free/ cost-saving**: businesses expect it to not add any extra costs, and potentially reduce it e.g. by reducing need for an accountant
- **easy transition:** regardless of what the transition would involve, they expected it to be straightforward and well-supported.

If these needs were not met, businesses were likely to be put off, or react negatively to change.

Whilst the features listed above were commonly cited across all businesses, the nature and strength of each varied by business type. This was due to the different types of impact that a transition to an integrated system was anticipated to have on the business, which in turn drove different expectations of what it would include and need to have in place to work for the business.

Simple businesses anticipated that moving to an integrated system using software would potentially require them to change their recording method, as many were using paper or Excel currently. This prompted concerns about the time needed, and challenges they could face, when learning a new system; a few also raised concerns about security. Some, however, recognised potential positive impacts on their business if the new system was more efficient than their present method.

Given that this would be the first time for many of these businesses to use accounting software, their key expectations were that it would be easy to use and well-supported. These businesses also expected any software to be provided by HMRC free of charge, based on their perceptions of this change as driven by HMRC, rather than themselves. This would also address concerns about security, as they would be reassured that it was official.

Businesses assumed they would input the same information as on their tax return, and that it would replace, rather than duplicate their current system. Some also hoped that it would have additional functions to help enhance its ease and use: for example, the ability to build a 'profile' to avoid re-entering information, or the flexibility to customise it to their business.

As the business operations themselves were not typically complex, the key challenge in transitioning would be the change in recording method itself (and the perceived time burden attached to it). As these businesses were likely to be resistant to change in the first place (as outlined in section 5.2), they would need the transition itself and the system itself to be made simple, and adequately supported.

> *"I think if HMRC are going to make people use this software then they should be responsible for providing it… I have never used a software package for accounting and therefore I am not sure what I would need from this kind of package or what changes I would need to make to my current system. I would need full instruction on how to use any kind of software package."* (Sole trader £15k-£30k, SA)

More complex and structured businesses saw the potential impact of moving to an integrated system as contingent on its compatibility with its current systems and structure. This was crucial for these businesses, as they depended on these systems and the people to manage the larger scale of their operations, and they anticipated significant challenges and additional time and cost to the business if they did not fit. Their key questions and concerns, therefore, centred on this aspect, including any new system's ability to deal with a large number of transactions and the security of their data. In turn, they expected that any integrated system would involve HMRC systems being linked into their current software and systems (which included some which were tailored to the business sector/type), and to be reassured of its compatibility and security.

"Unless the system will support our other business processes it will divert resources and increase our costs of reporting and paying tax." (10-49 employees, £1-39million, CT and VAT)

These businesses also recognised potential positive impacts in moving to an integrated system if it were able to integrate a wide range of business information to build a full 'reporting suite'. This could help management get a holistic overview of the business as a whole, nearer to 'real time'. They therefore expected the system would be able to capture different types of data, producing reports for both internal use and for reporting tax information to HMRC, which could be managed internally with different access rights to ensure data is secure and the relevant information was accessible to the appropriate people.

To enable these businesses to move to an integrated system, they would need it to fit with their current accounting software system and their business operations more widely, and meet these businesses' need for 'useful data'.

For **cash flow conscious businesses**, the impact of moving to an integrated system depended on their current recording method. If using paper or Excel, (like the simple businesses) they would need to learn to use new software and expected it to be user friendly. If using software, they expected it to fit to their current software and would see it as a burden if it did not. As these businesses were typically sensitive about having to deal with problems or challenges, they were likely to be less tolerant if issues occurred and would expect reassurance that help was at hand.

> *"Additional time in learning how to use the system, having to run two systems old and new and may mean banging your head against a wall if systems don't marry up. Could I get immediate help when problems occur?" (*Sole trader*,* £15k-£30k, SA)

As a key priority for these businesses was managing their cash flow, they raised questions about the impact on this aspect of their businesses. Although some were unsure what this would mean for them, many considered the concept of having more continual information on the business to be a potential key advantage, given that it would be closer to 'real time' and enable them to deal with issues immediately.

To enable these businesses to transition smoothly, it would be important the system would not cause additional issues, and would ideally help address their key priorities and concerns.

Businesses that were **open to improvement** were, like the simple businesses, likely to be moving from a more basic recording method and therefore would need to change recording method if moving to an integrated system using software. As businesses in this group tended to lack confidence and/or organisation, some were more nervous about learning a new system; therefore, their expectations were that it would be user friendly, and be well-supported.

Some of the newer businesses saw the transition as a positive challenge, enabling them to have better control and knowledge of their business – which could also mean reducing their dependence on accountants. Overall, these businesses, who were already open to change, could recognise the potential positive impacts of an integrated system in helping them be more organised, and plan their finances and business operations overall. They expected to enter the same information as they did currently for their returns, but some felt that there was potential for the software to additionally create 'useful' data for business planning.

> *"[It would] definitely help as would cut cost but also good as [it] would force me to understand my business better"* (Sole trader, £50-£100k, CT)

To enable these businesses to transition to a more integrated system, their key need would be simplicity and support, as they were typically inexperienced or unconfident – but otherwise, this group would be open to change.

6.2 Supporting transition

As outlined in section 6.1, businesses had different 'starting points' and therefore, different needs when moving to a more integrated system using software. However, there was a common expectation among all businesses that there would be support and guidance to help them through this process, led by HMRC. Businesses expected this to be provided throughout their 'journey', i.e. both when setting up and also when undertaking the process itself. The desired form and method of support varied by individual preference, but was expected to be primarily online (written and/or visual), supplemented by a helpline.

Some aspect of businesses' support needs differed by business type. For example, at set-up, those who were not using software already (more typically the **simple** and **open to improvement** business types), required and expected support to learn to use this, e.g. via a 'manual' or instructions, or even a step –by-step YouTube video. The less confident also wanted 'human' contact through a free and well-manned helpline and/ or an online 'chat' function, to provide them with quick reassurance to address emotional concerns, as well as practical queries, throughout the process. Meeting these needs would be important particularly for **open to improvement businesses**, which were otherwise open to moving to more frequent reporting and payments. Newer businesses (prevalent in this group) also may have already accessed support from HMRC e.g. webinars, and have expectations of similar support.

> *"Instruction in both written format and possibly video, a help line to ask questions would also be useful"* (Sole trader, £1m-39million, CT and VAT)

Those using software (**more complex and structured businesses** and some **cash-flow conscious**) wanted and expected to be reassured about technical compatibility, and for software providers to be involved. The larger businesses who expected to need to train staff for any new system called for face to face training in addition to other materials. As with smaller businesses, these businesses expected ongoing support throughout the process but focused primarily on technical support, such as advisers on the helplines to be equipped to deal with these types of query.

> *"[Would want] support on upgrading our existing accounts package to ensure compatibility."* (10-49 employees, £15k-£30k, SA)

6.3 Communications

As outlined previously, businesses were largely happy with their tax and business cycles, and few were looking for change to the current status quo. Furthermore, the benefits were not immediately obvious. Communications around the benefits of a move to more frequent and reporting payment is therefore critical to making it attractive to business.

In the research, a number of potential benefits were presented to participants in the second phase of the research, namely:

- **Efficiency**: using the software would mean inputting data once only
- **Reassurance and avoiding error**: knowing your figures are correct
- **Clarity:** knowing exactly what you need to pay
- **Certainty**: shorter HMRC review periods in year could mean not facing a large tax bill at the end of the year and any issues being quickly identified
- **Less need for an accountant:** having in-year checks and a system that ensures greater accuracy could reduce need of an accountant

- **Tailored support:** HMRC would understand your business better, so could offer bespoke advice

As in the earlier sections, the findings below reflect views from both phases of the research as these benefits were raised spontaneously by some participants.

Across businesses, views on and appeal of different benefits varied according to business type. However, the perceived positive and negative impacts were driven by common priorities. Businesses identified the chief positive impacts as saving time and money (from efficiency, preventing error, reducing need for accountant), and managing their business more effectively (through better efficiency, clarity, certainty and reducing need for accountant i.e. greater self-reliance). Finally, they hoped it would provide reassurance and support in the process (from preventing errors and tailored support). On the other hand, key negative impacts related to certain benefits not being useful and there were some concerns about timings of payments.

Looking at each of these in turn:

- **Efficiency**: businesses saw efficiency as a key advantage, but some were reluctant to completely remove the 'human' element from their processes
- **Errors:** there was a desire to reduce errors among many, but some were unsure that any system would be able to do this, and preferred to retain their 'manual' checks
- **Clarity:** the ability to see what was owed appealed to some, as this helped with business planning and cash flow - but some businesses already had this information
- **Certainty:** Shorter review periods were seen as helpful in spotting problems and spreading out payments - with benefits both practically with cash flow, and psychologically with sense of control/ management. However, the timing of payments was a key concern, especially for businesses with fluctuating incomes.
- **Less need for an accountant:** There was an appetite to reduce or eliminate need for an accountant, as this was often a significant cost to businesses, but some felt they were still needed for other reasons e.g. lack of confidence, advice on tax.
- **Tailored support**: Businesses were pleased with the efforts made to support them through bespoke advice, but some felt that it would not be relevant enough to them. Tailored support was seen as more useful for those without accountants.

The positive impacts of these benefits would need to be explained and highlighted to businesses, otherwise a different system would be hard to envisage, especially for well established businesses. As well as highlighting the benefits, the concerns and potential negative impacts would need to be addressed.

In relation to differences by business type: (summary then detail following)

Simple	Easy and time-saving; could receive tailored support from HMRC	Not time consuming, easy switch; trying to support, not control
Large and complex	Provide useful data of benefit to entire business operation (not just tax)- and fits with it	System integration smooth; will help manage business as a whole

Cash flow conscious	Help with cash flow planning by making ongoing tax liability clear (broken down)	Not being forced to pay at times when they can't/flexibility applied
Open to improvement	Keep on top of business better, more confidence /self-reliance (no accountant?); more accurate, timely returns	Not time consuming and easy transition from whatever current method

Small, simple businesses were most likely to need financial incentive e.g. discount, or for it to be mandatory, to move to more frequent reporting and payments via an integrated system, as they saw few or no obvious benefits to them. However, some saw the potential for improved efficiency as appealing, as they were keen to save time and would be open to a replacement to their current system that made returns easier for them. Furthermore, when prompted, there were positive reactions towards the offer of tailored support from HMRC, which was seen as supportive. Those who currently did not use an accountant, in particular, saw this advice as valuable. Some also felt that greater clarity may help increase their sense of control (which was important to these businesses).

Benefits that were not as appealing included reassurances about errors (as they were already confident about their returns due to the simplicity of their cycle and some liked to retain their system of manual checks), certainty (it could help break down bills but this was not key) and reduced need for accountant support (which was not applicable to many.)

Given that the key barriers for this group related to their lack of perceived benefits, highlighting those that do appeal (efficiency, tailored support, clarity) in communications, would be likely to help them become more open to the concept of more frequent reporting and payments. Furthermore, as they would be likely to feel that this will threaten their autonomy and flexibility, and add time and admin, communications would need to highlight and reassure its ease and time saving, and make clear it is supportive rather than controlling. Making it optional would help convey this message. As well as communications, any integrated system would need to be user friendly, efficient, and well-supported in practice.

> *"In terms of time saving it could be of benefit...It could be time saving if I can have a personal record too. However, that said if it were at stipulated regulated times throughout the year this would feel like a nightmare for me… it would be more time consuming because I couldn't do it at my own leisure. I would also like a running estimate of tax owed."* (Sole trader, £15-30k, SA)

More complex and structured businesses were also likely to resist change, but be most responsive to messages that highlighted benefits that would improve their overall business operations and management. In turn, of the potential benefits presented (and raised spontaneously also), clarity and certainty were most appealing as they supported the business' financial situation, but also enabled more strategic planning. Some businesses saw the appeal of greater efficiency and tailored support, but others felt that their current system (both structures and people) already met these needs.

"I feel integrating real time HR [Human Resources] reporting in to this could be of benefit to provide a panoramic view of the business"(50-249 employees, £1-39 million, CT and VAT)

Having reassurances about errors was not generally appealing to these businesses, as they typically relied on accountants for this, and there was a reluctance to reduce the 'human' involvement. In any case, these businesses usually had in-house accountants whose role was wide-ranging, so removing the need for an agent was not a benefit which usually resonated with them.

For this group, the key barriers to moving to more frequent reporting and payments were largely centred around their concerns about compatibility with their current structures and systems (including people), and the ability for any new system to deal with the large amount of data which would need to actively manage and check.

Communications, therefore, would need to reassure these businesses on the practical aspects of transition, i.e. that any changes would fit to their business operations, that it could handle large amounts of data and would be secure – and deliver these in practice. It also could highlight the system could in itself help by undergoing extra checks. Furthermore, these businesses would see more value in moving to more frequent reporting and payments, if the benefits of having a reporting tool that can be used for taxes and more widely, were highlighted.

> *"If it is a CT system then the interface would have to collect all our accounting data including raw material valuations, work in progress valuations & finished goods valuations (we are a manufacturer). This is a lot of raw data and would require integration with more than one system here. Would that really be feasible for HMRC to create [?]"* (10-49 employees, £1-39million, CT and VAT)

Cash flow-conscious businesses were likely to respond to messages relating to the management of their cash flow, therefore clarity and certainty were of greatest appeal to these businesses. Having clarity on where the business stands and avoiding 'shocks' at the end of the year was seen as easing financial strain (and with it, psychological burden). Furthermore, these businesses were used to facing challenges, therefore being able to iron out issues quickly also appealed – this could in turn reduce their reliance on accountants, which was seen as appealing, though this might mean diverting their resources to more productive activity elsewhere rather than not needing their accountant at all.

> *"Having regular payments for HMRC will mean easier to balance the books and know where the business stands [for] finance".* (10-49 employees, £500k-£1million, CT)

Other potential benefits resonated less strongly such as efficiency and reassurance about errors, which were comparatively less of a priority. Many were also unconvinced of the value of tailored support, as they felt their businesses were unique and it would be difficult to provide helpful information.

For these businesses, the key barriers to overcome related to concerns about the timings of payments, and the perceived loss of flexibility with their money set aside for taxes and money through interest accrued. In turn, they may look to HMRC to make up for these losses. Communications to this group would need to highlight that it could help their cash flow, helping to avoid any surprises, and in doing so help them manage their business better overall and reduce their reliance on others (potentially reducing accountant costs where relevant). Furthermore, it should assuage concerns about timings and this could be put in practice, for example, by providing flexibility in payment terms, such as a three month payment window (rather than a set date).

> *"Not knowing how much tax is due is difficult as I don't like shocks and it may mean I don't have the money available. Hence knowing if I'm over or under paying on a more regular basis will help, and it also helps cash flow. Likewise it would be useful that any issues are ironed out earlier rather than later".* (2-9 employees, £250-500k, CT and VAT)

Finally, businesses **open to improvement** responded to a wide range of benefits, with each of those presented appealing to at least some businesses. For those who were less confident, the benefit of getting reassurance about errors had significant appeal; this was felt to increase confidence and self-reliance, which in turn would reduce need for an accountant which was of interest to some. Newer businesses in particular felt guidance from an accountant might still be necessary in their first years in operation.

> *I really like the idea - it fits well with what I already do. I could see how it would almost be possible to operate without needing an accountant - which I have sometimes thought if the return was simpler to do we'd just get on with it".*(Sole trader, £50-100k, SA)

Businesses who were less organised liked the concept of being able to input data regularly, as it would break down the task and help them keep on top of things. They hoped this to increase efficiency, and give clarity and certainty that would assist control and management of the business overall, as well as taxes. Lastly, for businesses which were looking for improvements, the offer of tailored support appealed. As well as reaping the practical benefits, it also had positive impacts on their perceptions of HMRC, which in turn seemed '*less daunting*.'

The barriers for this group were largely around time and potential challenges of learning a new system, in the context of lack of experience and confidence. Communications would therefore need to highlight the range of benefits to increase their willingness, and importantly, reassure of its ease and the provision of support. Ensuring that this support is given throughout the process is key to harnessing this group's openness to change.

> *"It sounds like an attractive proposition. I wouldn't have drawers full of receipts! It would also save me from paying a huge tax bill at the end of the year."* (Sole trader, £30-50k, SA)

7. Moving forwards

This section summarises how our understanding of these businesses can be applied to identify and target different business types, in designing practical systems and effective communications.

The findings from this research highlight that, although SMEs share common priorities to save time and money, and manage effectively, there were significant differences in approach, attitude and situations. This resulted in varying levels of interest in more frequent reporting and payments.

The research identified three main ways HMRC could take steps to maximise business' uptake.

A key first step is recognising who would be most likely to find the concept of more frequent reporting and payments most appealing. As outlined previously, those who showed most interest were businesses which had or were experiencing challenges, whether it be due to unpredictable cash flow, or lack of organisation, confidence or experience. These tended to be the **cash flow conscious** and **open to improvement** business types. They are open to change, as long as it helps them and doesn't complicate things. Conversely, those with straightforward operations and tax cycles, or those with set structures in place, had the least interest as they saw no need to change a system that works – i.e. the **simple**, and **more complex and structured** businesses.

Secondly, being able to identify and target these businesses (especially those who are more likely to take interest) could help plan resources effectively. This can be challenging, as they are based on attitudinal as well as more 'practical' factors. Based on this research, each business type could be distinguished through a few key features.

- **Simple businesses** were typically sole trader, 'lifestyle businesses' (such as translators and recruiters) and were likely to be established businesses (5+ years)
- **More complex and structured businesses**, as well as being larger size and turnover, were more likely to work in operational sectors such as engineering and manufacturing
- **Cash flow conscious businesses** were typically working in sectors that are likely to involve seasonal or unpredictable income e.g. farming, construction , import and export trades, retail; they were also likely to have had previous issues with HMRC e.g. negotiated payment plans
- **Businesses that are open to improvement** came from a mix of sectors (in this research, including photography, software, cleaning, management consulting) but also

typically newer businesses. They were also more likely to be smaller and, like cash flow conscious businesses, may have had issues with HMRC such as late payments.

Lastly, businesses would respond positively to hearing the benefits and appropriate reassurances around any potential change, through clear communications. The research findings highlight that these need to be tailored to different business type.

The table below summarise expectations, benefits and reassurances to be communicated for each type:

BUSINESS TYPE	EXPECTATIONS OF AN INTEGRATED SYSTEM	KEY COMMUNICATIONS: BENEFITS	KEY COMMUNICATIONS: REASSURANCES
Simple	Easy transition into software; accessible and user friendly; efficient	■ Easy and time-saving; ■ Tailored support from HMRC	■ Not time consuming, ■ Easy switch; ■ Supportive, not controlling
Large and complex	Integrates with current system – suits my business /provides useful info; secure	■ Compatible with business operation and systems ■ Provides useful data for the business	■ System integration smooth ■ Helps manage business as a whole
Cash flow conscious	Suits my business; efficient; doesn't' cause issues or challenges	■ Helps with cash flow planning by making ongoing tax liability clear (broken down)	■ Not being forced to pay at times when they can't/flexibility applied
Open to improvement	Simple; accessible and user friendly; efficient	■ Helps keep on top of business better/ better organisation ■ Better self-reliance (potential for reduced need for accountant?) ■ more accurate, timely returns	■ Not time consuming ■ Easy transition from whatever current method

8. Appendix

8.1 Appendix A

HMRC Reporting Cycles: Depth Interview Discussion Guide

Aims: to

- Understand how businesses fit their taxation cycles within their business activity cycles and to determine the practical, behavioural and attitudinal implications of a move to more frequent reporting.

Key objectives of the research are to explore:

1. How reporting and payment fits with different types of businesses' operational cycles for the 3 taxes; and their attitudes to burden and compliance
2. The burden and compliance impacts of a move to more frequent reporting and/or payment, for different types of business and for each tax
3. Identify benefits and disadvantages of more frequent cycles and key barriers to more frequent reporting and/or payment and how to overcome these
4. Best approaches to implement change to more frequent reporting and/or payment, and what HMRC needs to take into account to maximise uptake of more frequent reporting that improves compliance without overburdening.

1. Introductions and background (3 mins)

Protocol:

- About the research: this piece of work is for HM Revenue and Customs to help them explore taxation and business activity cycles among SMEs
- TNS BMRB is an independent research agency working on behalf of HMRC
- Length of discussion: 60 minutes
- Confidentiality and anonymity: their participation in and contributions to the research are kept strictly confidential, and they will not be identified to HMRC

Background

- Respondent business details
    - Nature of business – sector, size, activity

- Age of business
- Type of tax/es (check vs. quota); how long for
- Nature of contact with HMRC
- What instances, and how frequently, do they contact HMRC

2. Current business activities and reporting and payment cycles (15-20 mins)

Mapping out current business activities

*Researcher to ask respondent to talk through their **business activities over a financial year (thinking e.g. about the last full financial year)** - map out together from start to finish using blank customer journey map Stimulus A*

Spontaneous then prompt if needed, ensuring the following are covered:

- Details of all the different **commercial/ operational activities and processes** that take place over that period e.g. reviewing income and outgoing payments, planning for future investments, assessing business performance/profitability.
  - Which are the key activities and processes; what do they involve

Note to researcher: As well as the processes, probe on why these actions are taken, and note reasons on the map.

- Reflecting on the above activities/processes explore **information gathering:**
  - Whether information need to be gathered specifically for the purpose of the activity or is it always available
  - How is this information gathering done e.g., is a software package used; how does this draw on their day to day business records
- Note **timings** –start / end points and how long activities and processes take; what this depends on / what are the triggers for the activity.
- Whether these activities and timings are always the **same or differ year-to-year**; what this depends on

Mapping out reporting and paying taxes to HMRC

*Researcher to ask respondent to talk through – and then map onto this same journey map (using a different colour to be able to distinguish) **at what points (and the frequency) they report and pay HMRC across the year - thinking about the most recent cycle***

Spontaneous then prompt if needed, ensuring the following are covered:

Note to researcher: for businesses with multiple taxes, ensure each are covered in turn and make sure to distinguish reporting (data transfer) and payment (money transfer) and mark these on the journey map

- **Timings:** when they report and pay HMRC (for SA, VAT, CT as applicable) ; frequency

- What are the **different steps involved**; how long do they take
    - **How they keep their records** (software/ paper)
- Is the **information** needed the same as needed for their own business analysis
- Is the **process** for putting it together the same; if different, why
    - Probe for issues of timing, additional information required by HMRC not used in the business, system used for recording information.

      If not covered already, probe for:

        - whether they regularly record the information they will need
        - whether they review this to track their obligations before they are required to submit a return,
        - whether they keep money in a separate account or earmarked for tax payment.
- Explore **reasons they report and pay HMRC** in this way; (methods and frequency)
    - *Note to researcher: throughout this section probe for how and why the business responds to HMRC requirements as they do, rather than the HMRC requirements themselves.*
    - Have they always done it this way; why / why not
    - How did they decide on this process in the first place
        - Had they actively planned or organised their reporting/payments in this way; if so how; whether they prioritise particular taxes; if so, which and why
        - If reporting/payment of taxes is aligned to their business cycle or vice versa , how does this work and why they decided on this

How business and reporting/ payment cycles fit together

Note to researcher: throughout section, distinguish reporting and paying

Looking at the completed maps together:

- (Cover briefly) What is their **overall experience of reporting/ paying taxes to HMRC**; and why (e.g. customer service experience, timings, how onerous, support they receive and for what aspects)
- Overall, how is their **current reporting/ payment cycle working for them**
    - What aspects work well / less well
        - Probe for issues on timing of payments, timing of reporting, and information requirements.
- (For those with multiple taxes) How do cycles for the **different taxes work together (or not)** (SA, VAT, CT as applicable)
        - Is different software used to record information about each tax; if so, why

- How do the **reporting and payment of this tax (if single), or these (if multiple) taxes fit with their business activities (original map)** (*note to researcher: go back to activities specified earlier in discussion)*
    - In what **ways / where do they fit well** (mark on journey map); why
    - In what **ways / where do they fit less well** (mark on journey map); why
- **How, in what ways, and why, do their current reporting and payment cycles impact**:
    - Their business operations, activities (if not covered above)
    - Their commercial performance
    - Their ability to comply with the requirements
        - Report / pay HMRC on time
        - Submit accurate returns

- Anything they would like to **improve** in relation to how the reporting/ payment and business cycles fit together
    - Internal administration
    - External administration (e.g. suppliers)
    - HMRC processes / requirements
- Have they considered doing things differently; if so, how
- Anything that would encourage them to change / stop them from changing
- Anything that would make process of completing returns/payments easier
- Anything that makes / would make it easier / more difficult to comply

3. Implementation of more integrated and frequent reporting and/or payment (25 mins)

Integration of tax and business cycles

Researcher ask respondent to reflect back on the journey map and think about what it would look like if reporting and payment were better integrated into their existing business systems – e.g., if software package could just extract the relevant info and send it directly to HMRC.

Note to researcher: in this subsection, distinguish reporting and payment where relevant

- What are their expectations of what better integrated reporting would look like for them/ their business – *mark on map as relevant*

  Spontaneous, then probe:

    - Expectations and assumptions about how it would work
        - Whether this differs by type of tax; if so, how
    - Expectations and assumptions about how they / their business would be affected
    - Ease and convenience
    - Potential advantages / disadvantages and reasons for this

- What they think impact would be on:
    - Business operations and performance
        - How would it fit with this
    - Business cash flow
    - Record keeping
    - Accuracy of reporting
    - Ease of reporting
    - Complying with reporting / payment requirements
- How easy / difficult would this be to implement; why
- What changes would they need to make, and how would they go about it
- Impact of these changes: what, if any, difference do they think it would make to
    - Business operations and performance – how would it fit with this
    - Business cash flow
    - Accuracy of reporting
    - Ease of reporting
    - Complying with reporting / payment requirements
- Any issues/problems this raises ; what would enable them to overcome these issues

Frequency of tax and reporting cycles

Note to researcher: *if not emerged spontaneously:*

- How frequently would they envisage providing information and paying taxes to HMRC if systems were better integrated; how could this be made to work for them, and why
- *Researcher to explain: For each type of tax, there are different options for how frequently businesses report and pay HMRC. Some businesses choose to report/pay more frequently – up to monthly in some cases. E.g. For VAT businesses usually declare and pay quarterly, but some eligible businesses can submit returns annually and make monthly payments on account. Some businesses whose business activities mean they are routinely entitled to reclaim VAT submit returns and reclaim VAT monthly [Note to researcher: Payments on account isn't currently available for SMES in UK law (other than with annual accounts as detailed above)*
- Is increasing frequency of reporting and / or paying taxes something that they have considered or done; why / why not
    - For multiple taxes, explore whether this is in relation to one / all taxes
- (For those who receive help) Has this ever been suggested to them by someone else?

  If so,
    - What was suggested and why
    - Did they act on this; why / why not

ONLY businesses who have not increased frequency of reporting and/or paying tax:

- What are their expectations and assumptions of what more frequent reporting and / or payment would be like. Spontaneous, then probe:
  - About how it would work
    - Whether this differed by type of tax; if so, how
    - Ease and convenience
  - About how they / their business would be affected
    - In relation to each of the taxes / different taxes together (if multiple)
    - In relation to their business activities
      - How well did they think it would fit with their business activities (probe for each tax, if multiple taxes)
  - What would be the advantages/disadvantages of reporting on a more frequent basis; why
    - Business operations and performance – how would it fit with this
    - Business cash flow
    - Accuracy of reporting
    - Ease of reporting
    - Complying with reporting
- Any barriers; if so, what would enable them to overcome these. Are the issues the same across all taxes?
- How easy / difficult would this be to implement; why
- What changes would they need to make, and how would they go about it
- Impact of these changes: what, if any, difference do they think it would make to
  - Business operations and performance – how would it fit with this
  - Business cash flow
  - Accuracy of reporting
  - Ease of reporting
  - Complying with reporting / payment requirements
- Any issues/problems this raises
- Immediate impacts on the business or them personally
- Impacts in the longer term
- If HMRC offered more scope for payments on account is this something that would be attractive to them *(If needed: Payments on account are (more regular) advance payments towards the tax bill you'll owe for that tax year)*
  - Explore expectations about how it would work
  - Benefits/ barriers
  - Impacts on business operations / performance, accuracy of reporting, ease of reporting, complying with reporting and paying requirements
  - Implementation and changes required
  - Impact of those changes

<u>ONLY businesses who have increased frequency of reporting and/or paying tax</u>

<u>(identify which taxes):</u>

Researcher ask respondent to reflect back onto the journey map and think about what that looked like when they were reporting less frequently than they do currently

- Before they moved to more frequent reporting or payment, what were their **expectations** and **assumptions** of what more frequent reporting/payment would be like.

Spontaneous, then probe:

  - About how it would work
    - Whether this differed by type of tax; if so, how
    - Ease and convenience
  - About how they / their business would be affected
    - In relation to each of the taxes / different taxes together (if multiple)
    - In relation to their business activities
      - How well did they think it would fit with their business activities (probe for each tax, if multiple taxes)
  - What, if any, difference did they think it would make to
    - Business operations and performance, and how it would affect it
    - Business cash flow
    - Ease and accuracy of reporting
    - Complying with reporting / payment requirements
  - What did they think are the potential benefits / advantages, and why
  - What did they think are the potential problems / disadvantages, and why
  - What were their motivations for switching to more frequent reporting, and which of these were key
  - Any barriers; if so, how did they overcome these

- How did the actual experience compare to their expectations. Spontaneous then probe all areas covered above, i.e.
  - Process
  - How it fit with other taxes
  - How it fit with their business activities / cycle
  - Ease
  - What worked well / less well
  - Impact on business operations and performance; accuracy of reporting; ease of reporting; compliance; on cash flow

- How easy / difficult was it to implement the change; why
  - What aspects were easy

    - What aspects were challenging
- What changes (if any) did they need to make
- How did they go about it

Reflecting on the changes,

- What, if any, impact did it have overall – positive / negative aspects

  Spontaneous, then probe for impact on *(for each of these, understand what the impact was and why)*

    - Business operations and performance
        - How did it fit with this
        - Where did it fit well / less well
    - Accuracy of reporting
    - Ease of reporting
    - Complying with reporting / payment requirements
- Any issues/problems this raises
- Immediate impacts on the business or them personally
- Impacts in the longer term (anticipated if recent change)
- What would they improve about the process of moving to more frequent reporting

<u>If business increased frequency for only one tax (if multiple taxes)</u>

- Why they increased one but not the other/s
- Whether they would increase the other; why / why not
- Expectations of what this it would look like
- What difference they think it would make on:
    - Business operations and performance
        - How did it fit with this
        - Where did it fit well / less well
    - Accuracy of reporting
    - Ease of reporting
    - Complying with reporting / payment requirements

4. Making payment and reporting cycles work for businesses (10 mins)

- On reflection, what do they think are the key barriers to moving to more frequent reporting

- (*For businesses that moved to more frequent reporting*): What were the key challenges they faced in moving to frequent reporting
- How could these barriers and challenges be overcome
- What would need to be in place to enable them / other SMEs to move to more frequent reporting
- (*For businesses that moved to more frequent reporting*): What would they improve about the process for moving to more frequent reporting
- What, if any support would / did they need
  - What was / would have been helpful; from whom
- What information would / did they need
  - What was / would have been helpful
- Overall, what could HMRC do to support businesses more in the reporting and payment process

  If not covered,
  - Ease of reporting
  - Accuracy of reporting
  - Payments
  - Helping businesses to comply with reporting / payment requirements

5. Wrapping up (2 mins)

- Anything else?

THANK AND CLOSE.

Discussion Guide: Online group

HMRC Reporting Cycles

6-7.30pm 24 February

Aims and objectives (for researcher view only – will not be on the forum)

The group will explore some suggested approaches for businesses to implement change to more frequent reporting and payment for each tax, and respond to and refine potential communications messages that could encourage take-up. Specifically, the objectives for online group discussions are to:

- test and refine suggestions on how businesses could move to more frequent reporting and payment cycles, for each tax type and cumulatively for all
- test and refine communications concepts and messages that HMRC could use to promote and encourage businesses to move to more frequent reporting
- check whether these address some of the challenges identified, and flag any further issues

Online activity guide

1. Introduction (5 minutes)

Welcome to the HMRC Reporting cycles online discussion. Thanks very much for taking the time to log on – we really appreciate your participation and value your input. We hope you enjoy taking part.

The purpose of this online discussion is to explore some of the suggestions and findings from the first stage of the research, which 40 businesses took part in.

11 other businesses will also be logging onto the online forum this evening and over the following week - you will be able to interact with them and share opinions and experiences.

For this session tonight, you will need to go through a number of activities within an hour and a half. They will be a mixture of activities which you will do on your own privately, and others which you will discuss as a group, by responding to each others' comments, and adding to discussion threads.

After this session, you are then invited to log on again any time within 7 days with further thoughts and reactions to what was discussed, and to respond to any questions or other comments.

2. First thoughts on an integrated system (5 minutes)

Section with private responses: (NB. PARTICIPANTS CANNOT INTERACT)

Our interviews with you in stage 1 showed that businesses of all kinds have a 'system' when bookkeeping and reviewing figures. This can range from keeping a physical, paper record to using Excel spreadsheets, to a more sophisticated software package like SAGE.

Some businesses suggested that a software package that could help them simplify and automate reporting and/or pay taxes more regularly would make the experience easier and more streamlined for them.

Before you meet the rest of the businesses taking part, we would like you to answer the following:

Thinking about your business, if you were to introduce software that streamlined your reporting and payment,

- **What features do you think this software package should have?**
- **How, if at all, would you have to change your existing processes to make use of the software?**
- **What support would you need to make the transition to this system?**

Please do **not spend more than 5 minutes** answering these questions, and go straight to the next activity once you have submitted your answer by clicking the arrow. Make sure you don't click the arrow until you have completed your response, as you won't be able to go back!

Researcher to probe on the following:

- *HMRC, Software supplier, a blend of both*
- *What is their expectation dependent on*

3. Features of an integrated system (20-25 minutes)

Section with group discussion: PARTICIPANTS TO DISCUSS TOGETHER

In this section, we will explore some of the suggestions businesses came up with, and you will "meet" other businesses to exchange ideas and views. It should be noted that these suggestions are purely hypothetical and are not necessarily indicative of any software produced or associated with HMRC.

When asked to think about what a more integrated system would mean to them, some businesses suggested a "utility bill" principle. HMRC would like to build on this idea and find out more about how this would work.

As an **example,** this would involve an app or something you can see on the computer, which could show what your tax liability is likely to be based on figures and information you submit, on a regular basis. This could either be based on existing software that you use or a new package if you don't use a record keeping package.

This would mean that you could record or upload the information relevant for running your business (like sales and expenses). The software would then use this information to prepare an automatic return for HMRC for you to submit. There could be some automatic error checks build into the software to flag these before you submit the information. HMRC would process the data you submit **and tell you what** your tax bill is, as happens with a gas meter reading.

Looking at each question in turn, please spend the next 20-25 minutes addressing the following questions. Once you've done that, please feel free to comment on other people's posts.

1. **What are your first thoughts on a process like this?**

2. **What information would you expect to have to record and input?**

3. **What is the information you would be happy to provide?**

4. **Would you have any concerns?**

5. **How often would you want to submit information – why?**

Researcher to probe on the following – as well as encouraging participants to comment on each others' post (as needed)

- *(If not covered) More detail on what they expect to have to do to make the system work?*
- *Distinguish any differences in information they keep for record keeping and for submitting to HMRC?*
- *What aspects are appealing/less appealing and why?*
- *Reasons for willingness to share/not share certain data*
- *Are privacy concerns real or perceived – would this process mean submitting info they are not currently providing?*
- *What, if any, is the boundary of 'acceptable' for data sharing: why is X acceptable and Y unacceptable – get clear examples, and business' rationale for that.*
- *Whether they would want to have a set time / date to submit information to HMRC; (if concerned about HMRC using data, whether this would address this concern)*
- *Should the software be provided by HMRC or someone else? Would they pay for it if provided by a commercial company?*

4. Likely impact on your business (20 minutes)

Section with private responses: (NB. PARTICIPANTS CANNOT INTERACT)

Thanks for your input so far!

Now that you have a better idea of what a more integrated system might look like, we would like you to think about what the impact of this would be on **your** business.

You will now be taken to a screen with some questions to fill out privately; please spend about **20 minutes** on this – giving as much detail as you can in that time. When you have finished, submit your responses by clicking the arrow. Remember – you won't be able to go back once you have clicked "complete" so please make sure you have given your answer before moving forward!

At *[Researcher to give time]*, we will bring everyone back into a group discussion.

Reporting and paying more frequently throughout the year, using an integrated process, could offer a number of benefits to businesses. Please have a look at some of these benefits below, and write down your views on each of them.

- **Efficiency**: using the software would mean inputting data once (for your business and taxation purposes in one go)
    - **What impact would this have on you and your business?**
    - **Would this benefit your business?**
        - **If yes, how?**
        - **If not, why not?**

Blank box for open ended response

- **Reassurance and avoiding error**: you know your figures are correct, so you won't worry about errors
    - **What impact would this have on your business?**
    - **Would this benefit your business?**
        - **If yes, how?**
        - **If not, why not?**

Blank box for open ended response

- **Clarity**: you know exactly what you need to pay
    - **What impact would this have on you and your business?**
    - **Would this benefit your business?**
        - **If yes, how?**
        - **If not, why not?**

Blank box for open ended response

- **Certainty**: shorter HMRC review periods in year could mean
- a) Not facing a large tax bill at the end of the year. HMRC would also be able to tell whether you are over/ underpaying throughout the year.
- b) If there are any issues, HMRC would identify these much more quickly (currently, HMRC can open an investigation into a return up to a year after submission)
- .
    - **What impact would this have on you and your business? *Please note views on both a) and b)***
    - **Would this benefit your business? *Please note views on both a) and b)***
        - **If yes, how?**
        - **If not, why not?**

Blank box for open ended response

- **Less need for an accountant**: if you have in-year checks and a system that ensures you get it right, some businesses would have less need of an accountant.
    - **What impact would this have on you and your business?**
    - **Would this benefit your business?**
        - **If yes, how?**
        - **If not, why not?**

Blank box for open ended response

- **Tailored support**: HMRC would understand your business better, so could offer bespoke advice e.g. a prompt would pop up and say 'businesses similar to yours often put x range in this box', and recommendations e.g. signposting the business to reliefs or schemes that may benefit them, based on what other similar businesses are doing.
    - **What impact would this have on you and your business?**
    - **Would this benefit your business?**
        - **If yes, how?**
        - **If not, why not?**

Blank box for open ended response

- **Any other ways that more integrated reporting would benefit your business? How would this work and what would the impact be on you and your business?**

Blank box for open ended response

5. Moving to a more integrated process (20-25 minutes)

Section with group discussion: PARTICIPANTS TO DISCUSS TOGETHER

Ideastorm/discussion

Thank you for your responses! We are now going back into a group discussion.

We now have a better understanding of what the software could look like and your responses to some of the potential benefits of more frequent reporting and paying of taxes, through an integrated process.

Looking at each question in turn, please spend the next 20-25 minutes addressing the following questions. Once you've done that, please feel free to comment on other people's posts.

1. **Overall, how appealing did you find the benefits presented: which did you find most and least appealing?**
2. **Reflecting on everything discussed and thinking about your business, would you consider taking up more frequent reporting and payments? Why / why not?**
3. **If not, what else would encourage you to use it? What other information or reassurances would you need?**
4. **What challenges might you have with introducing this to your business?**
5. **What support and guidance would you want to help you?**

Researcher to probe on the following – as well as encouraging participants to comment on each others' post (as needed)

- *Why is it enough/not enough*
- *What is the strongest selling point*
- *Need for financial incentive; extended deadlines; extra guidance and support*

Any challenges – where do these come from – whether perceptions are based on positive/negative experiences of HMRC processes?

6. Conclusions (5 minutes)

We have now reached the end of the discussion tonight. Thank you very much for your participation.

As mentioned at the start, we will be keeping the online forum open for one week, until midnight on Monday 2 March. We would encourage you to log on to share further thoughts on what we discussed tonight, and comment on others' responses also. We will be following up with further questions and comments also.

Thank you again!

8.2 Appendix B

SMEs	Corporation Tax				Self Assessment				Total	Total	TOTAL
	With VAT		Without VAT		With VAT		Without VAT				
TOTAL	13-15		5-7		5-7		13-15		17	23	**40**
Phone/ F2F ints*	Phone: 3-4	F2F: 10-11	Phone: 1-2	F2F: 4-5	Phone: 1-2	F2F: 4-5	Phone: 1-2	F2F: 10-11	**Phone: 17**	**F2F: 23**	
SMEs	**Corporation Tax**				**Self Assessment**				**Total**	**Total**	**TOTAL**
Size of business											
(sole trader)		3		1	4		2	7	6	11	**17**
2-9 employees	2	4	2	1			3	3	7	8	**15**
10-49 employees	3	1				1			3	2	**5**
50-249 employees	1	2							1	2	**3**
Turnover											
£15k-£30k	1						4	3	5	3	**8**
£30k-£50k							1	4	1	4	**5**
£50k-£100k		3	1	1	2	1		3	3	8	**11**
£100k-£250k		1	1		1				2	1	**3**
£250k-£500k	1	2			1				2	2	**4**
£500k-£1 million		2		1					0	3	**3**
£1million-39million	4	2							4	2	**6**
Industry											
Retail /wholesale / distribution	2	2							2	2	**4**
Professional / business services	1	3	2	1	1		1	5	5	9	**14**
Catering / leisure		1					1	1	1	2	**3**
Motor trades / transport	1								1	0	**1**
Construction								1	0	1	**1**
Other	2	4		1	3	1	3	3	8	9	**17**
Age											
Less than 1 year									0	0	**0**
1-5 years	1	5	1	1			2	6	4	12	**16**
5+ years	5	5	1	1	4	1	3	4	13	11	**24**
Agent vs non-Agents											
Agent	5	5	2	2	4	1	3	5	14	13	**27**
Non-Agents	1	5					2	5	3	10	**13**
Frequency CT											
Annually	6	9	2	2					8	11	**19**
Quarterly									0	0	**0**

Monthly		1							0	1	**1**
Frequency VAT											
Annually		1			1	1			1	2	**3**
Every 6 Months					1				1	0	**1**
Quarterly	4	7			1				5	7	**12**
Monthly	2	2			1				3	2	**5**
Frequency SA											
Annually					4	1	5	10	9	11	**20**
Quarterly									0	0	**0**