Making Tax Digital for Business: Survey of small businesses and landlords

Research report for HMRC

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HM Revenue & Customs

Disclaimer

The views in this report are the authors' own and do not necessarily reflect those of HM Revenue & Customs

Acknowledgements

Contents

Glossary

Term	Definition
Business	Organisations that took part in the survey. All business respondents had fewer than 20 employees and a turnover of between £10,000 and £10 million in the last financial year. They included private or public limited companies, sole proprietorships (self-employed individuals or sole traders), partnerships, and individuals who were self-employed in addition to having an income from landlord activities. Individuals with an income *only* from property were not classified as businesses.
CT	Corporation Tax.
CT only / ITSA only / VAT only	Customers who self-reported being liable for this tax only.
Customers	Small businesses and landlords who took part in the research. Their views were representative of the views of the MTDfB population.
Digital capability	Respondents who reported having access to digital tools (including a computer or laptop, smartphone, tablet, the Internet or online banking) for work or personal use.
Employer	Businesses with between one and 19 employees.
ICT	Information and Communications Technology.
ITSA	Income Tax Self-Assessment.
Landlords	Any individuals with property income that took part in the survey. They may also have other income, e.g. from self-employment. All landlords had a gross income from property rental of between £10,000 and £10 million in the last financial year.
Landlords only	Individuals with an income *only* from property.
MTDfB	Making Tax Digital for Business.
Nano businesses	Businesses with zero employees.
Needs Enhanced Support Services (NES)	One of HMRC's current digital support channels. It involves telephone and home visit services to support customers who are unable to access HMRC's online/digital support channels due to health issues or disabilities.
Small business	See *business*.
Software	Accounting or record keeping packages which can be accessed on a computer, on the Internet or on a smartphone app. It does not include spreadsheet software packages, such as Microsoft Excel.
Sole proprietor	Individuals who were the exclusive owner of a business. These individuals were working for themselves, either freelancing or as the owner of a business (rather than as an employee).
VAT	Value Added Tax.
VAT threshold	The turnover or gross income threshold needed to register for VAT or join a VAT accounting scheme. At the time of the survey the VAT threshold was £82,000.

Executive Summary

Making Tax Digital for Business

Making Tax Digital for Businesses aims to transform the tax system for businesses, including companies, sole traders, self-employed people, partnerships and landlords by requiring customers to keep digital records through software or apps and update HMRC with summary tax information on a quarterly basis[1].

At the time of the research, it was expected that businesses and landlords with an income of at least £10,000 would be required to comply with MTDfB. Since then, the MTDfB requirements have changed and businesses will now not be mandated to use the MTDfB system until April 2019 and then only to meet their VAT obligations. This will apply to businesses with a turnover above the VAT threshold[2] - the smallest businesses will not be required to use the system, although they can choose to do so voluntarily.

The aims of this research were to:

- Quantify the small business and landlord population in terms of their likely engagement with MTDfB; *and*

- Identify barriers and levers to engagement with MTDfB, and support and information requirements.

This report is based on quantitative survey research with 2,900 businesses and landlords, and follow-up in-depth interviews with 30 customers identified in the survey as being in need of additional support to engage with MTDfB. Research fieldwork took place between September and December 2016.

Key findings

Current tax practices

Three in four customers (74%) sought help with their accounts and tax from an external, paid accountant. A very small minority had an in-house accountant or bookkeeper (4%), or used a family member, friend or colleague (6%). One in five customers (21%) managed their tax affairs themselves.

External tax agents were used mostly for calculating tax payable, especially for Corporation Tax (CT) and Income Tax Self-Assessment (ITSA) (88% and 68% compared with 34% for Value Added Tax (VAT). In contrast, a minority of customers used external, paid agents for record keeping (less than one in five for each of the three tax obligations).

Customers in the survey were asked about their experiences of keeping records of their income and expenditure, calculating the amount of payable tax, and completing and submitting their returns. Nine in ten customers (87%) found these activities straightforward. The large majority were recording their transactions, invoices and receipts in real time or at least quarterly (over nine in ten for CT and VAT), and eight in ten for ITSA). One in five ITSA customers (19%) did all their record keeping at the end of the tax year. Almost all knew which records they needed to keep (96%) and were confident that the information they provided to HMRC was correct (98%).

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[1] https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital

[2] https://www.gov.uk/government/news/next-steps-on-the-finance-bill-and-making-tax-digital

Using digital tools for tax

Use of spreadsheets or paper methods for record keeping was more widespread than software. Use of software or apps on a smartphone or tablet for any tax-related tasks (such as record keeping, calculating tax payable, and submitting returns to HMRC) among businesses and landlords was relatively low (26%). Software use was highest among those liable for CT (52%) and lowest among landlords only (13%).

The main reason for not using software was a perceived lack of need, either because the business or landlord activities were simple and the processes in place were 'fit-for-purpose', or because the agent handled all of the taxes. One in five were not using software because they lacked confidence with technology.

The qualitative research, which focused on non-software users, identified customers who had an emotional attachment to their existing method of record keeping. These customers had developed and refined their record keeping practices over a number of years, and believed that they were providing correct information to HMRC. They questioned the value in changing processes which were working well and met HMRC requirements.

Digital capability and access

Seven in ten customers (68%) reported being comfortable with using technology to manage their business/landlord finances. Those least comfortable were sole proprietors and partnerships below the VAT threshold, who tended not to use software as their tax obligations were simple. Five per cent of software users said they were not comfortable, compared to 14 per cent of non-users. Access to digital devices that would enable customers to use software under MTDfB was also high: 95 per cent of customers had a computer, laptop or tablet, 96 per cent had internet access, and 68 per cent used the internet at least daily.

One in five customers (19%) who had internet access for work self-reported that their internet (speed and/or reliability) was poor. These customers were concerned that they would not be able to send quarterly updates to HMRC or access HRMC guidance about MTDfB, such as YouTube videos. The qualitative research with non-software users also identified that some customers did not feel comfortable using technology for business because they were worried about data security.

MTDfB – engagement and support needs

At the time of the survey fieldwork, between September and November 2016, seven in ten customers were unaware of the requirements to use software or to send quarterly updates to HMRC. Customers using software had higher awareness of the forthcoming changes.

Despite limited levels of awareness, seven in ten customers (70%) expressed willingness to comply with the MTDfB requirements, albeit at the latest time possible (43% would make changes to their process only once the changes come into effect). One in four customers (25%) would only comply with the requirements if there were penalties and one in seven (15%) would choose not to submit quarterly reports, if it was cheaper to pay a fine than comply. In the qualitative research with non-software users, customers were more willing to make the MTDfB transition if they believed the value of it outweighed the burden of changing their practices. Willing customers believed MTDfB could be easily integrated into existing practices, whilst resistant customers believed there would be burdens (such as time or agent fees) which would overcomplicate systems that worked well.

Customers were divided on whether it would be easy or difficult to comply with MTDfB requirements. Two in five reported it would be easy for to use software to keep digital records and to submit quarterly updates; a third believed it would be difficult. Software users were twice as likely as non-users to say it would be easy to comply with the requirements. More CT than ITSA customers reported that it would be easy for them, as most were already using software. Customers who anticipated difficulties in meeting the MTDfB requirements cited limited ICT skills, the burden on their time, the ease of integrating MTDfB into current practices, and not knowing which software to use.

Customers wanted guidance on how to prepare for the new requirements (cited by 40%), consistent with the low levels of awareness about MTDfB and what it involved. Around one in six customers wanted reassurances that they were carrying out MTDfB requirements correctly (18%), and a similar proportion wanted guidance on using software (16%).

All customers (including those not currently using an agent) were most likely to ask an accountant/tax agent for advice and support about MTDfB (72%). One in five (20%) would use the HMRC website, 13 per cent the HMRC helpline, and five per cent family and friends.

1   Introduction

This report presents findings from research with small businesses (including business owners without employees and businesses liable for Income Tax Self-Assessment (ITSA), Value Added Tax (VAT) and Corporation Tax (CT) and landlords. To be eligible for the research, customers had to have fewer than 20 employees and an annual turnover (or income from property) of between £10,000 and £10 million. For sole proprietors who were also landlords, their combined income from these activities was considered with these parameters. This research was commissioned to explore factors influencing businesses potential engagement with HMRC's Making Tax Digital for Business (MTDfB) programme.

About Making Tax Digital[3,4]

HMRC's ambition is to become one of the most digitally advanced tax administrations in the world. It aims to modernise the tax system to make it more effective, more efficient and easier for customers to comply.

The majority of customers want to get their tax right but the latest tax gap figures (2014 to 2015) show too many find this hard, with a cost to the Exchequer of over £8 billion a year due to avoidable taxpayer mistakes. In 2014 to 2015, over £3.5 billion of revenue was lost due to these mistakes in VAT returns alone.

HMRC believes that a modern tax system, based on digital technology, will make it easier for businesses to get their tax right. In introducing Making Tax Digital for Business, HMRC expects that the amount of avoidable errors will fall, and in turn so will the cost, uncertainty and worry that businesses face when HMRC intervenes to rectify mistakes.

At the time of the research, it was expected that businesses and landlords with an income of at least £10,000 would be required to comply with MTDfB. Since then, the MTDfB requirements have changed and businesses will now not be mandated to use the MTDfB system until April 2019 and then only to meet their VAT obligations. This will apply to businesses with a turnover above the VAT threshold - the smallest businesses will not be required to use the system, although they can choose to do so voluntarily.

Making Tax Digital for business (MTDfB)

The MTDfB reforms are a key part of the government's initiative to transform HMRC into a digital tax authority, and aim to make it easier and quicker for individuals and businesses to keep on top of their tax affairs, through use of their digital tax accounts. Businesses (including sole proprietors and landlords) will be required to keep digital records and send summary updates quarterly to HMRC from their software (or app).

At the time of this research, HMRC's plan was for customers to start using the new digital service from:

- April 2018 if they have profits chargeable to Income Tax and pay Class 4 National Insurance contributions (NICs) and their turnovers are in excess of the VAT threshold;

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[3] Roadmap (December 2015): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/484668/making-tax-digital.pdf

[4] HMRC published a summary of responses to a consultation on the changes: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/587433/Making_Tax_Digital_-_Bringing_business_tax_into_the_digital_age_-_Summary_of_responses.pdf

- April 2019 if they have profits chargeable to Income Tax and pay Class 4 NICs and their turnovers are below the VAT threshold;

- April 2019 if they are registered for and pay VAT; *or*

- April 2020 if they pay Corporation Tax (CT).

Businesses, sole proprietors and landlords with turnovers under £10,000 are exempt from these requirements.

It should be noted that in July 2017, the roll out for MTDfB was amended to ensure businesses have plenty of time to adapt to the changes. Under the new timetable, the following was announced.

- Only businesses with a turnover above the VAT threshold (currently £85,000) will have to keep digital records and only for VAT purposes;

- They will only need to do so from 2019; *and*

- Businesses will not be asked to keep digital records, or to update HMRC quarterly, for other taxes until at least 2020.

Specifically, under MTDfB, these planned changes will affect small businesses and landlords in the following ways:

- **Record keeping**: businesses will keep track of their tax affairs digitally using software or apps (digital tools);

- **Updating HMRC**: Businesses will provide summary tax data to HMRC quarterly, using digital tools. The summary tax data will be automatically generated for the business from the electronic records. The MTDfB software will use these records to prepare a summary update to HMRC. Each quarter, the software would remind customers to send their summary to HMRC;

- **For VAT, businesses will be required to use software to submit information required for current VAT returns;** and

- **End of year activity**: Businesses will provide a finalised end of year position to HMRC of their tax affairs, again using digital tools.

About the research

Ipsos MORI was commissioned to undertake mixed-methods research, building on previous research[5], to understand how small businesses and landlords currently approach their tax obligations and the types of advice

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[5] Previous qualitative research has been carried out exploring small business' and agents' views on Making Tax Digital:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/593158/Exploring_Small_Business_and_Agent_attitudes_and_eng agement_with_Making_Tax_Digital.pdf
https://www.gov.uk/government/news/next-steps-on-the-finance-bill-and-making-tax-digital
https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital

and support they are likely to require to ease transition to the new MTDfB requirements. Specifically, the aims of the research were to:

- Quantify MTDfB customers in terms of demographics, digital capability and current tax practices;

- Understand customers' attitudes towards MTDfB and how they perceive MTDfB will impact on their business and/or landlord activities;

- Identify the size and scale of customer groups in terms of their willingness and ability to engage with the requirements of MTDfB; *and*

- Identify barriers and levers to engagement with MTDfB, including support and information needs.

The research comprised two distinct strands:

- An initial **telephone survey** with 2,900 small businesses and landlords to obtain a representative view of current practices around tax obligations, demographics and engagement with MTDfB. Respondents were randomly selected from HMRC administrative data and from the National Inter-Departmental Business Register (IDBR). Findings were weighted to represent the population and to ensure that the findings were representative of the views of the small business, landlord and self-employed population – the latter of which is generally underrepresented in surveys using IDBR sample. The adjusted response rate was 41%[6];

- Follow-up **depth interviews** with 30 small businesses, who were likely to be the hardest to engage with the requirements of MTDfB based on their ability and/or willingness to engage with MTDfB, as measured from their survey responses. The interviews explored how MTDfB was likely to impact on their business activities and their support needs in helping them to transition effectively.

The research fieldwork took place between September and December 2016. Further details can be found in the appendix.

Interpreting the findings in this report

Only statistically significant findings from the survey have been reported[7]. Some percentages may not sum to exactly 100 due to rounding. Quotations from the qualitative research have been included to provide rich, detailed accounts, as given by participants.

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[6] For a detailed breakdown, please see Appendix, Table A1

[7] At the 95% confidence interval.

2   Profiles of the MTDfB population

This chapter summarises the main characteristics of small businesses and landlords interviewed as part of this research[8].

Firmographics and demographics of small businesses and landlords

Four in five (81%) survey participants were solely businesses, including sole proprietors; one in eight (13%) were landlords; and seven per cent were both a sole proprietor and a landlord (Figure 1). The majority of small businesses were sole proprietors. Over half (53%) of small business participants were in the following sectors: Construction; Professional, Scientific and Technical Activities; Wholesale and Retail Trade and Repair of Motor Vehicles; and Administrative and Support Service Activities.

Figure 1: Overview of survey participants

Is your business…? And are you currently a landlord?

- Sole proprietor — 44%
- Private limited company — 26%
- Partnership — 11%
- Landlord — 13%
- Sole proprietor and a landlord — 7%

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Social Research Institute

Base: All respondents (2,900)
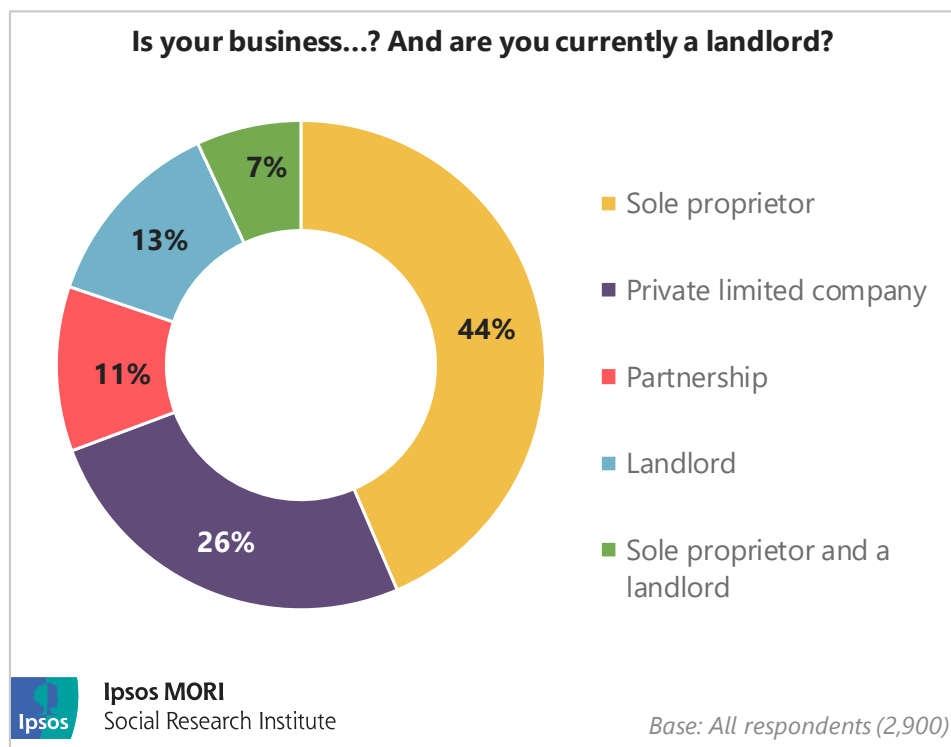
The majority of small businesses in the survey were well established; 54 per cent had been trading for more than ten years, including 29 per cent for 20 or more years. In contrast, just 15 per cent of businesses had been trading for less than five years and 29 per cent for between 5-10 years.

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[8] Data have been weighted by legal status and size. Businesses sampled from the Inter-Departmental Business Register have been weighted by sector as well. The same was not done for businesses sample from HMRC sample frame which did not contain sector information. See appendix table A2 for details on weighting and Appendix C for detailed profile data.

Overall, across all customers, 64 per cent reported a turnover/income[9] that was below the VAT threshold of £82,000 (in 2015-2016) and 32 per cent reported an amount above it. Among those liable for ITSA[10], 79 per cent reported a turnover/income that was below the VAT threshold and 16 per cent reported an amount above it. Overall, 42 per cent of customers reported being liable for VAT and a full breakdown of customers' liabilities is shown in Figure 2 below. These figures are self-reported:

Figure 2: Tax obligations reported by customers[11]

Q: Can I confirm that you are/your business is liable for...?

- ITSA only
- ITSA and VAT
- CT and VAT
- VAT only
- CT only

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Base: All respondents (2,900)

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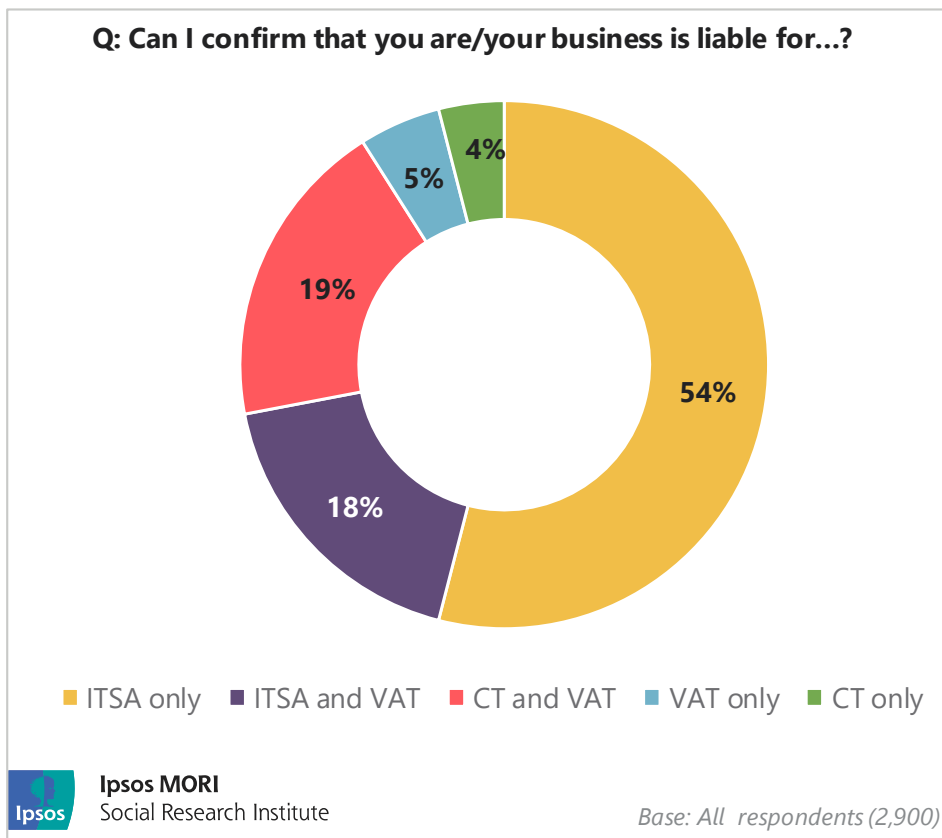
[9] Small businesses were asked to report turnover; sole proprietors were asked to report income; landlords were asked to report property income; and those who were both sole proprietors and landlords were asked for both their personal income and property income, which was later combined for reporting

[10] Please note that these figures represent customers who reported being liable for CT or VAT or ITSA only

[11] This chart shows that 5% of those surveyed were liable for VAT only. This is not technically possible, but findings are based on reported data from customers.

3   Current practices

This chapter presents findings on views and current tax practices of small businesses and landlords. It examines the implications of meeting the overarching MTDfB requirements to submit quarterly updates of transactions using accounting software on a digital device. The analysis revealed that almost all customers had access to a digital device and were regularly using the internet. Use of software for tax, however, was considerably more limited.

In the survey, customers were asked how they managed activities relating to each of the taxes they were liable for. This included:

- **Keeping accounting records** – the method used to keep a record of all money received and spent by the business and/or in relation to property rental;

- **Storing copies of records**, such as receipts and invoices – how or where records are kept (i.e. physically, digitally, or both);

- **Calculating tax payable** – the method used to work out the amount of tax a business or landlord would be required to pay;

- **Preparing tax returns** – ascertaining who was responsible for completing the return;

- **Checking tax returns** – ascertaining who was responsible for checking the return; *and*

- **Submitting tax returns** – ascertaining who was responsible for sending the return to HMRC.

Customers were asked whether an external agent managed these tasks or whether they were completed in-house. 'In-house' was used to mean either by a dedicated member of staff (i.e. an internal bookkeeper) or by the respondent themselves (i.e. if they were a sole proprietor).

The research identified that MTDfB customers were heavily reliant on using external, paid agents for helping with their tax affairs. Three in four used an agent (74%), most commonly because they were specialists (53%) or because customers feared making mistakes (27%). This highlighted a limited understanding about tax and HMRC legislation. Customers also cited more practical reasons for using agents, for example not knowing how to manage the process themselves (20%) or because of burdens on their time (18%) or resources (6%).

Customers who used agents mainly sought help with processing, checking or submitting their tax returns. Some customers did receive help with processing and storing records, though this was less common. Across the board, customers found that, in their experience, record keeping was straightforward (87%). The more commonly reported difficulties were around the time it took to process records (4%) and remembering to keep financial records or receipts (3%).

However, customers were split on how burdensome they found their tax affairs: 45 per cent thought their affairs were not at all burdensome, 44 per cent thought their affairs were somewhat burdensome and nine per cent thought their affairs were very burdensome. Perceptions of burdens were correlated with the complexity of the

business (for example, the turnover, number of employees or tax liabilities). These customers tended to be software users and had more 'sophisticated' internal processes for managing their tax affairs.

Three in ten customers (32%) struggled to manage their tax obligations on top of their workload. Customers liable for CT and/or VAT were more likely than those liable for ITSA only to find this difficult to manage (36% for CT only and 33% for CT and VAT, compared with 29% for ITSA only). These customers tended to seek support from an agent.

Attitudes towards tax obligations

The large majority of customers (87%) did not report difficulties with any aspect of record keeping. Almost all customers knew which records they needed to keep (96%) and were confident that the information they provided to HMRC was correct (98%).

Approaching half (45%) did not find their tax affairs burdensome (Figure 3), in particular customers with smaller operations in terms of number of employees and turnover below the VAT threshold Three in five Financial and Insurance Activities businesses (59%) did not find their tax affairs to be a burden, compared to 45% of customers overall. Perception of burden was related to tax obligations: ITSA customers were the least likely to find their obligations *somewhat burdensome* – 41% compared to CT (50%) and VAT (49%).

These findings resonate with the qualitative research which found that customers with a professional background in a relevant sector, commonly Finance and Insurance Activities, tended to view their tax obligations as straightforward. The qualitative research also highlighted that those who found their tax affairs easy to manage did so because their business was simple.

Figure 3: Views on the burden associated with tax affairs

Q: How would you rate the burden of dealing with your/your business' tax affairs generally?

| 45% | 44% | 9% | 3% |

- ■ Not at all burdensome: involves minimum time, effort or costs
- ■ Somewhat burdensome
- ■ Very burdensome: involves a large amount of time, effort or costs
- ■ Don't know

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Base: All respondents (2,900)
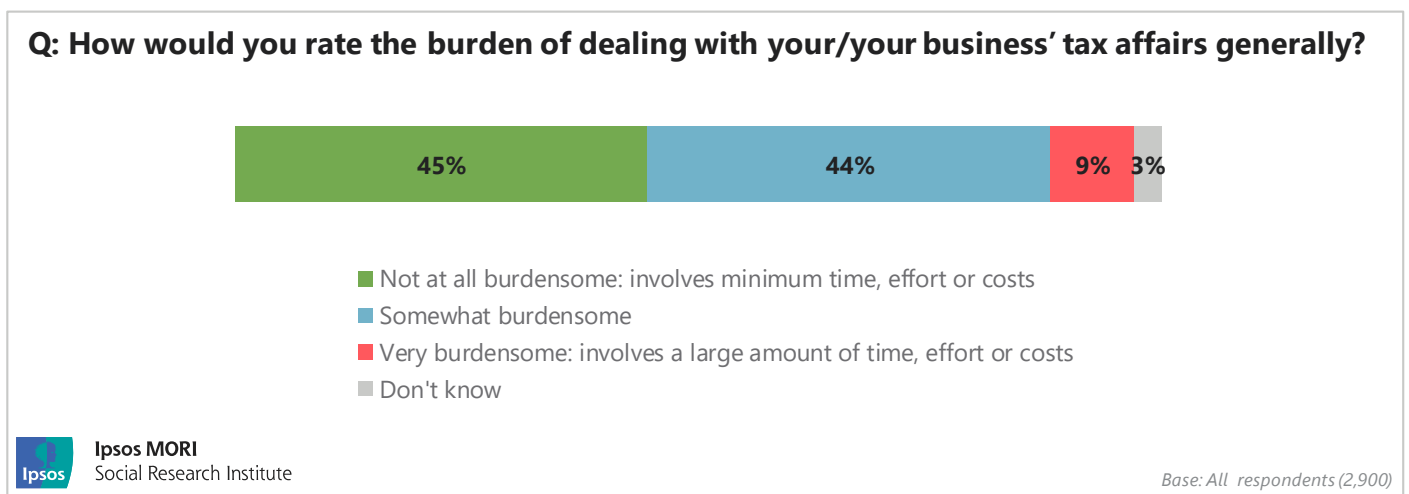
Three in ten customers (32%) found their tax obligations difficult to manage on top of their workload; 56 per cent did not. Again, customers liable for CT and/or VAT were more likely than those liable for ITSA only to find this difficult to manage (36% CT only and 33% CT and VAT, compared with 29% ITSA only). In addition, 33 per cent of those above the VAT threshold found their tax obligations difficult to manage on top of their workload.

The role of tax agents

Three in four customers (74%)[12] sought help with their accounts and tax from an external, paid accountant or tax agent. A small minority had an in-house paid accountant or bookkeeper (4%) or used a family member, friend or colleague (6%). One in five customers (21%) did not seek help; this was most common among landlords and sole proprietors (36% and 25%, respectively, had no help).

Analysis was undertaken on the general use of external agents by the customers' tax obligation (Figure 4). Those liable for CT and VAT were more likely to use an external paid agent than those liable for ITSA only[13]. This, combined with the fact that businesses with higher turnover or more employees were also more likely to use an external agent, suggests that reliance on external support increased with business complexity and size. Customers who were liable for both VAT and CT were also twice as likely to have an in-house paid accountant or bookkeeper (8% compared with 4% overall).

Figure 4: Use of external agents to help with accounts and tax by tax obligations and business size
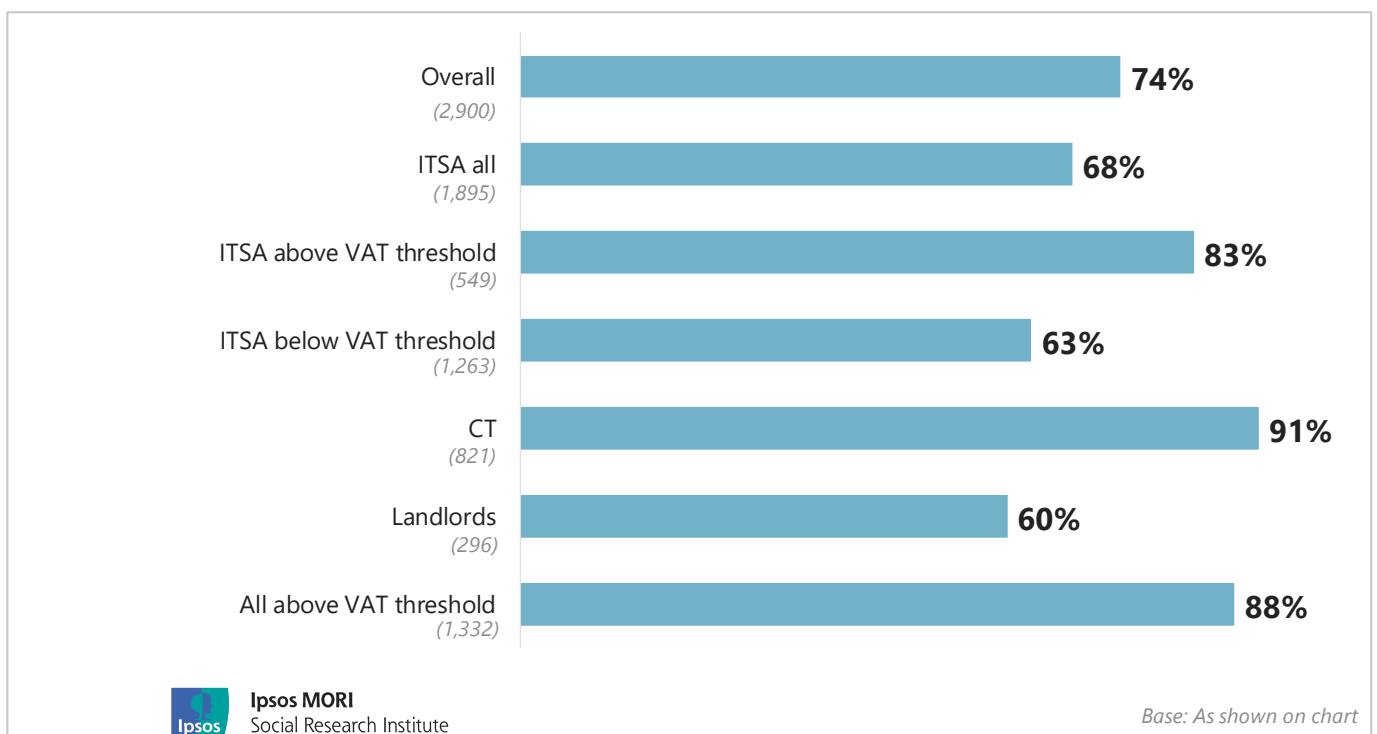
Of those liable for VAT, 45 per cent used an external agent for tax related activities[14]. This rose to two-thirds of those liable for ITSA (66%) and nine in ten of those liable for CT (90%).

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[12] Please note that this was a multicode question, and some respondents used more than one source of support for their accounts.

[13] Figure 4 represents overall use of external agent for accounts and tax liability and does not represent agent use for the specific tax liabilities.

[14] Tax related activities include: Submitting returns; Preparing returns; Storing copies of records; and, Keeping accounting records

Businesses that had an in-house bookkeeper were most likely to find their obligations *somewhat* or *very burdensome* (58%), compared with 54 per cent of those using an external agent. Those who had no help were the least likely to find their obligations burdensome (47%).

Customers used external, paid agents for a range of reasons, but most commonly for their specialist knowledge (Figure 5). Some customers did not feel they had sufficient knowledge to manage the process themselves and there was also an element of fear of *'getting it wrong'*. Lack of time and dedicated resources was also a factor for customers choosing to use external, paid agents.

Figure 5: Reasons for using external agents

Why do you use an external accountant or agent for your tax?

Agent is tax expert	**53%**
Fear of errors / getting it wrong	**27%**
Do not understand enough about tax / legislation	**21%**
Do not know how to manage the process myself	**20%**
Do not have time to do it myself	**18%**
Do not have resources to do it in-house	**6%**

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Base: Businesses and landlords who use external paid agents (2,285)
Top answers shown only

External, paid agents predominantly checked and prepared tax returns and did far less of the day-to-day management of records which were mainly done by the business or landlord. The division of tasks in-house and by agent were similar across all three tax obligations, albeit slightly more involvement by the agent in keeping and storing VAT records, and slightly less in checking and preparing VAT returns. These findings indicate that more businesses were comfortable with preparing and submitting their VAT returns themselves. Those using an agent for VAT were more likely use them for all tasks, including record keeping and storing.

Figure 6: Tasks undertaken by external agents for different tax obligations[15]

	CT	VAT	ITSA
Base: customers who use external, paid agents	750	666	1,352
Submitting returns	95%	86%	97%
Checking returns[16]	72%	69%	70%
Preparing returns	96%	86%	95%
Storing copies of records	11%	22%	12%
Keep accounting records	21%	32%	18%

Use of digital devices and software

Making Tax Digital for Business will require customers to use software on a digital device to keep records of their business income and expenditure, and to update HMRC with a summary of these transactions from their digital device every quarter. Access to digital devices (a computer, laptop or tablet, smartphone, online banking and the internet) was almost universal, and the large majority of customers used the internet on a regular basis. However, use of software for tax was much more limited, with 26 per cent currently using it.

Over nine in ten customers (95%) reported that they have access to a computer, laptop or tablet, and 96 per cent had access to the internet[17]. For these digital tools, the majority had access at both work and home, though personal access to tablets was much higher than it was for work use (24% compared to 3%). Two in three (68%) used the internet *at least once a day* and 20 per cent used it *at least once a week*. Just seven per cent used the internet *once a month or less* and five per cent did *not use it at all*. Landlords used the internet less frequently (17 per cent used the internet *a few times a year* or less, including those who never used the internet). Landlords were also more likely than average to report that they were not digitally confident. Customers who used paper record keeping methods or relied on their agent for record keeping were more likely to have no internet access (11% and 8% compared with 5% of customers overall), as were businesses in Transportation and Storage (14%).

One in five customers (19%) who had internet access for work self-reported that their internet (speed and/or reliability) was poor. Some customers in the qualitative research experienced difficulties submitting their tax returns because of this. These customers were concerned that this will impact on their ability to submit quarterly updates, as well as being able to access HMRC information such as YouTube videos and webinars to prepare for MTDfB.

> *"The internet connection at home's hopeless. I file my VAT return every three months online but while I'm doing that, it can crash two to three times because it takes so long to go through. The HMRC security knocks it off because it's taken too long to get logged in."*

Partnership

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[15] Figure 6 – this question was only asked to those who reported using an agent for the relevant tax obligation

[16] This question was only asked of those who prepared their accounts in-house

[17] Base size for those without access to the internet or digital devices too small for further breakdown

Customers in rural areas were less likely to report that they had a 'good' internet connection than those in urban areas (54% compared to 71%). One in three (31%) reported that their internet connection was 'poor' – significantly higher than customers in urban areas (13%).

Four in five customers (80%) had access to a smartphone and a similar proportion had online banking (83%). Use of online banking was more prevalent among private limited companies than sole proprietors or partnerships (91% compared to 79% of partnerships and 78% of sole proprietors). As with computer and internet access, the majority had access to smartphones and online banking for both work and personal use.

Use of software or apps on a smartphone/tablet for any tax-related tasks (such as record keeping, calculating tax payable, and submitting returns to HMRC) was low: 26 per cent of customers reported using compared with 74 per cent who did not. Software use was highest among those liable for CT (Figure 7), followed some way behind by ITSA customers above the VAT threshold. Use of software was lowest among ITSA customers below the VAT threshold.

Figure 7: Use of software for tax-related tasks by obligation and business size
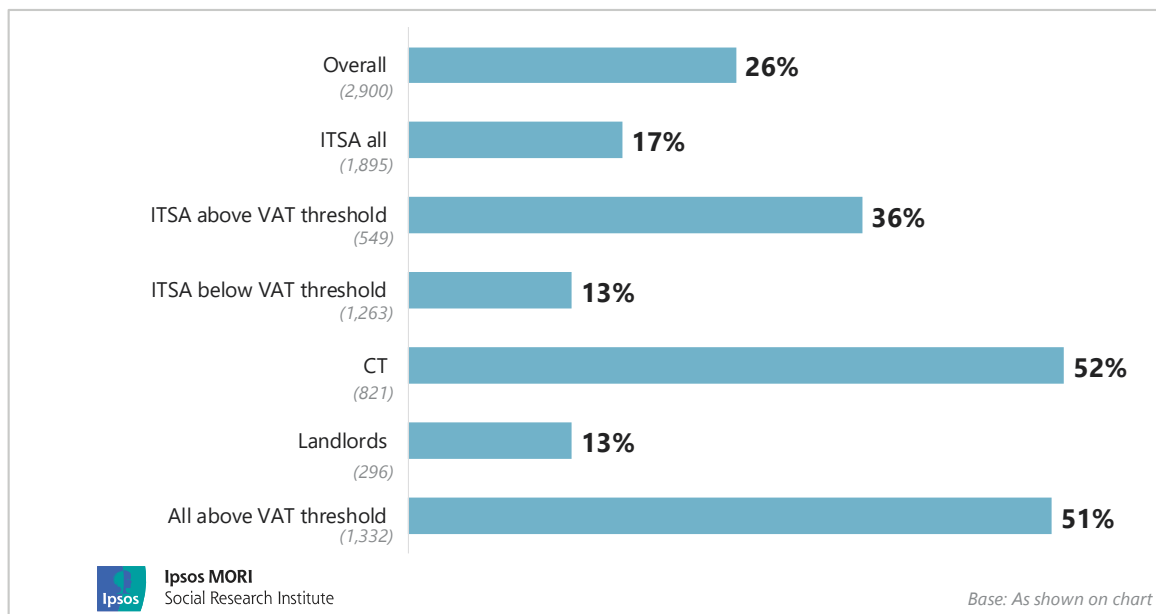
The main reason for not using software was a perceived lack of need, either because the business or landlord activities were simple and the processes in place were *'fit-for-purpose'*, or because the agent handled all of the taxes (Figure 5). One in five (20%) were not using software because they lacked confidence with technology. These findings were consistent with the characteristics of non-users who were typically businesses below the VAT threshold and landlords – both liable for ITSA only. These groups were also less likely than average to feel comfortable using software to manage their business (see Chapter 4). Overall, the findings suggest that there is a notable proportion of customers who do not use software because they have never had the need to, or been required to. Support on choosing and using software also emerged as a key concern (Chapter 4).

Figure 8: Reasons for not using software to manage tax obligations

No need, the process is straightforward	**23%**
No need, agent/accountant does it all for us	**21%**
Lack confidence with technology	**20%**
No need, we use a spreadsheet	**17%**
Not necessary for the size of your business	**17%**

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Base: Businesses and landlords who are not using software (2,001)
Top answers shown only
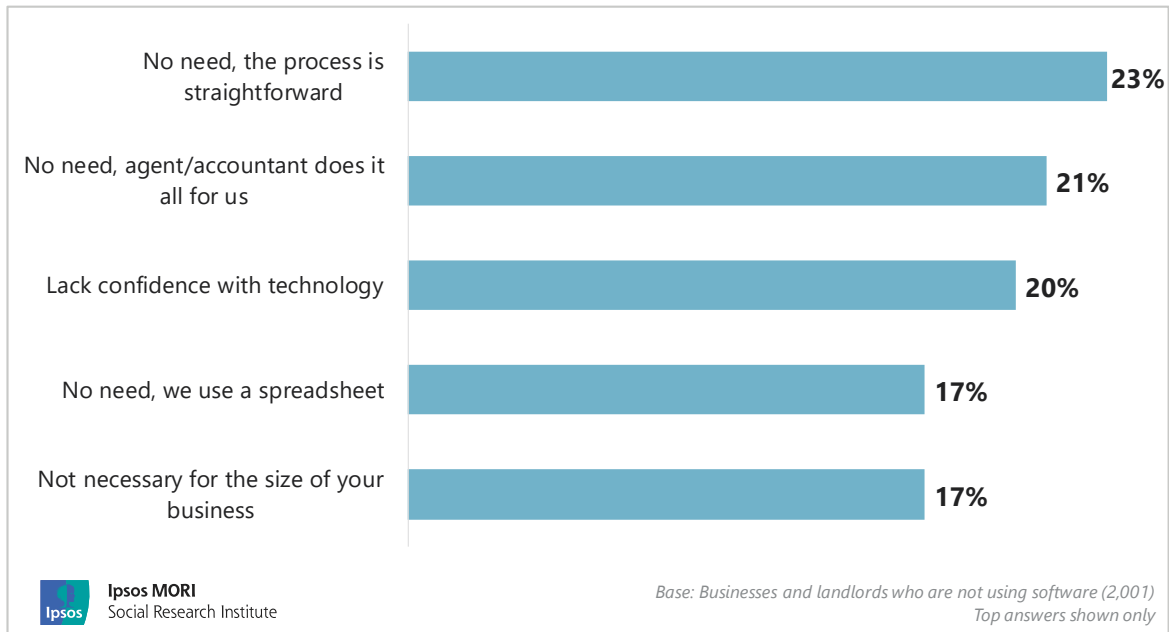
Software users were more likely to be liable for CT and VAT and have a turnover/income above the VAT threshold (Figure 9). These customer groups were more likely to report their tax affairs as burdensome than those liable for ITSA or below the VAT threshold.

Figure 9: Characteristics of software users versus non-software users

	Software users	Non-software users
Base:	899	2001
Liable for CT and VAT	44%	11%
Above the VAT threshold	62%	21%

Record keeping practices

Over four in five customers undertook record keeping in-house[18] rather than outsourcing it to an external agent (Figure 10). The methods used in-house (software, spreadsheets or paper or a combination of these) varied by tax obligation though, on the whole, use of spreadsheets and paper was more widespread than software. Use of software for record keeping was especially low among customers liable for ITSA (12% of those who do their record keeping in-house use software). It was higher for VAT and CT but still accounted for less than half (39% and 46%, respectively) of those who did their record keeping in-house. The requirement to use software for record keeping will mean a shift in current practice for a sizeable number of customers, especially those liable for ITSA only.

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[18] Participants were asked about their use of agents for different tax liabilities. Those that reported using an agent were then asked follow up questions on the specific tax related tasks, which were completed in-house or carried out by the agent on their behalf

Figure 10 shows how record keeping was done by obligation. The second row shows the proportion of customers who said they managed their own records in-house, versus those who outsourced record keeping to an agent. The final row shows the methods used by those doing their record keeping in-house. This was a multicode question, and three in ten customers (28%) used multiple methods for their record keeping.

Figure 10: Customers' approach to managing record keeping for different tax obligations
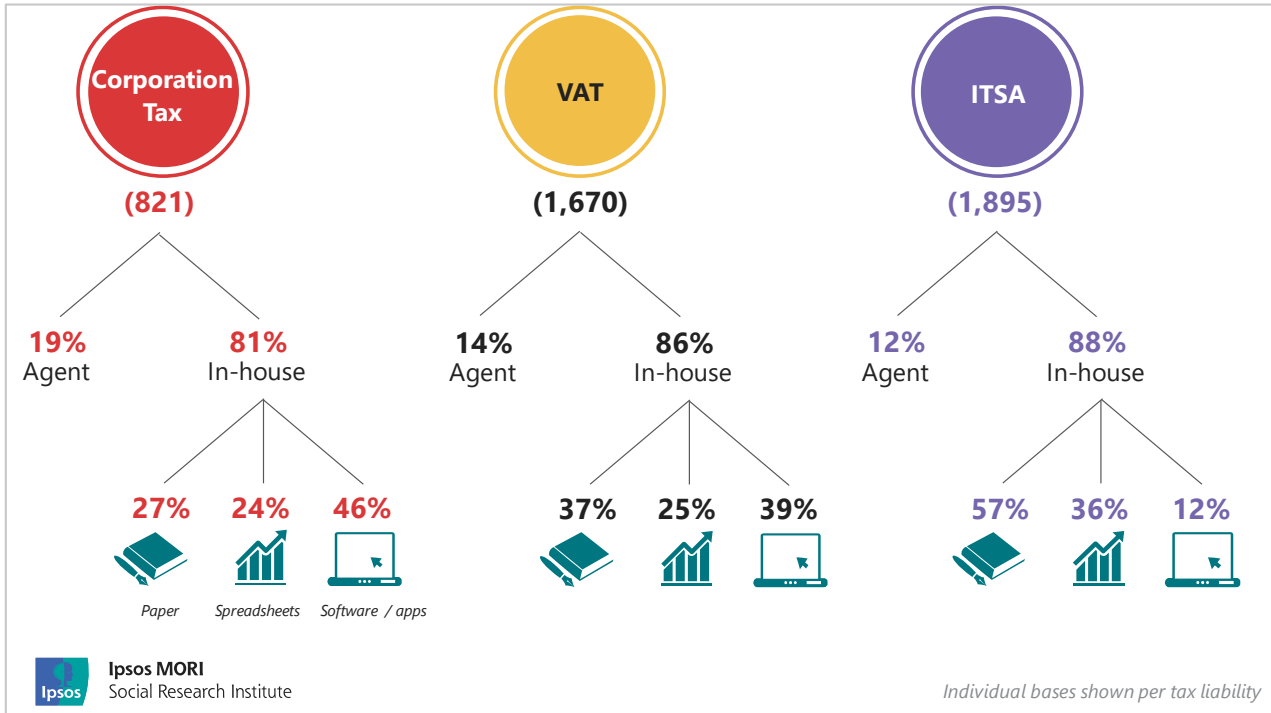
The qualitative research, which focused on non-software users, revealed a group of customers who were very attached to their current record keeping method, which they had refined over a number of years. These customers were confident they were providing correct information to HMRC, mainly because of the amount of time that they had been using these record keeping practices. They felt that paper was more reliable than electronic alternatives and were often very wary of data security. They explained that their business or landlord activity did not require a more sophisticated approach and questioned HMRC's rationale for wanting to make change to their current practices. These findings are consistent with views expressed in the survey: the main reason given for not using software for tax was that the process was straightforward (Figure 8).

> *"It's just so simple and it's worked for years. I don't see technology as being any better. I can't see the benefit at all."*
> *Sole proprietor*

Records were regularly maintained; most recorded their transactions, invoices and receipts at least quarterly (Figure 11), in line with what would be required under MTDfB. Currently, 20% updated their ITSA records at the end of the year, or before a tax deadline though this was higher among those who were solely landlords (30%).

Figure 11: Frequency of record-keeping, by tax obligation

Legend: CT, VAT, ITSA

As and when you receive them: CT 16%, VAT 14%, ITSA 18%
At least weekly: CT 47%, VAT 41%, ITSA 24%
At least monthly: CT 20%, VAT 21%, ITSA 27%
At least quarterly: CT 7%, VAT 21%, ITSA 9%
At the end of the year/before a tax deadline: CT 8%, VAT 1%, ITSA 20%

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Base: All customers who do their record keeping in-house or do not use an accountant for CT (691); VAT (1,465); ITSA (1,638)
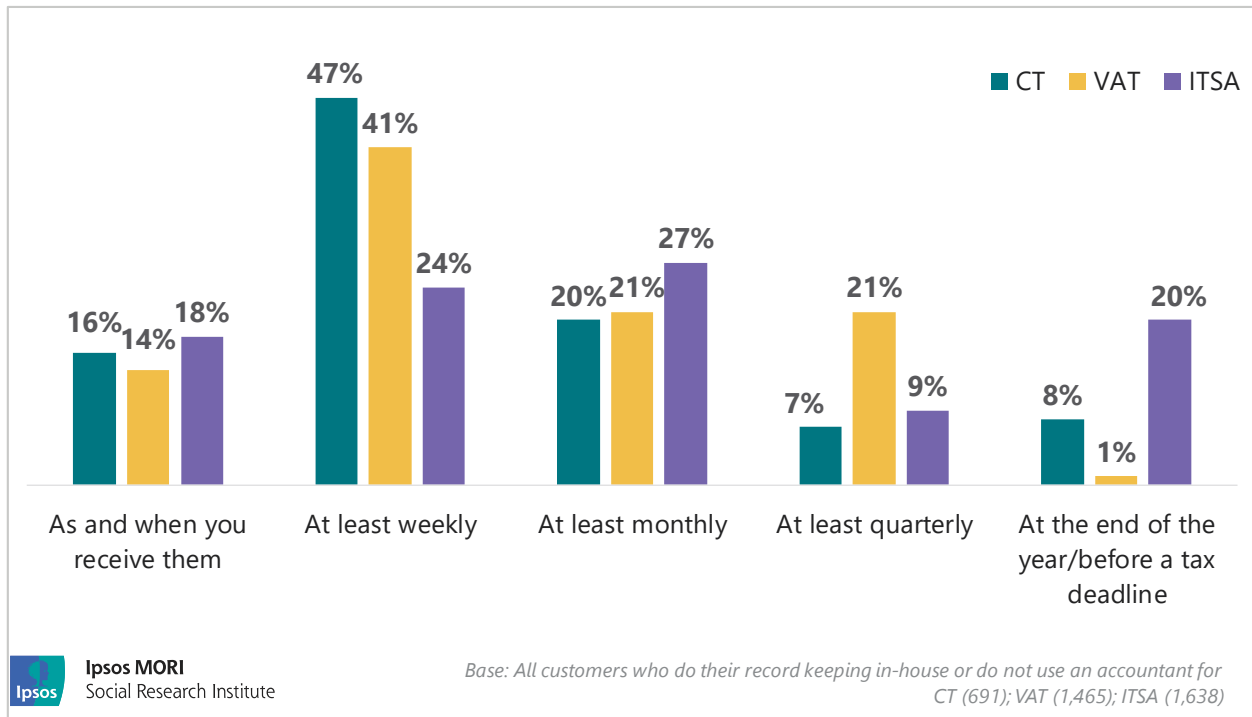
Customers were asked about their experience of processing, compiling, identifying relevant records, and storing records. Nine in ten customers (87%) found these activities straightforward. The few difficulties mentioned related to the time it took to process records and remembering to keep financial records or receipts. Views were consistent with no significant differences by sector, size or tax obligation.

However, views on the burden of managing tax affairs varied by method chosen for record keeping. Customers who relied on their agent (34%) or used paper methods (37%) for their record keeping were the least likely to think managing their tax affairs was *somewhat burdensome*.

Calculating tax payable

There was greater use of external, paid agents for calculating tax payable compared to record keeping across all three tax obligations, but especially for CT and ITSA (Figure 12). Use of agents for calculating tax payable was lowest amongst those with VAT obligations, but use of software in-house was highest in this group (29%). More customers used HMRC to calculate their tax payable for ITSA than software, but use of paper and Excel spreadsheet were most widespread among ITSA customers.

Figure 12: Methods for calculating tax payable[19]

Corporation Tax (821)	86% Agent / 12% In-house	1% HMRC	1% Paper / 2% Spreadsheets / 7% Software / apps
VAT (1,670)	39% Agent / 60% In-house	1% HMRC	18% / 15% / 29%
ITSA (1,895)	62% Agent / 37% In-house	6% HMRC	12% / 13% / 5%

Bases shown for each liability
Figures for agent are those who prepare the tax return
Method for calculating tax payable was a multicode question,

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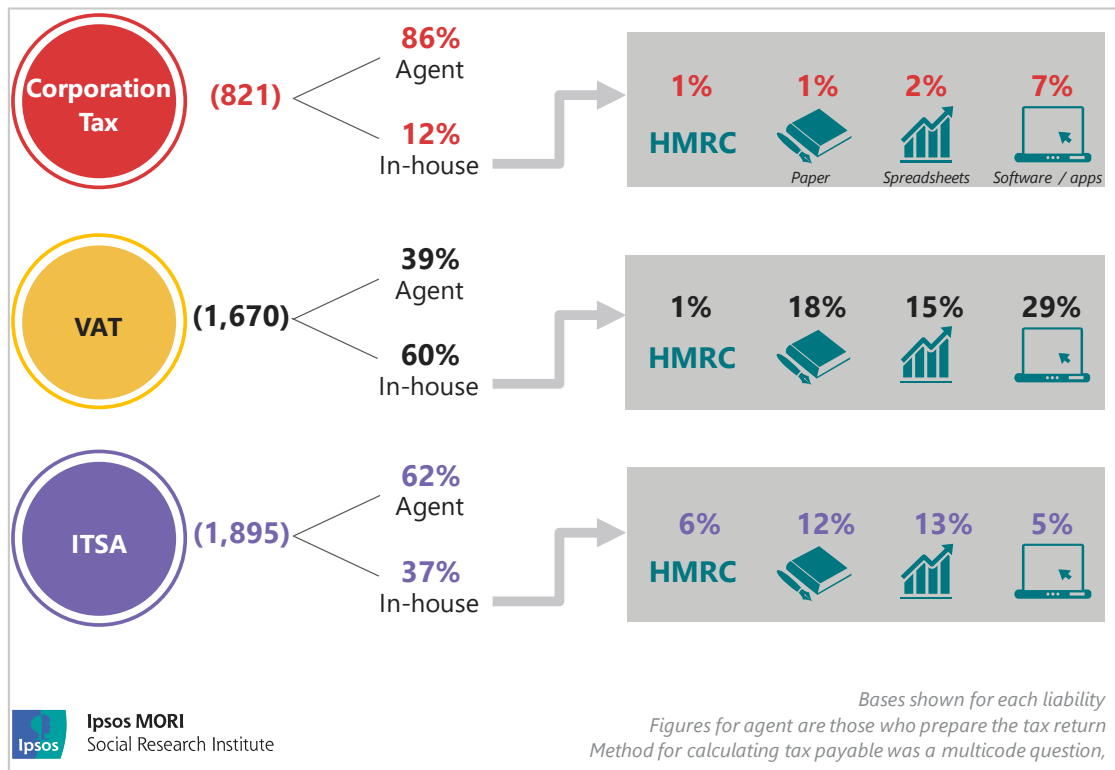
Those who did not use external agents used various methods to calculate tax payable – and again this varied depending on the obligation. For example, 12 per cent used software to calculate their ITSA payments, 47 per cent did so for VAT and 60 per cent did so for CT (just nine per cent calculated their CT payments using paper).

Tax submission

Almost twice as many VAT customers submitted their own returns, than relied on an external, paid agent to do this for them (61% compared with 39%)[20]. All VAT registered businesses are required to submit their VAT returns online, apart from a very small number that will be exempt. This was reflected in the survey findings: 87 per cent of those submitting their VAT themselves, or who did not have an external accountant at all, used the HMRC website. Just ten percent reported using software and one per cent reported using paper.

By contrast, ITSA customers were much more likely to use an agent for tax submission (64%). This varied slightly, depending on whether customers were *only* liable for ITSA (59% used their agent to submit) or whether they were liable for ITSA and VAT (80% used their agent to submit their ITSA return). The methods used to submit returns were similar to VAT, albeit greater use of paper as there is not a similar restriction in use: 87 per cent used the HMRC website; six per cent used paper; and four per cent used software. Similarly, CT customers were also much more likely to use an agent for tax submission (91%).

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[19] Please note that Figure 12 shows the methods used for calculating tax payable by **all customers**, whereas the figures included in the text immediately above and below Figure 12 shows the methods used for calculating tax payable **amongst those who prepare their returns in-house, or who do not have an agent at all.**

[20] N.B. this figure reflects all customers liable for VAT, compared to Figure 6 which refers only to VAT customers using external, paid agents.

Summary of attitudes towards tax obligations

Previous research studies have identified that the majority of businesses, sole proprietors and landlords are keen to be compliant with HMRC requirements and get their tax right the first time, but recent tax gap data has shown that these customers can be prone to making mistakes[21].

This research identified that MTDfB customers were heavily reliant on using external, paid agents for helping with their tax affairs. Three in four used an agent (74%), most commonly because they were specialists (53%) or because customers feared making mistakes (27%). This highlighted a limited understanding about tax and HMRC legislation. Customers also cited more practical reasons for using agents, for example not knowing how to manage the process themselves (20%) or because of burdens on their time (18%) or resources (6%).

Customers who used agents mainly sought help with processing, checking or submitting their tax returns. Some customers did receive help with processing and storing records, though this was less common. Across the board, customers found that, in their experience, record keeping was straightforward (87%). The more commonly reported difficulties were around the time it took to process or compile records (4%) and remembering to keep financial records or receipts (3%).

However, customers were split on how burdensome they found their tax affairs: 45 per cent thought their affairs were not at all burdensome, 44 per cent thought their affairs were somewhat burdensome and nine per cent thought their affairs were very burdensome. Perceptions of burdens were correlated with the complexity of the business (for example, the turnover, number of employees or tax liabilities).

Three in ten customers (32%) struggled to manage their tax obligations on top of their workload. However, the large majority of customers (87%) did not report difficulties with any aspect of record keeping. Almost all customers knew which records they needed to keep (96%) and were confident that the information they provided to HMRC was correct (98%).

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[21] For more information, please see: https://www.gov.uk/government/publications/making-tax-digital-for-business/making-tax-digital-for-business

4 Engagement with Making Tax Digital for Business

This chapter explores customers' awareness of the changes at the time of the survey (September to November 2016), their 'readiness' to make the transition to MTDfB, and the main barriers and levers. Customers were asked about two changes to their tax obligations:

- Customers will be required to use software on a digital device (e.g. on a smartphone, tablet or computer) to keep records of their business income and outgoings; *and*

- Customers will be required to send a summary update of their business or landlord transactions from their digital device to HMRC every quarter. This will mean, once a quarter checking the information stored on the device and then submitting a summary to HMRC; the changes do not mean filing four tax returns per year.

The research findings showed that though current awareness of MTDfB was low, customers were broadly receptive towards MTDfB. Around two in five customers expected it would be easy to meet the requirements – 41 per cent expected it would be easy to meet the requirement to use software, and 42 per cent believed it would be easy to submit a summary to HMRC every quarter.

However, a third of customers anticipated difficulties, especially landlords and older business owners who were more likely to report a lack of confidence in using technology. Their concerns were mainly around ICT skills and the time burdens they expected to face. Customers were also concerned about data security, and this shaped how willing they were to use technology in business or financial contexts.

Awareness of MTDfB

Awareness of the two MTDfB requirements was low; 60 per cent had not heard about either change. Awareness levels were similar for each HMRC requirement and depended on the type of customer, their business sector, the size of their business and current practices around tax obligations (Figure 13). Businesses that were already using software (typically companies liable for CT and ITSA employers above the VAT threshold) were more aware of the changes than sole proprietors, landlords and partnerships below the VAT threshold (who were likely to not use software because their tax obligations were less complex).

Seven in ten customers overall (70%) had not heard about the requirement to use software on a digital device for record keeping, and a similar proportion (71%) were unaware of the requirement to submit quarterly updates to HMRC. For both, awareness was lower among landlords and businesses below the VAT threshold, who were least likely to be using software. Businesses in these sectors were less aware of these requirements: Agriculture; Forestry and Fishing, Construction, Real Estate Activities, Education, Transportation and Storage, and Human Health and Social Work Activities. Conversely, businesses in these sectors were more aware of these requirements: Financial and Insurance activities, Professional, Scientific and Technical activities, and Information and Communications.

Figure 13: Awareness of MTDfB requirements

How much did you know about the following changes?

By 2020, most businesses / landlords will be required to use software on a digital device to keep records of their business income and outgoings.	Instead of sending one end of year tax return, most businesses / landlords will be required to submit a summary update of their business transactions from their digital device to HMRC every quarter.
4%	3%
13%	12%
14%	13%
70%	71%

■ Knew a lot   ■ Knew a little   ■ Heard of but knew nothing about   ■ Not heard of

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Base: All respondents (2,900)

Awareness was not linked to use of external agents, but instead on use of software; software users were most aware. Customers who managed record keeping for all of their tax liabilities on paper were least aware of these requirements.

Readiness for MTDfB

The research identified three key factors influencing customers' readiness to comply with the requirements:

- Having **sufficient digital capability** to meet the requirement to use software on a digital device. This incorporated both having the infrastructure in place, and being confident with using digital devices, particularly in a business or financial context. Customers tended to use digital devices differently in business than in their personal lives, and this was driven predominantly by their business needs, a desire to keep tax practices simple, and ingrained concerns about how secure their data would be online.

- **Being willing** to make the transition to MTDfB. For a significant proportion of customers, MTDfB would mean a change in their current tax practices. Customers needed to understand the rationale for MTDfB and benefits that it could bring them, to help gauge whether this justified changing their practices. Some customers were also emotionally attached to their practices, which they believed were organised, systematic and worked well, albeit offline. For some, the burden they might face was deemed greater than the value of moving to digital, which was met with some resentment or reluctance to do so.

- Being able to overcome the **barriers** that prevented an easy or smooth transition. The main perceived barriers to MTDfB were around ICT skills, time burdens, costs and the impact on how they used agents. Barriers were both psychological (for example a general distrust of technology) and physical (for example not having enough time to prepare tax-related information on a quarterly basis). These directly influenced the support needs that customers had.

These factors are now explored in turn.

Digital capabilities

Over nine in ten customers had access to digital devices (95%) and the internet (96%), which would be needed to meet the MTDfB requirements (Chapter 3). Customers were also reasonably comfortable using technology to manage their business/landlord finances (68% compared to 23% who were not comfortable). ITSA customers (26%), customers who fell below the threshold for VAT (26%) and sole proprietors (28%) were the least comfortable.

The qualitative research findings provided an in-depth insight into a group of customers who had limited need or no prior experience of using technology in their business or personal lives. In some cases, they had access to a computer, smartphone or the internet, but actively chose not to use them. They either believed that technology was an alien concept, or that it could isolate people. These customers had a strong preference for face-to-face communication and interaction, specifically in-person or over the phone.

> *"I prefer to communicate by phone. I just find that social media, technology, email just takes over the personal contact. Everyone's always texting or rushing...they sit here, husband and wife, always on their phones."*
>
> *Small business*

Their concerns about technology were centred on a perceived lack of security and distrust, and were predominantly psychological rather than based on personal experiences. Demographically they tended to be older, aged above 55 and owned nano businesses or were landlords.

> *"I will not ever bank online...I don't trust [them]."*
>
> *Sole proprietor*

These customers were least 'ready' for the MTDfB transition, and their reactions to it were extreme. In some cases, they would avoid having to change their practices by handing over all responsibility to an agent, or going as far as retiring early or selling their business. These customers felt their lack of ICT skills would be the biggest barrier to their compliance with MTDfB.

> *"No-one is going to make me use a computer. I really am so anti-computers. I'd just pass on everything to my accountant and he can do digitally whatever he likes, which he does anyway."*
>
> *Sole proprietor*

The qualitative research findings also highlighted another, much larger, group of customers who owned and were using digital tools to varying degrees. Their experiences of using technology spanned across a spectrum. Overall, advanced users were most ready to make the transition to MTDfB, but the requirements would mean a significant change for basic users.

The most **basic users** owned digital tools in their personal lives, and had experience of performing simple tasks like accessing the internet, sending emails or accessing social media to communicate with friends and family. Their use of technology did not usually extend into a business context.

Intermediate users owned and used digital tools in their personal lives. They included those who used technology more passively, for example using the internet to browse and compare products but not to make any online payments. They had security concerns or were well aware of the potential risks of posting data online, and this shaped their behaviours (for example, some had not extended technology use into business).

The most **advanced users** actively endorsed using technology (for ease, convenience and saving time). They were also aware of the associated risks, but believed the benefits of using digital tools outweighed any concerns. These customers used the internet frequently, and also had online banking accounts and experience of making online payments.

Concerns about digital data security

Customers were worried about data security. Half (49%) agreed they would be worried about the security of keeping their business/landlord records digitally, including 29 per cent who strongly agreed (Figure 14). Concerns were similar for ITSA customers irrespective of whether they were above or below the VAT threshold (29% of ITSA customers below the threshold and 32% of customers above the threshold strongly agreed).

Concerns about security were higher among non-users of software than users (31% compared to 22% respectively strongly agreed). Among this group, concerns were particularly high for well-established businesses (31% of businesses that had been operating for more than ten years strongly agreed) who tended to use paper methods to keep records for their tax obligations (40%). These businesses typically operated in the following sectors: Mining and Quarrying, Utilities, Waste Management and Remediation Activities (47%); Transportation and Storage (43%); Real Estate Activities (35%) and Agriculture, Forestry and Fishing (32%).

Figure 14: Concerns about data security, by customer type

To what extent do you agree/disagree - I would be worried about the security of keeping my business records digitally

	Agree	Neither agree nor disagree	Disagree	Don't know / refused	
All respondents	49%	9%	41%	1%	(2,900)
ITSA customers	51%	9%	39%	1%	(1,895)
ITSA customers above the VAT threshold	53%	8%	37%	2%	(549)
ITSA customers below the VAT threshold	50%	9%	39%	1%	(1,263)
CT customers	40%	10%	48%	1%	(821)
Landlords only	47%	7%	44%	1%	(296)

Base: As shown on chart

Concerns about data security shaped how willing customers were to use technology in business or financial contexts. Over half (53%) of customers who said they were not comfortable using technology to manage their

(business) finances strongly agreed that they would be worried about data security, compared to 19% of customers who were comfortable.

> *"I suppose I'm old fashioned. Lack of trust in the system, so a lack of trust is behind it perhaps. But again I'm a people's person so I would prefer to deal with those matters direct at the moment."*
>
> *Landlord*

Willingness to transition to MTDfB

Intention to make the MTDfB transition

Seven in ten customers (70%) reported that they were willing to make the MTDfB transition, although some would only do this at the latest time possible (Figure 15). Two in five customers (43%) indicated they were not currently prepared, but were likely to make the transition at the point the changes come into place. A quarter (23%) were interested in making the transition ahead of the deadline, but four per cent were more prepared – they had already made plans or begun changing their processes and practices to accommodate MTDfB.

The colour scale in Figure 15 below indicates how prepared customers are to make the MTDfB transition. Cells in darker greens highlight the most prepared customers, whilst cells in darker red highlight the least prepared and/or willing customers.

Figure 15: Intention to make the MTDfB transition, by business type

Which of the following best describes you are prepared to meet the requirements of Making Tax Digital, when the changes come into place?

	You have prepared a plan to make the transition	You are already making changes to your processes/ practices to make the transition	You are not currently prepared, but are interested in making the transition before the deadline for the changes comes into place	You are not currently prepared, but are likely to make the transition at the point the changes come into place	You have no plans to make any changes and would only do so if there were penalties
All respondents	**2%**	**2%**	**23%**	**43%**	**25%**
ITSA customers	1%	1%	22%	44%	28%
ITSA customers above the VAT threshold	3%	2%	20%	43%	25%
ITSA customers below the VAT threshold	1%	1%	22%	45%	28%
CT customers	5%	5%	28%	40%	18%
Landlords only	0%	0%	23%	39%	34%
All VAT above threshold	4%	4%	23%	41%	22%

Willingness to adopt digital methods

Customers in the qualitative research, who were non-users of software had a preference for retaining existing practices around their tax obligations. As highlighted in Chapter 3, these customers considered themselves to be compliant in terms of submitting their tax returns correctly and on time. Their processes worked well for them and they believed the information they provided to HMRC was correct. In light of this, resistant customers questioned the value in changing what they were used to doing, or to over-complicate systems that 'did the job'.

Their preference for choosing *paper* methods stemmed from concerns about data security. They believed that paper was much more reliable than technology, and data could not be lost or destroyed as easily as on computer systems. Some had experienced losing data or technology 'letting them down', for example through crashed hard drives, and believed that paper methods were much more reliable and secure.

Others were accustomed to keeping paper records for HMRC or audit-related obligations. They liked the element of traceability that paper methods offered, in that it was easy to go back to previous records and search for specific data or financial figures. For these customers, MTDfB did not replace current practices, but instead added a layer to the processes they would need to do to meet their tax obligations. Some indicated they would not feel comfortable without being able to print and store hard copies of their digital tax reports. However, it is possible that these customers could move fully into digital methods in the long term or once they have adapted to the changes.

Willingness to update more frequently

The qualitative research with ITSA customers identified three types of reactions to the requirement to update HMRC more frequently. First, customers who were open to MTDfB were already keeping records relating to their tax obligations on a regular basis (Chapter 3). For them, the move to quarterly updates did not mean a big change to their practices. This was also true of some customers who used agents to manage their record keeping.

> *"If I'm only paying it once a year, but I'm updating them four times a year, then that doesn't make any difference to me…I might have to adjust my spreadsheets or something to make them quarterly rather than yearly. I might have to make some small amendments to my records…but my business is very simple so I don't think it would affect me."*
>
> *Sole proprietor*

Second, customers who were more disorganised in their record keeping habits were also more receptive to the change, and welcomed improving their practices. They considered themselves to be currently compliant in terms of submitting their tax returns correctly and on time, but felt the MTDfB changes would allow them to improve their processes and become more organised. However, this was strongly contingent on the MTDfB software being easy and straightforward to use.

Third, customers who were opposed to MTDfB saw the change as a nuisance, and anticipated having to set aside additional time to comply with the requirement. This was often driven by their conscientious approach to tax obligations and a desire to be compliant or to avoid penalties. These customers did not see the rationale for MTDfB or how it might benefit their business or landlord activities (but some were likely to comply with it).

"I'm going to have to set aside four weekends. Even though there might be a smaller amount of paper to sift through, you can't be blasé about submitting a tax return, it has to be done properly otherwise you leave yourself open for problems."

Sole proprietor

Understanding the benefits of MTDfB

Customers' views were divided on the benefits of MTDfB. More customers agreed than disagreed that quarterly updates would reduce their end of year tax burden, as well as their end of year tax bill (Figure 16).

Figure 16: Understanding of the benefits of MTDfB

To what extent do you agree or disagree with the following statements...?

Statement	Agree	Neither agree nor disagree	Disagree	Don't know / refused
Submitting quarterly summaries of my income and expenditure would reduce my end of year tax burden by spreading preparation across the year	43%	15%	38%	4%
Being able to pay my taxes more frequently would reduce the burden of my end of year tax bill	48%	14%	35%	3%
Submitting quarterly summaries of my income and expenditure will give me greater certainty over our finances	41%	15%	42%	2%

Legend: ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Don't know / refused

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Base: All respondents (2,900)

Customers were most positive about how MTDfB could help to reduce the burden of their end of year tax bill. Less established, small businesses with low turnovers were most positive, reflecting the greater impact that a large tax bill might have on their financial situation (59% of businesses operating for fewer than five years agreed, and 57% of businesses with a turnover of less than £20,000 agreed). Customers who agreed typically: were ITSA-liable customers above the VAT threshold (52%), had employees (53%), managed their record keeping through an agent (58%) or operated in the following sectors: Accommodation and Food service activities (62%), Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles (58%) and Transportation and Storage (59%). Their enthusiasm also reflected on their views of MTDfB; customers who agreed were twice as likely to say that the requirement to submit updates quarterly would be easy (61%) than hard (33%).

"Knowing what you've got to put aside, the money side of it, instead of getting a big bill at the end of the year, it's helpful. I believe that you could maybe pay it off, or not wait till the end of the year to pay it."

Small business

Customers were less positive about the benefits of MTDfB on financial certainty, than about other benefits. A similar number of customers disagreed (42%) and agreed (41%) that submitting quarterly summaries will give them greater certainty over their finances. Businesses who were on-top of their finances or had regular income and out-goings were less likely to recognise the benefit, as this owner illustrates:

> *"This does nothing for me...it only tells you how much tax to pay per quarter...but I already know this as operating at 99% capacity throughout the year."*
>
> *Partnership*

The more sceptical customers were older, established businesses (43% of businesses aged over ten years disagreed, compared to 30% of those operating for fewer than 5 years), or landlords (58% disagreed) and partnerships (47%). Customers who disagreed that submitting quarterly summaries will give them greater certainty of finances had moderately simple tax obligations which were managed on spreadsheets (46%) and the businesses usually operated in the Financial and Insurance activities (56%) or Real Estate activities (51%) sectors. Their views were also linked to their perceptions of MTDfB; 59 per cent of those who said they would find it difficult to comply with the requirements did not believe MTDfB would give them financial certainty, compared to 28 per cent who thought it would be easy to comply. Landlords, in particular, were unsure of the usefulness of quarterly updates given that their incomes and expenses tended to be stable from month-to-month.

Overall, customers in the qualitative research were more willing to make the MTDfB transition if they believed the value of it outweighed the burden of changing their practices. Most customers expected an initial impact on their business or landlord activities in the transition to MTDfB. This included having to spend time updating processes, setting up software or preparing quarterly updates; added costs associated with purchasing software or paying agents; or spending time to understand the requirements and get used to using the software.

Customers who were receptive towards MTDfB understood more clearly why HMRC was bringing in the change, and what the benefits of MTDfB were to their business or landlord activities, for example helping to move record keeping into real time or on-the-go, or improving tax confidence. Importantly, the benefits to the business were perceived to outweigh the burdens.

> *"I like to pay my bills straightaway. I can go straight online and pay them. It's just convenient and quick. [With MTDfB] you can keep track of the money that you owe; at the end of the year it isn't one massive big shock."*
>
> *Small business*

> *"It seems like a really sensible idea. Keeping records as you go through the year, for my situation, will be far easier because I'm trying to compile all of my receipts together and I can do it on the go."*
>
> *Sole proprietor*

Customers were resistant to MTDfB because they did not understand how it might benefit them. Their current, offline practices were working well and so they did not see any immediate need to use software (i.e. they purposely kept their tax obligations simple). As such, using software was seen as overcomplicating processes that were

working well and meeting HMRC requirements. These resistant customers felt that the short-term changes would be a bigger burden on them, which triggered their resistance to change.

"Because something will go wrong…you might forget to photograph that receipt, which is quite important, and can you go back? Will it accept it? The way it was portrayed is it's as simple as brushing your teeth in the morning, but nothing in life is like that. And I'm worried it will become more complicated than it really needs to be, and that I will then worry more about doing my quarterly than I would do about doing my annual."

Sole proprietor

Barriers to compliance

Customers broadly believed it would be easy to meet the MTDfB requirements, though a third did expect difficulties using software or providing quarterly summaries (Figures 17 and 18) For others, the simplicity of the change heavily depended on how straightforward the software would be to use.

Customers who believed it would be difficult to meet the requirement to use software on a digital device were not currently using software (39% compared to 13% of users) or did not feel comfortable using technology to manage their finances (71% compared to 17% of those who were comfortable). Customers who expected difficulties also were more likely to: be ITSA customers (37%), fall below the VAT threshold (36%), be landlords (38%) or be sole proprietors/businesses (36%) or have been operating for more than ten years (35%). As before, these smaller businesses had straightforward tax-related processes which they felt could be managed on paper (52%) or were managed through an agent (39%). Businesses who believed it would be difficult to meet this requirement mainly operated in the Human Health and Social Work Activities sector (51%) or Construction (41%) or Transportation and Storage sectors (40%). Identical patterns were also observed around the ease of meeting the requirement to update HMRC quarterly (Figure 18).

Figures 17 and 18: Easy of complying with the requirement to use software and for quarterly updates, by customer type

How easy or difficult will it be for you to comply with the requirement to...?

Use software to keep digital records of your income and expenditure

	Easy	Neutral/It depends	Difficult	Don't know / refused	
All respondents	42%	21%	32%	4%	(2,900)
ITSA customers	38%	21%	37%	4%	(1,895)
ITSA customers above the VAT threshold	40%	23%	32%	5%	(549)
ITSA customers below the VAT threshold	38%	21%	38%	4%	(1,263)
CT customers	56%	21%	19%	4%	(821)
Landlords only	37%	21%	38%	4%	(296)
All customers above VAT threshold	49%	23%	24%	4%	(1,332)

■ Easy ■ Neutral/It depends ■ Difficult ■ Don't know / refused

Submit a summary of your business transactions to HMRC each quarter through software

	Easy	Neutral/It depends	Difficult	Don't know / refused	
All respondents	43%	20%	33%	4%	(2,900)
ITSA customers	39%	20%	37%	4%	(1,895)
ITSA customers above the VAT threshold	42%	17%	35%	5%	(549)
ITSA customers below the VAT threshold	38%	20%	37%	4%	(1,263)
CT customers	55%	17%	22%	6%	(821)
Landlords only	38%	16%	41%	5%	(296)
All customers above VAT threshold	50%	19%	26%	5%	(1,332)

■ Easy ■ Neutral/It depends ■ Difficult ■ Don't know / refused

Base: As shown on chart

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Perceived difficulties in meeting the MTDfB requirements

Two in five customers overall (40%) anticipated difficulties meeting the requirements of MTDfB. They were concerned about their limited ICT skills, not having enough time, and the ease of integrating MTDfB into current practices (figure 16). Having limited ICT skills or digital capability was the most common barrier, mentioned by two in five (41%). This was especially high among sole traders (43%) and smaller businesses (43%) with low turnovers.

These customers had low digital confidence, and so did not use software. Their tax obligations were simple enough to be managed on paper (54%) or through an agent (59%).

Figure 19: Barriers to compliance with MTDfB

Why do you think it will be difficult for you to keep records digitally and update HMRC quarterly?

Barrier	Percentage
Limited ICT skills / digital confidence	41%
Time it will take to provide information more frequently	23%
Time it will take to prepare information	23%
Difficult to integrate into day-to-day practise	16%
Too busy / Other work responsibilities are more of a priority	14%
Don't know which software to purchase/use	9%
Prefer to deal with tax obligations by paper	9%
Increased cost of paying an agent	7%
Too costly to purchase new software	6%
Too costly to update our systems	5%
Lack of access to the Internet	4%
Lack of resource to adapt to the changes	3%

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Base: All who expect difficulties (1,108) Top answers shown only

Customers were also worried about the time it would take to provide information more frequently or to prepare information (both 23%). For example, in the qualitative interviews, smaller business, landlords or those with broadly consistent cash flows believed that quarterly updates would be a nuisance, and could lead to them spending more time on their tax obligations. This included customers who were using agents to manage their record keeping. Indeed, seven per cent expressed concerns about the increase in agents' fees to do quarterly reports.

Impact of MTDfB on agent use

Three in four customers (74%) were using external, paid agents, most commonly for their specialist knowledge; 26 per cent were not using an agent. Half (50%) of all customers believed that MTDfB would have no impact on how they used an agent for record keeping. For the majority of customers who were not currently using an agent, MTDfB would mean business as usual. Customers who would increase their use of an agent were more likely to do so for checking and submitting their updates (reflecting their fear of making mistakes and a desire to remain compliant), or for tailored advice. Across the board, agent users were more likely to say they would use their agent more for record keeping, checking and submitting or advice (Figure 20).

The two MTDfB requirements (i.e. digital record keeping and sending quarterly summaries) were expected to produce a net increase in customers' use of agents, especially for more tailored advice (a net of +25 percentage points) and for checking and submitting returns (a net of +14 percentage points). The comparable figure for record keeping was +7 percentage points.

Figure 20: Impact of MTDfB on agent use

What impact will changes have on your use of an agent for...?

Legend: All respondents, Agent users, Non-agent users

	Use your agent more / consider using an agent	Use your agent less or stop altogether	It would have no impact
Record keeping	25% / 30% / 12%	18% / 25% / 0%	50% / 39% / 82%
Checking and submitting returns	28% / 33% / 12%	14% / 19% / 0%	53% / 42% / 83%
More tailored advice	34% / 39% / 20%	9% / 12% / 0%	50% / 42% / 73%

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Base: All respondents (2,900) Don't know / refusals not shown

Additional concerns about MTDfB

Customers who were less open to using technology for their taxes also expressed a number of practical concerns in the qualitative interviews which will require allaying. These include:

- Fear of making mistakes or pressing the wrong button on small screens (on a smartphone or tablet);

- Experiencing difficulties remembering passwords;

- Being 'put off' by software or applications that were not intuitive or straightforward to use;

- Missing deadlines if the technology was not functioning properly;

- Facing difficulties updating software; *and*

- Not having physical records or confirmation that their tax summaries had been submitted correctly.

> *"There is a fear of ticking the wrong box, pressing the wrong button. It's nice to have somebody to confirm that. You don't necessarily get that confirmation if you're doing it right on the internet."*
>
> *Landlord*

These customers held tax compliance in high regard and feared making mistakes. They worried about how it might be too easy to make mistakes on software, which could ultimately lead to hefty (and perhaps unfair) penalties.
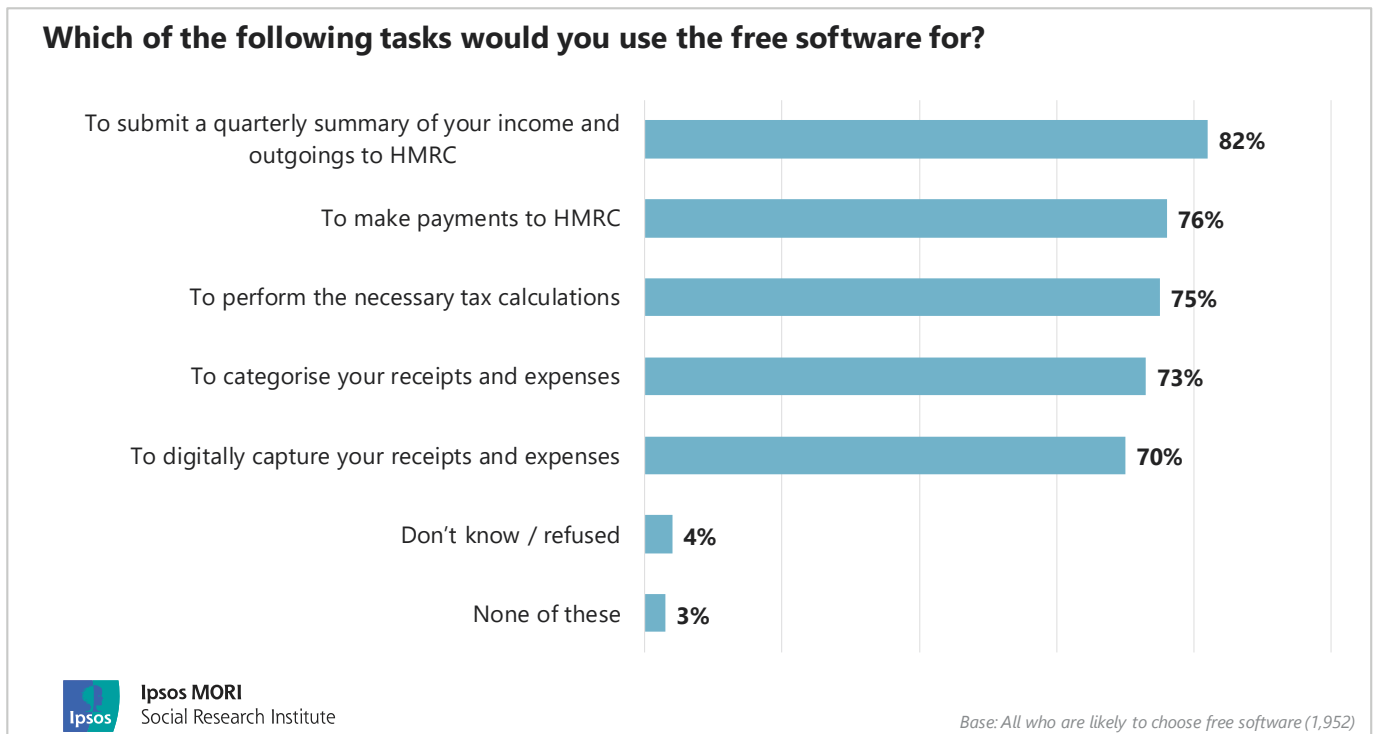
MTDfB software

The survey explored customers' preferences for having free software to help them manage their MTDfB requirements[22]. Specifically, it explored how likely they were to choose free software over paid-for software which may have greater functionality, as well as what features they would want this free software to have.

Customers had a strong preference for using free MTDfB software; seven in ten said they would be likely to choose free software instead of paid software with greater functionality, and 42 per cent said they were very likely to do so. Demand was higher among customers who were not currently using software (47% compared to 28% of current software users), such as landlords (45%) and partnerships (52%).

Customers wanted to use free software to enable them to submit their quarterly tax updates to HMRC or to make tax payments. Over eight in ten customers who were likely to choose free software (82%) would use it to submit their quarterly summaries, three-quarters (76%) would use it to make payments to HMRC, or to perform the necessary tax calculations (75%).

Figure 21: Requirements for free MTDfB software

Which of the following tasks would you use the free software for?

Task	%
To submit a quarterly summary of your income and outgoings to HMRC	82%
To make payments to HMRC	76%
To perform the necessary tax calculations	75%
To categorise your receipts and expenses	73%
To digitally capture your receipts and expenses	70%
Don't know / refused	4%
None of these	3%

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Base: All who are likely to choose free software (1,952)

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[22] Businesses eligible for free software are those which are unincorporated (for example, self-employed or landlords); have a turnover, within the scope of MTDfB, below the VAT threshold; have no employees; and use cash basis accounting. For more information on HMRC's minimum standards for functionality of free software, please see: https://www.gov.uk/government/publications/making-tax-digital-software-suppliers-terms-of-collaboration/terms-of-collaboration-between-hm-revenue-and-customs-and-software-developers

Customers were least likely to want to use free software for digitally capturing receipts and expenses (70%), though appetite for this feature was still high. There were no patterns in software requirements across the core customer groups.

Preferences for having software or apps that allowed real-time record keeping were more mixed; half of customers (51%) were likely to use real-time software, but 45 per cent did not have a need for this feature. As might be expected, businesses who tended to be more mobile (such as those in the Construction or Transportation and Storage sectors) were most likely to want this feature (58% compared to 47% of premise-based businesses), and CT employers (49%), ITSA customers who fell above the VAT threshold (46%) and partnerships (45%) were less likely to want this feature.

MTDfB was predominantly seen as an HMRC requirement in the qualitative interviews, and so customers firmly believed that it should not come at a cost to them. In light of this, many had an expectation that they would be able to access a free, HMRC-approved version of the software. This did not always stem from concerns about affordability, but rather as a matter of principle.

> *"No, why would I pay for it? If HMRC want to go over to digital, that's up to them, so why should we pay for the software?"*
>
> *Small business*

> *"If it's compulsory to use the software I don't see why it shouldn't be free."*
>
> *Landlord*

5 Support needs

This chapter explores the types of support that customers require for a successful MTDfB transition. The findings suggested that agents, the GOV.UK website and personal networks were the most commonly used sources of help and advice around tax-related queries. Customers sought assistance from trusted experts who were able to provide answers in plain English.

Customers had mixed experiences of using HMRC's support services, but there was appetite for using these services during the MTDfB transition phase. Customers also expressed a need for non-digital services, such as phone helplines or face-to-face visits.

In order to make a successful transition, customers needed information about the MTDfB changes (including information on why the changes would benefit them), and guidance on how to prepare for the change (40%). There was a need for more practical help too, such as ICT training (10%) or training on using software (16%) (especially for less digitally confident customers). Irrespective of their tax liabilities or digital confidence, customers wanted reassurances on data security.

Existing support

Customers in the qualitative interviews sought support on their tax activities from a variety or combination of business and personal networks. Agents were usually the first port of call for those who used either an external paid accountant, or internal agent within the business. Agents were trusted, professional and seen to be 'tax experts'. The main benefit of seeking help from an agent was that explanations were given in layman's terms, which aided customers' understanding.

> *"I go to my accountant. I've always used an accountant because I just think she's a specialist. It's like if you're ill you go to a doctor. If you need advice, that's her job and she knows more than I do."*
>
> *Small business*

Those who needed support or advice on specific tax queries usually turned to the GOV.UK website or HMRC webpages for guidance. Though sometimes difficult to navigate, these webpages offered a plethora of information, which customers referred to as the 'tax Bible'. Searching for queries on web-based search engines like Google was also common.

Customers (in particular sole traders) who were less confident with digital tools turned to their friends and family for support. The support given ranged from hardware or software support (from children, for example) to tax-related advice (from friends or family with financial backgrounds). These were trusted sources.

> *"I'm comfortable making [technology] function. When it doesn't function I'm at a loss to make it work quickly. I then consult a couple of friends who are more tech savvy and we get it going again."*
>
> *Sole proprietor*

HMRC as a source of support

Customers in the qualitative interviews had mixed experience of using HMRC support services as shown in Figure 22. Some customers chose not to use any HMRC support services. These customers either had negative past experiences (for example, difficulties using the helpline or speaking to someone over the phone), preferred to use their personal or business networks, or did not associate HMRC with support.

Those with complex problems or who needed general advice had some experience of using HMRC's support services, including the telephone helpline, searching the website, emailing or face-to-face interaction. The HMRC helpline was a popular choice, as it offered quick, personalised responses and enabled customers to articulate their problem better.

> *"I rang up and got through quite quickly…Sometimes you can't articulate a certain problem that you've got in an email that would make sense. Just spending 30 seconds talking to a human being on the other end of the phone would possibly be enough to get the message over."*
>
> *Sole proprietor*

However, it was also common for customers to report experiencing problems with using the helpline. They had negative experiences of being in long call queues, not getting the support they needed, or speaking to an advisor who did not have the information at hand to be able to answer the query.

Figure 22: Extent of channel awareness, use and perceptions

	HMRC helpline	Gov.uk	YouTube	Webinars/E-learning	Ready reckoner	Needs Enhanced Services
Heard of?	High awareness	Medium awareness	Low awareness	Low awareness	Very low awareness	Very low awareness
Used?	High use	Low to medium use	Low use	Low use, but higher than YouTube	Very low use	Very low use
Likes	Quick response, ask questions	Plethora of information	Bitesize information	Access in own time, ask questions	Quick	Face to face, reassurance
Dislikes	Queues, not getting an answer	Difficult to navigate, language	Can't ask questions Audio/visual	Complexity of using Difficult to convey issues	Complicated	Not widely available

Awareness and experience of using other HMRC support services was considerably low. However, customers were receptive to other tools that HMRC offered, including:

- **YouTube channel** - short information videos located on HMRC YouTube channel which aim to provide quick help and reassurance. Customers liked that it gave information in bite sized chunks, but there was no option to speak to an HMRC expert or ask questions. This tool also required access to a good internet connection;

- **Webinars/E-learning** - online presentations hosted by HMRC, or modular learning tutorials that can be accessed at any time. Customers liked the idea of being able to access these in their own time and ask questions at the end. However, these tools were seen as being complicated to use, and it could be hard to convey more difficult issues;

- **Ready Reckoner** – an online tax calculator. Customers liked the idea of having a quick tool, but it came across as being complicated to use; *and*

- **Needs Enhanced Support Services (NES)** - customers liked the idea of face-to-face visits for accessing support, which would help to reassure them on their tax practices. However, they acknowledged that this service was not widely available at present.

In particular, the YouTube videos and webinars were perceived to be helpful starting points for finding out about new or unfamiliar topics, whilst helplines and websites were still preferred for accessing specific guidance or getting answers to queries.

> *"Modular learning will give you the building blocks of how things have to be. If there are one or two issues that I can't resolve with modular learning or whatever else is on offer, then to speak to a knowledgeable person would be ideal."*
>
> *Sole proprietor*

Customers who had accessed the webinars generally had positive experiences. They found the webinars to be useful and liked that the language used was easy to understand.

> *"[I saw a webinar] about how to fill in a tax form...I found it quite useful; it did clarify one or two points which I was unsure about. I did find it informative."*
>
> *Sole proprietor*

> *"I have used an HMRC webinar... it was definitely useful. It explaining [the topic] in a language I understand, in plain English."*
>
> *Small business*

Overall, customers expressed a preference for the webinars to be reasonably short in length, as longer videos could get 'tedious' or become unengaging.

Support needed to comply with MTDfB

The research highlighted that customers were concerned about the security of keeping business records digitally – expressed by 49 per cent of customers overall. Customers who were less comfortable using technology to manage their finances would need the most reassurance on data security.

Reflecting their low levels of awareness about MTDfB, two in five customers (40%) also expressed a need for having guidance on how to prepare for the changes. Guidance on how to prepare for MTDfB was cited by customers irrespective of their digital confidence, current record keeping practices or whether or not they were using software. This highlighted a need to raise customers' awareness and knowledge about MTDfB and what it involved. Current levels of knowledge were very low, and especially low among sole proprietors, partnerships and landlords (rather than small businesses). The views expressed by customers in the survey were based on this limited knowledge. Views may change with more information, as observed in the follow-up interviews with customers, once more details were provided about what the MTDfB requirements would involve. For example, a number of customers expressed they were more willing to make the transition once they understood the light touch nature of the information updates, and reconsidered the time involvement needed to meet the requirements.

In addition, many customers in the qualitative interviews did not understand the rationale for MTDfB and were unconvinced of the benefits to them, or felt that it would not outweigh what they saw as greater demands on their time. Customers expressed a need for HMRC to make a case for how MTDfB would benefit them, in particular for businesses with well-established practices that worked well for them and complied with HMRC requirements. Businesses and landlords with simple transactions also needed to be convinced on the need to use software or to submit updates more frequently.

Figure 23: Support needs

What would you like advice or support on?

Guidance on how to prepare for the new requirements	40%
Reassurance that I am doing it correctly	18%
Guidance on using the software	16%
General financial advice / planning	14%
Training on using digital tools / ICT systems	10%

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Base: All respondents (2,900) Top answers shown only
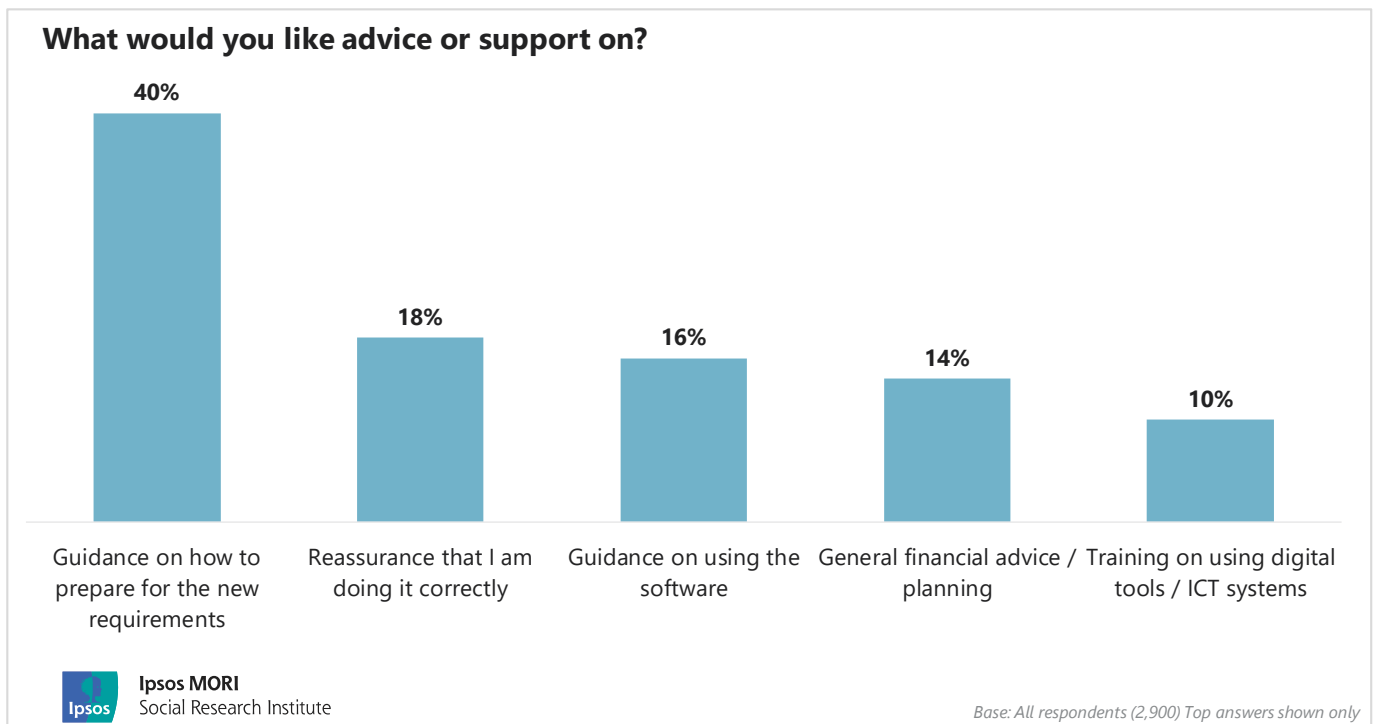
Other popular types of support included having reassurance that they were submitting correctly (18%), and guidance on using the software (16%). Customers who were using external, paid agents were more likely to want reassurance that they are submitting correctly (20% compared to 13% of non-users).

Ten per cent of customers expressed a desire for training on using digital tools and ICT systems. This type of support was a more popular choice among those who lacked experience of using software (12% of non-users compared to 3% of users), and especially those who kept records relating to all their tax obligations on paper (15%).

> *"Short term [need] is the ability to be able to make the app or the software function for a digital return and then longer term, if there are any problems, can I go to someone quickly, cheaply, to resolve it."*
>
> *Sole proprietor*

In the qualitative interviews, digital capability was the biggest driver of support needs. The least digitally-confident customers were inclined to want more practical support, such as assistance with downloading and using the software or mobile app. Customers who were more confident wanted guidance and clarity from HMRC in terms of how to prepare for the changes or what software to use. They also had a preference for trialling the software before the changes came into place, so they could familiarise themselves with it and test their processes. The most digitally savvy customers were inclined to want more 'soft' support, such as guidance on how to prepare for MTDfB, reminders of any deadlines or flexibility in being able to pick their own tax deadlines.

> *"Obviously, I don't need to be taught how to download an app, I'm not a granddad...but the steps, what you need to have ready before you start using it. Or what records you need to have to hand. Those kinds of things."*
>
> *Sole proprietor*

Across the board, customers wanted support to be:

- **Quick** (ideally HMRC should respond to queries swiftly. Those who had contacted HMRC digitally expected a response immediately or on the same day);

- **Personalised** (tailored to the individual's business circumstances. Customers who had queries about their tax affairs wanted the response to be specific to them, rather than getting a generic, all-inclusive response);

- **Fair** (in the context of MTDfB, customers did not believe penalties were fair for issues like hardware or software malfunctions, or problems using software or the internet);

- **Clear** (on what the MTDfB changes were and why HMRC was making them);

- **Cheap/free** (specifically around access to HMRC-approved software, as a matter of principle);

- **Informative** (rather than reprimanding).

Sources of support for MTDfB

Agents would be the main source of information and advice about MTDfB, reflecting the high use of external paid agents among customers. Agents were an important conduit for communicating information and providing reassurance to customers. In addition, a quarter (25%) of those who were not using an agent mentioned they would go to an agent for MTDfB support.

In contrast, HMRC was the main source of advice and support in relation to the new requirements for customers with low use of external agents – something which they did not anticipate to change with MTDfB. Two in five (38%) customers who were not using agents would turn to the HMRC website, compared to 14 per cent of agent users. Non-agent users were also most likely to rely on family and friends for advice and support.

Figure 24: Support sources

Who, if anyone, would you go to for advice or support in relation to these new requirements?

Accountant / agent	HMRC website	HMRC helpline	Friend / Relative	Gov.uk website
72%	20%	13%	5%	2%

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Base: All respondents (2,900) Top answers shown only
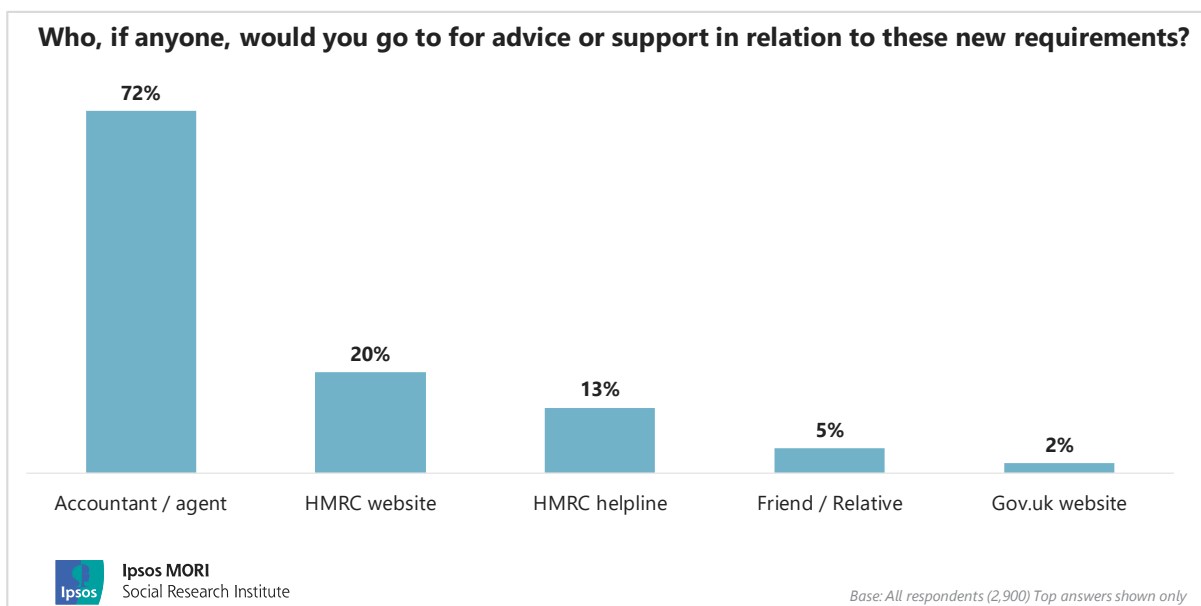
Those in the qualitative interviews who wanted HMRC to advise or support them about MTDfB made specific suggestions on what help they would like:

- A **designated MTDfB phone line** or email service during the transition, to allow them to ask 'stupid questions'. The helpline would be an especially useful tool for those who needed non-digital support;

- An **improved search function** on the GOV.uk website, and information to be in plain English;

- HMRC to make the **free software** available at least three to four months in advance so that customers could **trial** using it;

- **Regular live webinars** on MTDfB-related topics. There was also appetite for a **live chat service**;

- Access to e-learning, webinars and YouTube videos. These provided helpful introductory information, but customers wanted to be able to **access a knowledgeable person** in case they need to follow-up; *and*

- **Wider roll-out** of the Needs Enhancement Service.

Conclusions

Making Tax Digital is a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs.

HMRC believes that a modern tax system, based on digital technology, will make it easier for businesses to get their tax right.

At the time of the research, it was expected that businesses and landlords with an income of at least £10,000 would be required to comply with MTDfB. Since then, the MTDfB requirements have changed and businesses will not now be mandated to use the MTDfB system until April 2019 and then only to meet their VAT obligations. This will apply to businesses with a turnover above the VAT threshold – the smallest businesses will not be required to use the system, although they can choose to do so voluntarily.

Specifically, under MTDfB, these planned changes will affect small businesses and landlords in the following ways:

- **Record keeping**: Businesses will keep track of their tax affairs digitally using software or apps (digital tools);

- **Updating HMRC**: Businesses will provide summary tax data to HMRC quarterly, using digital tools. The summary tax data will be automatically generated for the business from the electronic records. The MTDfB software will use these records to prepare a summary update to HMRC. Each quarter, the software would remind customers to send their summary to HMRC;

- **For VAT:** Businesses will be required to use software to submit information required for current VAT returns; and

- **End of year activity**: Businesses will provide a finalised end of year position to HMRC of their tax affairs, again using digital tools.

This research found that the MTDfB population was very diverse in terms of their size, number of years trading, and industry sector. Their tax obligations also varied, as did their tax practices including use of external paid agents and software for tax-related tasks. Business owners too, had differing levels of ICT skills and access to digital devices. This means that MTDfB will affect businesses and landlords in different ways, and a range of advice and support will be required to meet the diverse needs of this population.

Likely engagement with MTDfB

Customers' likely engagement with MTDfB was influenced, to an extent, by their levels of knowledge about the change. The research findings indicated a need to raise customers' knowledge of MTDfB to increase engagement with the proposed changes, as well as to motivate customers to start making preparations. This entails providing more precise details on what MTDfB actually involved and what businesses needed to do to prepare for it.

At the time of the survey fieldwork, between September and November 2016, the majority of customers were unaware of the requirements to use software or to send quarterly updates to HMRC: 69 per cent had not heard

about the requirement to use software, 71 per cent had not heard about quarterly updates; and 60 per cent had not heard about either change. However, despite their limited levels of awareness, seven in ten customers (70%) expressed willingness to comply with the MTDfB requirements. However, 43 per cent would make changes to their process only once the changes come into effect.

The follow-up qualitative research with customers found that once more details were provided about what MTDfB entailed, customers became more willing to engage with the changes. Providing customers with more details about what they need to do to prepare for MTDfB may also help to motivate customers currently intending to make changes to their processes at the latest possible date.

These findings did not imply that support for MTDfB was universal once more information about it was provided. There remained a group of customers who were unconvinced of the potential benefits to them, focusing instead on the additional time commitment required to use software and send quarterly updates. These were typically customers with simple tax obligations which they managed entirely on paper. Landlords and sole proprietors below the VAT threshold were more likely to feature within this group. To minimise potential resistance to MTDfB, it will be important to present a clear case on how businesses and landlords with simple tax affairs will benefit from MTDfB.

Software use on a digital device

The majority of customers had access to digital devices that would enable them to use software under MTDfB: 95 per cent of customers had a computer, laptop or tablet, 96 per cent had internet access and 68 per cent used the internet at least once a day. However, current use of software or apps on a smartphone or tablet for taxes was relatively low. A significant proportion of customers will need convincing of the benefits of using software over their current practices, as well as support to choose and use software. Customers, especially those not currently using software for taxes, also required reassurances about the security of keeping their records digitally (49% of customers overall expressed security concerns).

One in four customers used software for their taxes (26%); 74 per cent did not. Use of software was lowest among businesses liable for ITSA only (12%). The main reason cited by customers for not using software was because activities were simple and the processes in place (i.e. paper and/or spreadsheets) were 'fit-for-purpose'. One in five of those not using software lacked confidence with technology.

One in five customers (19%) who had internet access for work self-reported that their internet (speed and/or reliability) was poor. Some customers in the qualitative research experienced difficulties sending their tax returns and were concerned that this would impact on their ability to send quarterly updates, or being able to access HMRC information such as YouTube videos and webinars to prepare for MTDfB.

Submitting quarterly updates

The majority of customers did their record keeping themselves as opposed to using an external paid agent (around four in five for each of the three obligations: ITSA, VAT and CT). Nine in ten customers (87%) found record keeping straightforward and the large majority were recording their transactions, invoices and receipts at least quarterly (90 per cent for CT, 97 per cent for VAT, and 78 per cent for ITSA). This meant that most customers should be able to

meet the requirement to provide quarterly updates of their transactions without having to make changes to how often they undertake record keeping.

Advice and support

Customers who anticipated difficulties in meeting the MTDfB requirements (33%) were concerned about their limited ICT skills, the time it will take to prepare and provide the information, the ease of integrating MTDfB into current practices, and their lack of knowledge on which software to use.

Consequently, the advice and support that customers most wanted was guidance on how to prepare for the new requirements (cited by 40%), consistent with the low levels of awareness about MTDfB and what it involved. Around one in six customers wanted reassurances that they were submitting correctly (18%), and a similar proportion wanted guidance on using software (16%). Other types of support desired by customers were general financial advice and planning (14%) and training to use digital tools/ICT systems (10%). One in six (18%) did not know what advice they wanted which, again, reflected the low levels of knowledge about MTDfB. Customers most likely to want guidance on using software were generally in support of MTDfB but lacked experience of using software. Demand for ICT training was higher among customers who were least confident in their ICT skills.

Making Tax Digital for business

APPENDIX

Trinh Tu, Krishna Chhatralia, Kelly Maguire, Sarah Tipping

Appendix A: Quantitative study

Ipsos MORI undertook a telephone survey of 2,900 small businesses and landlords. The target MTDfB population was small businesses with a turnover between £10,000 and £10million, including both partnerships and sole-proprietors. Businesses in sectors O (Public administration and defence; compulsory social security) and T (Activities of households as employers; undifferentiated goods and services-producing activities of households for own use) were excluded (i.e. the 16 top-level ONS SIC 2007 codes). The population also included self-employed individuals with income from both self-employment and property, and landlords with income from property only. The same turnover limits applied to these groups.

The sample was drawn from HMRC administrative records and the Inter-Departmental Business Register (IDBR), administered by the Office for National Statistics (ONS), since no one administrative source covered the target MTDfB population. The IDBR sample included a random selection of businesses registered[23] for VAT, on PAYE and incorporated small businesses. The remaining samples of businesses/individuals who were not VAT registered were drawn from HMRC's Self-Assessment records; it included very new businesses, businesses without employees and/or not paying VAT, the self-employed and landlords with an income above £10,000.

All samples were drawn using random probability sampling methods. The selection probabilities varied by size and industrial sector to ensure there were sufficient 'larger' businesses and businesses in the smaller sectors. Partnerships were also over-sampled relative to sole-proprietors. In addition, the landlord-only sample was over-sampled relative to the population to ensure there were enough responses to analyse these cases separately.

Prior to fieldwork, sampled businesses and landlords were sent an advance letter, which provided information about the survey and gave them an opportunity to opt-out. Telephone matching was also undertaken for leads without a valid telephone number.

The questionnaire was piloted with 30 participants in late August 2016. The mainstage survey was conducted between September and November 2016, and interviews averaged 21 minutes. The survey response rate was 41%. Table A1 below shows the sample outcomes and response rate:

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[23] Businesses with no employees can either be 'registered' for VAT and/or PAYE or are 'unregistered' (because they operate in a VAT exempt industry or they operate below the VAT threshold and do not operate a pay-as-you-earn scheme).

Table A1: Sample outcomes and response rates

	(N)	(%)
Sample size	**15,845**	-
Reserve sample (not used)	1,978	-
Invalid sample		
Ineligible (screened out)	2,050	-
Bad numbers	1,932	-
Sample available for fieldwork	**9,885**	-
Completed interviews	2,900	-
Refusals	1,970	-
Live sample	3,196	-
Opted out	1,819	-
Eligibility (complete / (complete + ineligible)	-	59%
Valid sample (fieldwork sample x eligibility)	7,021	-
Unadjusted response rate (complete / sample)		21%
Co-operation rate (complete / complete + refusal)	-	60%
Adjusted response rate (complete / valid sample)	-	41%

At the data processing stage, data were weighted by the five sample types in Table A2. The business sample was weighted by size and businesses sampled from the IDBR were also weighted by sector. The same was not done for the HMRC businesses sample, which did not contain sector information. Weighting reduced the effective sample size for the overall sample from 2,900 to 2,265; a design factor of 1.13.

Table A2: Weighting

Sample type	Unweighted		Weighted		Population	
Small business (IDBR)	1,567	54%	1,013	35%	2,242,690	43%
Self employed	723	25%	1,116	38%	1,756,299	34%
Landlords	296	10%	364	13%	572,511	11%
Both self-employed and landlord	118	4%	161	6%	253,407	5%
Partnership	196	7%	246	8%	387,500	7%

The survey collected information on which types of UK taxes the respondent or business was liable for (i.e. Corporation Tax, Value Added Tax (VAT) or Income Tax / Self-Assessment). The survey also collected data on their turnover which was used to determine whether they fell above or below the VAT threshold. The survey collected turnover data from the previous tax year (2015-2016) whereby the VAT threshold was £82,000.

Appendix B: Qualitative study

Follow-up depth interviews were conducted with 30 survey participants who were identified as being unable and/or unwilling to engage with MTD, based on their survey responses. The interviews took place in October and November 2016.

Sampled participants were placed into one of four groups: Least Digital (customers who did not submit online and did not have any access to online banking); Unwilling and unable to meet the MTD requirements; Willing but unable; or Able but unwilling. They were identified as the customers most likely to be impacted by the changes, and it was therefore of interest to HMRC to gauge what support they might need. None of the sampled participants were using software or apps for their tax obligations.

Interviews were conducted by telephone or face to face. A breakdown of the interviews achieved in each group is shown below:

Table B1: Achieved interviews in phase one

	Criteria	Least digital	Need support to transition, but unwilling	Need support to transition, and willing	Digitally able to transition, but unwilling
Type of customer	Self-employed	2	3	3	3
	Partnership	3	2	2	2
	Landlord	3	2	2	3
Use of agent	Yes	6	4	3	4
	No	2	3	4	4
	Total	**8**	**7**	**7**	**8**

Appendix C: Customer demographics and firmographics (based on survey response)

Table C1: Customer type

	Businesses	All
Base	2,604	2,900
Limited company	29%	26%
Partnership	12%	11%
Sole proprietor	58%	44%
Sole proprietor and landlord	8%	7%
Property landlord	-	13%

Table C2: Industry Sector[24]

	Businesses
Base	2,604
Agriculture, Forestry and Fishing	5%
Mining and Quarrying; Utilities, Waste Management and Remediation Activities	*
Manufacturing	3%
Construction	19%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	10%
Transportation and Storage	4%
Accommodation and Food Service Activities	4%
Information and Communications	3%
Financial and Insurance Activities	2%
Real Estate Activities	15%
Professional, Scientific and Technical Activities	11%
Administrative and Support Service Activities	6%
Education	2%
Human Health and Social Work Activities	5%
Arts, Entertainment and Recreation	4%
Other Service Activities	5%
Refused	1%

Table C3: Number of employees

	Businesses
Base	2,604
None	53%
1	17%
2-4	19%
5-9	7%
10-19	4%

[24] Figures marked with '*' indicate a value less than one, but greater than zero

Table C4: Turnover / property income

	Turnover (Businesses)	Property income (Landlords)
Base	2,604	490
Less than £20,000	16%	53%
£20,000 to less than £40,000	23%	20%
£40,000 to less than £60,000	11%	9%
£60,000 to less than £82,000	10%	3%
£82,000 to less than £100,000	3%	2%
£100,000 to less than £500,000	21%	4%
£500,000 or more	10%	1%
Don't know / refused	5%	8%

Table C5: VAT Threshold (£82,000)

	All
Base	2,900
Below	64%
Above	32%
Unknown	4%

Table C6: Tax obligations reported by respondents

	All
Base	2,900
CT	23%
VAT	42%
ITSA	72%

Table C7: Age of business

	Businesses
Base	2,604
Less than 5 years	15%
5-10 years	29%
11-20 years	26%
More than 20 years	29%

Table C8: Whether the business is mainly premise-based or mobile

	Businesses
Base	2,604
Premise based	45%
Mobile	41%
About half and half	14%

Appendix D: Detailed data tables

The following tables present detailed findings by tax obligation, employee size and VAT threshold. Specific sub-groups are shown and they do not sum to the total (2900) as they exclude certain groups. The sub-groups were chosen by HMRC as areas of interest.

Table D1: Use of agents by employee size

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Yes – external paid accountant or tax agent	74%	62%	76%	82%	85%	89%	91%
Yes – in-house paid accountant or bookkeeper	4%	2%	4%	3%	11%	2%	8%
Yes – unpaid family/friend/colleague	6%	9%	5%	4%	7%	2%	1%
No help with tax affairs	21%	29%	20%	14%	9%	11%	6%

Table D2: Use of agents by turnover (above and below VAT threshold)

	Total	Below £82k	Above £82k
Base	2900	1450	1332
Yes – external paid accountant or tax agent	74%	66%	88%
Yes – in-house paid accountant or bookkeeper	4%	2%	8%
Yes – unpaid family/friend/colleague	6%	7%	3%
No help with tax affairs	21%	28%	8%

Table D3: Record keeping for all tax obligations

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
All agent	11%	7%	16%	11%	8%	19%	13%
All paper	31%	46%	32%	19%	22%	16%	8%
All spreadsheets	17%	20%	15%	22%	8%	18%	9%
All software or apps	14%	4%	16%	17%	23%	17%	33%
No software or apps	76%	92%	77%	75%	59%	71%	46%

Table D4: Record Keeping for all tax obligations (below and above VAT threshold)

	Total	Below £82k	Above £82k
Base	2900	1450	1332
All agent	11%	10%	11%
All paper	31%	39%	14%
All spreadsheets	17%	20%	10%
All software or apps	14%	7%	30%
No software or apps	76%	88%	51%

Table D5: Record Keeping for all tax obligations (by sector[20])

Businesses below the VAT threshold

	Base	All agent	All paper	All spreadsheets	All software or apps	Other
	1201	10%	41%	19%	7%	23%
Agriculture, Forestry and Fishing	88	6%	49%	9%	8%	28%
Construction	243	13%	55%	12%	4%	16%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	77	11%	54%	14%	4%	17%
Transportation and Storage	70	12%	51%	12%	2%	23%
Professional, Scientific and Technical Activities	129	5%	14%	32%	13%	36%
Administrative and Support Service Activities	57	15%	41%	15%	8%	22%
Education	79	9%	24%	23%	8%	36%
Human Health and Social Work Activities	65	12%	39%	19%	3%	26%
Arts, Entertainment and Recreation	89	8%	32%	31%	2%	27%
Other Service Activities	75	10%	54%	13%	7%	15%

Businesses above the VAT threshold

	Base	All agent	All paper	All spreadsheets	All software or apps	Other
	1299	11%	14%	10%	31%	34%
Agriculture, Forestry and Fishing	101	13%	18%	12%	22%	35%
Manufacturing	78	9%	11%	0%	34%	45%
Construction	134	13%	17%	9%	25%	36%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	211	13%	16%	10%	27%	34%
Accommodation and Food Service Activities	105	16%	13%	15%	17%	39%
Information and Communications	79	22%	0%	2%	61%	16%
Financial and Insurance Activities	76	3%	7%	14%	39%	37%
Real Estate Activities	64	8%	19%	6%	42%	25%
Professional, Scientific and Technical Activities	185	5%	6%	11%	41%	37%
Administrative and Support Service Activities	58	12%	10%	5%	27%	47%
Other Service Activities	50	9%	26%	12%	30%	24%

[20]Sectors with a base size less than 50 are excluded from this analysis

Table D6: Agent use (by sector[21])

Businesses below the VAT threshold

	Base	External paid accountant or tax agent	In-house paid accountant or bookkeeper	Unpaid family/friend /colleague	No help with tax affairs
	1201	67%	2%	7%	26%
Agriculture, Forestry and Fishing	88	91%	4%	8%	7%
Construction	243	71%	2%	9%	18%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	77	75%	0%	6%	21%
Transportation and Storage	70	71%	0%	7%	23%
Professional, Scientific and Technical Activities	129	67%	3%	5%	28%
Administrative and Support Service Activities	57	63%	4%	7%	28%
Education	79	61%	3%	8%	29%
Human Health and Social Work Activities	65	54%	1%	10%	39%
Arts, Entertainment and Recreation	89	58%	4%	16%	27%
Other Service Activities	75	57%	0%	4%	39%

Businesses above the VAT threshold

	Base	External paid accountant or tax agent	In-house paid accountant or bookkeeper	Unpaid family/friend /colleague	No help with tax affairs
	1299	88%	9%	3%	8%
Agriculture, Forestry and Fishing	101	97%	5%	3%	1%
Manufacturing	78	92%	7%	4%	5%
Construction	134	95%	11%	8%	0%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	211	92%	5%	4%	4%
Accommodation and Food Service Activities	105	95%	8%	2%	4%
Information and Communications	79	100%	4%	0%	0%
Financial and Insurance Activities	76	55%	10%	2%	35%
Real Estate Activities	64	99%	6%	0%	1%
Professional, Scientific and Technical Activities	185	70%	12%	3%	22%
Administrative and Support Service Activities	58	83%	6%	1%	13%
Other Service Activities	50	98%	1%	0%	2%

[21]Sectors with a base size less than 50 are excluded from this analysis

Table D7: Are there any particular aspects of record keeping that you find difficult?

	Total
Base	2900
No difficulties	87%
Time it takes to process records	4%
Remembering to keep financial records / receipts	3%
Understanding which records I need to keep hold of	3%
Keeping track of volume of records	2%

Table D8: Awareness of MTD requirement to use software on a digital device to keep records

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Knew a lot	4%	1%	3%	6%	7%	6%	8%
Knew a little	13%	10%	14%	16%	18%	9%	19%
Heard of but knew nothing about	14%	15%	15%	9%	15%	7%	13%
Not heard of	70%	73%	69%	70%	60%	78%	60%

Table D9: Awareness of MTD requirement to submit a summary update to HMRC every quarter

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Knew a lot	3%	2%	4%	4%	4%	3%	6%
Knew a little	12%	10%	13%	13%	18%	9%	16%
Heard of but knew nothing about	13%	14%	7%	8%	13%	8%	14%
Not heard of	71%	73%	75%	75%	65%	80%	64%

Table D10: Awareness of MTD requirement to use software on a digital device to keep records

	Total	Software users	Non-software users
Base	2900	899	2001
Knew a lot	4%	10%	1%
Knew a little	13%	20%	10%
Heard of but knew nothing about	14%	15%	13%
Not heard of	70%	55%	75%

Table D11: Awareness of MTD requirement to submit a summary update to HMRC every quarter

	Total	Software users	Non-software users
Base	2900	899	2001
Knew a lot	3%	8%	2%
Knew a little	12%	15%	11%
Heard of but knew nothing about	13%	15%	13%
Not heard of	71%	62%	74%

Table D12: Awareness of MTD requirement to use software on a digital device to keep records (below and above VAT threshold)

	Total	Below £82k	Above £82k
Base	2900	1450	1332
Knew a lot	4%	2%	8%
Knew a little	13%	10%	19%
Heard of but knew nothing about	14%	14%	14%
Not heard of	70%	75%	60%

Table D13: Awareness of MTD requirement to submit a summary update to HMRC every quarter (below and above VAT threshold)

	Total	Below £82k	Above £82k
Base	2900	1450	1332
Knew a lot	3%	2%	5%
Knew a little	12%	10%	17%
Heard of but knew nothing about	13%	13%	13%
Not heard of	71%	74%	65%

Table D14: Awareness of MTD requirements by sector (businesses only)

Awareness of requirement to use software on a digital device to keep records

	Agriculture, Forestry and Fishing	Mining and Quarrying; Utilities, Waste Management and Remediation Activities	Manufacturing	Construction	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Transportation and Storage	Accommodation and Food Service Activities	Information and Communications
Base	202	82	110	394	301	105	145	124
Knew a lot	2%	1%	3%	3%	4%	2%	2%	3%
Knew a little	9%	14%	16%	12%	17%	10%	13%	22%
Heard of but knew nothing about	14%	17%	17%	10%	12%	15%	13%	8%
Not heard of	75%	68%	63%	75%	67%	72%	72%	67%

	Financial and Insurance Activities	Real Estate Activities	Professional, Scientific and Technical Activities	Administrative and Support Service Activities	Education	Human Health and Social Work Activities	Arts, Entertainment and Recreation	Other Service Activities
Base	130	95	316	121	106	96	126	133
Knew a lot	11%	6%	9%	3%	3%	2%	2%	2%
Knew a little	20%	14%	18%	17%	7%	11%	12%	11%
Heard of but knew nothing about	20%	5%	17%	14%	15%	15%	21%	14%
Not heard of	49%	75%	57%	65%	75%	72%	64%	73%

Awareness of requirement to use submit a summary update every quarter

	Agriculture, Forestry and Fishing	Mining and Quarrying; Utilities, Waste Management and Remediation Activities	Manufacturing	Construction	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Transportation and Storage	Accommodation and Food Service Activities	Information and Communications
Base	202	82	110	394	301	105	145	124
Knew a lot	1%	1%	2%	1%	4%	1%	3%	6%
Knew a little	11%	26%	9%	10%	16%	7%	17%	18%
Heard of but knew nothing about	13%	5%	13%	11%	16%	10%	8%	9%
Not heard of	75%	68%	76%	78%	65%	81%	72%	66%

	Financial and Insurance Activities	Real Estate Activities	Professional, Scientific and Technical Activities	Administrative and Support Service Activities	Education	Human Health and Social Work Activities	Arts, Entertainment and Recreation	Other Service Activities
Base	130	95	316	121	106	96	126	133
Knew a lot	14%	4%	9%	3%	-	2%	1%	2%
Knew a little	19%	9%	17%	14%	9%	7%	17%	15%
Heard of but knew nothing about	17%	14%	14%	19%	18%	11%	16%	11%
Not heard of	50%	73%	61%	64%	73%	79%	66%	71%

Table D15: Ease of using software to keep digital records

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Easy	42%	36%	48%	39%	39%	58%	56%
Neutral	17%	16%	13%	19%	20%	16%	19%
Difficult	32%	39%	31%	31%	32%	18%	19%
It depends / Don't know / Refused	8%	9%	9%	11%	9%	9%	7%

Table D16: Ease of submitting a summary every quarter

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Easy	43%	37%	45%	43%	42%	55%	55%
Neutral	15%	17%	15%	20%	15%	14%	14%
Difficult	33%	38%	29%	30%	36%	20%	22%
It depends / Don't know / Refused	9%	8%	10%	6%	7%	11%	9%

Table D17: Reasons for thinking it will be difficult to keep records digitally and/or update HMRC quarterly (top answers shown only)

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	1108	398	60	108	93	46	159
Limited ICT skills / digital confidence	41%	46%	43%	37%	39%	7%	29%
Time it will take to provide information more frequently	23%	21%	18%	23%	25%	19%	24%
Time it will take to prepare information	23%	20%	27%	25%	21%	18%	26%
Difficult to integrate into day-to-day practice	16%	15%	7%	25%	25%	33%	23%
Too busy / Other work responsibilities are more of a priority	14%	13%	9%	12%	18%	7%	12%
Don't know which software to purchase/use	9%	10%	13%	9%	6%	17%	6%
Prefer to deal with tax obligations by paper	9%	9%	10%	10%	9%	2%	9%
Increased cost of paying an agent	7%	5%	7%	5%	5%	2%	13%
Too costly to purchase new software	6%	5%	6%	2%	4%	14%	7%
Too costly to update our systems	5%	3%	6%	3%	6%	0%	8%
Lack of internet access	4%	6%	4%	2%	5%	2%	0%

Table D18: Impact of MTD on agent use for record keeping

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Use your agent more/Consider using an agent	25%	24%	24%	20%	31%	28%	25%
Use your agent less or stop altogether	18%	20%	26%	10%	18%	27%	15%
Or would it have no impact	50%	47%	48%	62%	42%	40%	54%
Don't know	7%	8%	3%	9%	9%	5%	6%

Table D19: Impact of MTD on agent use for more tailored advice

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Use your agent more/Consider using an agent	34%	32%	29%	42%	43%	38%	37%
Use your agent less or stop altogether	9%	13%	10%	3%	8%	11%	6%
Or would it have no impact	50%	49%	51%	53%	43%	47%	53%
Don't know	6%	6%	10%	2%	5%	4%	5%

Table D20: Comfort using technology to manage (business) finances

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Agree	68%	59%	69%	73%	68%	86%	81%
Neither agree not disagree	8%	10%	10%	10%	9%	1%	7%
Disagree	23%	31%	21%	17%	22%	13%	12%
Don't know	1%	1%	1%	0%	1%	0%	0%

Table D21: Worry about the security of keeping business records digitally

	Total	ITSA below VAT nano	ITSA below VAT employer	ITSA above VAT nano	ITSA above VAT employer	CT nano	CT employer
Base	2900	864	154	285	231	174	647
Agree	49%	50%	53%	64%	52%	37%	40%
Neither agree not disagree	9%	9%	11%	2%	10%	10%	11%
Disagree	41%	40%	34%	32%	35%	51%	48%
Don't know	1%	1%	2%	1%	2%	2%	1%

Table D22: Preparedness for making the transition to MTDfB

	You have prepared a plan to make the transition	You are already making changes to your processes/ practices to make the transition	You are not currently prepared, but are interested in making the transition <u>before the deadline</u> for the changes comes into place	You are not currently prepared, but are likely to make the transition <u>at the point</u> the changes come into place	You have no plans to make any changes and would only do so if there were penalties
All respondents	2%	2%	23%	43%	25%
ITSA, below VAT threshold, nano business	1%	1%	21%	48%	26%
ITSA, below VAT threshold, employer	4%	1%	25%	38%	30%
ITSA, above VAT threshold, nano business	4%	2%	21%	47%	24%
ITSA, above VAT threshold, employer	3%	2%	18%	43%	25%
CT, nano business	1%	6%	40%	28%	21%
CT, employer	5%	5%	26%	42%	18%

Table D23: Access to digital tools (below and above VAT threshold)

	Total	Below £82k	Above £82k
Base	2900	1450	1332
Computer/laptop	91%	89%	96%
Tablet	61%	60%	62%
Smartphone	80%	80%	83%
Internet access	96%	96%	98%
Online banking	83%	80%	89%

HMRC Small Business Digital Segmentation
Questionnaire – FINAL

Variables required for scripting

THE VARIABLES BELOW ARE DUMMY VARIABLES. PLEASE INCLUDE THEM IN THE PULL FILE BUT DO NOT DISPLAY ON SCREEN

Sample_type

Small business (IDBR)	1
SA – self employed	2
SA - landlords	3
SA – both self-employed and landlord	4
SA – partnership	5

Section A: Introduction

A1
ASK IF Sample_type = 2-5
May I speak to [INSERT NAME FROM SAMPLE]?

ASK IF Sample_type= 1
May I speak to the owner of [INSERT BUSINESS NAME FROM SAMPLE]?
IF NAME NOT SUPPLIED:
May I speak to the most senior person at [INSERT BUSINESS NAME FROM SAMPLE] who has responsibility for this business's finance and tax affairs?

READ OUT TO ALL
A2
Good morning/afternoon, my name is .... and I'm calling from Ipsos MORI, an independent research company. Her Majesty's Revenue and Customs (HMRC) is making changes to how [**IF Sample_type = 1 OR 5**: businesses] [**IF Sample_type = 2-4**: businesses including self-employed people and landlords] provide information to HMRC. These changes will affect [If sample 1/2/4/5: your business] [IF sample 3: you] and your use of accountants or tax agents.

HMRC wants to understand how this change will affect [**IF Sample_type = 1 OR 5**: businesses like yours] [**IF Sample_type = 2-4**: self-employed people and landlords**].

This will help HMRC to know what information and support [**IF Sample_type = 1 OR 5**: businesses like yours] [**IF Sample_type = 2-4**: people like yourself] will need to help you make the transition.

You should have received a letter about this study at the end of August.
ADD IF NECESSARY: Would you like me to email you a copy of this letter?

Yes	1 – CONFIRM EMAIL AND SEND COPY
No	2 - CONTINUE
Refusal – my agent handles my tax affairs	3 – Go to A2a

The survey will take around 15-20 minutes. I would like to assure you that everything you say will be treated in the strictest confidence and used for research purposes only. It will not be possible to identify you or your business in the results.

[IF SAMPLE_TYPE=1 OR 5 AND BUSINESS NAME ON SAMPLE, Please note that it will be [INSERT BUSINESS NAME FROM SAMPLE] that we will mainly be talking about during this interview.]

ADD IF NECESSARY: Your business has been selected at random from HMRC's records. This is not in any way related to your tax dealings with HMRC.

ADD IF REFUSAL BECAUSE AGENT HANDLES TAX AFFAIRS:

ASK IF A2=3
A2a
The changes that HMRC are making will affect you even though you use an agent. For example, you might need to increase your use of an agent or take on some of the tasks your agent currently does for you. Therefore, it is really important that HMRC understands what help or support you are likely to need to help make the transition.

Would you like more information, or to take part in the survey now?

Yes	1 – PROCEED TO INTERVIEW
No	2 – SCREEN OUT
More information	3 – CONFIRM EMAIL AND SEND COPY

Section B: Screening questions for businesses

B1
Before we begin, I'd like to confirm some details to make sure that the questions are relevant to [ALL EXCEPT SAMPLE_TYPE = 3: your business] [**IF SAMPLE_TYPE = 3:** you].

ASK IF SAMPLE_TYPE= 1, 2, 4 OR 5 (ALL EXCEPT LANDLORD ONLY SAMPLE)
B2
Is your business…?

READ OUT. SINGLE CODE ONLY

A private or public limited company	1
A sole proprietorship (self-employed/sole trader)	2
A partnership	3
A charity or voluntary organisation	
A public corporation, central government department or agency	
None of the above	THANK AND CLOSE
DO NOT READ OUT: Don't know	
DO NOT READ OUT: Refused	

ASK IF SAMPLE_TYPE = 3 (LANDLORD ONLY SAMPLE) OR B2=2 (SOLE TRADER)
B3
Are you currently a landlord?

Yes	1
No	2 (CLOSE IF SAMPLE_TYPE = 3)

ASK ALL EXCEPT SAMPLE_TYPE 3 (LANDLORD ONLY) WHO SKIP TO B6
B4
[IF SAMPLE_TYPE=4 (BOTH SE AND LANDLORD) AND B2=1: Thinking about your self-employed business...]
Approximately, how many employees are currently on your payroll in the UK, **excluding owners and partners** across all sites?

ADD IF CODE 1 AT B2: Please do not include any company directors.

INTERVIEWER NOTE: IF RESPONDENT IS SELF-EMPLOYED AND DOES NOT EMPLOY ANY OTHER STAFF, THEN ENTER 0.

ENTER NUMBER. ALLOW DK (-99) AND REFUSED (-98)

IF CODES -99 OR -98 AT B4
B5
Are there…?

READ OUT. SINGLE CODE ONLY

No employees	1
1 employee	2
2-4 employees	3
5-9 employees	4
10-19 employees	5
20 or more employees	
Don't know	THANK AND CLOSE
Refused	

Variables required for scripting

THE VARIABLES BELOW ARE DUMMY VARIABLES. PLEASE INCLUDE THEM IN THE PULL FILE BUT DO NOT DISPLAY ON SCREEN. THIS IS THE GENERAL CONVENTION FOR TEXT SUBSTITUTION – WE HAVE INSERTED THE EXACT WORDING FOR SPECIFIC QUESTIONS

BUSINESS: text substitution is "your business". This applied to **everyone** apart from:

INDIVIDUAL: Landlords only (**SAMPLE_TYPE=3 AND B3=1):** Use "you"

BOTH: Self-employed AND landlord (**B2=2 AND B3=1**): Use "your business and landlord activity"

READ OUT TO ALL:
How businesses, self-employed people and landlords provide information to HMRC will change in the future depending on the gross income/annual turnover of the business / landlord. In order to check that these changes affect your business / you, can you tell me . .

IF NECESSARY: I would like to assure you that everything you say will be treated in the strictest confidence and used for research purposes only.

B6a

Your approximate turnover for the last financial year?

ENTER NUMBER IN £. ALLOW 10 DIGITS. ALLOW DK (-99) AND REFUSED (-98)
THANK AND CLOSE IF LESS THAN £10,000 OR £10 MILLION OR MORE

ASK IF DUMMY=BOTH or INDIVIDUAL
B6b
Your approximate gross income from property rental for the last financial year?

ENTER NUMBER IN £. ALLOW 10 DIGITS. ALLOW DK (-99) AND REFUSED (-98)
FOR SAMPLE TYPE 4 (BOTH SELF EMPLOYED AND LANDLORD) THANK AND CLOSE IF COMBINED
INCOME AT q6a/b IS LESS THAN £10,000 OR £10 MILLION OR MORE
ASK IF CODES -99 OR -98 AT B6a OR B6b
B7
Was it less than £10,000? Was it £10 million or higher?
IF DUMMY = BOTH: Was your combined income from self-employment and rental property less than £10,000 in
the last financial year? Was £10 million or more?

[IF YES TO EITHER, THANK AND CLOSE. IF NO, PROBE TO BANDS BELOW]

Was it…?

READ OUT. SINGLE CODE ONLY

INTERVIEWER NOTE: Do not include income from other sources e.g. dividends

Less than £10,000	1 (CLOSE)
£10,000 to less than £20,000	2
£20,000 to less than £40,000	3
£40,000 to less than £60,000	4
£60,000 to less than £82,000	5
£82,000 to less than £100,000	6
£100,000 to less than £500,000	7
£500,000 to less than £1million	8
£1million to less than £5million	9
£5million to less than £10million	10
£10 million or more	THANK AND CLOSE
DO NOT READ OUT: Don't know	CONTINUE IF
DO NOT READ OUT: Refused	Turnover_samp is< £10million. ELSE THANK AND CLOSE

ASK ALL
B8
[**IF DUMMY=BUSINESS:** Can I confirm that your business is liable for any of these UK taxes?]
[**IF DUMMY=INDIVIDUAL:** Can I confirm that you are liable for . . . .?]
[**IF DUMMY=BOTH:** Can I confirm that you are liable for any of these UK taxes in relation to both your business
and landlord activity?]

READ OUT. MULTICODE OK DO NOT ALLOW CODES 1 AND 3 TO BE MULTICODED

[**SHOW IF A LIMITED COMPANY: B2=1**] Corporation tax	1
[**SHOW ALL** VAT	2
[**SHOW IF SELF EMPLOYED OR PARTNERSHIP: B2=2 OR B2=3**] Business Income Tax (self-assessment) OR **LANDLORD ONLY**: SAMPLE TYPE = 3: Income Tax (self-assessment)	3
None of the above	
DO NOT READ OUT: Don't know	THANK AND CLOSE
DO NOT READ OUT: Refused	

ASK IF Sector_samp IS POPULATED
B9
Can I just check that [INSERT SECTOR_SAMP FROM SAMPLE] broadly describes the main activity of this business?

DO NOT READ OUT. SINGLE CODE ONLY

Yes – correct	1
No – not correct	2
Don't know	-99
Refused	-98

ASK IF B9 = 2, -99 OR -98 OR IF Sector_samp IS BLANK. DO NOT ASK LANDLORDS ONLY (DUMMY VARIABLE=Individual). IF DUMMY VARIABLE=Individual, AUTOCODE B10 TO CODE 10.
B10
What is the main activity of this business?

PROMPT TO CODES. IF UNSURE, SELECT "OTHER" AND WRITE IN

(A) Agriculture, Forestry and Fishing	1
(B), (D) and (E) Mining and Quarrying; Utilities, Waste Management and Remediation Activities	2
(C) Manufacturing	3
(F) Construction	4
(G) Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	5
(H) Transportation and Storage	6
(I) Accommodation and Food Service Activities	7
(J) Information and Communications	8
(K) Financial and Insurance Activities	9
(L) Real Estate Activities	10
(M) Professional, Scientific and Technical Activities	11
(N) Administrative and Support Service Activities	12
(P) Education	13
(Q) Human Health and Social Work Activities	14
(R) Arts, Entertainment and Recreation	15
(S) Other Service Activities	16
Other (PLEASE SPECIFY)	17
DO NOT READ OUT: Refused	-98

ASK IF B2=3
B11
And are you the nominated partner – that is the person responsible for submitting the partnership tax return?

Yes	1
No	THANK AND ASK TO SPEAK TO NOMINATED PARTER BEFORE CONTINUING WITH INTERVIEW
Don't know	-99
Refused	-98

Section C: Current practices and behaviour

READ OUT TO ALL
C1
In the future, HMRC will make changes to the way businesses, self-employed people and landlords submit information on their income and outgoings to HMRC. These questions are about how you currently collect, process, store and submit information relating to your tax obligation(s).

ASK ALL
C2
Does anyone help you with your accounts and tax either paid or on an unpaid basis?

PROMPT TO CODE. MULTI CODE OK CODES 1-3

INTERVIEWER: IF RESPONDENT IS THE IN-HOUSE ACCOUNTANT/BOOKKEEPER, PLEASE CODE 2

Yes – external paid accountant or tax agent	1
Yes – in house paid accountant or bookkeeper	2
Yes – unpaid family/friend/colleague	3
No	4
Don't know	-99
Refused	-98

ASK IF CODE 3 AT C2
C3
How does your family/friend/colleague help with your accounts and tax?

PROBE FULLY TO CODES. MULTICODE OK

Calculate tax payable	1
Prepare/audit accounts	2
Check tax returns for errors / sense check	3
Submit tax returns	4
Provide payment advice	5
General record keeping / bookkeeping	6
Provide advice on general taxation	7
Tax planning	8
Deal with HMRC queries / inspections	9
Provide general financial advice / support	10
Other (please specify)	11
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF CODE 1 AT C2
C4
IF >1 AT B8: Which of these taxes does your accountant deal with on your behalf?

IF ONLY ONE CODE SELECTED AT B8: Does your accountant deal with your [INSERT OBLIGATION AT B8]?

INTERVIEWER NOTE: Please note that this question relates to your business' tax obligations.
READ OUT. MULTICODE OK CODES 1-3. DO NOT DISPLAY IF NOT SELECTED AT B8
DO NOT ALLOW CODES 1 AND 3 TO BE MULTICODED

Corporation tax	1
VAT	2

Business Income Tax (self-assessment)	3
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF CODE 1 AT C2
C5
Why do you use an external accountant or agent for your tax[**IF C4>1:** es)?

PROBE FULLY TO CODES. MULTICODE OK

Agent provides service cheaply / free of charge / nothing to lose	1
Do not know how to manage process myself	2
Fear of errors / getting it wrong	3
Do not have time to do it myself	4
Do not understand enough about tax / legislation	5
Prefer not to deal with HMRC directly / agent is mediator	6
Do not have resources to do it myself / in-house	7
Agent has better skills / is expert	8
To ensure I don't miss deadlines	9
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

START LOOP FOR EACH OBLIGATION SELECTED AT B8

READ OUT TO ALL WHO USE AN AGENT AT C4
C6
I would now like to ask you some questions about your record keeping for [OBLIGATION AT C4].

ASK FOR EACH CODE SELECTED AT C4
READ OUT
You mentioned that [**IF DUMMY=BUSINESS:** your business uses] [**IF DUMMY=BOTH OR INDIVIDUAL:** you use] an agent for [INSERT CODE FROM C4]. Does the agent do either of these **record keeping tasks** or do you do them [**IF DUMMY=BUSINESS:** in-house] [**IF DUMMY=BOTH or INDIVIDUAL:** yourself]?

Q7a
Keep accounting records that include all money received and spent **[IF DUMMY=BUSINESS:** by your business] **[IF DUMMY=INDIVIDUAL:** by you] **[IF DUMMY=BOTH:** relating to your business and property rental**]**

Agent does this	1
We do this in-house	2
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

Q7b
Store copies of your records such as receipts and invoices

Agent does this	1
We do this in-house	2
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

READ OUT
And still thinking about [INSERT OBLIGATION FROM C4] does the agent do any of these tasks or do you do them [**IF DUMMY=BUSINESS:** in-house] [**IF DUMMY=BOTH or INDIVIDUAL:** yourself]?

Q7c
Prepare your tax returns

Agent does this	1
We do this in-house	2
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF DO THIS IN-HOUSE AT Q7C. ELSE GO TO Q7e
Q7d
Check your tax returns

Agent does this	1
We do this in-house	2
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

Q7e
Submit your tax returns

Agent does this	1
We do this in-house	2
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF C7a=2 OR THOSE WHO DO NOT USE AN AGENT AT ALL (C2=4)
C8a
How [**IF DUMMY=BUSINESS** does your business; **IF DUMMY=BOTH or INDIVIDUAL:** do you] **keep your accounting records** [IF C2=4: **that is, a record of all money received and spent [IF DUMMY=BUSINESS:** by your business**] [IF DUMMY=INDIVIDUAL:** relating to your property rental**] [IF DUMMY=BOTH:** by your business, or relating to your property rental]

Do you use…? READ OUT. MULTICODE OK

Paper methods	1
Spreadsheets like MS Excel	2
Record keeping software	3
Apps on a smartphone or tablet	4
Other (specify)	5
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF C7c=2 OR THOSE WHO DO NOT USE AN AGENT AT ALL (C2=4)
C8c
How [**IF DUMMY=BUSINESS** does your business; **IF DUMMY=BOTH or INDIVIDUAL:** do you] **calculate the amount of tax payable for** [INSERT OBLIGATION FROM B8]?

Do you use…? READ OUT. MULTICODE OK

Paper methods	1
Spreadsheets like MS Excel	2
Record keeping software	3
Apps on a smartphone or tablet	4
Other (specify)	5
DO NOT READ OUT: HMRC calculates this for me	6
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK FOR SA AND VAT OBLIGATIONS ONLY [**B8=2 OR 3**]
ASK IF THEY COMPLETE/SUBMIT IN-HOUSE (Q7e = 2) OR IF DO NOT USE AN ACCOUNTANT AT C2
C8d
Do you **complete and submit** your [INSERT CODE SELECTED AT B8: VAT OR SA ONLY] return...?

On paper	1
Online through HMRC webpages	2
Through software	3
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF RECORD KEEPING DONE IN-HOUSE OR DO NOT USE AN ACCOUNTANT (C7 STATEMENT A=2 OR C2=4)
C9
How regularly do you record your transactions, invoices and receipts for [INSERT OBLIGATION FROM B8]?

PROMPT TO CODE. SINGLE CODE ONLY

As and when you receive them	1
Daily	2
At least weekly	3
At least monthly	4
At least quarterly	5
At the end of the year/before a tax deadline	6
Other (specify)	7
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

END LOOP

ASK ALL
C10
Are there any particular aspects of record-keeping for [INSERT ALL OBLIGATIONS FROM B8] that [**IF DUMMY=BUSINESS:** your business finds difficult] [**IF DUMMY=INDIVIDUAL:** you find difficult] [**IF DUMMY=BOTH:** you find difficult in relation to your business and landlord activity]?

PROBE FULLY TO CODES. MULTICODE OK

Keeping track of volume of records	1
Issues with storage / space	2
Time it takes to process records	3
Time it takes to scan records onto a computer	4
Problems with maintaining records on a computer	5
Using difficult or complex software to compile/store records	6
Remembering to keep financial records / receipts	7
Understanding which records I need to keep hold of	8
Other (specify)	9
SINGLE CODE: No difficulties	10
Don't know	-99
Refused	-98

ASK ALL
C11
How would rate the burden of dealing with [**IF DUMMY=BOTH or INDIVIDUAL:** your] [**IF DUMMY=BUSINESS:** your business'] tax affairs generally [**IF DUMMY=BOTH**: relating to your business and landlord activity]?   Would you say, it is . . .

REVERSE SCALE

1 Not at all burdensome: involves minimum time, effort or costs	1
2 - Somewhat burdensome	2
3 - Very burdensome: involves a large amount of time, effort or costs	3
Don't Know (DO NOT READ OUT)	-99

Use of software

ASK IF CODE 3 OR 4 AT ANY STATEMENT C8
C12
You mentioned that you use record keeping software/an app to keep track of financial records and/or submit your tax return. Is the software/app you use free or paid for…?

Free	1
Paid for	2
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF C12=2
C12a

Was this software off the shelf or bespoke?

CLARIFY IF NECESSARY: bespoke software is tailored to the needs/requirements of individual businesses.

Off the shelf	1
Bespoke	2
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF CODE 3 OR 4 FOR ANY STATEMENT C8
C12b

And is this software...?

For general record keeping and accounting	1
A tax-specific software package	2
Both	3
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF CODE 3 OR 4 AT ANY STATEMENT C8
C13
Do you use only one piece of software/app, or more than one?

One	1
More than one	2
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF NOT CODE 3 or 4 AT C8
C14
[**IF DUMMY=BUSINESS:** You mentioned earlier that your business does not use software packages or apps to help manage your tax obligations. Why is that?]
[**IF DUMMY=INDIVIDUAL:** You mentioned earlier that you do not use software packages or apps to help manage your self-assessment. Why is that?]
[**IF DUMMY=BOTH:** Your mentioned earlier that you do not use software packages to help manage your tax obligations for your business and landlord activity. Why is that?]

DO NOT READ OUT. PROBE FULLY TO CODES. MULTICODE OK

Too expensive	1
Do not have the necessary knowledge to use them	2
Not necessary for the size of your business	3
Lack confidence with technology	4
No need, agent/accountant does it all for us	5
It's cheaper to pay a third party to do it	6
No need, the process is straightforward	7
Do not have suitable hardware /a computer	8
Do not have time to consider changing current system	9
No need, we use a spreadsheet	10
Other (specify)	11
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

Section D: Segmentation

ASK ALL
D1
I am going to read out a list of statements about managing taxes. Please could you tell me to what extent you agree or disagree with each.

   a) I know which records I need to keep to fulfil my tax obligations (KNOWLEDGE)
   b) I find keeping track of my business' tax obligations difficult to manage on top of my other work load (TIME)
   c) I feel confident that the information I provide to HMRC is correct (ABILITY)

Strongly agree	1
Tend to agree	2
Neither agree or disagree	3
Tend to disagree	4
Strongly disagree	5
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK ALL
D2
HMRC is introducing changes to how businesses [**IF DUMMY=BOTH or INDIVIDUAL:** self-employed people and landlords] provide information relating to their tax obligations.

Before this interview how much did you know about the following changes?

READ OUT. SINGLE CODE PER STATEMENT

IF DUMMY=BUSINESS

   A) By 2020, most businesses will be required to use software on a digital device (e.g. smartphone, tablet or PC) to keep records of their business income and outgoings.

   B) And instead of sending one end of year tax return, most businesses will be required to submit a summary update of their business transactions from their digital device to HMRC every quarter.

   ADD IF RESPONDENT CONFUSING THIS WITH 4 TAX RETURNS: This will mean, once a quarter checking the information stored on the device and then submitting a summary to HMRC. It is **not** filing 4 tax returns per year.

   C) THERE IS NO C

IF DUMMY=BOTH or INDIVIDUAL (i.e. self-employed and landlords or landlord only):

   D) By 2020, most self- employed people and landlords will be required to use software on a digital device (e.g. smartphone, tablet or PC) to keep records of their business/rental income and outgoings.

   E) And instead of sending one end of year tax return, most self-employed people and landlords will be required to submit a summary update of their income and outgoings from their digital device to HMRC every quarter.

   ADD IF RESPONDENT CONFUSING THIS WITH 4 TAX RETURNS: This will mean, once a quarter checking the information stored on the device and then submitting a summary to HMRC. It is **not** filing 4 tax returns per year.

   F) THERE IS NO F

Knew a lot	1
Knew a little	2
Heard of but knew nothing about	3
Not heard of	4

ASK ALL
D3
Thinking about how you currently record your transactions, invoices and receipts for [INSERT OBLIGATION FROM B8], how easy or difficult will it be for [**IF DUMMY=BUSINESS**] your business [**IF DUMMY=BOTH or INDIVIDUAL:** you] to comply with the requirement to…?]

SINGLE CODE PER STATEMENT

IF DUMMY=BUSINESS:
   a) Use software to keep digital records of your business income and expenditure (including through an app)
   b) To submit a summary of your business transactions to HMRC each quarter through software

IF DUMMY=BOTH or INDIVIDUAL:
   c) Use software to keep records of your income and expenditure (including through an app)
   d) To submit a summary of your income and expenditure to HMRC each quarter through software

Very easy	1
Fairly easy	2
Neutral (DO NOT READ OUT: it depends)	3
Fairly difficult	4
Very difficult	5
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF (CODES 4 OR 5 FOR STATEMENTS A OR C) AT D3 OR
CODES 4 OR 5 FOR STATEMENTS B OR D AT D3

D4
Why do you think it will be difficult for you to <IF 1ST FILTER: keep records digitally> and <IF 2ND FILTER> update HMRC quarterly?

DO NOT READ OUT. MULTICODE OK.

PROBE FULLY TO CODES

Costs	Too costly to update our systems	1
	Too costly to purchase new software	2
		3
Time	Time it will take to prepare information	4
	Time it will take to provide information more frequently	5
	Too busy / Other work responsibilities are more of a priority	6
Access		7
		8
	Lack of access to the Internet	9
	Don't know which software to purchase/use	10
Training		
Agents	Increased cost of paying an agent	11
Digital	Prefer to deal with tax obligations by paper	12
	Limited ICT skills / digital confidence	13

		14
MISC.	Difficult to integrate into day-to-day practice	15
		16
	Other (specify)	17
	DO NOT READ OUT: DON'T KNOW	-99

NEW D5b
ASK ALL
If the software to meet these changes were free and available to your business, how likely would you be to choose it instead of paid for software with greater functionality? READ OUT. REVERSE SCALE

Very likely
Fairly likely
Not very likely
Not at all likely
Don't know (DO NOT READ OUT)

ASK IF LIKELY
C15
Which of the following tasks would you use the free software for?
READ OUT. ROTATE. CHOOSE ALL THAT APPLY

To digitally capture your receipts and expenses	1
To categorise your receipts and expenses	2
To perform the necessary tax calculations	3
To submit a submit quarterly summary of your income and outgoings to HMRC	4
To make payments to HMRC	5
DO NOT READ OUT: None of these	6
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK ALL
NEW D5c
If there was a record keeping software that enable you to capture and store receipts/invoices _as and when you receive them_ on a smartphone or tablet, how likely would you use it?

READ OUT. REVERSE SCALE

Very likely
Fairly likely
Not very likely
Not at all likely
Don't know (DO NOT READ OUT)

ASK ALL
D6
THIS QUESTION HAS BEEN MOVED

ASK ALL
D7
[**IF D2=1, 2 OR 3:** Which of the following best describes how [**IF BUSINESS:** your business is] [**IF BOTH or INDIVIDUAL:** you are] prepared to meet the requirements of Making Tax Digital, [**IF BOTH:** in relation to your business and landlord activity] when the changes come into place?]

[**IF D2=4:** Earlier I mentioned the requirement, by 2020, to use software to keep records of business income and outgoings, and submitting a summary of these records to HMRC every quarter instead of

one end of year tax return, Which of the following best describes how [**IF BUSINESS:** your business feels] [**IF INDIVIDUAL or BOTH:** you feel] about these changes [**IF BOTH:** in relation to your business and landlord activity?]

READ OUT. SINGLE CODE ONLY

[**SHOW ONLY IF D2=1, 2 OR 3**] You have prepared a plan to make the transition	1
[**SHOW ONLY IF D2=1, 2 OR 3**] You are already making changes to your processes/practices to make the transition	2
[**SHOW TO ALL**] You are not currently prepared, but are interested in making the transition before the deadline for the changes comes into place	3
[**SHOW TO ALL**] You are not currently prepared, but are likely to make the transition at the point the changes come into place	4
[**SHOW TO ALL**] You have no plans to make any changes and would only do so if there were penalties	5
DO NOT READ OUT: Don't Know	-99
DO NOT READ OUT: Refused	-98

ASK ALL
D10
By 2020 [**IF DUMMY=BUSINESS:** businesses] [**IF DUMMY=BOTH or INDIVIDUAL:** self-employed people and landlords with a gross income of over £10K] will be required to submit a summary of their income and expenditure to HMRC each quarter using software which will estimate tax due. They do not need to pay their taxes more frequently unless they choose to.

To what extent do you agree or disagree with the following statements.

- Submitting quarterly summaries of my business income and expenditure to HMRC would reduce my end of year tax burden by spreading preparation across the year (INTERVIEWER NOTE: this relates to taxes in general and not just VAT)
- Being able to pay my taxes more frequently would reduce the burden of my end of year tax bill
- **IF DUMMY=BUSINESS OR BOTH:** Submitting quarterly summaries of my business income and expenditure to HMRC will give my business greater certainty over our finances
- IF DUMMY=INDIVIDUAL: Submitting quarterly summaries of my business income and expenditure to HMRC will give me greater certainty over my finances

Strongly agree	1
Tend to agree	2
Neither agree or disagree	3
Tend to disagree	4
Strongly disagree	5
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK ALL
D6
What impact, if any, do you think these changes will have on your use of an agent for . . . ? Would you…?

READ OUT. SINGLE CODE ONLY

- **Record keeping – that is keeping accounting records of all money received and spent [IF DUMMY=BUSINESS:** by your business**] [IF DUMMY=Individual:** relating to your property rental**] [IF DUMMY=BOTH:** by your business, or relating to your property rental**]**
- **Checking and submitting your tax returns**
- **More tailored advice**

[IF CODE 1 AT C2] Use your agent more [IF NOT CODE 1 AT C2] Consider using an agent	1
[IF CODE 1 AT C2] Use your agent less or stop altogether	2
[IF CODE 1 AT C2] Or would it have no impact [IF NOT CODE 1 AT C2] Continue to not use an agent	3
DO NOT READ OUT: Don't Know	-99
DO NOT READ OUT: Refused	-98

ASK ALL
D11
Which, if any, of the following do you have access to for work or personal use?

READ OUT. SINGLE CODE FOR EACH

  a) A computer or laptop
  b) A tablet such as an iPad
  c) A smartphone
  d) Access to the internet
  e) Online banking

Work use	1
Personal use	2
Both	3
Neither	4
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF CODES 1 TO 3 FOR STATEMENT D AT D11
D12
How would you rate your internet connection at work? ADD IF NECESSARY: please think about both speed and reliability.

READ OUT. SINGLE CODE ONLY

Very good	1
Fairly good	2
Neither good nor poor	3
Fairly poor	4
Very poor	5
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF CODES 1 TO 3 FOR STATEMENT D AT D11
D13
On average, how often do you use the internet for business purposes, either at your workplace or elsewhere?
PROMPT AS NECESSARY

More than once a day	2
Every Day	2
More than once a Week	3
Once a Week	4
At Least Once a Month	5
A Few Times a Year	6

Less than once a year	7
Never	8
Don't Know	9

ASK IF DO NOT HAVE ACCESS TO INTERNET AT WORK OR HOME (D11 STATEMENT D=4)
D14
Have you ever used the internet for business purposes?
INTERVIEWER IF YES – PROMPT FOR EXTENT OF USE

Yes – used the internet frequently in the past but now stopped using it	1
Yes – used it a few times in the past but now stopped using it	2
Yes - Have tried it once or twice only	3
No - Never used the internet	4
Don't know	5

ASK ALL
D15
To what extent you agree or disagree with this statement:
    a) I am comfortable using technology to manage my [**IF DUMMY=BUSINESS OR BOTH:** business] finances

ADD AS NECESSARY: By technology I mean a computer, software, the internet, smartphones or apps

Strongly agree	1
Tend to agree	2
Neither agree or disagree	3
Tend to disagree	4
Strongly disagree	5
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK ALL
D16
By 2020 businesses and landlords will be required to use software or Apps to keep records of their business income and expenditure in relation to their business and landlord activity. To what do extent you agree or disagree with these statements.

    a) I would be worried about the security of keeping my business records digitally
    b) I trust HMRC to publish accessible information to help businesses and landlords to comply

Strongly agree	1
Tend to agree	2
Neither agree or disagree	3
Tend to disagree	4
Strongly disagree	5
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK ALL
D17
To what extent do you agree or disagree with the following statements?

a) My business has found it difficult to comply with our tax obligations
b) We would choose not to submit quarterly reports if it was cheaper to pay a fine than comply

Strongly agree	1
Tend to agree	2
Neither agree or disagree	3
Tend to disagree	4
Strongly disagree	5
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK ALL
D18
Who, if anyone, would you go to for advice or support in relation to these new requirements?

DO NOT READ OUT AND PROBE FULLY TO CODES. MUTLICODE OK

Accountant / agent	1
Bank	2
Friend/ Relative	3
Owners of other small businesses	4
Trade organisation	5
Small business representative organisations (e.g. Federation of Small Businesses - FSB)	6
Chamber of Commerce	7
HMRC website	8
Colleague within business	9
Business partner / supplier / client	10
HMRC helpline	11
Online forums	12
Gov.uk website	13
Third party software provider/Commercial software supplier	14
Other (specify)	15
SINGLE CODE: No one	16
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK ALL EXCEPT CODES 16, -99 OR -98 AT D18
D19
And what would you like advice or support on?
DO NOT READ OUT. PROBE FULLY TO CODES.

Reassurance that I am doing it correctly	1
Reassurance that my data will be handled securely	2
Checks for errors / sense check	3
Guidance on using the software	4
Training on using digital tools / ICT systems	5
Guidance on how to prepare for the new requirements	6
General financial advice / planning	7
Training on accounting / book keeping	8
Other (specify)	9
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

Section E: Firmographics

QUESTIONS IN THIS SECTION ARE ASKED OF ALL

ASK BUSINESS AND BOTH ONLY
E1
I'd now like to ask you some questions about your business to help classify your answers.

For roughly how long has your business been operating? [**IF BOTH:** Please note we are not yet asking about your rental business].

SINGLE CODE ONLY. ALLOW ANSWER IN MONTHS AND YEARS.

INTERVIEWER NOTE: PLEASE WRITE IN CLEARLY WHETHER IT IS MONTHS OR YEARS THAT THE ANSWER REFERS TO. YOU CAN ALSO ANSWER AS A COMBINATION OF MONTHS AND YEARS

WRITE IN NUMBER OF MONTHS OR YEARS	1
Don't Know	-99
Refused	-98

ASK BOTH AND INDIVIDUAL ONLY
E2
READ OUT IF LANDLORD ONLY (SAMPLE TYPE = 3): I'd now like to ask you some questions about your property rental to help classify your answers.

How long have you been a landlord?

SINGLE CODE ONLY. ALLOW ANSWER IN MONTHS AND YEARS.

INTERVIEWER NOTE: PLEASE WRITE IN CLEARLY WHETHER IT IS MONTHS OR YEARS THAT THE ANSWER REFERS TO. YOU CAN ALSO ANSWER AS A COMBINATION OF MONTHS AND YEARS

WRITE IN NUMBER OF MONTHS OR YEARS	1
Don't Know	-99
Refused	-98

ASK IF BUSINESS OR BOTH. LANDLORD ONLY (SAMPLE TYPE = 3) GO TO E5
E3
Is your business mainly premises-based or do you tend to be mobile?

INTERVIEWER: If a business with employees, we are interested in whether their employees are mainly office based or "out and about" with customers/suppliers.

DO NOT READ OUT. SINGLE CODE ONLY

Premises based	1
Mobile	2
About half and half	3
Don't know	-99

ASK IF BUSINESS OR BOTH
E4
In the next 12 months do you expect the business to grow, stay roughly the same, or decline?

DO NOT READ OUT. SINGLE CODE ONLY

Grow	1
Stay roughly the same	2
Decline	3
Don't know	-99

ASK ALL
E5
As mentioned, in the future most [IF BUSINESS: businesses] [IF LANDLORD OR BOTH: self employed people and landlord] will be required to submit a summary of their business transactions every quarter. Thinking about your [IF BUSINESS: business'] cash flow, which of these statements best describes your situation?
READ OUT. SINGLECODE

My business' cash flow is broadly consistent from week to week/month to month	1
My business' cash flow fluctuates seasonally (e.g. around school holidays)	2
My business' cash flow is completely irregular	3
DO NOT READ OUT: Don't know	-99
DO NOT READ OUT: Refused	-98

ASK IF (NO EMPLOYEES AT B4/B5) AND / OR LANDLORD (CODE 1 AT B3)
E5B
Do you also receive a salary from an employer?

Yes	1
No	2
DO NOT READ OUT: Refused	-98

IF YES
E5C
Is this salary your main income?

Yes	1
No	2

ASK IF BUSINESS OR BOTH
ASK ALL
I would now like to ask you some final questions to help classify your answers. Everything you say will be treated in confidence.

E6
Please could you confirm your position in the business. Are you…?

READ OUT. SINGLE CODE

INTERVIEWER TAKE FIRST CODE THAT APPLIES.

An owner	1
A director	2

An employee responsible for dealing solely with the company's finances and tax affairs	3
An employee responsible for dealing with the company's finances and tax affairs, among other responsibilities	4
Something else (SPECIFY)	5
Refused	-98

ASK ALL
E7
Please could you tell me [**IF E6=1 OR SAMPLE TYPE =3:** your age; **IF E6=2-5:** the age of the person who owns the company]?

IF B3=2: INTEREVIEWER NOTE: We are interested in the nominated partner here.

INTERVIEWER: Only the research team will have access to this information and it will be used to help classify your answers.

RECORD EXACT AGE <u>AND</u> SINGLE CODE INTO BAND

16-24	1
25-34	2
35-44	3
45-54	4
55-64	5
65-74	6
75+	7
Don't Know	-99
Refused	-98

ASK ALL
E8
Gender
DO NOT READ OUT IF E6=1 OR SAMPLE_TYPE=3: INTERVIEWER RECORD GENDER OF RESPONDENT
[**IF E6=2-5:** Please could you tell me the gender of the owner of the business?] [**IF B3=3:** We are interested in the nominated partner here.]

Male	1
Female	2

ASK ALL
E9
Ethnicity
[**IF E6=1 OR SAMPLE TYPE = 3**: To which of these ethnic groups do you consider you belong?]
[**IF E6=2-5**: To which of these ethnic groups do you consider the owner of the business to belong?]

[**IF B3=2:** INTEREVIEWER NOTE: We are interested in the nominated partner here.]

READ OUT. STOP READING WHEN GIVEN AN ANSWER. SINGLE CODE ONLY

White – British, Irish or any other White background	1
Mixed – White and Black Caribbean, White and Black African, White and Asian or any other mixed background	2
Asian or Asian British – Indian, Bangladeshi, Pakistani or any other Asian background	3
Black or Black British – Caribbean, African or any other Black background	4
Any other ethnic group (specify)	5
DO NOT READ OUT: Don't Know	-99
DO NOT READ OUT: Refused	-98

Section F: Closing Questions

ASK ALL
F1
Thank you very much for your taking part in this survey.

Her Majesty's Revenue and Customs (HMRC) is planning to carry out further research on this topic in the future.

Would you be willing to be contacted by Ipsos MORI in the next few weeks about participating in a more in-depth interview? This would be a more in-depth discussion with you on similar topics as we have discussed today. You do not have to commit to anything now, just indicate a willingness to be contacted again in the next few weeks.

SINGLE CODE ONLY

Yes	1 – CONFIRM NAME, EMAIL AND TEL NO
No	2

ASK ALL
F2
And would you be willing to be contacted by HMRC in the next two years about participating in follow-up research? This would be a survey/more in-depth discussion with you on similar topics as we have discussed today. You do not have to commit to anything now, just indicate a willingness to be contacted again in the next two years.

The research would help HMRC improve their understanding of how taxpayers manage their finances and what would support taxpayers in future. If you agree, we will share your (company) name and postcode with HMRC.

Are you happy for your (business) name and postcode to be provided to HMRC?

SINGLE CODE ONLY

Yes	1
No	2

THANK AND CLOSE

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About Ipsos MORI's Social Research Institute

The Social Research Institute works closely with national governments, local public services and the not-for-profit sector. Its c.200 research staff focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methods and communications expertise, helps ensure that our research makes a difference for decision makers and communities.