



Ipsos MORI

HMRC:

MAKING TAX DIGITAL

FOR BUSINESS

SEGMENTATION RESEARCH



HM Revenue
& Customs

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Introduction

This report presents results of analysis to segment small business and property landlord customers, according to their willingness and capability to engage with Making Tax Digital for Business (MTDfB). The analysis is based on data from a representative telephone survey of 2,900 small businesses and property landlords¹. The research was undertaken to help HMRC understand the MTDfB population, in terms of their current tax practices and the types of support that different groups of customers will require for a successful MTDfB transition.

The views expressed in this report are those of the authors² and do not necessarily represent those of HM Revenue and Customs.

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¹ Small businesses with fewer than 20 employees and an annual turnover of between £10,000 and £10 million. Property landlords with an income of £10,000 or higher.

² Making Tax Digital, HMRC 2015 (<https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>).

³ The survey collected views on the proposed MTDfB requirements to use software to keep business records and send quarterly updates to HMRC.

Making Tax Digital for Business

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

Under Making Tax Digital for Business (MTDfB), businesses will use software to keep records of their business/property income and out-goings digitally, and update HMRC online.

MTDfB aims to: make tax administration more effective, more efficient and easier for taxpayers to see what they owe, cut out mistakes and save time spent trying to resolve problems.



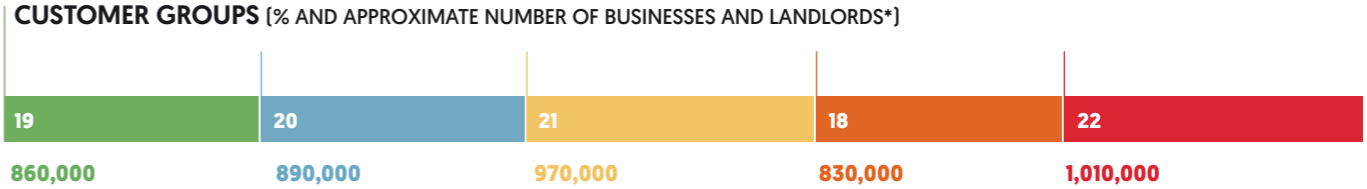
Customer groups

The analysis identified five distinct customer groups based on characteristics that are closely related to likely engagement with MTDfB:

- Business characteristics/demographics;
- Information, Communications and Technology (ICT) access and capability;
- Current behaviours and practices in relation to tax; and
- Attitudes towards MTDfB requirements.

The five customer groups are summarised below, from most willing to engage to most resistant. The five groups are approximately equal in size. Throughout this report, all figures presented in the charts are in percent.

Embracing	Receptive	Tentative	Reluctant	Resistant
Most open to making changes. Want guidance on how to prepare for MTDfB.	Not currently set up to meet the requirements, but can see the advantages of MTDfB.	Have concerns that it will be difficult to meet the requirements, but are generally positive about MTDfB.	Have the infrastructure and skills to engage with MTDfB, but do not see the benefits.	Most resistant group who lack ICT skills and infrastructure. They are more likely to pay a fine than comply, than other groups.

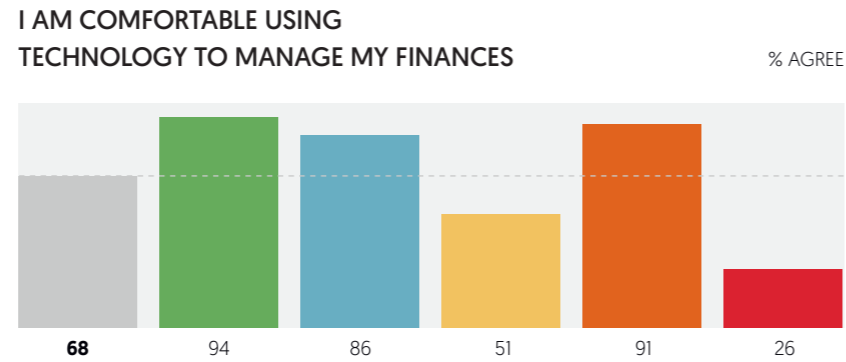


*Approximate number of businesses and landlords are based on population data in HMRC Self Assessment database and ONS Business Statistics 2016. Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016

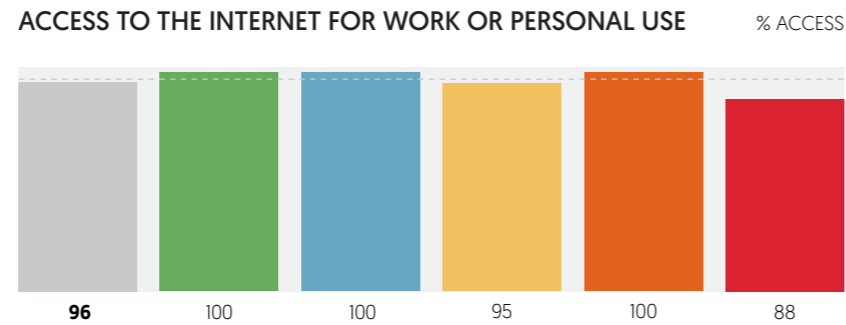
OVERALL EMBRACING RECEPTIVE TENTATIVE RELUCTANT RESISTANT

Digital capability and access

Embracing, Reluctant and Receptive customers are most comfortable using technology to manage their finances. Tentative and Resistant customers are least comfortable. This is consistent with use of software for taxes by the different segments.

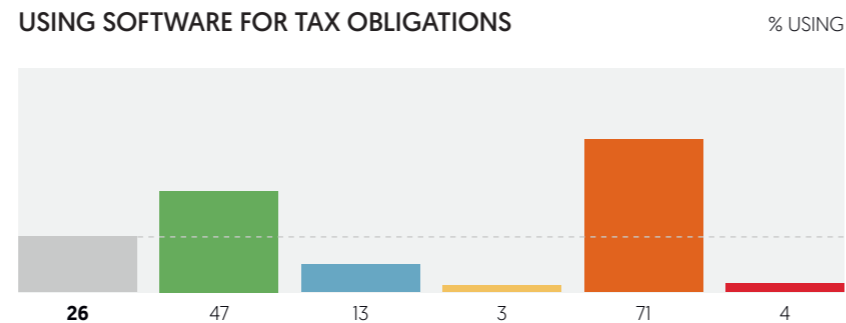


The large majority of customers have access to digital devices, the internet and use online banking. Access to the internet is lowest among Resistant customers.



Current practices

Embracing and Reluctant customers are larger businesses with higher use of software/apps for taxes. Tentative and Resistant customers are more likely to be smaller businesses and landlords who are using paper for their taxes.



Reference to 'customers' includes both businesses and landlords

Use of an external paid accountant or tax agent is high across all segments, with the exception of Receptive customers who tend to do their taxes themselves and/or with informal help from friends and family.

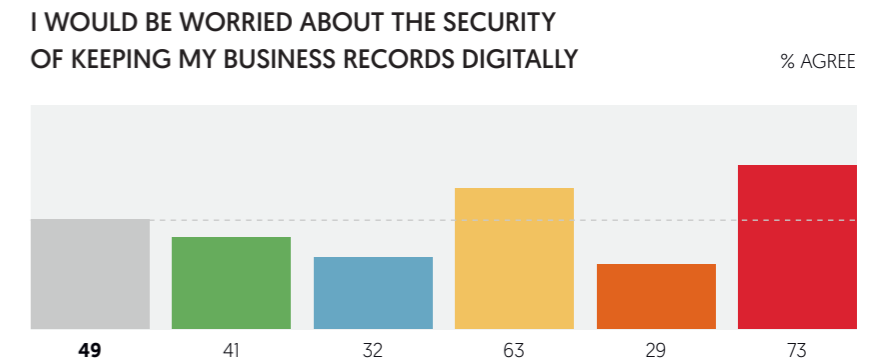
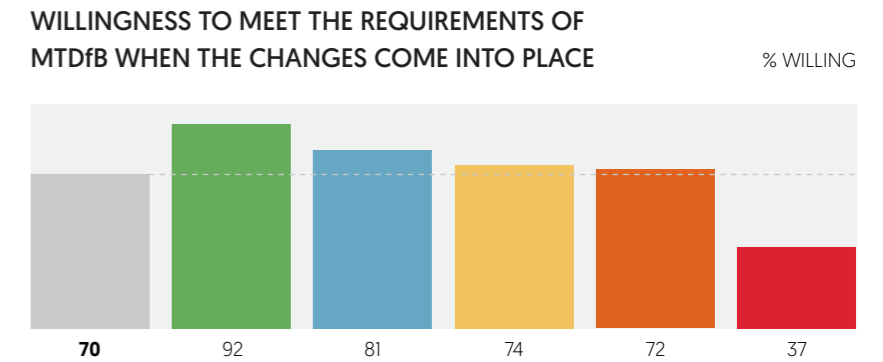
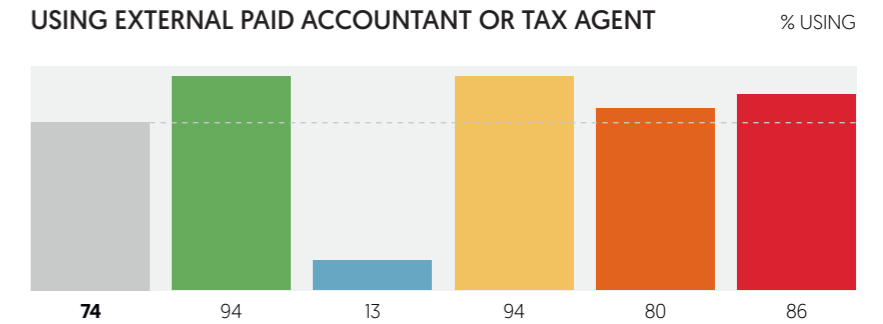
Attitudes towards MTDfB

The majority of customers are willing to make the transition to MTDfB. The exception is Resistant customers - over half do not plan to make the necessary changes to their practices unless there are penalties.

Customers are concerned about the security of keeping business records digitally. Concern is most heightened among Resistant and Tentative customers.

Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016

OVERALL EMBRACING RECEPTIVE TENTATIVE RELUCTANT RESISTANT





Embracing

The Embracing segment makes up 19% of the MTDfB population, equivalent to 860,000 business and landlord customers. They are most open to MTDfB and are most comfortable using technology.

Meet Mr Ernest.

Mr Ernest, aged 45, runs a small advertising agency, which he set up five years ago. It has grown steadily and he currently employs three members of staff. The business has an annual turnover of approximately £250,000.

Mr Ernest is a keen user of technology. It's essential for his work, but he enjoys using technology in his personal life too. His business has a website, which he paid to have set up, but he maintains and updates the site himself. He owns a laptop which he uses mainly for work, a tablet, and two smartphones for work and personal uses. He uses an online banking App on his

smartphones to monitor both his business and personal finances. He is aware that there are some security risks with online transactions and takes precautions wherever possible.

Mr Ernest does his own record keeping using software but he uses an accountant to check his tax returns before he submits them to HMRC. He's very comfortable with moving to MTD, as his accounts are always up to date anyway, and it would be good for his business to have the option to spread its tax bills. He is unsure what the changes will mean for the software that he is currently using, and how much it would cost to upgrade it. He might want to use the free software.

Mr Ernest currently does not know very much about Making Tax Digital. He is keen to receive more details about it, in particular what his business needs to do to prepare for it and the timescales involved.

Embracing Who are they?

Industry sector* [%]



Business customers dominate

TYPES OF CUSTOMERS [%]



A high proportion of larger businesses compared to other segments*

NUMBER OF EMPLOYEES



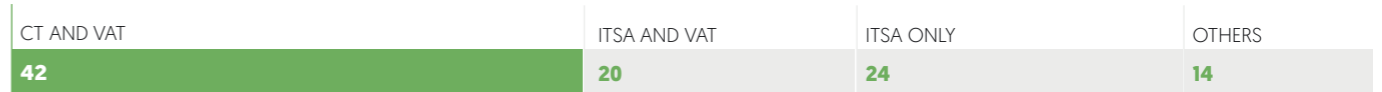
Businesses are less well established compared to other segments*

NUMBER OF YEARS TRADING



More customers liable for Corporation Tax (CT), and fewer liable for Income Tax Self Assessment (ITSA) only, compared to other segments

TAX OBLIGATIONS



Over half of customers are above the Value Added Tax (VAT) threshold – higher than other segments

VAT THRESHOLD



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016 | May not sum to 100% due to rounding
 * Businesses only [2,604] | Reference to 'customers' include both businesses and landlords

How do they currently meet their tax obligations?

General use of software for ANY tax-related tasks is high compared to other segments



SOFTWARE USE

- 47 USING SOFTWARE
- 53 NOT USING

High use of external paid agents for taxes



AGENT USE

- 94 USING EXTERNAL PAID ACCOUNTANT OR TAX AGENT
- 6 NOT USING

Use of software for ALL record keeping is high, whilst use of paper low compared to other segments



METHODS USED TO KEEP RECORDS RELATING TO TAX

- 37 MIXED METHODS
- 28 ALL SOFTWARE OR APPS
- 16 ALL SPREADSHEETS
- 10 ALL AGENT
- 9 ALL PAPER

Most ITSA customers are already doing their record keeping at least quarterly, which is what would be required under MTDfB

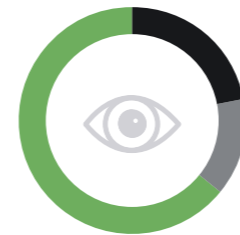


FREQUENCY OF RECORD KEEPING FOR ITSA

- 13 AS AND WHEN
- 63 AT LEAST MONTHLY
- 11 AT LEAST QUARTERLY
- 12 AT THE END OF THE YEAR / BEFORE A TAX DEADLINE

What is their likely engagement with MTDfB?

Current awareness of the MTDfB requirement to use software is low, but high compared to other segments



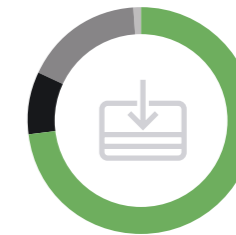
- 22 KNEW A LITTLE / KNEW A LOT
- 14 HEARD OF BUT KNEW NOTHING ABOUT
- 64 NOT HEARD OF

Most stated they are willing to meet MTDfB requirements



- 6 CURRENTLY PREPARED
- 40 NOT CURRENTLY PREPARED, BUT WOULD BE BEFORE THE DEADLINE
- 46 NOT CURRENTLY PREPARED, BUT LIKELY TO ONCE THE CHANGES COME INTO PLACE
- 5 NO PLANS TO MAKE ANY CHANGES UNLESS THERE WERE PENALTIES

Believe that frequent payments would minimise the burden of end-of-year tax bill



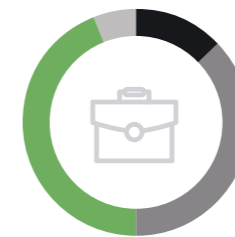
- 74 AGREE
- 9 NEITHER AGREE OR DISAGREE
- 17 DISAGREE
- 1 DON'T KNOW

Some concerns with the security of keeping records digitally, but less so compared to other segments



- 41 AGREE
- 8 NEITHER AGREE OR DISAGREE
- 51 DISAGREE

High use of external paid agents currently (94%) but expect a net decline in use of agents for record keeping post-MTDfB



24 percentage * point
NET DECLINE IN USE

- 13 WOULD USE YOUR AGENT MORE / CONSIDER USING AN AGENT
- 37 WOULD USE YOUR AGENT LESS OR STOP ALTOGETHER
- 44 IT WOULD HAVE NO IMPACT
- 5 DON'T KNOW

Embracing What is their level of digital capability and access?

Very high access to digital devices and online banking

ACCESS TO DIGITAL DEVICES

COMPUTER, LAPTOP OR TABLET



A SMARTPHONE



ACCESS TO THE INTERNET AND ONLINE BANKING

THE INTERNET



ONLINE BANKING



Are comfortable using technology to manage their finances, and use the internet daily



COMFORTABLE USING TECHNOLOGY TO MANAGE FINANCES

- 94 AGREE
- 3 NEITHER AGREE OR DISAGREE
- 2 DISAGREE



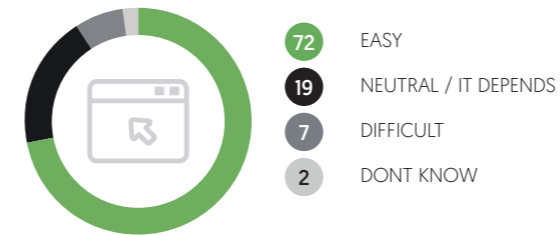
FREQUENCY OF INTERNET USE FOR BUSINESS

- 100 AT LEAST ONCE A WEEK
- 0 LESS OFTEN
- 0 NEVER

May not sum to 100% due to rounding

Embracing What advice and support do they need to engage with MTDfB?

Most likely to think it would be easy to use software to keep digital records



Likely preference for free software is highest of all the segments



The main perceived difficulties are integrating MTDfB into day-to-day business practices and time to provide more frequent information*

LIMITED ICT SKILLS / DIGITAL CONFIDENCE	TIME TO PROVIDE MORE FREQUENT INFORMATION	DONT KNOW WHICH SOFTWARE TO PURCHASE/USE	DIFFICULT TO INTEGRATE INTO DAY-TO-DAY PRACTICE	OTHER
18	22	16	21	23

Customers are likely to seek advice on MTDfB from tax agent*

ACCOUNTANT / AGENT	HMRC WEBSITE	HMRC HELPLINE	FRIEND / RELATIVE
86	22	14	2

Want guidance on how to prepare for MTDfB - similar to other segments*

GUIDANCE ON HOW TO PREPARE FOR THE NEW REQUIREMENTS	REASSURANCE THAT I AM DOING IT CORRECTLY	GUIDANCE ON USING THE SOFTWARE	DONT KNOW
45	21	11	20

Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016
*Multi-coded responses based on those who say it will be difficult to meet the requirements of MTDfB

Receptive



The Receptive segment makes up 20% of the MTDfB population, equivalent to 890,000 business and landlord customers. They are not currently set up to meet the requirements, but can see the advantages of MTDfB.

Meet Ms Finder.

Ms Finder, aged 37, is a self-employed recruitment specialist. She has been doing this for the past six years. She works alone, from home. Last year, she had a turnover of £50,000.

Ms Finder likes using technology because it saves time, enables her to keep track of her business finances, and communicate with clients who are mostly businesses. She has a business website which she set up herself with help from a friend. It is quite simple but good enough for her needs. She has a laptop, a tablet and a smartphone. She uses online banking and does most things online if she can. Ms Finder has some concerns around data security. She is diligent in doing all she can to keep

her information secure, such as using strong passwords and anti-virus software.

Ms Finder records all her business transactions as and when they occur using Excel. She completes and submits her ITSA online herself. She doesn't know very much about Making Tax Digital for Business, but doesn't think it will be difficult to do. She has some concerns that quarterly updates will be more time consuming, depending on how much information is required. She has heard that businesses might get free software to support them with the requirements, and would be keen to use this. She expects the software to be secure.

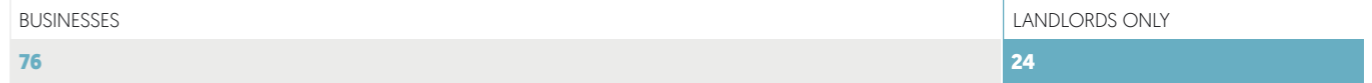
Ms Finder would like support to find out as soon as possible how she should prepare for MTDfB, in particular how to use software because this will be new to her. She thinks an online page dedicated to MTDfB would be helpful, with frequently asked questions and videos, including scenarios. She'd like to see the software and try to understand it first, before she looked for support.

Receptive Who are they?



More landlord customers than any other segment

TYPES OF CUSTOMERS [%]



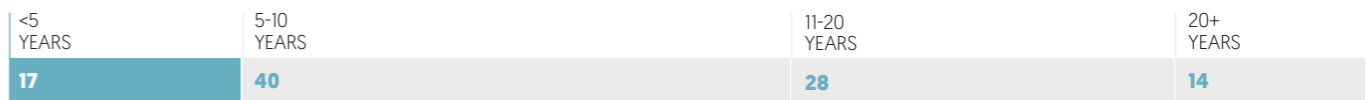
Nano businesses with no employees dominate*

NUMBER OF EMPLOYEES



Businesses are less well established compared to other segments*

NUMBER OF YEARS TRADING



Most customers liable only for Income Tax Self Assessment (ITSA)

TAX OBLIGATIONS



High majority of customers are below the Value Added Tax (VAT) threshold - higher than any other segment

VAT THRESHOLD



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016 | May not sum to 100% due to rounding
* Businesses only [2,604] | Reference to 'customers' include both businesses and landlords

How do they currently meet their tax obligations?

General use of any software for tax-related tasks is low, but higher than Tentative and Resistant segments



SOFTWARE USE

- 13 USING SOFTWARE
- 87 NOT USING

Segment is least likely to be using external paid agents for taxes



AGENT USE

- 13 USING EXTERNAL PAID ACCOUNTANT OR TAX AGENT
- 87 NOT USING

High use of paper for ALL record keeping, but use of spreadsheets is higher than other segments



METHODS USED TO KEEP RECORDS RELATING TO TAX

- 0 ALL AGENT
- 31 ALL PAPER
- 37 ALL SPREADSHEETS
- 2 ALL SOFTWARE OR APPS
- 30 MIXED METHODS

Most ITSA customers are already doing their record keeping at least quarterly, which is what would be required under MTDfB

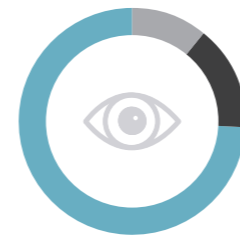


FREQUENCY OF RECORD KEEPING FOR ITSA

- 20 AS AND WHEN
- 49 AT LEAST MONTHLY
- 8 AT LEAST QUARTERLY
- 22 AT THE END OF THE YEAR / BEFORE A TAX DEADLINE

What is their likely engagement with MTDfB?

Awareness of the MTDfB requirement to use software is low



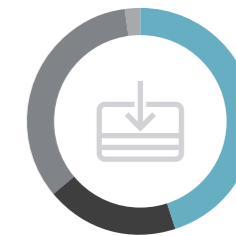
- 11 KNEW A LITTLE / KNEW A LOT
- 15 HEARD OF BUT KNEW NOTHING ABOUT
- 74 NOT HEARD OF

Most stated they are willing to meet MTDfB requirements



- 2 CURRENTLY PREPARED
- 27 NOT CURRENTLY PREPARED, BUT WOULD BE BEFORE THE DEADLINE
- 52 NOT CURRENTLY PREPARED, BUT LIKELY TO ONCE THE CHANGES COME INTO PLACE
- 17 NO PLANS TO MAKE ANY CHANGES UNLESS THERE WERE PENALTIES

Have mixed beliefs on whether frequent payments would minimise the burden of end of year tax bill



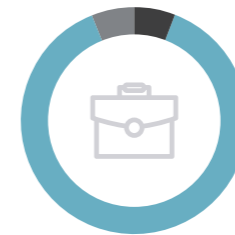
- 45 AGREE
- 19 NEITHER AGREE OR DISAGREE
- 34 DISAGREE
- 2 DON'T KNOW

Some concerns with the security of keeping records digitally, but less so compared to other segments



- 32 AGREE
- 11 NEITHER AGREE OR DISAGREE
- 55 DISAGREE

Very low use of external paid agents but expect a net rise in use of agents for record keeping post-MTDfB



- 6 WOULD USE YOUR AGENT MORE / CONSIDER USING AN AGENT
- 0 WOULD USE YOUR AGENT LESS OR STOP ALTOGETHER
- 87 IT WOULD HAVE NO IMPACT
- 6 DON'T KNOW

6 percentage*
NET RISE IN USE

What is their level of digital capability and access?

High access to digital devices and online banking

ACCESS TO DIGITAL DEVICES

COMPUTER, LAPTOP OR TABLET



A SMARTPHONE



ACCESS TO THE INTERNET AND ONLINE BANKING

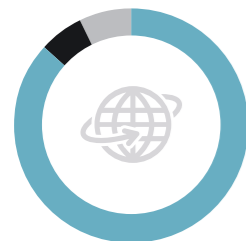
THE INTERNET



ONLINE BANKING



Are comfortable using technology to manage their finances, and use the internet daily



COMFORTABLE USING TECHNOLOGY TO MANAGE FINANCES

- 86 AGREE
- 6 NEITHER AGREE OR DISAGREE
- 8 DISAGREE



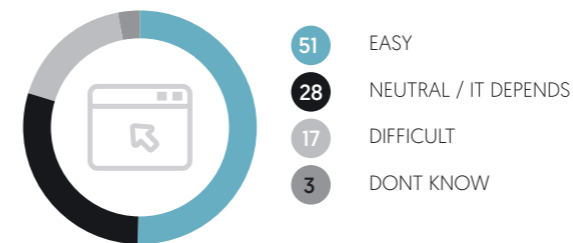
FREQUENCY OF INTERNET USE FOR BUSINESS

- 89 AT LEAST ONCE A WEEK
- 9 LESS OFTEN
- 2 NEVER

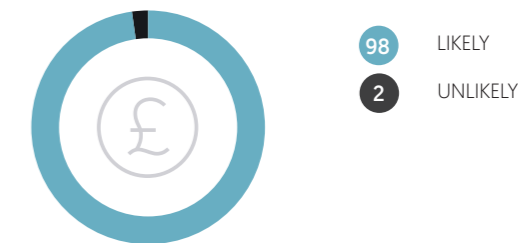
May not sum to 100% due to rounding

What advice and support do they need to engage with MTDfB?

Likely to think it would be easy to use software to keep digital records



Very high preference for free software



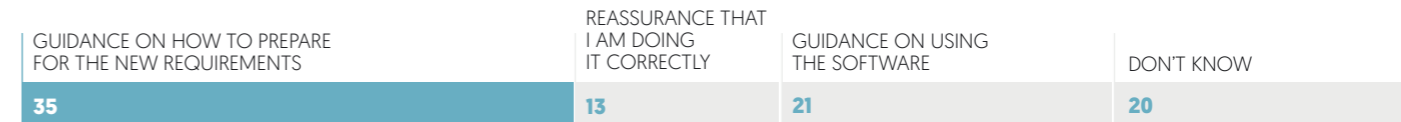
The main difficulty is perceived to be burdens on time*



Customers are likely to seek advice from the HMRC website - more than any other segment*



Want guidance on how to prepare for MTDfB*



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016
*Multi-coded responses based on those who say it will be difficult to meet the requirements of MTDfB



Tentative

The Tentative segment makes up 21% of the MTDfB population, equivalent to 970,000 business and landlord customers. They worry that it will be difficult to meet the requirements, but are generally positive about MTDfB.

Meet Mr & Mrs Sellers.

Mr and Mrs Sellers, both aged 58, own a convenience store in partnership, which they have managed themselves for the past 15 years. They have a steady turnover of around £100,000.

Mr and Mrs Sellers both admit that they are not particularly competent with technology, but are willing to try to use it. They have a computer and a tablet that they use to go online to keep up to date with the news and what their friends and family are up to on social media. However, they still like to be able to speak to people over the phone if they have problems. They are also worried about cyber-security, and only make payments on their computer, which has anti-virus software. Mr and Mrs Sellers use an accountant to submit their return on their behalf. They do all their

record keeping themselves, quarterly, using a paper ledger. They know very little about Making Tax Digital for Business. Based on the limited information they have, they are worried about their lack of ICT skills to use software, in particular how they would cope if the software had a glitch, if they encountered technical difficulties or if they inadvertently make a mistake. They are also very worried about data security and want HMRC to provide reassurance.

Mr and Mrs Sellers say they would need help to use software. They believe that they will need to use their accountant more, whilst they become familiar with the new requirements, which they expect will mean higher fees. They are most likely to contact their accountant and HMRC for more information, so they can start to make preparations. They will make the transition, but hope that it will be simple to do as they're not naturals with technology. They also hope that software will be available that is appropriate for their business, as opposed to much larger businesses who are also making the transition.

Tentative Who are they?



Business customers dominate but significant proportion of landlords

TYPES OF CUSTOMERS [%]



Nano businesses with no employees dominate*

NUMBER OF EMPLOYEES



Businesses tend to be well established *

NUMBER OF YEARS TRADING



Most customers liable only for (Income Tax Self Assessment) ITSA

TAX OBLIGATIONS



High majority of customers are below the Value Added Tax (VAT) threshold - second highest of all segments

VAT THRESHOLD



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016 | May not sum to 100% due to rounding
 * Businesses only [2,604] | Reference to 'customers' include both businesses and landlords

How do they currently meet their tax obligations?

General use of software for tax-related tasks is very low compared to other segments



SOFTWARE USE

- 3 USING SOFTWARE
- 97 NOT USING

High use of external paid agents for taxes - more than any other segment



AGENT USE

- 94 USING EXTERNAL PAID ACCOUNTANT OR TAX AGENT
- 6 NOT USING

High use of paper for ALL record keeping



METHODS USED TO KEEP RECORDS RELATING TO TAX

- 18 ALL AGENT
- 47 ALL PAPER
- 13 ALL SPREADSHEETS
- 1 ALL SOFTWARE OR APPS
- 21 MIXED METHODS

Most ITSA customers are already doing their record keeping at least quarterly, but some do wait until tax deadline



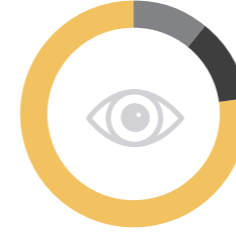
FREQUENCY OF RECORD KEEPING FOR ITSA

- 13 AS AND WHEN
- 55 AT LEAST MONTHLY
- 9 AT LEAST QUARTERLY
- 22 AT THE END OF THE YEAR / BEFORE A TAX DEADLINE

May not sum to 100% due to rounding | ITSA = Income Tax Self Assessment

What is their likely engagement with MTDfB?

Awareness of the MTDfB requirement to use software is very low



- 11 KNEW A LITTLE / KNEW A LOT
- 12 HEARD OF BUT KNEW NOTHING ABOUT
- 78 NOT HEARD OF

Concerned with the security of keeping records digitally



- 63 AGREE
- 9 NEITHER AGREE OR DISAGREE
- 27 DISAGREE

Willing to meet MTDfB requirements, but less so than Embracing and Receptive segments



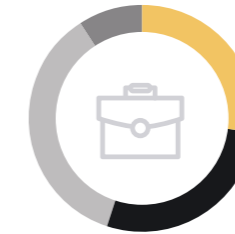
- 0 CURRENTLY PREPARED
- 21 NOT CURRENTLY PREPARED, BUT WOULD BE BEFORE THE DEADLINE
- 52 NOT CURRENTLY PREPARED, BUT LIKELY TO ONCE THE CHANGES COME INTO PLACE
- 24 NO PLANS TO MAKE ANY CHANGES UNLESS THERE WERE PENALTIES

Believe that frequent payments would minimise the burden of end of year tax bill



- 60 AGREE
- 13 NEITHER AGREE OR DISAGREE
- 26 DISAGREE
- 1 DON'T KNOW

High use of external paid agents currently (94%) but expect a net decline in use of agents for record keeping post-MTDfB



- 25 WOULD USE YOUR AGENT MORE / CONSIDER USING AN AGENT
- 39 WOULD USE YOUR AGENT LESS OR STOP ALTOGETHER
- 27 IT WOULD HAVE NO IMPACT
- 10 DON'T KNOW

14 percentage point
NET DECLINE IN USE

Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016
* The difference between those reporting they would use an agent more and would use an agent less

What is their level of digital capability and access?

High access to digital devices, but access to online banking lower than other segments

ACCESS TO DIGITAL DEVICES

COMPUTER, LAPTOP OR TABLET



A SMARTPHONE



ACCESS TO THE INTERNET AND ONLINE BANKING

THE INTERNET



ONLINE BANKING



Have mixed views on their comfort using technology to manage their finances, but use the internet regularly



COMFORTABLE USING TECHNOLOGY TO MANAGE FINANCES

- 51 AGREE
- 13 NEITHER AGREE OR DISAGREE
- 35 DISAGREE



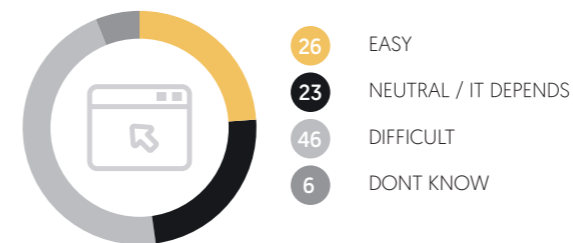
FREQUENCY OF INTERNET USE FOR BUSINESS

- 82 AT LEAST ONCE A WEEK
- 11 LESS OFTEN
- 6 NEVER

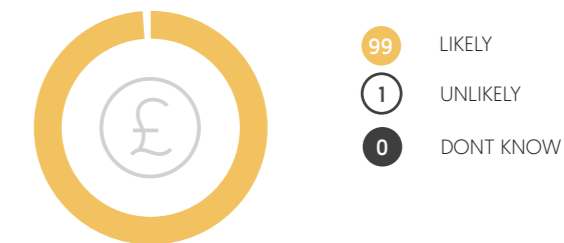
May not sum to 100% due to rounding

What advice and support do they need to engage with MTDfB?

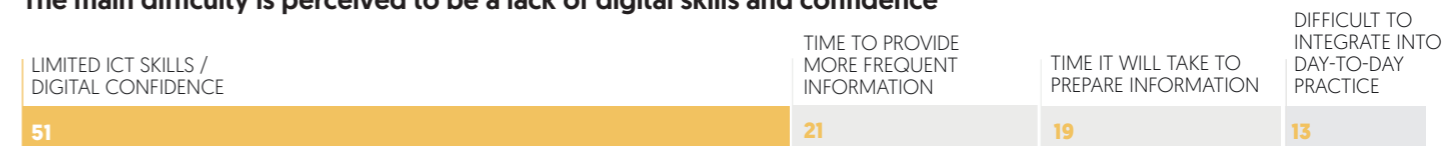
Likely to think it would be difficult to use software to keep digital records



Preference for free software is second highest of all the segments



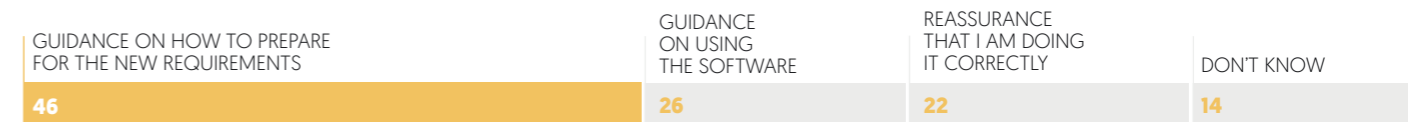
The main difficulty is perceived to be a lack of digital skills and confidence*



Customers are likely to seek advice on MTDfB from tax agents*



Want guidance on how to prepare for MTDfB*



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016
*Multi-coded responses based on those who say it will be difficult to meet the requirements of MTDfB

Reluctant



The Reluctant segment makes up 18% of the MTDfB population, equivalent to 830,000 business and landlord customers. They have the infrastructure and skills to engage with MTDfB, but do not see the benefits.

Meet Mr Booker.

Mr Booker, aged 55, runs a successful publishing business which he set up 15 years ago. He employs 15 members of staff. Last year, the business generated a turnover in excess of £7 million.

Use of technology is core to the business, which sells both prints and e-books. The business has a strong online presence and conducts most of their sales online. Mr Booker has a dedicated administrative staff dealing with the business accounts using software. Record keeping is done in-house, daily. He also employs an external accountant to complete his Tax Return and

check his quarterly VAT returns, before his staff submit them. The system he has in place runs smoothly; his tax returns are always submitted correctly and on time.

Mr Booker has heard about Making Tax Digital for Business through his software provider. He does not think it will benefit someone like him, who is on-top of their business finance and well prepared to meet their tax liabilities. He knows how much tax he's liable for at the touch of a button and doesn't like the idea that this may add more work. He is concerned that he may be required to use new software that doesn't integrate well with his system and that this will require duplication of effort. He does not think it will be difficult to implement quarterly updates using software, but it will be at greater cost to his business, for example, increased agent fees and possibly additional cost to upgrade his software.

Reluctant Who are they?



Business customers dominate and very few landlords

TYPES OF CUSTOMERS [%]



Large proportion of small businesses compared to other segments*

NUMBER OF EMPLOYEES



Businesses tend to be well established *

NUMBER OF YEARS TRADING



More customers liable for Corporation Tax (CT) and Value Added Tax (VAT) than any other segment

TAX OBLIGATIONS



Most customers are above the VAT threshold - higher than any other segment

VAT THRESHOLD



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016 | May not sum to 100% due to rounding
* Businesses only [2,604] | Reference to 'customers' include both businesses and landlords

How do they currently meet their tax obligations?

General use of software for any tax-related tasks is higher than any other segment



SOFTWARE USE

- 71 USING SOFTWARE
- 29 NOT USING

High use of external paid agents for taxes



AGENT USE

- 80 USING EXTERNAL PAID ACCOUNTANT OR TAX AGENT
- 20 NOT USING

Highest use of software for ALL record keeping compared to other segments



METHODS USED TO KEEP RECORDS RELATING TO TAX

- 9 ALL AGENT
- 3 ALL PAPER
- 10 ALL SPREADSHEETS
- 43 ALL SOFTWARE OR APPS
- 35 MIXED METHODS

Most ITSA customers are already doing their record keeping at least quarterly, which is what would be required under MTDfB



FREQUENCY OF RECORD KEEPING FOR ITSA

- 20 AS AND WHEN
- 63 AT LEAST MONTHLY
- 5 AT LEAST QUARTERLY
- 10 AT THE END OF THE YEAR / BEFORE A TAX DEADLINE

What is their likely engagement with MTDfB?

Awareness of the MTDfB requirement to use software is low but most aware segment overall



- 29 KNEW A LITTLE / KNEW A LOT
- 16 HEARD OF BUT KNEW NOTHING ABOUT
- 55 NOT HEARD OF

Most stated they are willing to meet MTDfB requirements



- 13 CURRENTLY PREPARED
- 24 NOT CURRENTLY PREPARED, BUT WOULD BE BEFORE THE DEADLINE
- 35 NOT CURRENTLY PREPARED, BUT LIKELY TO ONCE THE CHANGES COME INTO PLACE
- 21 NO PLANS TO MAKE ANY CHANGES UNLESS THERE WERE PENALTIES

Do not believe that frequent payments would minimise the burden of end of year tax bill



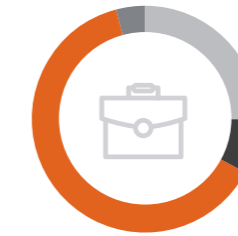
- 39 AGREE
- 14 NEITHER AGREE OR DISAGREE
- 45 DISAGREE
- 2 DON'T KNOW

Some concerns with the security of keeping records digitally; lowest of all segments



- 29 AGREE
- 11 NEITHER AGREE OR DISAGREE
- 59 DISAGREE

High use of external paid agents currently (80%) but expect a net rise in use of agents for record keeping post-MTDfB



14 percentage point
NET RISE IN USE

- 24 WOULD USE YOUR AGENT MORE / CONSIDER USING AN AGENT
- 10 WOULD USE YOUR AGENT LESS OR STOP ALTOGETHER
- 63 IT WOULD HAVE NO IMPACT
- 3 DON'T KNOW

What is their level of digital capability and access?

Very high access to digital devices and online banking

ACCESS TO DIGITAL DEVICES

COMPUTER, LAPTOP OR TABLET



A SMARTPHONE



ACCESS TO THE INTERNET AND ONLINE BANKING

THE INTERNET



ONLINE BANKING



Are comfortable using technology to manage their finances, and use the internet daily



COMFORTABLE USING TECHNOLOGY TO MANAGE FINANCES

- 91 AGREE
- 6 NEITHER AGREE OR DISAGREE
- 3 DISAGREE



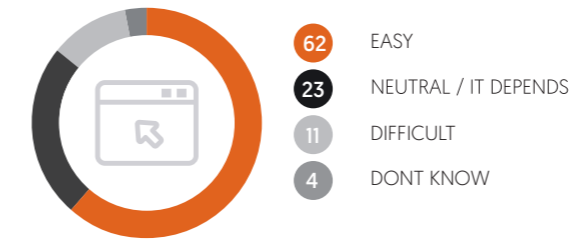
FREQUENCY OF INTERNET USE FOR BUSINESS

- 100 AT LEAST ONCE A WEEK
- 0 LESS OFTEN
- 0 NEVER

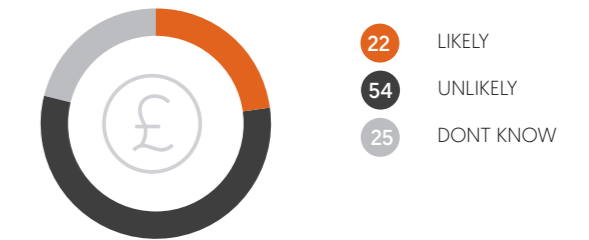
May not sum to 100% due to rounding

What advice and support do they need to engage with MTDfB?

Likely to think it would be easy to use software to keep digital records



Preference for free software is lowest of all the segments



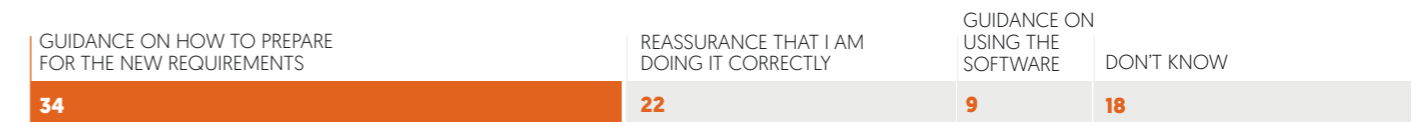
The main difficulty is perceived to be burdens on time*



Customers are likely to seek advice on MTDfB from tax agents*



Want guidance on how to prepare for MTDfB*



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016
*Multi-coded responses based on those who say it will be difficult to meet the requirements of MTDfB



Resistant

The Resistant segment makes up 22% of the MTDfB population, equivalent to 1,010,000 business and landlord customers. They are the most resistant group who lack ICT skills and infrastructure. They are more likely to rather pay a fine than comply that other segments.

Meet Mr Khan.

Mr Khan, aged 63, has been a self-employed electrician for the past 30 years. He works alone and has a steady annual turnover of £40,000. He plans to retire in the next couple of years.

Mr Khan is not comfortable using technology and is not interested in acquiring ICT skills. He does not own a computer or laptop. He goes online occasionally to check the news or to research things like car insurance and holidays, using the family tablet – but he'd rather speak to someone in person to book or pay for things. He owns a smartphone,

which he uses for both business and personal calls. He does not have a business website and relies on personal recommendations and repeat business.

Mr Khan uses an accountant to complete and submit his ITSA. He gives his accountant all his receipts at the end of the tax year and his accountant just does it.

Mr Khan had not heard about Making Tax Digital for Business prior to the research. He was very against the proposal to update HMRC more frequently as he expects this will mean additional cost in accountant fees. He has no intention of acquiring the software to learn to do it himself as he does not have the necessary skills. He will speak to his accountant about what to do next, but would not look online for support. He wants to know more about what is required under MTDfB, so he can find out how much more it is going to cost him and whether to bring forward his retirement.

Resistant Who are they?



Business customers dominate but significant proportion of landlords

TYPES OF CUSTOMERS [%]



Nano businesses with no employees dominate*

NUMBER OF EMPLOYEES



More well-established businesses than any other segment *

NUMBER OF YEARS TRADING



Most customers liable only for Income Tax Self Assessment (ITSA)

TAX OBLIGATIONS



High majority of customers are below the Value Added Tax (VAT) threshold

VAT THRESHOLD



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016 | May not sum to 100% due to rounding
 * Businesses only [2,604] | Reference to 'customers' include both businesses and landlords

How do they currently meet their tax obligations?

General use of software for any tax-related tasks is very low compared to other segments



SOFTWARE USE

- 4 USING SOFTWARE
- 96 NOT USING

High use of external paid agents for taxes



AGENT USE

- 86 USING EXTERNAL PAID ACCOUNTANT OR TAX AGENT
- 14 NOT USING

Higher use of paper for ALL record keeping than any other segment



METHODS USED TO KEEP RECORDS RELATING TO TAX

- 17 ALL AGENT
- 58 ALL PAPER
- 10 ALL SPREADSHEETS
- 2 ALL SOFTWARE OR APPS
- 13 MIXED METHODS

ITSA customers are more likely to wait until tax deadline to keep records than any other segment



FREQUENCY OF RECORD KEEPING FOR ITSA

- 22 AS AND WHEN
- 41 AT LEAST MONTHLY
- 10 AT LEAST QUARTERLY
- 25 AT THE END OF THE YEAR / BEFORE A TAX DEADLINE

What is their likely engagement with MTDfB?

Least likely to be aware of the MTDfB requirement to use software



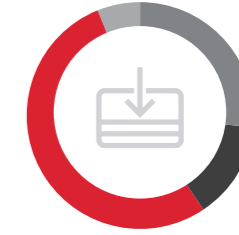
- 11 KNEW A LITTLE / KNEW A LOT
- 12 HEARD OF BUT KNEW NOTHING ABOUT
- 77 NOT HEARD OF

Over half are unwilling to meet the MTDfB requirements



- 1 CURRENTLY PREPARED
- 6 NOT CURRENTLY PREPARED, BUT WOULD BE BEFORE THE DEADLINE
- 30 NOT CURRENTLY PREPARED, BUT LIKELY TO ONCE THE CHANGES COME INTO PLACE
- 56 NO PLANS TO MAKE ANY CHANGES UNLESS THERE WERE PENALTIES

Do not believe that frequent payments would minimise the burden of end of year tax bill



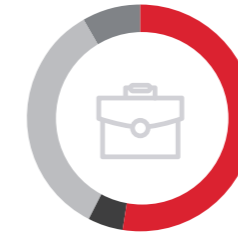
- 27 AGREE
- 14 NEITHER AGREE OR DISAGREE
- 53 DISAGREE
- 6 DON'T KNOW

Most concerned about the security of keeping records digitally



- 73 AGREE
- 8 NEITHER AGREE OR DISAGREE
- 18 DISAGREE

High use of external paid agents currently (86%) but expect a net rise in use of agents for record keeping post-MTDfB



- 52 WOULD USE YOUR AGENT MORE / CONSIDER USING AN AGENT
- 5 WOULD USE YOUR AGENT LESS OR STOP ALTOGETHER
- 35 IT WOULD HAVE NO IMPACT
- 8 DON'T KNOW

47 percentage* point
NET RISE IN USE

May not sum to 100% due to rounding | ITSA = Income Tax Self Assessment

Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016
* The difference between those reporting they would use an agent more and would use an agent less

What is their level of digital capability and access?

Lowest overall access to digital devices and online banking

ACCESS TO DIGITAL DEVICES

COMPUTER, LAPTOP OR TABLET



A SMARTPHONE



ACCESS TO THE INTERNET AND ONLINE BANKING

THE INTERNET



ONLINE BANKING



Are not comfortable using technology to manage their finances



COMFORTABLE USING TECHNOLOGY TO MANAGE FINANCES

- 26 AGREE
- 13 NEITHER AGREE OR DISAGREE
- 59 DISAGREE



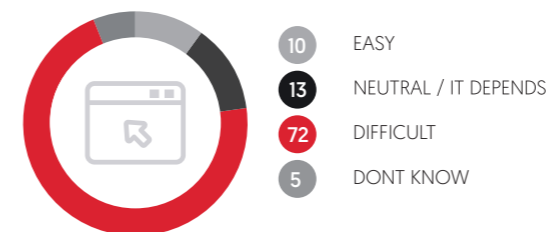
FREQUENCY OF INTERNET USE FOR BUSINESS

- 70 AT LEAST ONCE A WEEK
- 15 LESS OFTEN
- 15 NEVER

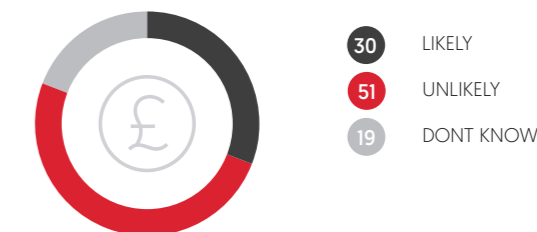
May not sum to 100% due to rounding

What advice and support do they need to engage with MTDfB?

Most likely to think it would be difficult to use software to keep digital records - higher than any other segment



Preference for free software is low



The main difficulty is perceived to be a lack of digital skills and confidence*



Customers are likely to seek advice on MTDfB from tax agents*



Want guidance on how to prepare for MTDfB*



Base: 2,900 businesses and landlords | Fieldwork: Sept-Dec 2016
*Multi-coded responses based on those who say it will be difficult to meet the requirements of MTDfB

ABOUT IPSOS MORI'S SOCIAL RESEARCH INSTITUTE

The Social Research Institute works closely with national government, local public services and the not-for-profit sector.

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