HM Revenue & Customs

Research report

Making Tax Digital for Individuals: Co-Design

Engaging the customer in the design of the principles underpinning Making Tax Digital for Individuals

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This report was one of a number of research papers commissioned by HMRC in 2016-2017 to support the development and delivery of digital services for customers. The findings have been used to inform the department's work. HMRC reprioritised its portfolio of transformation projects in 2018 to ensure that it delivers key government priorities. HMRC's overall ambition to become one of the world's most digitally-advanced tax authorities remains unchanged.

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Research requirement (background to the project)

HMRC has been designing and developing digital services aimed at providing an improved customer experience, reduce error and fraud, and reduce costs as customers migrate away from more expensive support and transaction channels such as Contact Centres and paper forms. They have now given every customer access to a Digital Tax Account (DTA) that enables them to interact digitally with HMRC.

HMRC commissioned a blended qualitative research and co-design project to understand how individual customers who complete self-assessment (SA) tax returns respond to the core principles of Making Tax Digital (MTD) and what design features would support their engagement with HMRC through new and existing digital channels.

The key overall objectives for this project were to:
- Explore customers' overall attitudes and expectations of the elements of MTD that may affect them;
- Identify levers and barriers that may influence engagement with MTD; and,
- Identify user needs through co-design which could be used by service designers to shape features of the DTA that would ultimately support customers' engagement with MTD and avoid undue burden on customers, partners (for instance, third parties such as banks) and/or HMRC.

When the research took place

Fieldwork for this research took place between August and October 2016.

Who did the work

Kantar Public, a specialist social research agency, led this project in partnership with FutureGov, a design consultancy. Kantar Public has conducted a wide range of research to inform the design of and communications for government digital services and the MTD programme as a whole, including the work immediately preceding and informing the design of this project: Making Tax Digital for Individuals: Qualitative research with individuals and agents to understand attitudes, likely behaviour and engagement with 'Making Tax Digital'.[1]

Method, Data and Tools used, Sample

As mentioned, this project used a blended qualitative and co-design approach. Co-design is a participant centred, iterative methodology. It requires that practitioners (in this case Kantar Public and FutureGov) and stakeholders (HMRC) listen to participants' priorities and concerns and use this information to inform what aspects are focused on when developing a particular service or product. Although practitioners and stakeholders may

have objectives in mind and areas of interest, the focus of the research should largely be directed by participants.

In this project there were three discrete strands, each of which engaged a different customer group. Each strand had the same overall structure and key objectives. However, different strands considered and co-designed different aspects of MTD based on the interests and priorities of group participants. Please see below for a breakdown of each strand in terms of: sample; structure and workshop content; and the areas focused on for co-design.

Sample

Fieldwork took place in Bexleyheath and Central London. Each strand engaged 16 participants to the following specifications:
- **Strand 1:** Low income transient self-employed customers who had SA income under £10,000 and who either had additional non-SA income or who lived in households with additional income. All participants lived in households where the total household income was less than £35,000 and had individual incomes of less than £20,000.
- **Strand 2:** Customers with both SA and PAYE, where their SA income was under £10,000 and where their employment income (taxed through PAYE) was between £20,000 and £42,999.
- **Strand 3:** SA customers with income from self-employment, property and/or investments between £25,000 and £60,000.

Across all three strands a range of genders, ages and digital competencies were included.

Structure and workshop content

Each strand involved four key steps:
- **Project inception and design:** In this session, we identified the focus for the strand, clarified strand specific aims and objectives and confirmed which stakeholders from HMRC would participate in workshops.
- **Workshop 1:** In this session, we generated insight into customer reactions to MTD and identified areas to be explored further in the co-design during Workshop 2.[2] As

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[2] In Workshop 1, we introduced the core concepts of Making Tax Digital (MTD) to customers and gathered their views around their needs from and the expected benefits of MTD. Customers discussed the overall concept of MTD as well as the four concepts which underpin and inform its design. The four concepts are: 1) The Digital Tax Account (DTA) – the idea that all individuals will have their own digital tax account; 2) tax in one place – the concept that individuals will be able to see a picture of their whole tax status in one place (for instance, pulling together information related to pensions, HMRC tax credits, and income); 3) tax system relevant to current circumstances – the idea that individuals can have a more up-to-date view of their tax position, as the account will reflect changes made to customers' circumstances in-year; and, 4) better use of information HMRC already holds – the concept that HMRC will populate individuals' DTAs with information it holds about the customer where possible.

with any qualitative work on this scale, the findings cannot be generalised to the sampled population as a whole.

- **Interim development session:** In this session, we used insights from Workshop 1 to identify areas for co-design and develop research materials for Workshop 2 in collaboration with HMRC. To facilitate conversation in the second workshop FutureGov developed a range of stimulus in the form of sketches. These sketches visualised elements of the Digital Tax Account (DTA) and some potential ways HMRC could present information to customers to help them engage with the DTA. These sketches formed 'designed futures' and were not intended to reflect any specific proposals. Abstract ideas such as data visualisation, application features and incentives were introduced by FutureGov to prompt customer reaction and test motivation.
- **Workshop 2:** In this session, we used stimulus designed in the interim development session to identify users' needs from MTD.

Areas focused on for co-design

The areas for co-design focused on in different strands were:
- **Strand 1:** the overall aim of the strand was to identify principles which designers could use to create features that would encourage low income transient self-employed customers to engage with the DTA and update HMRC regularly. Based on findings from Workshop 1, three areas were focused on during co-design: 1) the optimum amount of information to provide; 2) incentives that might encourage customers to update; and 3) the use of reminders to encourage engagement.
- **Strand 2:** as with Strand 1, the overall aim of the strand was to identify design principles that would encourage those with SA income under £10,000 to engage with the DTA and update HMRC regularly. Based on findings from Workshop 1, the strand focused on three areas during co-design: 1) mechanisms for uploading or entering information into the DTA; 2) what information customers would want in the DTA and how this could be visualised; and 3) what guidance customers could be given and how this could be delivered.
- **Strand 3:** the overall aims of the strand were to provide additional insight on customers' reactions to HMRC making smarter use of the data it already holds or has access to and identify design principles which would inspire customers' confidence and trust in the accuracy of the data to minimise disputes, and to design a query process that is user friendly. Based on findings from Workshop 1, two areas were focused on during co-design: 1) how information already held by HMRC may be presented in the DTA; and 2) how the query process might work.

Main Findings

Customers' experiences and perceptions of HMRC

Customers engaged in this project understood their responsibilities as tax payers. For instance, they knew that they were responsible for ensuring that the information HMRC holds about them is complete and accurate. Customers were often anxious to meet these obligations both out of a sense of duty and due to a concern for the personal repercussions were they to make a mistake (for instance, fines and penalties).

However, customers across strands had mixed experiences engaging with HMRC to meet their obligations. Customers reported encountering challenges to resolving queries or issues. These challenges were linked to, and in some instances driven by, customers' knowledge of the UK tax system as well as their ability to access and interpret the information available to them from HMRC.

Customers highlighted particular challenges and annoyances with:
- **Language, terms and codes:** Customers felt HMRC's choice of language was difficult to comprehend, with some also frustrated that HMRC did not understand or recognise the language they used to talk about their affairs. Likewise, customers explained that they struggled to understand how particular numbers or tax codes had been calculated. Customers explained that due to these challenges they often resorted to contacting HMRC, which many found aggravating (see below).
- **Lack of clear, complete, or quality information:** Customers described being uncertain as to whether an issue had reached its resolution, how long particular processes should take and their entitlements to particular state benefits, tax reliefs or deductions. In some instances, this was linked to customers' ability to decode the language, terms and codes used, but also the nature of advice provided by HMRC either through advisers or available online.
- **Self-serve options:** Some customers said they were unable to answer questions or resolve issues themselves due to the lack of available information or an inability to perform particular functions online/themselves.
- **Communication channels:** Customers had used a range of channels to contact HMRC. Traditional communication channels (for example, post and phone) were seen as slow and time-consuming and to not always result in a satisfactory resolution for the customer (for example, lack of clear information or clarity on their tax position or what they should do next). Views were mixed on current online service quality and suitability. While online access to information and service can make processes easier or quicker, customers had encountered challenges navigating and understanding content and felt it lacked detail (for instance, around expenses customers are able to deduct).
- **Lack of tailoring:** Some customers with reoccurring reasons to contact/engage with HMRC (for instance, completing annually required forms) were exasperated that

they had to repeatedly complete the same forms and submit the same information. They desired forms tailored to them where relevant information is pre-populated.

Encountering these challenges not only caused annoyance for some customers but, in some instances, damaged customers' perceptions of HMRC as an organisation.

Reactions to Making Tax Digital

This co-design project follows on from a number of large scale research projects conducted by Kantar Public for HMRC into MTD, the DTA and its supporting principles.[3] This earlier research has provided HMRC with clear insights on customers' reactions to the core principles that support the design of MTD. Qualitative insights gathered from this project across all three strands align with these earlier findings. Summaries of customers' reactions to a digital tax system, MTD and its core principles are detailed below.

A digital tax system

Customers generally welcomed the idea of a digital tax system as a concept, particularly in light of the challenges they perceived in engaging with HMRC through the current system. Prior to being introduced to the concepts within MTD, customers anticipated that a digital tax system would enable them to avoid some of the challenges they currently encounter. Customers typically used their experiences engaging digitally with commercial organisations, especially banks, as a frame of reference for what a digital tax system would mean.

Reactions to overall concept of MTD

Customers' positivity of a digital tax system was sustained once they were introduced to MTD and provided with high level descriptions of the four principles that support it (see below), identifying additional benefits to those associated with a digital tax system. Customers believed MTD would: allow greater transparency; let customers spot and correct errors/update information and therefore avoid over- or underpaying tax; and, offer a clear, simple, up-to-date view of their tax liability.

While views remained broadly positive throughout the discussion, as more information about MTD was introduced and customers learnt more about specific principles they raised questions and concerns over whether the new system would work and the ability of all customers to engage through MTD. Such concerns were closely aligned to age, with older customers worrying about their digital abilities and younger customers worrying about older relatives. Across strands, customers were concerned about data security and the vulnerability of HMRC's and software providers' systems to hacking. This was largely due

to the volume and nature of information to be held in the DTA. Those with variable or low incomes were particularly concerned about the security of the system.

Reactions to detailed concepts within MTD

We explored each of the four concepts within MTD with customers in turn:

1) *Digital Tax Account (DTA): everyone will be able to access their own personalised and secure digital account*

Customers' reactions to the DTA were largely positive, with further comparisons being made to online banking and the benefits this had afforded customers. Across strands, participants reiterated security concerns. Given the nature of the information that would be held in the DTA, customers required reassurance that the systems would be safe and that their data would be protected. Additionally, customers highlighted that they and digitally excluded groups would likely require support from HMRC to facilitate their engagement with the DTA.

Customers expected that the DTA would be equipped with a range of features to support customer engagement. Customers assumed webinars, live chat and embedded contextual support (such as hover buttons) would be provided to help customers engage with and decode information in the account. They also anticipated that HMRC would offer notifications on upcoming deadlines, include a record of communications to and from HMRC, and provide clear breakdowns of a customer's liability, tax code and calculations.

2) *Better use of information already held by HMRC: HMRC will populate your account with the information it holds about you*

Customers believed that HMRC can access and already uses a range of information relating to them as customers. Customers' knowledge of the range and variety of information HMRC can already access/holds was often incomplete and not wholly accurate.

Given customers assumptions, the idea of HMRC using customer information in the context of the DTA was broadly positively received. Customers anticipated HMRC doing so would reduce the burden on the customer to complete or update the account. They also felt it would facilitate a more tailored and personalised service, that the system as a whole would be more transparent, and potentially that the system would allow HMRC to notify them of any benefits or expenses they are able to access. Many customers assumed that HMRC already has an account containing their information and that they are just being given access to this.

Some customers, however, did raise concerns or questions, with Strand 1's customers particularly likely to raise concerns. Customers' concerns were both practical and ethical:

- **Practical concerns:** Customers worried about what the impact would be if information was incorrectly attributed to them and, as a result, requested the ability to check information in the account and raise queries with HMRC.
- **Ethical concerns:** Some customers questioned the principle of whether HMRC should be able to access information relating to them as individuals, particularly when the information was considered sensitive or 'private' (for example, information on income or transactions). In part, this was due to customers' imperfect knowledge of what and how much information HMRC holds currently. For instance, customers often made assumptions that HMRC accesses more information related to their personal finances than the Department does in reality.

3) Tax in one place: a picture of your whole tax status in one place

Customers typically conflated this principle with that of the DTA as a whole. Customers welcomed the idea of having a single picture of their tax and the potential to see their total liability from various income sources (such as employment income, self-employment income, investments and pensions). However, customers wanted to ensure that they would not lose oversight or clarity over what information was being displayed or used to make calculations. As a result, although customers wanted information to be amalgamated and a single total shown, they also wanted to have access to the various information sources being used and how calculations had been made. This would enable them to quality assure information in the account and confirm its accuracy.

4) Tax relevant to your circumstances: a more up-to-date view of your tax position

The principle of 'tax relevant to their circumstances' was attractive to customers across all three strands. It was particularly attractive for customers in Strand 1 who were more financially vulnerable, had lower and more volatile incomes and, as such, had a strong desire to avoid both fines and over- or underpayment.

Most customers in the research believed having a more up-to-date view of their tax liability would enable them to manage their finances more effectively. Although having this view was considered useful in and of itself, customers felt this principle would be even more beneficial were the DTA to show how close a customer is to a tax threshold.

Customers' concerns focused on the accuracy of any in-year calculation and their ability to self-serve/understand the information in the account. Customers wanted certainty that the estimate of their liability was correct and were concerned about the impact any error would have on them.

4.1 Updating HMRC on a more regular basis

To receive a more up-to-date view of their tax liability, customers with SA income would need to update HMRC of their SA income on a more regular basis. In 2015, the

government announced that all businesses, self-employed individuals and those with income from property would be required to keep their business records digitally and provide regular updates to HMRC (quarterly, or more frequently if the business so chooses). However, the government also proposed that these requirements would not apply to the very smallest businesses and landlords, where their (gross) income from their business or property was below a set threshold. Those customers with income from a business or property under this threshold would be encouraged, but not required, to keep digital records or update HMRC quarterly. In 2016, the government consulted on the detailed operation of these proposals, including the level of the low income threshold (initially proposed at £10,000). The consultation closed in November 2016, and the government response to the consultation was published on 31 January 2017.[4]

Broadly speaking, most customers in this research were willing to update HMRC more regularly than they currently do. Their willingness was driven by the prospect that doing so would provide them with a more up-to-date view of their tax liability and reduce the burden of updating at the end of the year, and depended upon how readily it could be done at a time that would fit in with their existing record-keeping behaviour. Some customers were concerned updating HMRC on a more regular basis may be burdensome.

4.2 Use of software for more regular updating of HMRC

Customers' willingness to use software was mixed and closely aligned with their existing behaviour, digital literacy and age. Those who currently used software and those who were more digitally confident were typically willing to use software to update their DTA. Where customers were unwilling to use software it was generally due to low digital confidence and concerns over digital security.

Overall DTA user needs identified through co-design

Workshop 2 focused on working with customers to co-design some of the design principles for MTD and identify user needs to inform service features within the DTA. As part of this, FutureGov worked with HMRC to develop a range of sketches to stimulate customers' discussions of MTD. From these discussions, we identified customers' underlying needs.[5]

There were nine key themes which underpinned users' suggestions and formed the key user needs from MTD:

1. Customers felt that MTD, the DTA and content within the DTA should be explained using **plain English** to support customers' understanding and engagement with the account.

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[4] https://www.gov.uk/government/collections/making-tax-digital-consultations
[5] User needs are principles which can be used by service designers when making decisions about service features and content.

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2. Customers felt that the DTA's interface should be clear and simple and that they should be able to access the information they want in as **few clicks** as possible.
3. Customers wanted to **receive reassurance** that they were using the DTA as intended and doing the 'right' thing.
4. Customers wanted HMRC to be **transparent** over where their information is stored and who has access to it.
5. Customers wanted to **receive advice and guidance in context**. Rather than being provided with a lot of information up front before they enter the DTA or begin to make a transaction, customers wanted to receive advice as they made each step in the journey.
6. Customers wanted to **receive information** through the DTA which would help them make the most of the information held in the account and **plan/manage their tax affairs**. For instance, they wanted to be told about any expenses they may be able to deduct and for different tax thresholds to be shown in the DTA.
7. Customers wanted to **avoid mistakes**. They wanted to receive notifications about upcoming deadlines and to be able to correct errors early (before receiving penalties).
8. Customers wanted the **service to feel friendly and personable**, for instance through the use of their names rather than their Unique Taxpayer Reference (UTR) number.
9. Customers wanted to be able to **personalise and customise elements of the service,** for instance deciding how, where and whether they receive reminders or notifications from the account.

In addition to these unifying user needs, we also identified strand specific user needs tied to the areas of co-design focused on for each strand:

1) *Strand 1 user needs*

In Strand 1 the following three areas were focused on in the co-design: 1) the optimum amount of information for customers to provide; 2) incentives to understand what might encourage customers to update their DTA; and 3) the use of reminders to encourage engagement.

From discussions of these three areas, it became apparent that Strand 1 customers are very diverse in their needs and preferences. While all customers in this strand had self-employment incomes below £10,000, income levels and employment sectors varied greatly. This diversity was recognised by customers and impacted their views on account functionality.

To accommodate their diverse needs, customers wanted to be offered a choice of how they engaged with the DTA and an ability to personalise their experience of using the DTA. For instance, in relation to the information they as customers provide, customers wanted a choice over how often they provided it to the DTA. Some wanted to do it weekly, others after a set number of jobs and others every month or quarter. Likewise, some wanted to provide as little information to HMRC as possible, largely to avoid duplicating effort/work

with existing offline record keeping and updating HMRC becoming an undue burden. Others, however, wanted to provide additional detail to HMRC (such as the nature of expenses incurred) on the basis that it would allow HMRC to provide tailored services and advice.

The need for choice and tailoring re-emerged when customers discussed their views on reminders. Although customers included in this study wanted to be reminded to do their taxes by HMRC, they also wanted to be able to tailor when and how HMRC reminded them to engage with the DTA. They also believed that the tone used to communicate with customers through the DTA should be neither too formal nor overly familiar.

Although in many respects customers in Strand 1 were diverse, customers expressed similar views when discussing the types of incentives HMRC could explore to encourage engagement.[6] Customers typically believed being provided with additional information, such as their actual tax liability to date, was an adequate incentive to encourage them to engage, particularly if it would mean they would avoid incurring fines. Customers typically did not feel monetary rewards or point style schemes were appropriate, sometimes describing these as 'gimmicky' or 'patronising'.

Throughout sessions, customers in Strand 1 were particularly concerned about data security. While this was a recurrent concern across strands, customers in Strand 1 customers in particular were reluctant to share their data with third parties when it came to uploading information to the DTA and were uncomfortable with tax messaging appearing on third-party channels, for instance on bank statements. They also wanted reassurance or a way of verifying that the communications they would receive from HMRC to check or update their account would be genuine.

2) Strand 2 user needs

In Strand 2, the following three areas were focused on in the co-design: 1) mechanisms for uploading or entering information into the DTA; 2) what information customers would want in the DTA and how this could be visualised; and 3) what guidance customers could be given and how this could be delivered. Across discussions of these concept areas, two key needs drove customers' responses: a need for certainty and a need for efficiency.

Customers in Strand 2 wanted the DTA to provide them with greater certainty that they were doing the right thing/taking the correct steps in terms of meeting their responsibilities as tax payers. Potential terms to be used within the DTA suggested by the research team, such as 'estimated' total, made people unsure and unconfident about the information HMRC held. Customers wanted to avoid mistakes and to be able to demonstrate to HMRC that they had acted in good faith if an error were to occur. To support this, they wanted to

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[6] These incentives were created by the research team for the purposes of the research and do not reflect future plans.

know when entering information and submitting it to HMRC where it was stored, who would have access to it and when it would be used by HMRC. Customers wanted the ability to save information in 'draft' so that they could submit it when they wanted and had confirmed its accuracy (for instance, that they were not making deductions to which they were not entitled). Likewise, customers wanted to be provided with guidance in plain English and in context. According to participants, this often made understanding complex tax legislation more manageable, and ensured that it was tailored to their circumstances.

In terms of efficiency, customers wanted to avoid duplications of effort and, wherever possible, for HMRC to allow them to align what they were already doing with digital tax systems and for HMRC systems to learn/remember what they had done in the past (expenses they had deducted in previous years). Although customers were willing to update HMRC more regularly than they are currently, they did not want to be mandated to report to HMRC's timetable. Similarly, when uploading or entering information customers did not want to reformat information that they already keep and expressed a preference for digital tools which would automate what they were already doing/seamlessly connect with the DTA.

Likewise, customers wanted HMRC to provide them information that would enable them to get things right first time. Although customers recognised that all businesses are different and that not all sectors/business models are easily categorised, customers wanted to be given an exhaustive list of expenses people like them can legally deduct, in order that they can understand if they are acting within the law and so that they can know if they are 'missing out' on any deductions/benefits/entitlements.

Across both their need for certainty and efficiency, customers in Strand 2 expected HMRC to provide advice, support and tools to help them engage with their DTA. In particular, Frequently Asked Questions (FAQs) were often considered too generic. Live chats accessible twenty-four hours a day, seven days a week, were suggested as a more attractive alternative (as such tools fit with when they often did their tax in the evenings and weekends) and were what was expected from other digital services, e.g. online banking.

3) Strand 3 user needs

In Strand 3 the following two areas were focused on in the co-design: 1) how information needed to calculate tax, and already held by HMRC may be presented in the DTA; and 2) how the query process might work if customers thought data in their DTA was not correct.

Customers in Strand 3 generally responded positively to the idea of having information automatically put into their account by HMRC. Customers asked that more income sources (such as employment income and pensions) be included in the DTA beyond those included in the sketches designed by FutureGov to stimulate conversation, as they believed it would make updating more efficient. Although the idea of pre-population was not formally explored with Strand 1 and 2 customers, similar user preferences were expressed.

Customers saw benefits to HMRC putting information into their DTA. However, some customers wanted to be able to 'drill down' into the information held so that they can understand the source of the data and then check that the information is correct. While information sources did not need to be shown on every page and against each data/information point, customers did want information to be 'progressively disclosed' and available if needed. For instance, they wanted to be able to click on a calculation and see the workings or hover over a figure and see where it was drawn from.

Finally, customers were conscious that pre-populating accounts with information may result in errors or lead to queries. They wanted reassurance over what the repercussions of any inaccuracies would be and clarity on the processes in place for correcting errors or querying information.

Were customers to have a query or identify an error, opinions were divided over what should happen next and who should be responsible. Although customers in Strand 3 were in agreement that they would need to spot and trigger/raise a query, some felt that correcting errors and driving the query process should be the responsibility of whoever made the error. If the error was due to HMRC or the data supplier, such as the bank, then they should be responsible for correcting this as only they would have access to the relevant systems and the 'correct' information.

Others, however, felt that the customer, as the data owner, would need to take responsibility for queries for two reasons. Firstly, they would need to review information in the DTA to identify errors/queries. Secondly, the customer may be able to expedite a resolution by following up with the various parties, uploading documentation to their DTA or entering the correct information for the data supplier to validate.

Overall, customers recognised that they were responsible for the accuracy of the data and that the data supplier or holder (bank/HMRC) may not recognise that an error was being made. As a result, they would need to be involved in the query process, even though they may not want to be.