HM Revenue & Customs

Research report 510

Making Tax Digital: Exploring Transitional Support approaches

Exploring current and potential approaches to supporting business transition to Making Tax Digital

Prepared by Jigsaw Research for Her Majesty's Revenue and Customs

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Behaviour, Insight and Research Team

Contents

1. Executive Summary

Many businesses expect to transition quite easily to Making Tax Digital (MTD) and anticipate needing only minimal support in adopting the new requirements. However, there are also businesses who are less willing and less able to make the transition to MTD. An HMRC campaign of communications and support, using both existing and newly developed tools, has the potential to help smooth the path for these businesses.

The table below highlights communications and support options for MTD that businesses a) expect b) welcome and c) have low appetite for from HMRC (in relation to MTD)[1].

Table1: Communications and Support Options for MTD

	Communications		Support
*Businesses **expect** these forms of communications and support*	Letters Emails Leaflets Advertising	HMRC pages on GOV.UK	Within the software/app – hover boxes, Help section, FAQs Webchat Telephone helpline
*Businesses are **open to** these forms of communication and support*		Videos *Roadmap	Downloadable MTDfB calendar Case Studies Interactive software selection tool
*Businesses have **low appetite for** these forms of communication and support*	Twitter		e-learning/Online Tutorials **Small Business Forum Webinars

*A visual, easily accessible overview of the journey to MTD, with the potential to delve into greater detail where required
**Online forum moderated by HMRC where businesses can go to have tax related queries answered and/or discuss tax related matters

1.1 Communications

There is a strong expectation among businesses that HMRC will be active in making them aware of what is required of them under MTD and that they will hear about MTD through a variety of channels including letters, leaflets, advertising and, where they have one, their agent. They expect HMRC to communicate at a general level first ensuring that the business

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[1] These findings are in the context of appetite amongst small businesses in supporting transition to Making Tax Digital. These tools have an established role within HMRC's wider Customer Support Model and are widely used by businesses in relation to many topics.

and self-employed population are aware that MTD is coming. They then expect more tailored communication directly to their business informing them that their business will be included, the steps they need to get ready and the relevant timings.

The research found that in order to have the most impact, HMRC communications relating to MTD will need to:

- Focus on what is necessary; facts, dates and calls to action
- Be kept short, simple and easy to understand
- Use a serious, professional and neutral tone
- Be unapologetic, confident and clear
- Resist the temptation to persuade or reassure
- Avoid the use of jargon and acronyms.

1.2 Support

Businesses envisage that any support they might need while making the transition from their existing systems of record keeping to using the MTD app/software for record keeping will be available within the app/software, and therefore designed and provided by third party software providers. Indeed, businesses anticipate being able to start using the MTD app/software with minimal preparation and to 'learn as they go'. They anticipate they may have queries that arise as they go through the process and they want to find the answers to these queries as easily as possible via hoverboxes[2], a Help section and FAQs within the app/software.

That said, while transitioning to MTD, businesses are open to other forms of support such as short videos, a MTD roadmap, case studies, an interactive software selection tool and a downloadable MTD calendar. The overall aims of these types of support tools would be to:

- Introduce and describe MTD and what will be required of businesses under the new system; including digital record keeping, the quarterly update and what will be required at the end of the tax year
- Provide timescales for the transition to MTD, including key milestones for businesses
- Help businesses to choose an app/software that will work for them and their business

While these forms of support are welcome as tools to help with transition to MTD they are unlikely to be used once a business is 'up and running'. Furthermore, businesses do not generally associate HMRC with support approaches beyond the HMRC area of GOV.UK and the HMRC telephone helpline, and so are unlikely to seek these additional resources out; any materials produced will need to be 'pushed out' to businesses.

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[2] A hoverbox is a pop up that appears when the mouse is placed over an icon or text on the screen for a short period without clicking

Support materials produced by HMRC should present information in a concise, straightforward and practical manner, using visual tools wherever possible. Text or speech heavy approaches should be avoided.

Webchat would be a very welcome addition for many businesses. This is expected to be live and interactive, so essentially an online version of the telephone helpline.

2. Introduction

2.1   Background

Making Tax Digital 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[3].

From April 2019, businesses with a turnover above the VAT threshold will be mandated to meet their VAT obligations using the MTD system. Businesses below the VAT threshold will not be required to use the system, although they can choose to do so voluntarily.

Research was required to build a detailed understanding of how the support needs of different businesses might be met and to test support approaches designed to encourage positive engagement with MTD.

2.2   Research Aims

The overall objective for the research was to build understanding of the types of support and communications that would be most likely to have a positive appeal, impact and effectiveness in supporting businesses' transition to MTD.

The specific research objectives were:
- To explore businesses' views on a range of existing and potential support approaches for MTD
- To support the identification and development of new approaches and improvements to existing services (including design principles), facilitating smoother and/or earlier transition to MTD

2.3   Who did the work (research agency)

The research was carried out by Jigsaw Research.

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[3] 1 https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital 2

2.4 Method

2.4.1 Sample

A two stage programme of qualitative research was undertaken as follows:

- Stage 1 comprised 44 x 1 hour in-depth interviews with Small Businesses[4] across a range of sectors, business sizes, digital competence & confidence and tax competence & confidence.
- Stage 2 comprised 8 x 2.5 hour workshops with Small Businesses, reconvened from Stage 1.

2.4.2 Fieldwork

Stage 1
The in-depth interviews took place between the 3rd July and the 3rd August 2017.

Stage 2
The workshops took place between the 11th and 27th September 2017.

Fieldwork took place across 5 locations; Glasgow, Manchester, Birmingham, London and Bristol.

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[4] Small Businesses were defined as having between 0 and 19 employees and annual turnover up to £10m

3. Findings

3.1   Communications: issues

The research highlighted four key issues with implications for communications around MTD.

<u>1. Businesses have low interest in and engagement with tax</u>

Businesses generally lack interest in and engagement with tax; they want to comply with their tax obligations but to spend as little time on this as possible. Businesses don't generally seek out information about changes in tax law/obligations that might affect them. They assume that information about anything significant will reach them somehow – either through their accountant, a communication from HMRC or via the general media. Even once aware, most are very unlikely to 'read ahead' or research MTD out of interest.

This has several implications for communications:
- Firstly, communications on MTD will need to be pushed out to businesses; they won't go looking for them
- It will be important that communications are kept short, simple and easy to understand and that content is restricted to what is absolutely necessary (for example, facts, things that are changing, dates). Peripheral content is likely to be ignored and may mean some businesses disengage
- The timing of any communications will also need to be carefully managed. Businesses need time to prepare, but if communications are too early they are unlikely to be fully attended to or acted upon
- Finally, key messages will need to be repeated to get through and 'stick'.

<u>2. MTD arouses feelings of worry and reluctance in some businesses</u>

The businesses for whom MTD arouses these feelings tend to react badly to communications that try to persuade and/or reassure them. They tend not to believe messages that attempt to persuade them of the benefits of MTD and, if anything, become more entrenched in their resistance to the changes. Similarly, they tend not to be reassured by communications that aim to alleviate concerns about data security. In general, the more HMRC tries to persuade or reassure, the more worried and/or resistant these businesses become.

In this context, communications will work best if they:
- Focus on facts and calls to action
- Are kept concise, direct and factual
- Employ a professional/neutral tone
- Avoid persuasion and/or reasons to believe.

3. Compliance with MTD is unquestioned

Businesses expect to comply with MTD; all assume the requirement to do so to be mandatory and do not question the power that HMRC has to enforce it. There is therefore no need to explain, sell or justify MTD as businesses will adopt the requirements when they need to.

In this context, communications will work best if they:
- are confident and clear
- avoid apology, justification or explanation.

4. The audience for MTD is broad and varied

The small business audience displays a huge range of variability in terms of competencies, confidence, and attitudes. Altering the content and tone of communications in line with these variants would be a huge challenge and any attempt to do so risks alienating as many businesses as it reaches.

This has the following implications for communications:
- Content should be aimed at the least knowledgeable, competent and educated.
- All jargon and technical language should be avoided.
- The tone needs to work for all, and in this context professional, serious and neutral would work best.
- Avoid taking a tone which is light-hearted, 'fun', informal and/or conversational, as this can elicit a negative response.

Support products can be more targeted to different business types; case studies, for example, could be used in this way.

3.2 Expectations around Communications

There is a strong expectation amongst businesses that HMRC will make them aware of MTD and what is required of them.

Many businesses expect to receive a letter (or letters) informing them of MTD as HMRC is strongly associated with hard copy communications; the 'brown envelope' is something that is immediately recognised and definitely attended to. Some businesses would also like to receive a leaflet about MTD that they could keep and use as a reference tool. A high profile advertising campaign is also expected, utilising a range of media, with radio, poster and TV all mentioned as suitable channels for communicating MTD.

Emails would be welcomed by some as a complement to letters (so with a similar purpose and content). However, many SMEs are wary of emails apparently from HMRC as they fear they may be a scam of some sort, and so to be an effective communication tool it will be necessary for HMRC to take steps that will reassure SMEs that the emails are genuine. These include:
- Offering email as an opt in service

- Delivering emails only via a secure account
- Using email to provide information only, with no links included.

3.3   Support requirements – during transition to MTD and beyond

It is important to note that many businesses do not expect to need any support beyond what is provided with the app/software. All businesses expect that the app/software will be easy and intuitive to use. They anticipate having some queries as they transition from their existing record keeping systems to MTD. It is expected that these queries will relate to the use of the software, rather than being about tax; as such it is anticipated that any support they might need will be built into the software/app in the form of hover boxes, a help function and FAQs.

Should they need support beyond what is built into the app/software (either at transition or ongoing), the majority of businesses anticipate that, if they have one, they will turn first to their agent as a source of convenient, trusted and tailored advice on tax-related matters. Businesses without an accountant expect to turn first to a trusted individual (friend, relation, business associate) with some tax knowledge.

The website and helpline are the two sources businesses cite when thinking about getting help from HMRC. Webchat would be a very welcome addition for many businesses. This is expected to be live and interactive, so essentially an online version of the telephone helpline.

That said, while transitioning from their existing forms of record keeping to using the MTD app/software for record keeping, businesses are open to a variety of support options being available. These include:

- Short videos
- An MTD Roadmap
- A downloadable MTD calendar
- An interactive Software Selection tool
- Case Studies to illustrate how MTD would work for different types of business

The overall aims of these types of support tools would be to:

- Introduce and describe MTD and what will be required of businesses under the new system; including digital record keeping, the quarterly update and what will be required at the end of the tax year
- Provide timescales for the transition to MTD, including key milestones for businesses
- Help businesses with choosing an app/software that will work for them and their business

That said, businesses do not generally associate HMRC with support approaches beyond the HMRC area of GOV.UK and the telephone helpline and so are unlikely to seek these additional resources out; any materials produced will need to be 'pushed out' to businesses, some of whom will decide to use them.

In summary, although businesses do support the idea that HMRC will provide a variety of support options for helping businesses transition to MTD, the majority of the businesses participating in the research did not themselves expect to use these; rather they expect to be able to use the app/software with minimal assistance and to turn to more traditional forms of support, such as their accountant, should the need arise. The additional HMRC support option most welcomed by businesses was webchat.

3.4   Design Principles for Support Materials

The research identified four key principles underpinning the way in which businesses want to engage with MTD and any associated support materials. Utilising these principles to guide the development of any support materials will enhance the likelihood that businesses will engage with them and find them useful.

<u>1. Show not Tell</u>

Throughout the research, businesses responded best to options that communicated visually more than verbally. Options that were text or speech heavy were rejected out of hand as being hard work/time consuming, boring and confusing. Businesses need concise information presented in a straightforward, clear, practical manner, using visual tools wherever possible.

"That's amazing. I've been trying to figure out how to do this for years. A few years ago I did that thing where you can hover over it when you are doing your tax return and it takes you to some stuff about it. I tried to read it but it was too complicated. I gave up. I carried on doing it the way I'd been doing it all along. Now that I've seen that video I realise I've been doing it wrong all the time. But they need to have that video showing up in the app otherwise I would never see it." Self Employed, Private Landlord

<u>2. Learn by doing, not by reading</u>

Businesses made it clear that they want to learn 'on the job' and are not interested in sitting down in advance and spending time educating themselves about MTD and how to comply with it. They want to start using the software/app (preferably a trial version) with minimal preparation and to learn how to use it, by using it. This is how they have learnt to use other software, especially banking apps, and has set an expectation that the app/software has to be easy and intuitive to use, with support built in. It also suggests that most businesses are unlikely to spend time participating in e-learning or webinars around MTD. There wasn't any aversion to these approaches because of the fact they were produced by HMRC.

<u>3. Answers to problems (not chapter and verse on MTD)</u>

Businesses anticipate needing answers to specific queries that arise as they go through the process of using the software. They don't want to have to spend a lot of time searching for the answer to their question or problem and so want the help to be readily available. The

need and expectation is that help will be provided within the app/software in the form of hover boxes, FAQs and a Help Section.

4. Relevant to me

Businesses would like the help/support to feel relevant to them and so to be tailored in tone and content to their type of business, their sector and their circumstances. If content is not tailored (at least to some extent) in this way businesses may question whether it is applicable to them and seek other, more personal forms of support (such as webchat or the helpline).

3.5   Responses to the range of possible support options

A range of support tools to help businesses in their transition to MTD is being considered by HMRC. These were explored with businesses and their responses to these in the context of MTD are explored below.

HMRC section of GOV.UK

The majority of businesses are aware of and have used the HMRC website at some point in the past. The content is regarded as highly comprehensive and completely trustworthy. However, the problem for businesses lies in finding the information they need and trusting themselves to interpret it correctly. The content is by necessity generic in nature and not tailored to individual circumstances. As a result, businesses often lack confidence that they have found exactly the information they are seeking.

In this context, businesses expect that there will be a section on the HMRC website dedicated to MTD and that this will provide quite detailed (if generic) information on the new requirements. More tailored information in the form of case studies (covering particular sectors, for example) would be appreciated.

Telephone Helpline

The majority of businesses are aware of and have used the HMRC helpline. Setting aside call waiting times, businesses are generally positive about the help they receive through this channel. Businesses are reassured that they can explain their particular circumstances and receive guidance and advice that is specific to that context. Businesses do expect to use the Helpline to obtain answers to queries they might have on MTD.

Webchat

The majority of businesses are very positive to learn that a webchat service is available from HMRC, although awareness is very low. The expectation is that this would be live and interactive; like the telephone helpline but online. Businesses see this as a quick and efficient means of getting an answer to any queries they may have on MTD. They would welcome the email transcript of the conversation as a record of the advice given, to refer back to should

they need to. Awareness of webchat would need to be addressed in order to maximise its use.

Videos

Videos have the potential to fulfil two of the key design principles for support materials outlined earlier. Firstly, they can provide information in a visual manner and so can 'show not tell'. In addition, they can demonstrate how to do things, helping businesses to learn by doing, not by reading.

It was clear from the research that videos could fulfil a range of purposes. Firstly, there is a role for a short video introducing/giving an overview of MTD. In addition, 'How to' videos could be used to provide guidance on a variety of topics. These could be incorporated within the software/app, for example how to complete certain sections or to describe tax rules. They could also be incorporated within the interactive roadmap, for example how to choose the right software for your business.

The research elicited very clear direction on the style and format businesses found most appealing. Videos should:
- Be short; businesses felt that they were unlikely to engage with videos that are more than 2-3 minutes in length.
- Be practical and informative. The use of visuals is welcomed but will work best if they are used to provide information and/or illustrate a point; they work less well if used to 'decorate' or 'entertain'.
- Avoid the use of a persona, as any video produced needs to feel relevant to a broad spectrum of businesses.
- Adopt a neutral, straightforward and professional tone
- Not attempt to persuade businesses of the benefits of MTD or how easy it is going to be.
- Be jargon free, avoid the use of acronyms and use plain English.

Roadmap – Interactive and Leaflet

The principle of a roadmap was well received by businesses; they liked the idea of a visual, easily accessible overview of the journey to MTD, with the potential to delve into greater detail where required. Businesses liked the thought of having an online and hard copy version as these were viewed as complementary to one another.

The central feature of both would be the roadmap itself which was envisaged as a business's journey to MTD, with a timeline and calls to action. The leaflet version could be used to raise awareness of MTD and provide essential information. Businesses felt that the online version could be interactive with links to other resources, for example How To videos, FAQs, downloadable MTD calendar, case studies and an interactive tool to help with choice of software. It was anticipated that the same design would be used for each, so that they were clearly linked with one another.

Case Studies

Businesses welcomed the idea of case studies as a means of describing how MTD would work for different types of business. The hope was that there would be a case study that mirrored their particular circumstances, for example businesses with multiple sources of income or businesses with fluctuating cash flow or businesses where there was a high proportion of materials in their business income. Case studies could be produced in written form, in infographic form or as videos.

"I used some of the case studies they have on their website when I was trying to figure out what to do about the stamp duty on the second property – they were really useful, although I ended up calling HMRC anyway just to double check" Self Employed, Private Landlord

Downloadable MTD Calendar

This idea was well received by businesses as they felt it could be quite useful to have key MTD dates/deadlines in their diary. The expectation was that this would provide reminders for key dates/deadlines. However, they wanted to be able to tailor the amount of notice for themselves, for example 1 day, 1 week, 2 weeks and so on.

"Yes, that's a good idea …… could definitely be useful …… giving you reminders" Self Employed, Forestry

Software Selection Tool

Businesses spontaneously suggested that an online tool to help in the selection of the right software/app for their business would be a useful form of support. The idea was that by entering key pieces of information about their business (for example, size, number of employees, sector), the selection tool would narrow the choice to the software/apps most suited to their business. Narrowing the choice was seen to reduce the burden on the business and also to reduce anxiety over choosing 'the wrong one'.

"…something where you put in the details of your business – size and whatever – and it told you what software would be best for you" Microbusiness, Construction

e-learning

The concept of e-learning for MTD was rejected by businesses. As highlighted earlier, businesses are not generally interested in the idea of sitting down in advance and spending time educating themselves about MTD. The idea that this might be necessary was off putting and worrying for some businesses as it fuelled the concern that MTD was going to be difficult.

Webinars

Whilst this support tool is used effectively elsewhere in HMRC, this research found that businesses felt they were very unlikely to participate in a webinar on MTD specifically. The format of a webinar doesn't fit with how businesses want to engage with MTD as it requires

dedicated time and it was assumed that the information provided would be quite generic. Businesses fear that they would sit through the whole thing and the information they actually needed would not be covered. As highlighted in section 3.4.1, businesses anticipate needing answers to specific queries and are not interested in wider, general information about MTD.

A pre-recorded webinar was seen to be too long, too generic and providing a lot of mainly superfluous information. A live MTD focussed webinar was also unappealing to businesses. Businesses were not especially comfortable with the idea of trying to get their queries on MTD answered in this type of forum and would prefer to use web chat or the telephone helpline.

"I can't really see myself sitting through something like this …… I just don't have the time …… and I'd be worried that I sat though the whole thing and still didn't have the information I needed" Microbusiness, Wholesale & Retail

<u>Small Business Forum</u>

Most businesses struggled to understand what role a forum could play within MTD. This is not a topic they anticipate wanting to discuss with other businesses, neither can they see any value in obtaining the opinions of, or sharing information with, other businesses in this area. If they have a query, they will want a definitive answer and not the opinion of other businesses on what the answer might be. When pushed, businesses could see that a forum moderated by HMRC could act as a sort of repository of FAQs and one potential advantage of this was that the answers provided by HMRC would be documented on the forum, making HMRC accountable for the answers provided.

"I can't see the point of this really …… not something I'd be interested in" Microbusiness, Pharmacy

Overall, businesses felt there were easier ways to get a direct answer to any queries they might have and were much more positive about the idea of webchat or the telephone helpline. At best they thought they might google a question, see that it has been discussed in a forum and have a quick look at the points made. Finally, some businesses were quite wary of putting their 'head above the parapet' where HMRC is concerned and therefore did not like the idea of having to sign up to a Forum. In contrast, the idea of communicating with HMRC via software does not provoke the same anxiety. It is felt to be a non-threatening way to engage with HMRC.

<u>Twitter</u>

Most businesses are not interested in following HMRC on Twitter. It is assumed that any information posted by HMRC about MTD would be quite generic and not directly relevant to them and their business. Businesses struggle to see why they would want to receive general information around MTD.

For the same reason businesses feel that Twitter would be an ineffective route to having any queries/issues around MTD resolved as it was anticipated that Twitter could only provide very generic answers to generic questions, not tailored responses to their specific queries.