HM Revenue & Customs

Research report 578

Exploring Views of Business Reporting Errors to Support Making Tax Digital Upstream Compliance: VAT and CT Errors

March 2020

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1. Executive Summary

Approach

As part of this two phase project, Kantar Public spoke with small business customers (hereafter 'businesses') and agents to answer three key questions for HMRC:

- How do businesses keep their records and approach updating HMRC and why?
- What errors do businesses make and why?
- How can HMRC help businesses avoid making errors?

Phase 1 consisted of depth interviews with businesses with VAT and CT liabilities. Phase 2 consisted of depth interviews with agents who represented small and mid-sized businesses with the same liabilities.

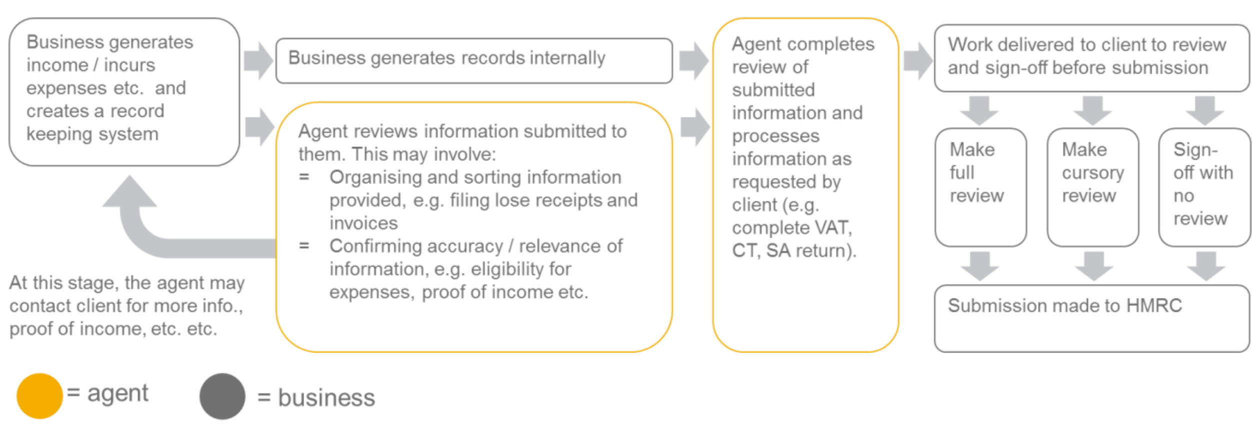
Findings

This research found that many errors occurred before businesses came to update HMRC or provide information to their agents. These errors appeared to result in part from how businesses approached record keeping. These findings support HMRC's activity in upstream compliance to address these errors, including how software can support this.

Approaches to record keeping and reporting

Both phases of this research revealed that businesses had developed similar systemised approaches to their record keeping and to updating HMRC. While businesses generally saw their systems as 'unique' to their business, the research findings revealed commonalities in approach. Many held paper based records augmented by some form of digital record keeping (either software or excel spreadsheets), employed an agent, and engaged in record keeping on a regular, cyclical basis. This was validated through interviews with agents who said their clients had similar systems and processes in place.

This research also shed light on the agent-client relationship and the agents' roles in the mitigation of errors. The flow of information between agents and their clients is described in the diagram below:



Businesses' knowledge and perceived ability to meet their liabilities
How the businesses we spoke to approached designing their systems and processes was influenced by their self-perceived ability to understand their tax affairs, and their personal contexts. Businesses that lacked confidence in their ability to manage their affairs, who felt they had low knowledge of the UK tax system and who viewed their affairs as complex, typically felt less able to engage with HMRC. These factors were also acknowledged by agents when talking about their clients. Agents commonly felt the errors they saw their clients making were due to their clients' knowledge of the UK tax system, the systems and processes they had in place and how confident they were in their understanding of the UK tax system.

Importantly, there was little appetite among small businesses to increase their knowledge of the UK tax system. Businesses' were focused on managing their businesses, generating income and investing time with family and friends. This often meant they employed an agent to provide tax advice and support in record keeping and updating HMRC. Similarly, businesses were often reluctant to change their systems and processes once they had found a system that met their needs. This was particularly the case if they were not receiving penalties. Businesses were rarely checking for changes in the tax system / requirements. As a result, some were using outdated information or applying rules in an inappropriate way.

Agents also noted their clients lacked the time and inclination to proactively research the UK tax system and changes in legislation. They felt they relied on them as agents to maintain professional standards and do this for them.

Tax errors
In both phases of this research, Kantar Public identified a similar range of errors. These fell into three broad error types: record keeping errors, errors related to knowledge of a particular rule, and errors related to the application of a particular rule. These error types cut across tax categories, for instance whether the errors related to CT, VAT or a sub-category within CT or VAT (selling overseas, specific deadlines etc.). Further detail and examples of errors can be found in section 3.2.

Suggestions for reducing the incidence of errors
Businesses and agents both suggested a range of ways HMRC could help businesses avoid making errors. Both agents and businesses felt existing support (particularly guidance on Gov.uk) was at once too general, too complex and too jargonistic. They suggested that content could be streamlined and simplified in order to help businesses understand and apply rules to their individual situations. They also suggested changes to the layout and navigability of HMRC's guidance to help businesses find what they need.

Businesses and agents also outlined several ways in which HMRC could help businesses to improve the quality of their records and make the updating process easier, something which they felt would ultimately reduce the incidence of errors. Firstly, businesses wanted tailored, targeted advice and guidance that was relevant to their circumstances. They felt this would help them to identify what was or wasn't relevant to their individual circumstances and ensure they were applying the relevant rules to their liabilities. Secondly, they wanted information delivered at timely points in the updating cycle. They wanted information before, during and after engaging with HMRC to feel reassured that they understood what they needed to do, and had done it correctly. This included being sent confirmation of having completed an action online. Finally, they wanted to be told and shown how to complete certain actions, ideally in the environment in which they were being expected to complete the task, to contextualise this learning.

In light of the above, there appear to be numerous opportunities for HMRC to support businesses to get it right first time when it comes to their tax. These could include making changes to the content and navigability of Gov.uk, creating new formats for delivering advice and guidance or including additional prompts and nudges during the reporting process. There also appear to be opportunities for HMRC to work with others to ensure businesses are supported. This may be through working with other government agencies (such as Companies House) to ensure businesses are provided with best practice advice at start-up, or by working with software providers to help reduce errors before businesses send information to the agent or HMRC.

2. Introduction

2.1 Background

HMRC wants customers' returns to be as accurate as possible to ensure they are paying the right amount of tax. HMRC is in the process of Making Tax Digital (MTD) which will help to improve the accuracy of customers' returns and help customers get things right first time. To support this, HMRC sought to better understand the nature and context of errors that are made.

2.2 Research Aims

This research aimed to expand and develop HMRC's understanding of factors underlying errors in record keeping by:

- Exploring current business reporting behaviours from the perspective of business owners and their agents.
- Exploring and identifying business behaviours and decisions underlying and resulting in errors, from the perspective of business owners and their agents.
- Identifying where intervention is needed to help avoid errors, from the perspective of business owners and their agents.

In addition to the above, this research aimed to understand agents' views on VAT and CT errors, the agent's role in reducing errors, and how HMRC can ensure agents and their clients continue to get the right support under MTD.

Insights drawn from this research will be used alongside other work to inform HMRC's engagement with third party vendors in their software design. Ultimately, this will help to ensure errors are appropriately addressed at source where possible, supporting the delivery of benefits under MTD for business.

2.3 Method and sample

2.3.1. Methodology

To meet the above aims, HMRC commissioned Kantar Public to deliver a qualitative study into business errors. This took place across two phases. In Phase 1, Kantar Public engaged with businesses to understand how businesses approach record keeping and updating HMRC. In Phase 2, Kantar Public spoke with agents to understand how they engage their clients about errors, the errors their clients make and how they mitigate errors.

Phase 1: Engaging with businesses

Kantar Public conducted 29 in-depth interviews with representatives from small businesses (fewer than 20 employees and a turnover of less than £10 million). In this category, participants came from a spread of sectors, income levels, and number of employees.

Fieldwork took place in London, Leeds, Manchester and the South East, from February to April 2017. Interviews entailed a one-hour conversation about participants' businesses and financial management processes and a 30-minute to one-hour observation of their current record keeping and reporting practices. In the interviews, Kantar Public mapped businesses' journeys and experiences with errors over the course of the last financial year.

Phase 2: Engaging with Agents

Kantar Public conducted 27 in-depth interviews with tax agents who offered both VAT and CT related services and reported encountering a range of errors linked to their clients' record keeping, and understanding and awareness of the UK tax system. The sample did not aim to include agents who represent the largest businesses, as they often have in-house accountancy functions or are represented by big consultancies. The agents we spoke to represented predominantly small businesses from a range of sectors.

Each interview lasted one hour. Kantar Public conducted 9 face-to-face interviews as part of a pilot to test research materials. The remaining 18 interviews were conducted as tele-depths. Fieldwork took place across the UK in February and March 2018, with pilot interviews taking place in Birmingham, Manchester, Leeds and London.

3. Findings

The sections below outline findings in relation to:

- Businesses' record keeping practices and their use of agents
- Businesses' errors and factors which contributed to customers to make errors
- Businesses' support needs

Please note that the findings from this qualitative research are intended to provide detailed insight into issues related to record keeping and errors, rather than to quantify them. The sample groups are not representative of the population of interest and findings cannot be generalised to the population as a whole.

Findings from Phase 2 provide insight into agents' views of errors made by businesses and their causes. As this is qualitative research, the type and range of errors described should not be interpreted as representative of errors which are occurring. Similarly, the factors agents see as leading to errors have not been systematically identified (for instance, through a drivers analysis).

3.1 Reporting behaviours and updating HMRC

The businesses and agents we spoke to described having or encountering similar systems and processes for maintaining records and updating HMRC. Businesses described their systems and processes as having developed in an ad hoc, organic way, with businesses dedicating little time to their design or updating. Agents described their clients as having similar behaviours when engaging with their tax affairs. Businesses' systems and processes, how these were developed and the role of the agent in the updating processes are described below.

3.1.1 Businesses' record keeping and updating systems and processes

Businesses had typically developed their record keeping and updating processes through **'trial and error'** and had built structures tailored to their businesses' needs. As such, most businesses viewed their systems and processes as '*unique*' or '*bespoke*'. However, businesses in our sample displayed similar behaviours, used similar tools and had similar approaches:

- Almost all businesses kept hard-copy receipts, invoices and bank statements.
- Many businesses kept some form of paper based ledger to structure their hard copy receipts, invoices and bank statements, although some did this digitally (generally in Microsoft Excel).
- A few had additional systems, tools or processes in place to support their record keeping practices. For instance, a few employed a book keeper and/or used specialist software.
- Almost all businesses employed an agent (see section 3.1.3 below).

The time at which businesses engaged in record keeping and updating activities also followed a similar pattern across businesses and was influenced or triggered by HMRC's reporting deadlines. Businesses typically followed a regular cycle of record keeping practices and spent a small amount of time keeping their records and systems in order over the course of a month or quarter.

3.1.2 Factors which influence how businesses approach their record keeping systems and processes

Businesses make choices about how they are going to meet their legal obligations at the point of start-up and refine these systems and processes as their businesses grow. Although they may have initially consulted HMRC guidance, businesses did not typically undertake extensive research or training when setting up their systems. Businesses made choices about what records they needed to keep and for how long, what format they needed to keep records in (hard copy or digital) and whether or not they needed support to do this (for instance, employing an agent, or book keeper).

Businesses used input from family and friends, agents and feedback from HMRC (such as penalties) **to refine their systems and processes** and to gain reassurance that they were acting in accordance with the law. Businesses were often reluctant to change or update systems and processes if they perceived them to be fit for purpose (particularly in the absence of fines from HMRC). Some businesses had followed the same systems and processes for decades, for instance, using paper ledgers, in part because they perceived them to be an effective way of meeting their legal obligations.

Reliance on outdated systems of outdated understanding of tax rules can lead businesses to make errors. Businesses' comfort and familiarity with particular record keeping and updating approaches and a reluctance to change a system which, from their perspective, is working well can mean businesses are not up to date with best practice.

Finally, businesses' immediate circumstances can create conflicting priorities and mean maintaining financial records or staying up to date with changes in the tax system is deprioritised. Despite understanding that they were ultimately liable for the accuracy of the data they submitted, most were not interested in tax or becoming tax specialists and instead felt their time was better spent growing their businesses or spending time with their families, friends or on leisure activities. This sometimes undermined the extent to which HMRC obligations were complied with.

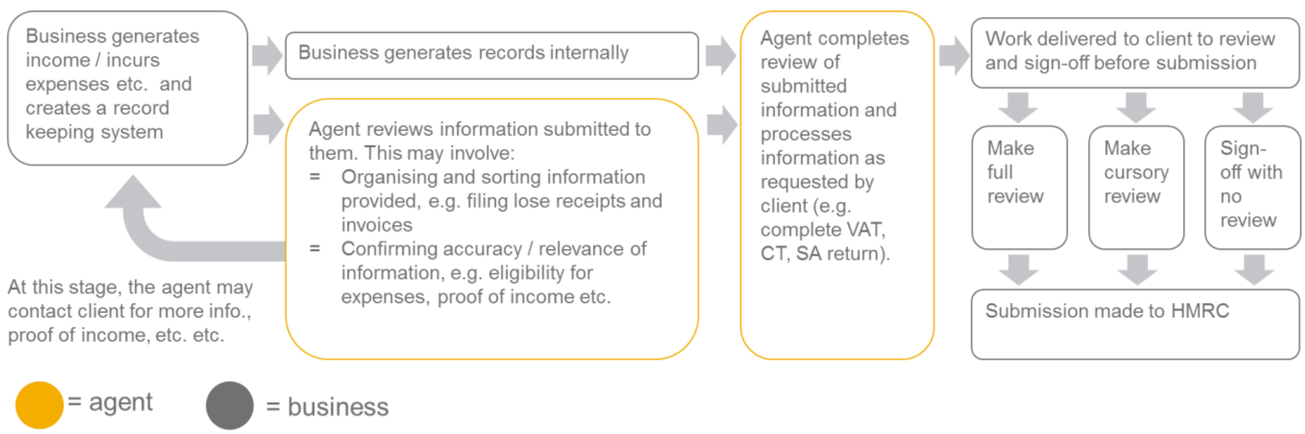
3.1.3 Business-agent relationships

As mentioned above, most of the businesses we spoke with had opted to use an agent. All Phase 2 participants worked with small to medium sized businesses. In the sections below we discuss why businesses had decided to use an agent, how information flowed between agents and their clients and how agents saw their role in relation to their clients.

Factors contributing to businesses' choice to use an agent
Businesses generally made personal judgements over their ability to navigate the UK tax system, the complexity of their liabilities and their ability to 'get it right' the first time. These personal judgements influenced how they approached record keeping and updating HMRC, including whether or not to employ an agent.

Businesses tended to view employing an agent as a mechanism for avoiding mistakes, as a way of navigating the UK tax system and / or as a way of enabling them to focus on generating income. As mentioned above, many of the businesses engaged in Phase 1 had little appetite for learning about the UK tax system. In addition to the above, many businesses also had low confidence in their ability to develop their understanding of the tax system.

How information flows between agents and clients
Kantar Public developed a diagram to illustrate how information flows between agents and their clients:



The relationship between the business and its agent during the reporting process was largely transactional. The business sent records to their agent, and the agent structured and sorted them, sometimes confirming the accuracy or relevance of a record if necessary. Businesses would double check information, receipts, and reference numbers when prompted to do so by their agent. Businesses understood that the quality of information they got back from their agent could be affected by the information they provided to their agent beforehand. As a result, businesses generally updated their internal systems when recommended to do so by their agent, particularly if their agent warned that it was necessary to remain compliant.

Businesses' abilities to quality assure agents' work
The extent to which businesses double checked or questioned their agent's work varied. Although some double-checked accounts in full, others took a cursory glance, or signed-off accounts with no further checks. Some believed that, if the agent made a mistake, they could seek legal redress.

Businesses' quality assurance behaviours varied. Businesses who perceived themselves to have complex liabilities, low knowledge and low confidence tended to quality assure and check the accuracy of their data and have more complete records. This appeared to be due to anxieties over the potential repercussions of making mistakes and a desire to be seen to be making efforts to 'get it right'. This was supported by views expressed by agents in Phase 2.

In contrast, businesses who viewed their liabilities to be relatively simple or who viewed themselves as more confident in their knowledge of the 'rules' were sometimes less likely to rigorously review their agent's work. In Phase 2, agents reported that some 'confident' clients challenged them over their interpretation of the tax rules to minimise their liability.

The role of trust in the agent client relationship
Participants in both phases of the research were clear that the relationship between the business and the agent relies on trust. Although businesses generally understood that they were ultimately responsible for the accuracy of the information they submitted to HMRC, many trusted their agents to act on their behalf. In using an agent, businesses believed they were buying a safety net. The agent was seen as a specialist who was best placed to navigate and leverage the tax system, and to find and identify mistakes in the information submitted, which some businesses did not see themselves as capable of doing.

Agent perceptions of client relationships
Agents' perceptions of their roles influenced how they engaged with their clients and the nature of the advice and guidance they provided. Despite agents offering a similar range of services, some characterised themselves as suppliers of a fixed service, while others characterised themselves as consultants who would adapt to their clients' individual needs. This influenced how they approached servicing their clients, the degree to which they actively advised them on business practices and how they approached mitigating errors (see section 3.3.2):

- **Supplier:** offers transactional services with limited proactive advice and guidance or business planning
- **Consultant:** offers relationship-based services, more sophisticated advice and guidance with some offering strategic advice on how to 'manage' liabilities (tax planning)

Agent role in the identification of errors
In most instances, agents had conversations with their clients if they identified errors, anomalies or information gaps. If relevant, agents then asked for additional information relevant to their query. If the client was unable to provide the information, the agent generally recommended that they change or correct their records. In instances where the error was small and the agent had access to the relevant information, an agent sometimes made the correction and informed the client of the amendment (see section 3.1 on the types of errors).

Following the immediate resolution of the error, the agent then typically provided advice on what the client should do to avoid similar errors. Agents sometimes gave advice on how their clients should structure and maintain their records, provided basic tools for making calculations and advised on what records clients should keep.
Most agents identified errors in the normal course of their work with clients, although in some instances agents became aware of errors as a result of an investigation by HMRC. Once aware of an error, most agents provided advice and guidance to their clients on what they should do to avoid or rectify the error. Agents said that in the majority of cases clients acted on their advice. However, while most agents observed that businesses' record keeping tended to improve over time, some reported that clients opted not to act in line with their agent's advice. As a result, they submitted information containing errors to HMRC.

Whether or not a client wanted to proceed with a submission was often felt to be linked to the client's confidence in their understanding of the tax code. Agents felt clients disregarded their advice when they:

- perceived the risk of being caught to be small;
- perceived there to be a 'grey' area;
- felt they could successfully argue their case if challenged; or
- they believed their agent to be wrong.

Some agents described situations in which their clients attempted to *'bully'* them into changing their advice, or where clients were deliberately *'sailing close to the wind'*. If a client decided to act against an agent's advice, the agent would ask the client to sign a waiver acknowledging they were acting against their agent's advice. The extent to which an agent accepted this behaviour varied.

3.2 Business errors

This research identified a range of errors made by businesses when working to meet their obligations to HMRC and highlighted several key factors related to how businesses approached their record keeping and their updating of HMRC that could contribute to errors.

3.2.1 Error types and categories

The errors identified by both businesses in Phase 1 and by agents in Phase 2 were similar, although in Phase 2 the descriptions of errors were generally more precise. The errors encountered by businesses and agents can be grouped in two ways: **error type** (the underpinning reason for the error) and **error category** (the part of the tax code the error related to). Error type and error category are described in more detail below.

Error Types
Businesses made a range of errors when working to meet their obligations to HMRC. The types of errors described by agents in Phase 2 aligned with those identified by small businesses during Phase 1 of the research. The errors described by both businesses and

agents typically fell into four error types:

- **Record Keeping errors**: these arise due to businesses' systems and processes and their compliance (or lack thereof) with those systems. Examples include: incomplete invoicing, taking cash in hand, accepting payment in-kind or non-cash payments, and not having any formal systems in place.
- **Tax Awareness errors**: these stem from lack of awareness of UK tax rules. Examples include: not knowing thresholds / tax rates had changed, not knowing allowable expenses, entering the wrong tax code.
- **Tax Understanding and Application errors (Simple)**: these link to businesses' knowledge and familiarity with the UK tax system and its underlying principles. Examples include: lack of confidence understanding calculations for certain expenses and either not deducting or underestimating as a result, not knowing principles informing allowable deductions, not knowing relevant information when designing internal systems and processes at business set up.
- **Tax Understanding and Application errors (Complex)**: these result from the interaction between different tax types. Examples include: claiming the full amount of VAT back on the purchase of the vehicle and not factoring in depreciation and misunderstanding capital allowances.

Although businesses did not comment on whether these errors were connected, agents perceived these error types to be interlinked. Agents felt businesses' lack of awareness of tax rules contributed to their poor understanding and inappropriate application of these tax rules to their record keeping and updating processes. For instance, not being aware of a tax 'rule' or not being aware that a 'rule' has changed could lead clients to be non-compliant. Once a client is aware of a particular 'rule' they may still apply it incorrectly, for instance, making deductions that are not allowable.

Error categories

Agents had a more nuanced understanding of the errors made by clients and provided more detailed descriptions of these errors in Phase 2. Agents most commonly discussed encountering VAT (rather than CT) errors. One reason for this may be that the agent was more likely to be handling the CT submission, giving fewer opportunities for clients to make errors. Further, agents in our sample may have had fewer clients eligible for CT than VAT and, as a result, they could have more commonly observed VAT errors.

Although encountering VAT errors more often, agents saw a relationship between the two error categories, with VAT errors contributing to errors related to CT in many cases. For example, a VAT error can make clients' profits appear lower than they are and, as a result, CT calculations can be inaccurate.

Examples of different VAT and CT error types and categories

Within VAT and CT, there was a range of error sub-categories. A selection of examples of errors are presented in the tables below with verbatim quotes from agents describing the errors.

Examples of VAT errors

Business vehicle - fuel	*"Claiming VAT on petrol, ignoring the fuel scale charge and then not dealing with the true mileage basis."*
Business vehicle - purchase	*"Car leases. They are not aware that they have a 50% lock on them."*
Erroneously claiming VAT	*"I've seen all sorts…I've seen claiming VAT on the VAT payment, claiming VAT on wages...[they think] I've spent money, I must be able to claim VAT on it."*
Miscalculations	*"Those that do it themselves, the calculation could be an issue. They don't know that dividing by one sixth will give the VAT on a gross number, so there could be mathematical errors in calculations."*
Misinterpreting guidance	*"The resources they have are not clear enough or the advice that they have been given has not been quite specific to their situation."*
Omitting data	*"Doubling up on invoices or receipts or completely missing them."*
Record keeping	*"A most common one is claiming VAT when you don't have a VAT invoice. So people say, of course there's VAT on that petrol but if you don't have that VAT receipt, strictly speaking you can't claim it."*
Software use	*"I have seen people claim VAT back on train fares...that is because software has a default VAT value for travel and people don't change it."*

Examples of CT errors

Annual investment allowance (AIA)	*"AIA most of the time they misunderstand the rules and a couple of years ago the AIA changed from one year to the next so people who were over a period that covered the two AIA limits they had to apportion between the two years which is very difficult when your period covers two. You have to pro rata it. So obviously at that time so errors were made."*
Business vehicle	*"Sometimes there are business vehicles that are used on a personal basis but obviously that is calculated*

	about how much to include."
Capital Allowance	*"The only ones you would see are where they have a capital allowance in the wrong place or cars in the general pool or special pool or where they're not claiming the right allowance."*
CT cut off	*"A basic admin error is extending the year end. People don't tend to put in a return for the original period, so they get penalties on that."*
Entertainment	*"[Entertaining] because people forget you have to charge CT on that because it's not necessarily a business expense."*
Fixed asset base	*"It's the fixed asset base. There's a lot of things you can put in there but there's a lot of things you can't put in there. For larger firms it's about differentiating between different assets...smaller things like office equipment and more of the zero exempt items because there are a lot and I don't think a lot of people understand that."*
Personal vs. business expenses	*"Someone's gone away abroad somewhere. It was multi-purpose, and whilst they were away they had meetings and they did their business and they dealt with emails and part of their trip they would have incurred business costs, but ultimately they went with someone else...sunbathed for a few hours each day. What I do is I disallow everything except very specific costs that were just for business, but your flights, forget it."*

Client errors may fall into the same category but for different reasons (i.e. poor record keeping, lack of awareness, or misinterpretation of the rules). For example, a client may erroneously claim VAT on train travel because they didn't keep the receipt (record keeping) or because they didn't know there is no VAT on train travel (lack of awareness).

3.2.2 Agents' views on why their clients make errors

Agents reported seeing errors in their clients' records or submissions when they were processing them to be sent to HMRC. Agents usually corrected these errors before sending an update to HMRC, unless, as discussed in Section 3.1.3, clients wanted to proceed against their agent's advice. Agents saw five key factors as influencing their clients' behaviours: confidence, knowledge, legacy/heritage[1], business growth, and stakeholder engagement. These aligned with those factors identified as part of Phase 1 and related to clients'

[1] Legacy / heritage refers to a client's system or approach to record keeping and how the client has met their tax liabilities in the past

perceptions of their own abilities to get things right the first time as well as their personal contexts.

Confidence

Agents felt that a client's tax confidence influenced their behaviour and could lead to either under-claiming or over-claiming (e.g. in relation to allowable expenses). Agents thought that clients lacking confidence about tax tended to be cautious and might choose not to claim allowable expenses to which they might be entitled as a way of avoiding errors. This is similar to behaviours observed in Phase 1, where businesses opted not to make allowable deductions in case their interpretation of the rules was wrong. This lack of confidence led some Phase 1 businesses to use an agent.

Some agents reported that their clients incorrectly believed that their own interpretations of the rules were correct, despite being challenged and advised to the contrary by their agent. Some agents felt their client's overconfidence led them to submit inaccurate data and make errors. In some cases, agents felt some 'errors' were really wilfully over-generous interpretations of the rules by the client. In a few cases, an agent had advised their client that they would be perceived by HMRC as deliberately underreporting.

Knowledge

Agents believed their clients' knowledge and understanding of the UK tax system influenced how they managed their businesses and whether or not they made errors.

Agents felt that many of their clients had little knowledge of the UK tax system or tax rules. For instance, agents commented that their clients did not know what was or wasn't an allowable expense, what the rules were around entertainment, or what could be deducted under CT. As a result, the agent had to review and where necessary correct their submissions to help ensure they were compliant.

Agents also felt poor knowledge meant that clients did not always retain all the necessary records. In part, this was because they were unaware what they needed to retain. Agents also felt that some of their clients knew a little about tax rules, but not always enough to correctly apply the information to their situation. In some instances, clients were overconfident in their interpretation of tax rules and submitted accounts with errors.

Agents felt that some businesses also did not have a full understanding of how their business was performing and that this led to errors. For instance, agents felt that poor business management (not tracking profit / loss properly) meant that some businesses were on inappropriate VAT schemes. Some agents representing wholesalers and businesses with a retail element felt not having a stock management system created errors as these firms were not able to accurately calculate the value of these goods at the end of the financial year.

Finally, some agents felt their clients made errors because they lacked basic maths skills. They therefore made mistakes in basic calculations, such as calculating VAT.

Legacy/Heritage
'Legacy and heritage' refers to clients' systems for record keeping and the tools and approaches they historically used, and whether clients have kept up-to-date with changes to the tax rules.

Some agents perceived some established businesses to be unaware at times that there had been changes to the tax rules, causing them to apply the rules incorrectly. Agents felt this was more likely to occur in older businesses or when there were changes which took effect mid-year. One agent, for instance, gave an example of Annual Investment Allowance (AIA) changing in relation to car allowances which impacted how a business accounts for car use. Some businesses used the information they had submitted in previous years as a guide to complete the current year's submission. As a result, some errors carried over into their updating processes if mistakes had been made in previous years.

Some agents felt their clients' record keeping systems contributed to errors, particularly if they were in the process of digitising them or kept records in a mix of formats (for example, on paper and digitally). Some agents felt that digital records could be lost or forgotten if they were not seen as part of their normal business processes, or were outside the usual business channels.

Some agents felt errors stemmed from the types of book keeping and accountancy systems and tools their clients used. For instance, some agents commented that their clients did not regularly update the software they used for accounting. As a result, they did not have up to date information or defaults. Some also felt their clients made errors because their software defaulted to include VAT even when it was not applicable. For instance, some software packages default to claim VAT on all travel, despite VAT not being allowable on train travel.

Business growth
Agents generally felt errors were more likely to occur if their client was busy delivering work or had a high volume of transactions. This was because having more transactions generated more records. In essence, there were more opportunities for something to 'go wrong'. Generally, agents felt their clients used them because they were focused on running their businesses, which supported findings from Phase 1.

Agents also felt that errors were more likely to happen if a business was just starting out, and that their clients tended to learn the rules over time. A new business may be unaware of or unfamiliar with the rules or how to best maintain their records. They may also be focused on getting their businesses trading, rather than on updating HMRC. As a result, businesses may make errors or be unable to evidence allowable deductions due to poor records, systems or processes. Agents typically felt that the prevalence of these sorts of errors reduces as a business matures and learns what is or is not acceptable through receiving feedback from their agent or as a consequence of being investigated by HMRC. This echoes findings from Phase 1 where businesses described the experiential way in which they developed their systems and processes.

Some agents identified errors specific to certain sectors or business models. For instance:

- Agents felt errors were more likely among clients who were sole traders or micro / small businesses because they lacked support to manage their business.
- Businesses selling products which could be used for personal use (such as haircare products) may put items for personal use or for friends and family through their business account inaccurately.
- Businesses selling overseas may not know the requirements of the different territories they were selling in and when or where they needed to charge VAT. This was mentioned in relation to a construction firm selling services in both the Republic of Ireland and in Northern Ireland, and in relation to several retail businesses selling overseas (for instance, via online sellers and in countries which are geographically in Europe, but not members of the EEA).
- Some also felt errors would be more likely if the business had income from a range of different sources. For example, if a business started renting out an upstairs room above their shop, or if they sold advertisements in their shop window, they may not recognise the income as associated with the business and not report it as a result.

Stakeholder engagement

Agents felt businesses tended to make fewer errors after implementing more formal systems and processes as they grow (e.g. being able to employ bookkeepers). Whether the business had someone available to support them in maintaining systems and processes, and whether stakeholders (employees, business partners) understood and complied with the systems, were felt to contribute to business errors. For instance, one agent said that their clients struggled to get his sales staff to keep VAT receipts as they did not know why this was important. This echoes findings in Phase 1 in which businesses described struggling to get employees, business partners and co-workers to follow internal systems and processes (for instance, handing in receipts following business trips).

3.3 Business support needs and intervention points

3.3.1 Business support needs: how businesses felt they could be supported

During Phase 1, businesses reflected on the types and causes of errors they had made in the past. In doing this, they identified a range of support options HMRC could provide that would help them avoid making errors. Apart from during business set-up, participants did not commonly identify bodies other than HMRC as potential providers of support and guidance. Most of these businesses did not identify tax agents as a source of support and guidance, despite most of the businesses in our study employing one.

It became clear that businesses' suggestions were underpinned by six guiding principles:

Pertinent and Personal: businesses want tailored support in large part because they lack the confidence to apply complex tax rules themselves. Any information delivered should be relevant to their circumstances (for example, relevant to the tax code, life stage and liabilities). Businesses typically felt this would help them understand which elements of the tax system are applicable to people in their circumstances or operating businesses in their sector. Businesses' suggestions included being shown only relevant information and being required to answer only relevant questions. For example, if a small business was working in the hair and beauty sector, they only wanted to see deductions that were applicable to people in their industry, rather than a full / extensive list. Businesses also wanted to be provided with online chat functions, to get targeted notifications based on individual circumstances and to have dedicated account managers.

Unprompted: businesses want information to be delivered to them. They don't want to, and might not, seek it out. Many were focused on managing their businesses and spent little time proactively looking for changes in tax legislation or keeping up-to-date with deadlines. However, they also wanted to avoid errors and mistakes. As a result, businesses felt it was appealing to get notifications by email when a tax rule had changed (if this rule was relevant to their circumstances).

In the moment: businesses want advice at relevant points in time. As mentioned above, this is because businesses consider themselves unlikely to seek out this information. While engaging with HMRC (for instance, when completing their return on the HMRC website), businesses wanted HMRC to highlight if there were contradictions in the information they had submitted or if there was an error in their calculation. Businesses anticipated this would help them avoid submitting inaccurate data, and help improve the quality of HMRC's data.

Convenient: businesses want it to be easy for them to get it right and correct errors. Businesses wanted to have notifications before, during and after engagement. Notifications before engagement could be focused on reminders of upcoming deadlines and 'top-tips' for submitting data accurately. Notifications during engagement should help businesses contextualise what they are doing. Notifications after engagement should provide reassurance that businesses have completed a transaction and give advice on any next steps.

'Enough': businesses want enough information to be able to make informed decisions about their tax affairs and management, but not so much that they become overwhelmed. Although they wanted HMRC to communicate best practice to demonstrate how to complete tasks and to provide FAQs, they did not want to be overwhelmed with information. Businesses suggested changes in how HMRC provides support and requests information from them. Businesses wanted support to be delivered in practical, bite-sized chunks. Businesses commonly commented that existing support and HMRC forms were too complex, long and technical. Fundamentally, businesses wanted to receive enough information to complete the task at hand, but not an amount necessary for them to become experts in tax.

Clear: businesses want advice which is clear and jargon free. Businesses wanted forms, advice and guidance to be streamlined and written in 'plain English', with jargon avoided wherever possible. Lastly, they wanted the tone of communications to be friendly and, ideally, to have a single point of contact.

3.3.2 Business support needs: how agents felt their clients could be supported

Agents felt there were further opportunities for HMRC to help their clients avoid making errors. These opportunities centred on ensuring clients had access to accurate, easy to understand information that was delivered in a timely way. Although agents felt they had a key role to play in directing businesses to information, they saw HMRC as the main generator of customer-facing information, advice, and guidance. Many of their suggestions for delivering additional information to clients focused on building on existing HMRC resources.

Agents' suggestions for how their clients could be supported mapped onto the guiding principles identified in Phase 1. However, some principles – namely, 'in the moment' support was less relevant. This may be because agents handle elements of the submissions process where businesses say they would like 'in the moment' support. As such, they may see it as less relevant for their clients.

Pertinent and personal
Agents recognised that their clients struggled with the volume of information about their liabilities that was available, particularly on gov.uk, and felt they struggled to navigate to what was relevant for their circumstance. As a result, they suggested various ways in which this information could be broken down into 'bite sized' chunks or smart systems which would only show information relevant to their particular circumstances or businesses.

Unprompted
Agents felt that HMRC could be more targeted in when they provided advice and guidance to businesses. A few agents felt HMRC could give businesses unprompted advice on their liabilities and how to meet their responsibilities at start-up. For example, agents felt HMRC could provide an information pack to businesses when they register with Companies House. They felt the pack could contain information on best practice record keeping and clients' legal responsibilities. Agents felt this would empower clients to establish good practices and meet their obligations from the start.

Convenient
Agents felt HMRC could improve gov.uk to better meet their clients' needs and make content easier to access. Agents' suggestions complemented those made by businesses in Phase 1 and included:

- improving the search function improved to make it more useful for their clients;
- providing one-page bulleted fact sheets;
- sending reminders about approaching deadline;
- providing a simple VAT calculator; and
- providing advice and guidance in different languages

'Enough'

Agents saw gov.uk as a good general resource. However, agents commonly said that the content was too detailed and technical for most clients, while being too general and not detailed enough for agents. Agents suggested having ‘layers’ to the gov.uk website which would present ‘simple’ and more ‘complex’ advice and guidance to businesses in a staged way to avoid overwhelming clients;

Clear

Agents suggested streamlining the information available on gov.uk or simplifying the language used to make it easier for people without specialist training to understand. As with businesses, they suggested more interactive formats (videos, tutorials) as a way of delivering information.

4. Conclusions

Overall, businesses described similar systems for record-keeping and updating HMRC. These had often developed in an ad-hoc way, with some businesses prioritising the running of their business over updating their reporting systems and practices.

When deciding whether to use an agent, businesses made personal judgements about their ability to get their taxes right first time, and businesses' quality assurance behaviours varied. Some businesses viewed employing an agent as a means of freeing up time to focus on the running of their business and generating an income.

The research identified a range of errors made by businesses. These errors fell into different types of error (e.g. record-keeping, tax awareness errors) and categories of error (e.g. relating to specific taxes and obligations associated with those taxes). Agents suggested several causes for these errors: low business confidence; poorer knowledge of the tax system, established systems for record-keeping and reporting that businesses were reluctant to change, and high volumes of transactions that could be associated with a period of business growth.

A range of support options to help reduce the incidence of errors was identified during the research. These include providing clear, tailored support at the right time without businesses having to search for the information they need. Businesses also wanted reassurance that they were getting things right throughout reporting cycles. Agents also suggested that gov.uk contained information that was too simple for tax agents but too technical for businesses who do not have expert tax knowledge.

These findings support HMRCs exploration of means to improve upstream compliance, and could be used to help reduce errors made by businesses in their VAT and CT reporting.