



HM Revenue
& Customs

Research report 572

Making Tax Digital – Monitoring Agents’ Awareness of MTD

Summary Findings

12th September 2019

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1. Executive Summary

Kantar, an independent research agency, conducted three waves of research with professional tax agents between June 2018 and March 2019 to track their awareness, understanding and advocacy of the Making Tax Digital (MTD) changes. MTD for VAT became mandatory for businesses with taxable turnover above the VAT threshold for their first VAT Return period starting on or after 1 April 2019.

Awareness of MTD was found to be consistently high; rising to 100% of agents aware of MTD by wave 3. The majority of agents were aware of mandatory obligations, while there was less knowledge about other voluntary changes. The most commonly cited sources of information on MTD were HMRC channels, professional bodies and software providers, who became an increasingly prominent source of information as the deadline approached, particularly for Agents who were not members of professional bodies.

Larger Agents were consistently more likely to believe they had enough information to support clients and were more active in preparing their own business and their clients for the changes. Although the proportion of agents showing high levels of advocacy rose significantly across the three waves (47% wave 1, 58% wave 3), agents were typically focussed on preparing clients for the mandatory changes, and fewer were taking action to prepare or advocate voluntary changes.

The main concerns for agents about the introduction of MTD were around their clients' awareness and digital capability, and HMRC system readiness. Across the three waves there was a reduction in concerns around HMRC system readiness and an increase in concerns around cost to business, which became a leading concern as the deadline approached. The main benefits cited by agents were 'improved record keeping' and 'live / up to date information' and a third (33%, wave 3) agreed that MTD will make it quicker and easier for businesses to meet their tax obligations.

2. Introduction

2.1 Background

Kantar, an independent research agency, was commissioned by HMRC to conduct a nationally representative survey of tax agents regarding Making Tax Digital (MTD).

MTD changes how businesses interact with HMRC, moving customers away from a paper-based or telephone-first approach to an increasingly digital service. MTD is designed to make it easier for businesses to get their tax right the first time, reducing avoidable mistakes. It also enables businesses to keep track of their financial and tax position much closer to real time and provides businesses with a more up to date view of the tax they owe.

Under MTD, from 1 April 2019 businesses with a taxable turnover above the VAT threshold are required to keep their tax records digitally and to file returns from that underlying data to HMRC directly through their MTD-compatible software. Businesses with a taxable turnover below the VAT threshold are able to take part voluntarily. Self-employed businesses and landlords can also voluntarily use software to keep their business records digitally and send Income Tax updates to HMRC, instead of filing a Self-Assessment tax return, as part of the Making Tax Digital for Income Tax pilot.

Given that nearly three quarters (74%) of businesses are represented by a tax agent¹, the role of agents in engaging businesses around MTD is key. However, previous research has shown that agents had some concerns around the introduction of MTD. The Individuals, Small Business and Agents (ISBA) Customer Survey 2017² included a small number of questions to examine Agents' awareness and views of the new digital reporting requirements. It found that awareness of MTD was typically high amongst Agents, knowledge of individual elements was lower, and a substantial number of Agents held negative views and were not recommending uptake to their clients. The three waves of 'Agents Awareness of Making Tax Digital' research aimed to explore these issues in further detail and to track any changes in awareness and attitudes to MTD as the mandatory deadline for VAT reporting approached.

2.2 Research Aims

The aim of this research was to track awareness and advocacy of MTD amongst the agent population in 2018/2019. Primary quantitative research was undertaken with professional tax agents across three waves of fieldwork in the lead up to the mandatory deadline for VAT reporting (1st April 2019).

The main objectives of this research were to:

1. Measure awareness and understanding of MTD among agents, any differences between agent types and how this changes over time.
2. Explore agents' views around the opportunities and barriers to advocacy of MTD.
3. Examine and monitor agent behaviours relating to preparing their clients for MTD, and exploring any differences between their VAT clients and ITSA clients.

2.3 Method

2.3.1 Sample

¹ <https://www.gov.uk/government/publications/making-tax-digital-for-business-survey-of-small-businesses-and-landlords>

² <https://www.gov.uk/government/publications/hmrc-individuals-small-businesses-and-agents-customer-survey-2017>

A recontact sample from the HMRC Individuals Small Businesses and Agents (ISBA) annual customer survey was used. The ISBA Agents survey is a large and robust random probability survey of the Agents population. Due to the timing of the first wave of fieldwork, the ISBA 2017 recontact sample was used. For subsequent waves, the ISBA 2018 recontact sample was available.

Sample for Wave 1 was drawn from ISBA 2017 respondents who consented to be contacted by the independent research agency, Kantar, for further research. The selection criterion was Agents who were accountants and who dealt with SA or VAT.

Sample for Wave 2 was drawn from ISBA 2018 respondents who consented to be contacted by Kantar, for further research. The selection criterion was Agents who were accountants and who dealt with SA or VAT. To reduce burden on respondents, all agents who had taken part in wave 1 were excluded from this sample.

Sample for wave 3 was drawn from two sources. The first was ISBA 2018 respondents who consented to be contacted by Kantar, for further research. The selection criterion was Agents who were accountants and who dealt with SA or VAT. The second was wave 1 respondents (originally recontacts from ISBA 2017 – see above) who consented to be contacted by Kantar for future waves of similar research. To reduce burden on respondents, all agents who had taken part in wave 2 were excluded from the sample.

A high-level sample breakdown for each wave can be found in appendix 2. At each wave the results were weighted to ensure they are representative of the eligible Agent population in the UK.

2.3.2 Fieldwork

Fieldwork consisted of three waves, with 500 interviews conducted at each wave. The first wave of fieldwork included a short pilot of 50 interviews. Fieldwork dates are shown below in figure 1. All interviews were conducted using Computer-Assisted Telephone Interviewing (CATI) methodology.

Wave	Fieldwork dates	Number of interviews
1	Pilot: 31 st July – 1 st August 2018 Mainstage: 6 th – 24 th August 2018	501
2	Mainstage: 26 th November – 14 th December 2018	500
3	Mainstage: 18 th February – 8 th March 2019	500

2.3.3 Analysis

For the purposes of reporting, Agents were categorised into a 'low, 'medium' or 'high level advocacy band based on self-reported actions to prepare their clients for the MTD changes.

Low advocacy: Agents who indicated they had not taken any actions to prepare clients.

Medium advocacy: Agents who had helped prepare their clients for mandatory VAT reporting. This included the following actions; advocated that clients make changes, responded to client queries, supported or advised clients to start digital record keeping, supported or advised clients to source new software, helped clients to set up a business tax account.

High advocacy: Agents who had advocated the benefits of MTD and take-up of voluntary reporting³. This included the following actions; advocated the benefits of MTD to clients, got clients to sign up for a VAT pilot⁴, got clients to sign up for Income Tax pilot or Agent had recommended to any of their clients that they should start making quarterly updates for Income Tax on a voluntary basis over the next year.

2.3.4 Reporting notes

Percentages may not always sum to 100% due to rounding to the nearest whole number, or where respondents were able to choose more than one response option. Significance is reported at a 95% confidence interval.

3. Findings

3.1 Awareness of changes

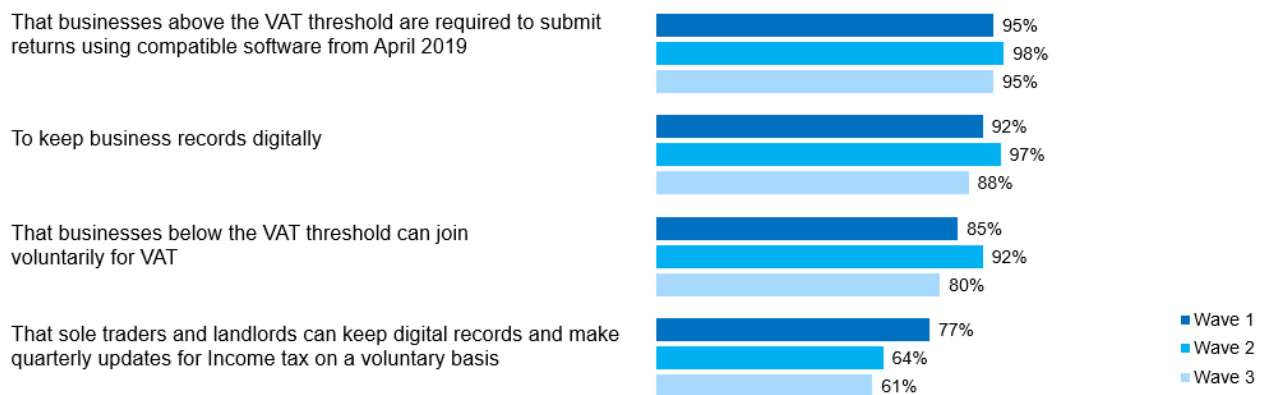
At the start of the survey, Agents were asked if they had heard of Making Tax Digital. Those who had not were asked if they were aware that HMRC are making changes to the way businesses send VAT and Income Tax information to them. From the start of the research in June 2018, Agents have consistently shown a high level of awareness of Making Tax Digital. In the first wave 95% had heard of MTD and a further two percent were aware of the changes. By wave 3, 100% of Agents surveyed had heard of MTD.

³On 1st April 2019 MTD became mandatory for all businesses over the VAT threshold. Businesses who were not required to join MTD on 1st April could join for VAT or ITSA on a voluntary basis. Businesses for whom the changes were mandatory also had the option to voluntarily join ahead of the deadline by take-up of the VAT pilot.

⁴ The ITSA pilot opened in March 2018 and the VAT pilot opened in October 2018 to provide the opportunity for businesses to test the service before they are required to join.

Although awareness of MTD was high, knowledge around the individual elements of MTD varied. Agents were asked whether they were aware of four different elements of MTD; results from across the three waves are shown in figure 1.

Figure 1: Percentage of Agents aware of individual elements of MTD



Q. HMRC is introducing changes to how businesses provide information relating to their tax obligations. Which of the following do you think these changes are?

Base: Respondents who have heard of MTD or are aware of the changes (Wave 1: 495, Wave 2: 497, Wave 3: 500)

By wave three 56% of Agents were aware of all four of these elements; a further 27% were aware of three. Agents appeared to be most aware, and somewhat focussed, on the mandatory elements of MTD such as the April reporting deadline for businesses over the VAT threshold. Awareness of voluntary reporting, both for businesses below the VAT threshold and for Income tax, was much lower. By the third wave, only 61% of Agents were aware that sole traders and landlords can keep digital records and make quarterly updates for Income Tax on a voluntary basis, a significant reduction from the 77% aware of this element at wave 1. HMRC's deliberate focus on the mandatory requirements as the April deadline approached may have reduced awareness of voluntary changes for smaller businesses,

Across the three waves of research, awareness was higher amongst larger Agents, and those who are members of a professional body. At the start of the research small and unaffiliated Agents were less likely to have heard of MTD; 87% of small Agents (0-49 clients) and 90% of unaffiliated Agents were aware of MTD in the first wave. Even by wave 3, when awareness had risen to 100%, smaller Agents remained less likely to be aware of all four

elements asked about⁵. Forty six percent of small Agents (0-49 clients) were aware of all 4 elements compared with 60% of medium/large Agents (50+ clients).

Agents who showed higher levels of knowledge of MTD were more likely to advocate changes to their clients. Fifty nine percent of those with a 'high' level of advocacy were aware of all four elements, compared with just 40% of those with a low level of advocacy (wave 3). Further information of factors which impact Agents' advocacy can be found in section 3.5.

3.2 Sources of information for Agents

At each wave, Agents were asked to list all sources they had received information about MTD from over the last three months. Just over half of Agents (55%, wave 3) reported receiving information from a mix of HMRC and non-HMRC sources.

Across the three waves between 63% and 69% of Agents reported receiving information from HMRC in the last three months, typically by letter or email. In wave 1, 37% of respondents reported receiving information about MTD through a letter or email from HMRC in the last three months, by wave 3 this had increased to half of Agents (50%). This is likely to be the result of a large mail out in November 2018 – February 2019 by HMRC to all businesses for whom the changes would be mandatory⁶.

At the start of the research, professional bodies were a leading source of information, with 35% of respondents indicating they had received information on MTD from them in the last 3 months. This fell to 28% in wave 3. Similarly, accountancy seminars and courses had significant reach in the first two waves (19% in wave 1 and 23% in wave 2) but only one in ten (9%) of respondents listed these as a source of MTD information in wave 3.

Software providers became an increasingly prominent source of information as the mandatory deadline approached, eventually overtaking professional bodies as a leading source of information. In wave 1, under a third (31%) of Agents had received MTD communications from software providers in the three months prior; by wave 3 this increased to almost half (46%). This suggests that the impact of advertising campaigns by software providers has increased in the run-up to the April 2019 mandatory deadline and may help to explain why smaller, non-affiliated Agents reported increased levels of awareness of MTD in later waves.

Newspaper, trade press and radio communications about MTD also had significant reach across the three waves with approximately a quarter of Agents citing these as a source of

⁵ It should be noting that the survey did not include a question on whether the Agent had clients for whom the changes were voluntary or mandatory. Therefore, it is not possible to determine whether respondents had clients impacted by only mandatory changes, only voluntary changes or both.

⁶ This mail out was targeted at all VAT mandated businesses (i.e. those with a taxable turnover above the threshold, and some with a turnover near the threshold).

information (27% wave 1, 21% wave 3). HMRC's Agents update, webinars, online forum and blogs had a comparable reach (23% wave 1, 37% wave 2, 24% wave 3).

Agents were also asked if they agreed with the statement 'We have all the information we need to support clients in making the changes'. Agreement with this statement increased significantly from 29% in wave 1 to just under a half (47%) by wave 3. Agents who reported receiving information from HMRC were more likely to agree they had sufficient information compared to those who had only received information from non-HMRC sources (wave 3; 52% vs 40%). Smaller Agents were consistently less likely to feel they had enough information. Even by wave three only 37% of small Agents (0-49 clients) agreed they had all the information they need, compared with 47% of medium-sized Agents (50-250 clients) and 56% of large Agents (250+ clients).

3.3 Perceived benefits and concerns

At each wave, respondents were asked to cite all the benefits they foresee for their clients with the introduction of MTD. The response options were not read out loud by the interviewer, so top-of-mind thoughts were captured. Improved record-keeping and more up-to-date information were the most-commonly cited benefits, particularly in the latter two waves. By the third wave, one in four of all respondents (25%, vs 8% wave 1) cited improved record keeping and 16% cited live / up to date information (6% wave 1).

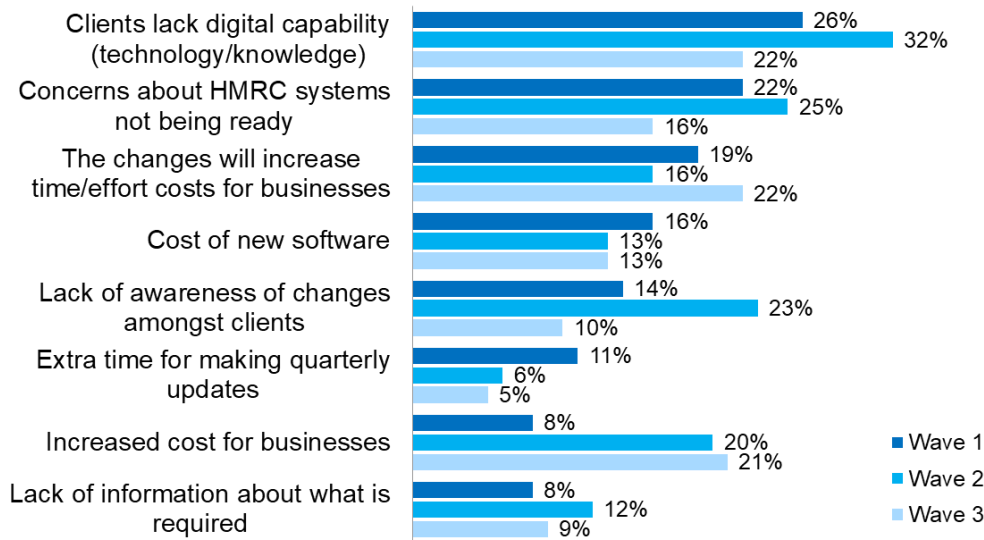
Only a small proportion (21%, wave 3) of Agents cited any other benefits. The ability for businesses to see their tax position in-year was cited by 13% of Agents in wave 1 but only seven percent in wave 3, a statistically significant decrease. The proportion of Agents citing the benefit of MTD making it easier to audit also fell from six percent in wave 1 to just one percent in wave 3. The proportion of Agents who responded that MTD would make it quicker for businesses to submit records remained relatively stable, cited by between six and ten percent of Agents across the three waves.

Over half of respondents did not foresee any benefits for clients although this decreased from 59% in wave 1 to 51% in wave 3. Agents with a high level of advocacy were much less likely to say there are no benefits for clients (wave 3, 35%) than those with medium (76%) or low (65%) levels of advocacy. This suggests that Agents are more active in promoting MTD when they believe there are benefits for their clients.

All Agents were also asked if they agreed with the statement 'these changes will make it quicker and easier for businesses to meet their tax obligations'. The proportion indicating they agree remained stable at around a third across the three waves (30% wave 1, 33% wave 3). The percentage of Agents disagreeing with this statement fell significantly from 51% at wave 1 to 39% at wave 3. Agents who agreed they had sufficient information were almost three times as likely to agree that the changes would make it quicker and easier for businesses compared with those who disagreed they had enough information (wave 3, 43% vs 17%).

All respondents were also asked what concerns they had regarding the introduction of MTD. Again, the possible response options were not read out loud by the interviewer, and so only top-of-mind thoughts were captured. Results are shown in figure 2.

Figure 2: Concerns about the introduction of MTD



Q: What concerns, if any, do you have about the introduction of MTD?

Base: All respondents (Wave 1: 501, Wave 2: 500, Wave 3: 500) NB. Only the top 8 responses are shown in chart.

Concerns about clients’ lack of awareness dropped significantly between wave 2 (23%) and 3 (10%), which may be due to increased communication to businesses from both the HMRC mail out and software providers. However, as businesses became more aware of the changes they were increasingly concerned about potential costs. The proportion of Agents stating they were concerned about ‘cost of new software’ and ‘an increase in time / effort costs for businesses’ remained fairly stable across the three waves but the proportion

concerned about other financial costs to businesses (such as penalty fines) increased significantly across the 3 waves from 8% in wave 1 to 21% in wave 3. In total, at wave 3, 36% of Agents cited at least one concern around cost.

Concerns about HMRC system readiness fell significantly across the three waves from 22% of respondents citing this in wave 1 to 16% in wave 3. The percentage of Agents stating they had no concerns about the introduction of MTD rose from 10% in wave one to 17% by wave 3, suggesting that Agents had increased confidence in the new system as the introduction date approached.

3.4 Actions taken to prepare own business and clients

Across the three waves, Agents were increasingly active in preparing their clients for MTD. At wave 1, Agents reported taking an average of 3.4 actions, rising to 4.1 average in wave 3. Agents were increasingly advocating the benefits of MTD (34% wave 1, 42% wave 3) and there was a significant increase in the number of Agents stating they had responded to queries from clients about MTD (65% wave 1, 85% wave 3). Agents were also increasingly likely to have recommended or supported clients to make changes in preparation for MTD, including sourcing new software and beginning to keep records digitally.

Agents who had recommended that clients make changes were asked a follow up question to determine which clients they were making the recommendations to. Most (96%, wave 3) were recommending changes to clients for whom MTD would be mandatory but less than half (47%, wave 3) were recommending changes to clients for whom MTD is voluntary. Furthermore, the Agents recommending voluntary changes were typically doing this for under a half of their applicable clients. Only 13% were recommending changes to 'all' clients for whom the changes are voluntary, compared with 47% recommending mandatory changes to 'all' applicable clients.

In line with this, few Agents were recommending take up of the ITSA or VAT pilot. Agents were increasingly active in encouraging their clients to sign up for the VAT pilot ahead of the mandatory deadline, but even by wave 3 only 1 in 10 (10%) had got their clients to sign up for this. Even fewer had got their clients to sign up for the Income Tax pilot (5% by wave 3). This again highlights that awareness and advocacy of the voluntary MTD changes was low, and the focus was generally on preparing clients for the mandatory April reporting deadline for VAT.

Agents were also asked which actions they had taken to prepare their own business. Again, Agents were found to be increasingly active as the deadline approached with an average of 2.7 actions taken in wave 1 compared with 3.1 in wave 3. From the start of the research in June 2018, the most common actions agents had taken were researching to increase their own understanding (86% wave 1, 87% wave 3) and ensuring their own accounting software is MTD compatible (74% wave 1, 78% wave 3). By the third wave Agents had become increasingly likely to report they had taken logistical steps to prepare themselves for MTD

such as linking their MTD compatible software to HMRC (23% wave 1, 30% wave 3) and setting up a new Agent Services account (19% wave 1, 37% wave 3).

3.4.1 Agents who have not yet taken action

The number of Agents who had not taken any actions to prepare their clients dropped from 14% in wave 1 to 9% in waves 2 and 3. Again, these were typically smaller Agents, 23% of Agents with 0-49 clients reported not taking any actions compared with only 1% of Agents with over 250 clients. It is important to note that 40% of those who had not taken any action by wave 3 did not deal with VAT returns on behalf of any of their clients and so would not be impacted by mandatory changes on 1 April 2019. However, this 40% did deal with ITSA returns and again this shows that Agents are far less active in preparing clients for the changes to income tax reporting.

The number of Agents who had not taken any actions to prepare their business for MTD remained consistent at 7% across the three waves. These were exclusively small Agents, most (wave 3; 86%) had no employees, none had more than 4 employees. This could mean their clients are more likely to be smaller businesses not affected by mandatory changes (wave 3; 33% of those who had not taken action for their business only dealt with SA). It could also mean that their own business is more likely to be below the VAT threshold.

Agents were also asked how much they agree that MTD will change the nature of the services they offer to their clients. Consistently across the three waves around a half (53% wave 1, 54% wave 3) agreed that it would impact their services and 22% thought it would not. Larger Agents were more likely to believe their services would change (wave 3, 250+ clients 66% agreed, 0-49 clients 45% agreed). As discussed above, this may be because smaller Agents may be less likely to have clients impacted by the introduction date; 18% of Agents who did not think their services would change only dealt with ITSA. It may also be due in part to smaller Agents being less aware of all the elements of MTD (section 3.1) and less likely to have feel they have enough information to support clients (section 3.2).

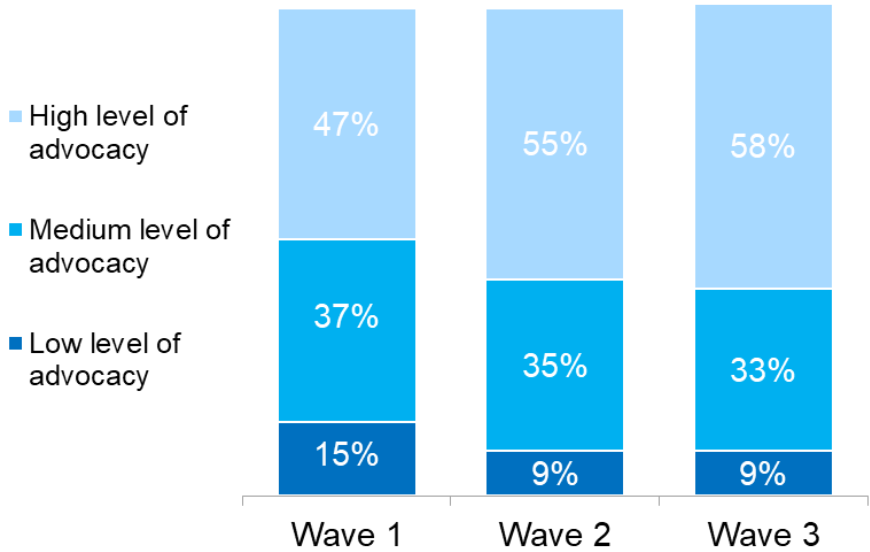
3.5 Levels of advocacy

Agents were classified as high, medium or low advocacy depending on the type of actions they reported taking to prepare their clients for MTD⁷. Agents who had not taken any actions to prepare clients were classed as low advocacy. Those who had taken actions to prepare their clients only for mandatory changes were classed as 'medium' advocacy and those who had advocated the benefits of MTD to their clients or recommended voluntary uptake were classed as 'high' advocacy.

⁷ Full definitions for levels of advocacy can be found in section 2.3.3

There was a significant increase in the number of Agents showing high levels of advocacy across the three waves (figure 3).

Figure 3: Agents' level of advocacy



Across the three waves, larger Agents were consistently more likely to show high levels of advocacy and between waves 1 and 2 the increase in numbers showing 'high advocacy'

came predominantly from Agents with over 250 clients (wave 1 52%, wave 2 68%). Between waves 2 and 3 smaller Agents (0-49 clients) increasingly began to show high levels of advocacy (wave 2, 36%; wave 3 43%). However, even at the third wave, smaller Agents were still significantly less likely to show high levels of advocacy than larger Agents (250+ clients, 68%) and were more likely to not be taking any actions to prepare clients.

Another consistent finding across the three waves was that Agents who agreed they had all information they needed to prepare for MTD were far more likely to display high advocacy (wave 3, 67% vs 42%). Agents with a high level of advocacy were consistently more likely to have heard of MTD from a variety of sources and were more likely to have received correspondence from HMRC. This highlights the impact that effective communication can have on Agents' engagement and advocacy of the changes.

To conclude, this research found that advocacy, and awareness, of MTD were increasing amongst Agents as the mandatory deadline for VAT reporting (1st April 2019) approached. This change was most marked among smaller and non-affiliated agents who were typically less knowledgeable about the changes at the start of fieldwork. However, there remains scope to further promote the benefits of MTD to all agents, alleviate concerns particularly around client readiness and the cost of MTD, and to encourage take-up of voluntary reporting. A fourth wave of fieldwork carried out in June 2019 targeting small agents (<10 employees) will show whether these emerging trends continue and whether the initial rollout of MTD will impact Agent's perceptions of the benefits and concerns.

4. Appendix A – Wave 3 Questionnaire

A Awareness

A1 **Have you heard of Making Tax Digital?**

1. Yes
2. No

ASK A2 IF A1=2

A2 **Are you aware that HMRC are making changes to the way businesses send VAT and income tax information to them?**

1. Yes
2. No

ASK A3 IF A1=1 OR A2=1

A3 **HMRC is introducing changes to how businesses provide information relating to their tax obligations.**

Which of the following do you think these changes are?

IF NECESSARY: Please answer 'yes' or 'no' for each of the statements.

IF RESPONDENT QUERIES MTD DEADLINE: Most businesses will be required to comply with MTD from April 2019. A very small proportion of businesses with the most complex VAT arrangements will not be required to do this until October 2019.

(READ OUT, MULTICODE)

1. To keep business records digitally
2. That businesses above the VAT threshold are required to submit returns using compatible software from April 2019
3. That businesses below the VAT threshold can join voluntarily for VAT
4. That sole traders and landlords can keep digital records and make quarterly updates for Income tax on a voluntary basis
5. None of the above (EXCLUSIVE)
6. Don't know (EXCLUSIVE, DO NOT READ OUT)

ASK QA4 IF QA1=1 OR A2=1

A4 **Over the last 3 months, from which sources have you received information about [Q1a = 1: Making Tax Digital] [Q1b =1: the new HMRC changes]?**

IF NECESSARY: This is from {DATE}

(DO NOT READ OUT, MULTICODE)

- HMRC's Agents update, webinars, online forum, or blogs
- Letter or email from HMRC
- Gov.uk
- professional body
- Social media (HMRC's twitter or Facebook account)
- Other communication from HMRC
- Newspaper, trade press, radio or
- Accountancy seminars / courses
- Communications from software providers
- Online (non-specific)
- Word of mouth
- Other (please specify)
- None of these (EXCLUSIVE)
- Don't know (EXCLUSIVE)

B Behaviours

READ IF NO TO Q1A

We'd now like to give you a brief summary of what Making Tax Digital is. Making Tax Digital (MTD) will change the way businesses interact with HMRC; moving customers away from a paper based/telephone first approach and towards digital services. Most businesses with a turnover above the VAT threshold will be required to keep digital records for VAT purposes, and to use software to directly send their VAT returns to HMRC, from April 2019 and from October 2019 for a small minority of mandated customers with more complex requirements. For businesses liable for VAT under the VAT threshold, and for businesses that file for Income Tax Self-Assessment, these changes will be on a voluntary basis.

B1 **Which actions, if any, have you taken to prepare your clients for these changes? Have you...**

IF NECESSARY: We will ask about actions that you have taken for your own business in the next question.

(READ OUT/MULTICODE)

1. Advocated that clients make changes in preparation for MTD

2. Advocated the benefits of MTD to clients
3. Responded to client's queries
4. Supported or advised clients to start digital record keeping
5. Supported or advised clients to source new software
6. Got clients to sign up for a VAT pilot
7. Got clients to sign up for Income Tax pilot
8. Helped clients set up a Business Tax Account
9. Not taken any actions to prepare clients (EXCLUSIVE)
10. Don't know (EXCLUSIVE, DO NOT READ OUT)

ASK B2 IF B1=6,7

B2 And did you sign up clients for the pilot?

(MULTICODE CODES 1 AND 2)

1. Yes, I signed up clients for the Income Tax pilot
2. Yes, I signed up clients for the VAT pilot
3. No, I did not sign up clients (EXCLUSIVE)
4. Don't know (EXCLUSIVE, DO NOT READ OUT)

ASK B3 IF B1=CODE 1

B3 And, roughly, for what proportion of clients for who changes are mandatory have you recommended they make changes?

IF NECESSARY: These are clients liable for VAT with a turnover above the VAT threshold who will be required to keep digital records for VAT purposes from April.

(PROMPT TO PRECODE, SINGLE CODE)

1. All of my clients
2. Most of my clients (over a half)
3. Some of my clients (under a half)
4. Only a few of my clients
5. None of my clients
6. Don't know (DO NOT READ OUT)

ASK B4 IF B1 = CODE 1

B4 And, roughly, for what proportion of clients for who changes are voluntary have you recommended they make changes?

IF NECESSARY: These are clients liable for VAT under the VAT threshold, and for businesses that file for Income Tax Self-Assessment, who changes will be on a voluntary basis for.

(PROMPT TO PRE-CODE, SINGLE CODE)

1. All of my clients
2. Most of my clients (over a half)
3. Some of my clients (under a half)
4. Only a few of my clients
5. None of my clients
6. Don't know (DO NOT READ OUT)

B5 Which actions, if any, has your business taken to prepare for helping clients with these changes? Have you..

(READ OUT, MULTICODE)

1. Researched to increase your own understanding
2. Attended HMRC webinars to find out more
3. Ensured your accounting software is MTD compatible
4. Set up a new Agent Services account [IF YES: since October 2017.]
5. Added clients to your Agent Services account
6. Linked your MTD compatible software to HMRC
7. Not taken any actions (EXCLUSIVE)
8. Don't know (EXCLUSIVE, DO NOT READ OUT)

B6 Have you recommended to any of your clients that they should start making quarterly updates for Income Tax on a voluntary basis over the next year?

IF NECESSARY: MTD for income tax will remain voluntary until 2020 at the earliest.

(PROMPT TO PRE-CODE, SINGLE CODE)

1. Yes – I have already recommended this to at least one of my clients
2. Not yet – I plan to recommend this to at least one of my clients
3. No – I would not recommend that any of my clients sign up before it is mandatory
4. No – not applicable for my clients
5. Don't know (DO NOT READ OUT)

C Benefits and concerns about MTD

C1 What benefits, if any, do you foresee for your clients with the introduction of MTD (IF NECESSARY: digital record keeping and submitting information to HMRC direct from MTD compatible software)?

IF NECESSARY: Anything else?

(MULTICODE / DO NOT PROMPT)

- Reduced risk of error
- Reduced accountancy fees
- Quicker to submit records
- Improved record keeping
- Live/ up to date information
- Easier to audit
- See their tax position in-year
- More confident they have got their taxes right
- Easier to share their records with their agent
- Easier to notify HMRC of agent authorisation
- Other (please specify)
- There are no benefits (EXCLUSIVE)
- Don't know (EXCLUSIVE)

C2 What concerns, if any, do you have about the introduction MTD (IF NECESSARY: digital record keeping and submitting information to HMRC direct from MTD compatible software)?

IF NECESSARY: Anything else?

(MULTICODE, DO NOT PROMPT)

- Lack of awareness of changes amongst clients
- Clients lack digital capability (technology/knowledge)
- Initial set up time
- Extra time for making quarterly updates
- Extra time to support clients
- Cost of new software
- Increased cost for businesses (financial cost)
- The changes will increase cost for businesses in terms of time/effort
- Lack of information about what is required
- New software/list of approved software providers not yet available
- Digital record keeping won't be able to cope with complexities of VAT
- Businesses will undertake more work themselves/reduction in work for agents
- Concerns about HMRC systems not being ready
- Other (Please specify)
- There are no barriers / concerns (EXCLUSIVE)
- Don't know (EXCLUSIVE)

C3 On a scale of 1 to 5, where 5 is agree strongly and 1 is disagree strongly, please tell me how strongly you agree or disagree with the following statements about MTD

(SINGLE CODE PER STATEMENT)

1. 5 - agree strongly
2. 4
3. 3
4. 2
5. 1 - disagree strongly
6. Don't know

C3_1 These changes will make it quicker and easier for businesses to meet their tax obligations

C3_2 MTD will change the services I offer to support my clients

C3_3 We have all the information we need to support clients in making the changes

D Firmographics

D1 Do you file tax returns on behalf of your clients?

IF YES: PROBE is that for VAT or SA?

(MULTICODE 1 AND 2)

1. Yes – VAT
2. Yes – SA
3. No (EXCLUSIVE)
4. Don't know (EXCLUSIVE)

5. Appendix B – Sample Breakdown (unweighted)

Table 1. Size of Agent (number of employees)

	Wave 1	Wave 2	Wave 3
0 employees	93	164	101
1-4 employees	170	169	157
5-9 employees	93	67	89
10-19 employees	70	45	77
20+ employees	75	55	72
Not available		-	4

Table 2. Size of Agent (number of clients)

	Wave 1	Wave 2	Wave 3
0-9 clients	17	30	22
10-49 clients	58	92	58
50-249 clients	171	188	165
250+ clients	244	174	245
Not available	11	16	10

Table 3. Whether file ITSA or VAT on behalf of clients

	Wave 1	Wave 2	Wave 3
ITSA only	38	43	31
VAT only	10	13	5
Both	443	437	447
Not available	10	7	17

Table 4. Annual turnover

	Wave 1	Wave 2	Wave 3
< £60,000	109	159	107
£60,001 - £250,000	146	168	150
£250,001 - £1,000,000	108	60	104
> £1,000,000	49	36	40
Not available	89	77	99

I. Annex one: Wave 4 summary of main findings

I. i Introduction

Kantar, an independent research agency, conducted an additional (fourth) wave of fieldwork with professional tax agents between 17th June and 5th July 2019. This fourth wave was commissioned to investigate if there were any changes in agents' awareness and advocacy following the introduction of mandatory digital record keeping and reporting for VAT businesses from 1st April 2019. This annex presents the findings from this fourth wave of fieldwork and highlights any key changes from previous waves, particularly significant changes from the preceding wave (wave 3).

A recontact sample was used from waves 2 and 3 of this survey. Due to the relatively small number of agents in the recontact sample with more than 10 employees, and concerns about the number of times these agents had been contacted to take part in recent HMRC research, the fourth wave was conducted exclusively with agents who had fewer than 10 employees. In order to maintain comparability with previous waves, all data reported in this annex refers to agents with fewer than 10 employees. This includes any references to previous waves, for example percentages quoted in this annex for 'wave 3' should be understood as 'agents with fewer than 10 employees in wave 3'. For this reason, percentages presented for waves 1 to 3 in this annex will differ from those stated in the main report which shows results for all agents (including those with over 10 employees).

A total of 350 interviews were achieved for wave 4. All results presented in this annex are weighted to ensure they are representative of the eligible population (agents with fewer than 10 employees in the UK).

I. ii Awareness of changes

All agents were asked if they were aware of four different elements of MTD. By wave 4, awareness of most elements of MTD was very high. Agents were increasingly aware of multiple elements of MTD. All agents (100%) had heard of at least two elements of MTD, a significant increase from wave 3 (89%) and nearly two thirds (62%) had heard of all four elements listed (in wave 3 this was 55%). As seen in previous waves, agents with the fewest clients were the least likely to be aware of all the elements. Forty-nine percent of those with under 50 clients had heard of all four elements compared with 67% of those with 50 clients or more.

As with previous waves, agents were typically more aware of the mandatory changes around VAT. Ninety-nine percent of respondents knew that businesses above the VAT threshold were required to submit updates using compatible software from April 2019; 97% knew businesses had to keep business records digitally and 96% knew that businesses below the VAT threshold could join voluntarily for VAT. Each of these was a statistically significant increase from the previous wave (95%, 87% and 80%, respectively).

The ability for sole traders and landlords to keep digital records and make quarterly updates for income tax on a voluntary basis was only known by 65% of respondents, which was not a significant increase from wave 3 (61%). The respondents that were aware of this element

were asked a follow up question to determine which specific elements of the ITSA changes they were aware of. Ninety-two percent of these respondents knew of the requirement for businesses opting in to keep business records digitally; 91% knew that they were required to use MTD-compatible software and 90% knew that these businesses were required to submit updates regularly.

I. iii Sources of information

All respondents were asked to cite all sources they had received information from about MTD in the last 3 months. HMRC remained the top source of information with 79% of respondents citing receiving information on MTD from at least one HMRC source; a significant increase from wave 3 (68%). The most commonly cited HMRC source was HMRC's agents update, webinars, online forum or blogs, mentioned by half (49%) of respondents, compared with only a quarter (24%) in wave 3. Letters and emails from HMRC also remained a top source of information, cited by 43% of respondents (48% in wave 3).

Following HMRC sources, communications from software providers (48%) and professional bodies (45%) were the leading sources of information for agents. This shows a significant increase in the proportion of agents hearing from professional bodies, which were cited as a source of information by only 28% of respondents in wave 3. Newspapers, trade press or radio was cited as a source of information by 37% of respondents, which was also a significant increase from 21% in wave 3. The gov.uk website was cited by 8% of respondents, again a significant increase from 3% in wave 3.

Overall, agents reported receiving information from an average of 2.8 sources in wave 4, compared with an average of 2.0 in wave 3. As with previous waves, agents with higher levels of advocacy were more likely to receive information from a variety of sources. Among agents with high levels of advocacy, 27% had heard of MTD from at least four sources in the last 12 months whereas none of those with low levels of advocacy had done so. The definitions of high, medium and low advocacy can be found in section 3.5 of the main report.

Agents were asked if they agreed they had sufficient information to support clients in making the changes. Six in ten (60%) agreed with this statement in wave 4, a statistically significant increase from wave 3 (46%). The percentage disagreeing significantly decreased, from 26% in wave 3 to 16% in wave 4.

Agents with a high level of advocacy remained more likely to agree they had all the information they need (69%, compared with 17% for those with low advocacy). Furthermore, almost two thirds (65%) of agents who had received information from HMRC agreed they had all the information they need to support clients, compared with only 46% of agents who had only received information about MTD from non-HMRC sources.

I. iv Perceived benefits and concerns

Agents were asked, unprompted, to cite what concerns they had, if any, about the introduction of MTD. Clients' lack of digital capability was the most commonly cited concern, mentioned by 32% of respondents, a significant increase from 21% in wave 3. However, once

all the cost concern answers are aggregated, including increased time and effort, 40% of respondents mentioned at least one cost concern. The cost of new software was the most cited cost, mentioned by 26% of respondents, a statistically significant increase from wave 3 (13%).

Concerns about HMRC systems being ready was cited by 20% and increased business cost by 19% of respondents. The lack of awareness of changes amongst clients was cited by just 6% of respondents. Thirteen percent of agents cited no concerns about the introduction of MTD. This remained relatively stable across waves.

Agents were also asked, unprompted, to cite the benefits they foresaw with the introduction of MTD. These most commonly cited benefits were improved recordkeeping (26%) and more up-to-date information (17%). Neither changed significantly between waves 3 and 4. In wave 3, 23% cited improved recordkeeping and 15% more up-to-date information.

The ability for clients to see their tax position in-year was only mentioned by 2% of respondents, a significant decrease from wave 3 (7%). However, the ability for clients to share their records with their agents more easily was cited by 9% of respondents in wave 4, a significant increase from wave 3 (2%).

Fifty-nine percent of agents said they didn't foresee benefits for their clients from MTD's introduction. This did not represent a significant change from wave 3 (53%). Agents who were not members of a professional organisation were more likely to say 'no benefits' (68% vs 57% who were in such organisations). Those who disagreed that they 'have all the information we need to support clients', remained more likely to think there are 'no benefits' (82%, compared with 55% of those who agreed with the statement).

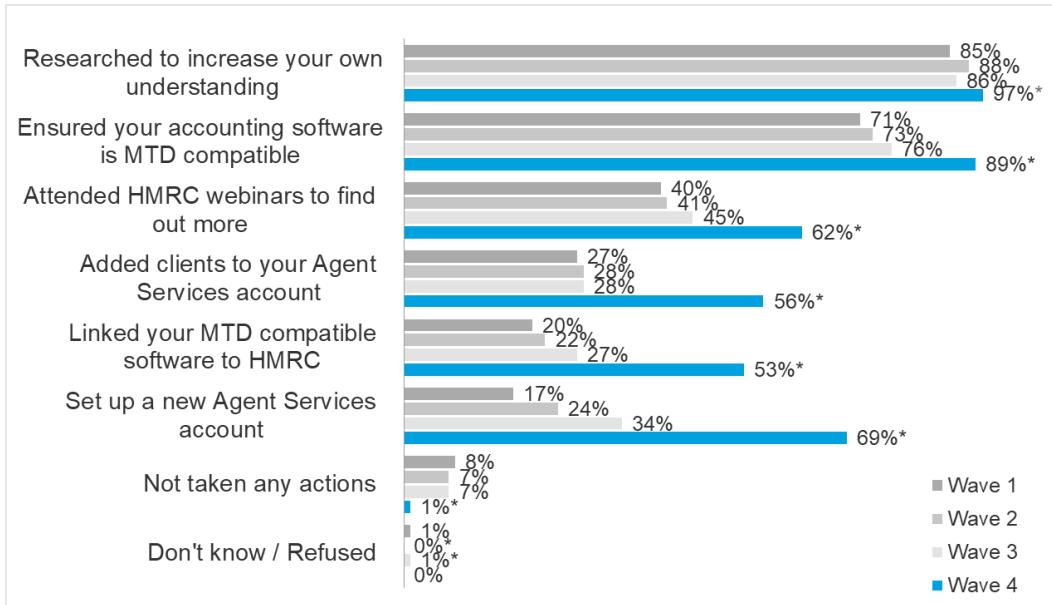
Agents with a high level of advocacy were much less likely to say there are 'no benefits' (44%) than those with medium or low levels of advocacy (84%).

The number of agents who believe that the changes will make it easier for businesses to meet their tax obligations has remained at roughly a third (34% in wave 4 and 31% in wave 3). Agents with a high level of advocacy were more likely to agree that MTD will make it easier for their clients (42%, compared with 18% among those with medium or low advocacy). As seen in previous waves, agents who felt they had sufficient information to support clients to make the changes were less likely to disagree with the statement that MTD will make paying taxes easier (34%) than those who did not feel they had sufficient information (59%).

I. v Actions

Agents had become increasingly more active in the fourth wave, reporting an average of 4.3 actions to prepare their own business (compared with an average of 3.0 in wave 3). As seen in figure 1, there was a significant increase from wave 3 in the percentage of agents who reported taking each action listed.

Figure 4: Actions taken to prepare own business



Q: Which actions, if any, has your business taken to prepare for helping clients with these changes? Have you...
Base: All respondents with <10 employees (Wave 1: 356, Wave 2: 400, Wave 3: 347, Wave 4: 350)

The percentage of agents who had not taken any action fell from 7% in wave 3 to just 1% in wave 4. By wave 4 those who hadn't taken actions to prepare their clients were mainly the smallest agents (82% had no employees) and not members of professional organisations (71% weren't members compared to 20% in the weighted sample).

Agents were also increasingly active in preparing their clients for MTD and reported an average of 4.9 actions to prepare clients (vs. an average of 4.0 actions in wave 3). There was a significant increase from wave 3 in the percentage of agents reporting they had 'supported or advised clients to start digital record keeping' (90% vs 78%), 'advocated that clients make changes in preparation for MTD' (89% vs 79%), 'supported or advised clients to source new software' (87% vs 70%) and 'helped clients set up a Business Tax Account' (54% vs 35%). The percentage of agents who had not taken any action to prepare clients fell significantly from 9% in wave 3 to just 2% in wave 4. The agents yet to take action were mainly (84%) those who said there were 'no benefits' to MTD, and 66% of those who hadn't taken any action to support clients felt they didn't have enough information to support them (vs. 15% of those who had taken action).

The percentage of agents who felt that MTD will change the services they offer to support their clients remained stable at 55% (53% in wave 3). As with previous waves, larger agents (250+ clients remained more likely to believe that the services they offer to clients will change (68% vs 44% of those with 0-49 clients). Eleven percent of those who did not think their services would change did not have clients for whom the changes are mandatory.

I. vi Advocacy

The majority of agents continued to demonstrate a high level of advocacy. By wave 4, this represented 63% of agents, a significant increase from the 45% in wave 1. The percentage of

agents categorised as low advocacy fell significantly from 9% at wave 3 to 2% at wave 4, reflecting the finding that agents are increasingly active in preparing their clients for the changes.

The agents who demonstrated high levels of advocacy were more likely to be members of a professional organisation (65% vs 53%). They were also more likely to agree that they had enough information to support clients; sixty-nine percent of agents agreed with this statement compared with 43% of those who had medium or low levels of advocacy.

Despite the increasing levels of advocacy for MTD, the majority of agents remained unlikely to advocate voluntary take-up. The proportion who stated they wouldn't opt into digital reporting for Income Tax rose significantly from 42% in wave 3 to 72% in wave 4. This may be indicative of the lower levels of awareness of the changes for ITSA, and the overriding focus at the time of wave 4 fieldwork on supporting clients with mandatory changes for VAT. As seen in previous waves, the majority (99%) of agents who had recommended that clients make changes were recommending changes to clients for whom the changes are mandatory. Only half (50%) of agents who had recommended that their clients make changes indicated they had recommended voluntary change.

II. Annex two: Copy of wave 4 questionnaire

A Awareness

A1 **HMRC is introducing changes to how businesses provide information relating to their tax obligations.**

Which of the following do you think these changes are?

IF NECESSARY: Please answer 'yes' or 'no' for each of the statements.

IF RESPONDENT QUERIES MTD DEADLINE: Most businesses are required to comply with Making Tax Digital since April 2019. A very small proportion of businesses with the most complex VAT arrangements will not be required to do this until October 2019.

(READ OUT, MULTI CODE)

1. To keep business records digitally
2. That businesses above the VAT threshold were required to submit returns using compatible software from April 2019
3. That businesses below the VAT threshold can join voluntarily for VAT
4. That sole traders and landlords can keep digital records and make regular updates for Income tax on a voluntary basis
5. None of the above (EXCLUSIVE)
6. Don't know (EXCLUSIVE, DO NOT READ OUT)

ASK A2 IF A1=4

A2 **For businesses that file for Income Tax Self-Assessment changes are on a voluntary basis, if businesses volunteer to take up the changes, which of the following do you think are required:**

READ OUT, MULTI CODE)

1. To keep business records digitally
2. To use compatible software to file returns
3. That businesses are required to submit returns regularly
4. None of the above (EXCLUSIVE)
5. Don't know (EXCLUSIVE, DO NOT READ OUT)

A3 **Over the last 3 months, from which sources have you received information about Making Tax Digital?**

IF NECESSARY: This is from XX 2018/2019

(DO NOT READ OUT, MULTI CODE)

1. HMRC's agents update, webinars, online forum, or blogs
2. Letter or email from HMRC
3. Gov.uk
4. professional body
5. Social media (HMRC's twitter or Facebook account)
6. Other communication from HMRC
7. Newspaper, trade press, radio or
8. Accountancy seminars / courses
9. Communications from software providers
10. Online (non-specific)
11. Word of mouth
12. Other (please specify)
13. None of these (EXCLUSIVE)
14. Don't know (EXCLUSIVE)

B Behaviours

USE IF NECESSARY: We'd now like to give you a brief summary of what Making Tax Digital is. Making Tax Digital (MTD) is changing the way businesses interact with HMRC; moving customers away from a paper based/telephone first approach and towards digital services. Most businesses with a turnover above the VAT threshold are required to keep digital records for VAT purposes, and to use software to directly send their VAT returns to HMRC, since April 2019 and from October 2019 for a small minority of mandated customers with more complex requirements. For businesses liable for VAT under the VAT threshold, and for businesses that file for Income Tax Self-Assessment, these changes are on a voluntary basis.

**B1 Which actions, if any, have you taken to prepare your clients for these changes? Have you...
IF NECESSARY: We will ask about actions that you have taken for your own business in the next question.**

(READ OUT, MULTICODE)

1. Advocated that clients make changes in preparation for MTD
2. Advocated the benefits of MTD to clients
3. Responded to client's queries
4. Supported or advised clients to start digital record keeping
5. Supported or advised clients to source new software
6. Got clients to sign up for a VAT pilot
7. Got clients to sign up for Income Tax pilot
8. Helped clients set up a Business Tax Account
9. Helped clients to prepare to file their first return
10. Not taken any actions to prepare clients (EXCLUSIVE)

11. Don't know (EXCLUSIVE, DO NOT READ OUT)

ASK IF B1 = ADVOCATED THAT CLIENTS MAKE CHANGES

B2 And, roughly, for what proportion of clients for who changes are mandatory have you recommended they make changes?

IF NECESSARY: These are clients liable for VAT with a turnover above the VAT threshold who are required to keep digital records for VAT purposes from April.

(PROMPT TO PRE-CODE, SINGLE-CODE)

1. All of my clients
2. Most of my clients (over a half)
3. Some of my clients (under a half)
4. Only a few of my clients
5. None of my clients
6. Don't know (DO NOT READ OUT)

ASK IF QUESTION 4 = ADVOCATED THAT CLIENTS MAKE CHANGES

B3 And, roughly, for what proportion of clients for who changes are voluntary have you recommended they make changes?

IF NECESSARY: These are clients liable for VAT under the VAT threshold, and for businesses that file for Income Tax Self-Assessment, who changes are on a voluntary basis for.

(PROMPT TO PRE-CODE, SINGLE-CODE)

1. All of my clients
2. Most of my clients (over a half)
3. Some of my clients (under a half)
4. Only a few of my clients
5. None of my clients
6. Don't know (DO NOT READ OUT)

B4 Which actions, if any, has your business taken to prepare for helping clients with these changes? Have you..

(READ OUT, MULTICODE)

1. Researched to increase your own understanding
2. Attended HMRC webinars to find out more
3. Ensured your accounting software is MTD compatible
4. Set up a new Agent Services account [IF YES: since October 2017.]
5. Added clients to your Agent Services account
6. Linked your MTD compatible software to HMRC
7. Not taken any actions (EXCLUSIVE)
8. Don't know (EXCLUSIVE, DO NOT READ OUT)

**B5 Have you recommended to any of your clients that they should start making regular updates for Income Tax on a voluntary basis over the next year?
IF NECESSARY: MTD for income tax will remain voluntary until 2020 at the earliest.**

(PROMPT TO PRE-CODE, SINGLE-CODE)

1. Yes – I have already recommended this to at least one of my clients
2. Not yet – I plan to recommend this to at least one of my clients
3. No – I would not recommend that any of my clients sign up before it is mandatory
4. No – not applicable for my clients
5. Don't know (DO NOT READ OUT)

C Benefits and Concerns

**C1 What benefits, if any, do you foresee for your clients with the introduction of MTD (IF NECESSARY: digital record keeping and submitting information to HMRC direct from MTD compatible software)?
IF NECESSARY: Anything else?**

(MULTICODE, DO NOT PROMPT)

1. Reduced risk of error
2. Reduced accountancy fees
3. Quicker to submit records
4. Improved record keeping
5. Live/ up to date information
6. Easier to audit
7. See their tax position in-year
8. More confident they have got their taxes right
9. Easier to share their records with their Agent
10. Easier to notify HMRC of Agent authorisation
11. Other (please specify)
12. There are no benefits (EXCLUSIVE)
13. Don't know (EXCLUSIVE)

**C2 What concerns, if any, do you have about the introduction MTD (IF NECESSARY: digital record keeping and submitting information to HMRC direct from MTD compatible software)?
IF NECESSARY: Anything else?**

(MULTICODE, DO NOT PROMPT)

1. Lack of awareness of changes amongst clients
2. Clients lack digital capability (technology/knowledge)
3. Initial set up time
4. Extra time for making regular updates
5. Extra time to support clients
6. Cost of new software
7. Fines / financial penalties
8. Increased financial cost for businesses (other than fines and software)
9. The changes will increase cost for businesses in terms of time/effort

10. Lack of information about what is required
11. New software/list of approved software providers not yet available
12. Digital record keeping won't be able to cope with complexities of VAT
13. Businesses will undertake more work themselves/reduction in work for agents
14. Concerns about HMRC systems not being ready
15. Concerns that businesses are not ready to file their first MTD return
16. Other (Please specify)
17. There are no barriers / concerns (EXCLUSIVE)
18. Don't know (EXCLUSIVE)

C3 On a scale of 1 to 5, where 5 is agree strongly and 1 is disagree strongly, please tell me how strongly you agree or disagree with the following statements about MTD

(SINGLE CODE PER STATEMENT)

1. 5 - agree strongly
2. 4
3. 3
4. 2
5. 1 - disagree strongly
6. Don't know

C3_1 These changes will make it quicker and easier for businesses to meet their tax obligations

C3_2 MTD will change the services I offer to support my clients

C3_3 We have all the information we need to support clients in making the changes

D Firmographics

D1 Do you file tax returns on behalf of your clients?

IF YES: PROBE is that for VAT or SA?

(MULTICODE 1 AND 2)

1. Yes – VAT
2. Yes – SA
3. No (EXCLUSIVE)
4. Don't know (EXCLUSIVE, DO NOT READ OUT)

D2 Do you have clients for whom the making tax digital changes are mandatory?

(SINGLE CODE)

1. Yes
2. No

D3 Do you have clients for whom the making tax digital changes are voluntary?

(SINGLE-CODE)

1. Yes
2. No