



HM Revenue
& Customs

Research report 607

Research into the role of Communications in Voluntary Compliance

*Research conducted by Jigsaw among HMRC business
customers in 2020*

July 2020

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Published by HM Revenue and Customs, February 2021

www.hmrc.gov.uk

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1. Executive Summary

A programme of qualitative research was undertaken in early 2020 exploring businesses' attitudes and behaviours around compliance, as well as exploring their responses to a range of potential communications messages.

The aim was to understand whether messages leveraging fairness, deterrence and/or social norming have potential to enhance voluntary compliance amongst Sole Traders, Small and Medium Enterprises (SME) and individuals in Pay as you Earn (PAYE) with additional Self-Assessment (SA) income (PAYE/SA) who showed a degree of attitudinal and behavioural non-compliance.

The research identified the following three factors as driving non-compliance:

- The opportunity afforded by the Self Assessment system;
- The strongly held belief that a degree of non-compliance is the norm; and
- The strongly held belief that they businesses like theirs are unlikely to be caught or suffer any consequence of non-compliance

This non-compliance seems to be reinforced by multiple rationalisations, both societal and personal. The degree of (claimed) non-compliance could be relatively higher or lower, depending on where each individual taxpayer drew their own line from a moral perspective.

The research indicates that credible messages around fairness, competence and support have the power to improve attitudes towards HMRC and so enhance its potential as a messenger to be listened to.

The research suggested that to change compliance behaviour, the above three core drivers of non-compliance would need to be challenged through firm, targeted and credible messages. Messages targeting the core drivers appeared to have the most chance of successfully changing attitudes and behaviour, and in future would need to convince SA taxpayers that businesses like them/in their sector are being targeted and that there is a good chance their non-compliance will be detected, i.e. that they will be caught.

Messages targeting societal rationalisations would be well received by SA taxpayers but would be seen to be re-dressing existing imbalance in the tax system and so would be unlikely to affect their own behaviour.

Messages targeting personal rationalisations were unlikely to resonate with small/mid-sized businesses, as they will continue to believe they are paying their fair share while others are not.

2. Background and Objectives

Compliance is core to HMRC's purpose. One of the department's three strategic objectives is to collect revenues due and bear down on avoidance and evasion.

HMRC uses various methods and tactics to deliver against this objective – segmenting by type and size of business and tailoring services based on behaviours, capabilities and the level of risk. It also aims to tackle non-compliance by preventing it from happening in the first place, via:

- Designing compliance into its systems and processes, enabling customers to get their tax right from the outset;
- Preventing non-compliance by using data to spot mistakes, prevent fraudulent claims, personalising online services and automating calculations; and
- Identifying non-compliance by targeting areas of greatest risk and using tough measures to tackle those who deliberately cheat the system

Academic research¹ has identified that communications that leverage fairness, deterrence and social norming messages can help to promote voluntary compliance. The overall purpose of this research was to test this hypothesis and identify the types of message that have the most potential to change compliance behaviour and those which lead to customers paying the right tax without HMRC intervention ('voluntary compliance').

The objectives for the research were to:

- Explore and understand whether tailored messages around fairness have an impact on individual perceptions of HMRC and on likely behavioural intentions;
- Explore and understand whether tailored messages around social norming and deterrence in communications have an impact on individual perceptions of HMRC and likely behavioural intentions;
- Identify which particular messages around fairness, social norming and deterrence are most likely to result in positive behaviour change;
- Explore the barriers that exist which prevent messages having the intended impact on likely behaviour; and
- Explore whether the impact of these messages vary across:

¹ Wenzel, M. (2006)., A Letter from the Tax Office: Compliance Effects of Informational and Interpersonal Justice. *Social Justice Research*. Issue 3, pp 345-364.

Kornhauser, M.E. (2007)., Normative and Cognitive Aspects of Tax Compliance: Literature Review and Recommendations for the IRS regarding Individual Taxpayers. *Florida Tax Review*, 8(6), 601-634.

Murphy, K., (2004). Procedural Justice, Shame and Tax Compliance. *Centre for Tax System Integrity Working Paper Series, No. 50*. Canberra: The Australian National University.

Wenzel, M., (2005). Misperceptions of Social Norms about Tax Compliance: From Theory to Intervention. *Journal of Economic Psychology*. 26(6), pp. 862-883.

Hallsworth *et al.*, (2014). "The Behaviouralist as a Tax Collector: Using Natural Field Experiments to Enhance Tax Compliance." NBER Working Paper No. 20007.

Financial Accounts Tax Compliance Act

Battiston *et al.* (2016). Audit Publicity and Tax Compliance: A Quasinatural Experiment. LEM Working Paper Series 2016/40, Scuola Superiore Sant'Anna, Laboratory of Economics and Management (LEM), Pisa.

- Different sectors of the non-PAYE population
- Different methods of communication and different forms of content and tone

2.1 When the research took place

The fieldwork for this research took place between 22nd January and 7th February 2020.

2.2 Who did the work (research agency)

The research was carried out by Jigsaw Research.

3. Sampling and Methodology

The research was undertaken using a qualitative approach as the requirement was to gain a broad understanding of the compliance issues in play amongst this audience. It was also used to test potential communications in terms of clarity of message, meaning, impact, language, tone, and credibility. A mix of groups and depth interviews were undertaken as groups provided the optimum route to explore and understand businesses responses to a range of possible communication messages, whilst the one-to-one setting of the depths was best suited to discussing broader and more in-depth compliance issues.

Eligible respondents were recruited from amongst the general population to participate in the research by a recruitment agency. Recruitment was guided by a recruitment screening questionnaire which ensured that participating businesses fulfilled the qualifying criteria set for the research. The screening questionnaire was drafted by Jigsaw and agreed with the HMRC team.

Individuals were:

- Recruited from various sectors and from the gig economy
- Individually screened to ensure they are attitudinally less than fully compliant; businesses had to agree with at least two of the following statements to be eligible for the research:
 - As long as you pay tax on most of your income, it's ok not to include all of it on your tax return
 - As long as you mostly stick to the rules around tax, it's ok to bend them a bit
 - It is sometimes ok not to pay all your tax as many other people are also doing this
 - It is sometimes ok to claim for business expenses on your tax return when you don't have receipts for them

This approach ensured that the individuals participating in the research were the target audience for any communications campaign; those who held some attitudes that erred towards a non-compliant stance, and/or would admit to having behaved in a non-compliant way in the past.

In total, Jigsaw conducted 8 x 1.5 hour group discussions involving 8 participants each and 11 x 1 hour face-to-face depth interviews; a total of 75 participants.

The 8 group discussions were structured as follows:

- 3 x Micro/SME businesses; one in each of Construction, Transport and Consultancy
- 3 x Sole Trader businesses; one in each of Construction, Transport and Consultancy
- 2 x Individuals with a mix of PAYE income and income from Self Assessment

The 11 depth interviews broke down as follows:

- 3 x Micro/SME businesses; one in each of Construction, Transport and Consultancy

- 6 x Sole Trader businesses; two in each of Construction, Transport and Consultancy
- 2 X Individuals with a mix of PAYE income and income from Self Assessment

Businesses were screened to ensure:

- All were attitudinally non-compliant to some extent
- A mix of VAT registered and non-VAT registered were included in the research

The research was carried out in four locations: London, Glasgow, Manchester and Cardiff.

The groups and depths followed a discussion guide drafted by Jigsaw Research and agreed with the HMRC team. A range of potential communications messages were provided by HMRC, and a workshop held between HMRC and Jigsaw to agree those to use as stimulus in the research. The discussion guide is appended to this report. Case studies were generated as part of the analysis process to illustrate the findings; these are to be found on page 14.

4. Main Findings

4.1 How Businesses Feel and Behave within the Tax System

It is important to note we were not interviewing across the entire compliance spectrum; in line with the approach taken to recruitment, all of the businesses participating in the research demonstrated a degree of both attitudinal and (claimed) behavioural non-compliance. The extent of this varied a little and so within the sample there were businesses who appeared more compliant and businesses who appeared more non-compliant.

Businesses' attitudes and behaviour around compliance appears to be influenced by a complex set of related attitudes and beliefs, including:

- Businesses views on taxation
- Businesses beliefs about the tax system
- How businesses see themselves within the system
- Businesses beliefs about the behavioural norms within their sector

Views on taxation

Overall, the businesses in this research were on board with the need to pay tax and with the principle of reciprocity that underpins the tax system. Indeed, it was taken as read that the funding of public services via taxation was of fundamental importance and thus that businesses earning money in this country should also pay tax in this country.

However, they wanted to pay as little as possible, and believed this attitude is completely natural, normalised and morally justifiable. Paying tax via Self-Assessment means that these businesses were forced to engage with tax, but also introduced an element of 'choice' about how much to pay; this affected both their attitudes and their behaviours around tax. Where they drew the line from a moral perspective varied by individual and was a factor in the extent to which they exercised their 'choice' about how much tax to pay.

"Everyone's on board with the need to pay tax ... no one is arguing with that".

Construction, Cardiff

"We all pay tax ... what we don't pay tax on is trivial compared to what we do pay tax on" Construction, Cardiff

Beliefs about the tax system

Views about the tax system tended to be quite negative among this audience; they saw it as complicated and burdensome.

Complicated

Businesses see the system as overly complicated and as unfairly weighted in favour of large businesses and wealthy individuals. They believe that the complexity within the system

creates room for tax avoidance and that large businesses and wealthy corporations are better able to exploit this through being able to pay for 'clever' tax advisors and being able to move money and/or operations offshore.

"[Large businesses] are massive and we are just the little fish down at the bottom and we're paying and they are not ... they are over the top of us, taking the cream off the top and getting away with it." Construction, Cardiff

"Everyone tries to take advantage of the system because no one wants to pay tax. It's common sense – why would anyone pay more than they have to? The big boys have more opportunity than we do, though. They can put things offshore, move money around and so on. We just do what we can to minimise our bill" Transport, Manchester

Burdensome

Businesses also experience tax as burdensome, both financially and administratively. From a financial perspective, they feel they are taxed heavily and often, by a somewhat greedy tax system; for example, on income, on profit, on savings, on inheritance, on fuel and VAT. This feels 'unfair' and creates a mindset that it is justifiable to try to 'claw some back'.

From an administrative point of view, businesses feel that tax is something that they have to engage with that others (PAYE taxpayers) don't have to. They also feel that tax is something they lack the education and skill to deal with, that takes them away from doing what they are good at and need to do, and that costs them money in respect to accountancy fees.

"Every single thing you buy, there's tax on it." Construction, Cardiff

"We pay a lot of tax already – on fuel, there's VAT, there's tax on alcohol and so on. It just feels like it's too much" Transport, Manchester

How they see themselves

Overall, this audience tend to see themselves as small, at a disadvantage and broadly compliant with tax rules.

Small

The Sole Trader and SME businesses described themselves as running small, sometimes struggling businesses with insecure and fluctuating income streams. For the PAYE/SA customers, the additional SA income they earn was often very small and did not really feel like 'income'; this resulted in a lack of an intuitive sense that it is taxable. It also led to a feeling that it's 'wrong' for HMRC to pay attention to them. Furthermore, these Sole Trader, SME and PAYE/SA businesses felt that the amount of tax that was at stake was very little; leading to a feeling that it was unfair or even vindictive of HMRC to target them.

“I don’t know why they come after us – we’re just small fry. Surely, it’s not worth the effort. It feels like they come after us because they know we can’t fight back.”

Construction, London

“It’s really hard to make a living. There’s no minimum wage for us. The extra I do for cash jobs is my way of getting towards a minimum wage.” Transport, Manchester

At a Disadvantage

These Sole Trader, SME and PAYE/SA businesses also felt at a disadvantage and under-appreciated. They compared themselves with wealthy individuals and large companies and in this context felt that they lacked knowledge and resources to navigate the system and avoid tax. By contrast, they believed that large companies could use their complexity to hide profit and avoid tax. This made them feel that a different set of rules applied to them and that they were potentially easier for HMRC to target compared to bigger companies who have more resources to dedicate to tax avoidance.

“We’re going round pricing the work and doing the work and we also need to deal with the taxman ... whereas these big companies have got a whole table of accountants and lawyers working it out for them... we’re doing everything for ourselves and working at the same time.” Construction, Cardiff

“If they came after me, I’d be easy pickings ... I’d probably lose my house and everything ... but if they go after the likes of Starbucks, it’s a different story.”

Construction, Cardiff

“You see all these things in the press about all the big companies not having to pay and you just think that they come after the small businesses and not the big guys ... it feels unfair.” Transport, Glasgow

Sole Trader, SME and PAYE/SA businesses also compared themselves to PAYE taxpayers and felt at a disadvantage here as well. They felt it was harder for them to make a living as they had no guaranteed income - not even the minimum wage, they had no safety net and no sick or holiday pay.

All of this could leave them feeling under-appreciated and/or misunderstood. They felt that businesses like theirs performed a central role in the economy, but that they were on their own and unsupported. They felt they were doing the ‘right thing’ by trying to earn extra income to provide for their families and this was not being recognised. They could also feel undercut by those businesses in their sector who were highly avoidant and paid less tax than them.

“The extra work I do helps to pay for holidays, or treats for the kids and things like that.” Construction, Manchester

“We are not the worst – how about the business owner I know that earns £1,000 a week as a joiner, but only declares £15,000 a year so they can get Tax Credits? They should be going after them.” Construction, Manchester

“This is only a bit of income on the side for me, it doesn’t really feel like enough to worry about or for HMRC to be bothered with – its more money for extras.” PAYE/SA, London

Broadly Compliant

Finally, although almost all interviewed described non-compliant behaviour, either around under declaring their income or putting through illegitimate expenses, they resolutely considered themselves to be on solid ground around tax compliance, and felt they paid ‘their fair share’.

They regarded large businesses and wealthy individuals as being non-compliant because they don’t pay a lot of tax (relative to their income/profit) and therefore perceived them not to be paying their fair share.

They also tended to have first hand knowledge of small businesses like theirs who they believed paid little or no tax and certainly not their fair share; so again, these were labelled as the non-compliant businesses rather than themselves.

“... we’re trying to pay what we can ...” Construction, Cardiff.

“I pay lots of tax, definitely my fair share. I might not pay every penny but I would say I comply. I don’t have any problem sleeping at night.” Transport, Manchester

Their beliefs about what is ‘the norm’ in their sector

Amongst these Sole Trader, SME and PAYE/SA businesses, a degree of non-compliance was believed to be completely normal.

These businesses believed very strongly that ‘bending the rules’ was standard practice; amongst sole traders and small businesses in general and within their sector in particular.

These businesses believed that the majority of businesses were doing it and it was not seen as wrong or fraudulent.

“If you could guarantee that everybody paid their fair share, but you can’t, everybody is fiddling, cash in hand, doing something.” Construction, Cardiff.

“Absolutely everyone I know does the same as me – I would be an absolute fool if I stuck to rules 100% - I would just lose out and everyone would think I was an idiot.” Construction, Manchester.

Rather than perceiving themselves as non-compliant, it was seen as bending the rules, not breaking them; as such it was felt to be legitimate. The businesses included in this research therefore still saw themselves as paying their fair share and compared themselves to other sole traders/small businesses who broke all the rules by having no insurance and paying 'no tax'; these were seen as the fraudulent businesses, not them.

Finally, they felt that if they abided by all the rules and were totally compliant, they would be behaving differently to the norm and in doing so putting themselves at a disadvantage; why would they, when no one else does?

"No, because we all pay tax, we just do the odd bit that doesn't involve tax."
Construction, Cardiff

"I pay tax on all the work I do on-site during the week ... but if someone phones at the weekend and says 'I've got a bedroom' and it's £200 ... then I just put that in my pocket because I already pay a lot of tax" Construction, Cardiff

Not declaring cash income appeared to be common practice amongst this audience and it seemed especially common in the Construction and Transport sectors where cash transactions provided the opportunity. It also appeared to be present to a degree in the Consultancy and PAYE/SA sectors.

Businesses reported that tax was paid on the majority of their 'traceable' income, but was not paid on the smaller, less formal, evening/weekend 'cash' jobs. Domestic customers/friends/relatives/friends of friends were described as being only too happy to 'pay less for cash'.

This cash income was seen to involve small sums of money and to be untraceable. It was seen as topping up their main income, being a bit of a perk and/or providing a safety net against fluctuating income streams.

"I'm not going to go to the taxman and say 'I earned £50' ... I'm just going to put it in my pocket." Construction, Cardiff

"I always say to my customers 'no cheques, cash' ... cheques go through the system ... I give it to them a little bit cheaper ... £20." Construction, Cardiff

"It's the first question you get asked ... 'cheaper for cash?'" Construction, Cardiff

"You've got to have a kitty for a rainy day ... you've got to have something set aside" Construction, Cardiff

"You can't say 'I'm not going to pay my mortgage this month because it's been raining and there's no work' ... you've got to have something put aside" Construction, Cardiff

“It’s not like I’m driving around in a Range Rover and only earned £10k last year”
Construction, Cardiff

Bending the rules on expenses also appeared to be common practice, especially in businesses where cash transactions are impossible or rare. Thus, this behaviour seemed to be common in Consultancy and also in Transport, but less common in Construction.

Businesses described wrongly claiming for meals out with partners/friends, hotel stays, fuel, etc. They also described buying home items and putting these through the business as office equipment. This was seen as taking advantage of the small opportunity available to them.

Perception of Risk and Detection

In addition to all of the above, a degree of non-compliance was believed to be low/no risk. Businesses believed very strongly that they ‘wouldn’t be caught’ and this belief was driven by a number of factors:

- They themselves had been ‘bending the rules’ for years with no consequences and they were not aware of other businesses ‘like theirs’ being caught either.
- The belief was that they are too small for HMRC to bother with and that the amounts of money involved were too small. This made them believe they were extremely unlikely to be the subject of an HMRC investigation.
- Furthermore, they also believed that even if HMRC did investigate them it would be difficult/impossible to prove non-compliance; cash income can be very hard to identify/trace and their illegitimate expense claims were hidden in plain sight amongst the legitimate ones.
- Finally, their experiences of contacting HMRC made them believe that HMRC was already quite stretched and so unlikely to have sufficient resource to go after them.

As a result of all of this a degree of behavioural non-compliance was normalised and entrenched.

In summary, businesses viewed a degree of non-compliance as possible, normal and low risk.

“I never feel I am doing something wrong, even though I don’t declare everything, because I am paying enough tax.” Construction, Cardiff

There were a range of both societal and personal rationalisations for this, summarised as follows:

- The tax system is unfair and weighted against me; large businesses and wealthy individuals do not pay their fair share of tax
- I pay a lot of tax/I pay my fair share
- Other businesses like mine break all the rules; pay no tax or insurance, while I am largely following the rules
- It’s a small amount, I pay most of my tax

- It doesn't make any difference/do any harm
- It's a buffer against my fluctuating and uncertain income stream
- It's a perk/ a treat

4.2 Case Studies

Case Study 1; Construction

| | |
|----------------------------|---|
| The Business | Longstanding business doing commercial and domestic construction work in the North of England. Two full time employees and then a roster of sub-contractors who they pull in depending on volume and type of work. Has done well from a generally positive economic climate in Manchester in the last 10 years. |
| Attitudes to compliance | Felt they were a 'proper' business person – had paid tax all their life and was a responsible employer. Fully aware that taxes contribute to core services – education, NHS etc. Critical of and bitter towards those who they perceived as paid little or no tax – corner shop retailers, large companies, wealthy individuals. Considers that not declaring all of their income is completely 'normal' – universal practice in building trade. This attitude is reinforced by their accountant who assists them in 'deciding on a number' to put on their tax return that will be credible and not raise red flags at HMRC. |
| Behavioural Non-compliance | When working on commercial jobs and large domestic jobs is paid electronically – declares all this income because 'there's a paper trail' – if they were investigated by HMRC they would be able to see this income. Does small domestic jobs for cash – in accordance with perceived common practice and customers' wishes. Uses this cash to assist cash flow, act as a general 'buffer' and enable their family to have the odd treat and does not declare it. Estimates that overall they declare 90% of his income. |

Case Study 2; Transport

| | |
|----------------------------|---|
| The Business | Well established and successful business transporting live animals across the UK and Europe. Took pride in their expertise and in running a professional operation where animals were well looked after in transit. Had built the business up over 10 years to the point where they now employed two people in addition family. Had contracts with various organisations and was proud to have been awarded these. |
| Attitudes to compliance | Took their responsibility as a business owner and employer seriously and ran a legitimate business in respect to PAYE, VAT, insurance, etc. They felt it was important to understand and comply with the tax rules as part of that. They were aware of the powers that HMRC had to take action against businesses who behaved fraudulently and was in support of this action being taken. They felt it that it was OK to flout the rules around business expenses but when it came to PAYE, VAT and insurance it was important to be responsible. |
| Behavioural Non-compliance | They claimed expenses as business expenses which were actually personal expenses, e.g. having a weekend away at a hotel or a meal out. They felt this was legitimate and small scale, rationalising it by comparing themselves with other businesses in their sector who didn't have insurance, paid people cash in hand etc. And also, by comparing themselves to big businesses who they felt paid almost no tax despite generating huge revenues in the UK. |

Case Study 3; Consultancy

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|----------------------------|---|
| The Business | Small sole-trader providing IT consultancy and support to a selection of business clients. Also did a small amount of domestic work; this had formed a bigger part of their business in the early days but had declined as they built up the work with businesses. Worked from home. |
| Attitudes to compliance | They knew that he was not totally compliant with the tax rules and was highly anxious about the possibility of being caught in this. They dealt with this by keeping a low profile (i.e. would not allow the interview to be audio-recorded) and by convincing themselves that they were so small that HMRC would not be interested in them and they would never be selected for an investigation. They were sure that if HMRC did investigate they would be in trouble. |
| Behavioural Non-compliance | They were undeclared their total income as they did not declare the cash income they received from the domestic work that they did; this was mainly for friends/family, friends of friends etc. so they felt they were on safe ground. They reported that all of their income from businesses was traceable and so was all declared on their tax return. They were not keeping their business records up to date in any sort of systematic way and were pretty sure that meant that their tax return was inaccurate. They rationalised this on the grounds that they were so small that the amount of unpaid tax in question would be very small. |

Case Study 4; PAYE/SA

| | |
|----------------------------|--|
| The Business | Individual employed during the week as a bus driver and paid tax through PAYE. Worked as a self-employed taxi driver at weekends and filled out a Self Assessment tax return as a result of this. |
| Attitudes to compliance | They were on board with the idea of paying tax and felt that they paid their fair share through their PAYE income and declaring some of what they earned at weekends on their tax return. They felt that keeping a bit back was totally normal and OK; it was what most people did and did not mean that they were breaking the law. |
| Behavioural Non-compliance | They did not declare all of their income from their weekend work as a taxi-driver. They felt they paid tax on most of their income and that the small amount they kept back was too little to matter but allowed them to pay for treats for their family; holidays, meals out etc. |

4.3 How Businesses Feel About HMRC

HMRC was often viewed quite negatively and this could affect the way messages were received by businesses. These negative views seemed to be driven by the following:

- Poor service experiences
- Poor understanding of HMRC's role
- A belief that HMRC are quick to collect tax due to them and slow to pay back tax due to taxpayers
- General cynicism around Government competence and honesty

Poor service experiences

There was some spontaneous acknowledgement that Self-Assessment 'has got easier' and some businesses reported positive service experiences.

However, many complained about negative service experiences, reporting that:

- it was difficult to get through,
- they received inconsistent and contradictory advice, and
- it could appear that different parts of HMRC were not joined up.

The businesses appeared to have little sense of HMRC being there to help them.

"They are hopeless to deal with ... trying to get through to anyone is a nightmare ... you never seem to get an account handler ... you get a different person every time ... so you end up regurgitating the same information over and over again." Transport, Glasgow.

"I wouldn't ever get in touch with HMRC unless I had to as you don't get the impression they are there to help you, you would probably just get sucked in and they'd start asking all sorts of questions. It's just not how I see them." PAYE/SA

Poor Understanding of HMRC's Role

Some of the businesses did appear to have a greater understanding of HMRC's role as administrator of the tax system and could be sympathetic to their position. However, many businesses appeared to believe that HMRC sets taxation policy/the tax rules. Many businesses also blamed HMRC for large companies' navigation of the tax rules and some blamed HMRC for spending decisions.

"I didn't even know they were collecting taxes until I came here today" Construction, Cardiff

"The only time we think about the taxman is the 6th of April" Construction, Cardiff

A belief that HMRC are quick to collect tax due to them and slow to pay back tax due to taxpayers

This was a strong and commonly held perception amongst businesses, which undermined any sense of HMRC acting with fairness. Rather it fuelled the belief that HMRC was unfair and this was further emphasised by a belief that if HMRC make a mistake the business is still required to pay back the tax owed, even if years have passed.

“It’s one way traffic with them. If they want money off you they are totally on it. If you need their help or if they owe you money they are hopeless.” Transport, Manchester

General cynicism around government competence and honesty

Across this audience there appeared to be a general tendency not to believe what the government is communicating; there also appeared to be some sensitivity to ‘spin’ and ‘scare mongering’.

In addition, some expressed the belief that cuts have affected all areas of government and in that context that HMRC were probably ‘doing the best they can’ but that their success would be compromised by lack of resource.

4.4 What Impact do Messages around Fairness, Deterrence and Social Norming have on Businesses?

The research explored the reactions of the businesses to a range of different messages which were designed to incorporate a range of different themes, including;

- That HMRC administers the tax system fairly
- The consequences of non-compliance
- That compliance with tax rules is 'the norm'
- That HMRC operates in an efficient/efficacious manner
- That HMRC is there to provide guidance and service
- The two way relationship between taxes collected and services paid for

The research aimed to understand which, if any, were understood by the participating businesses to be communicating Fairness, Deterrence and/or Social Norming. And if so, what was the impact of these messages on businesses (claimed) compliance behaviour.

Fairness Messages

The messages that businesses saw as communicating Fairness were welcomed as they would like to see the perceived unfairness in the system addressed. However, Fairness messages did not appear to have the power to change the compliance behaviour of these businesses.

Perceptions of HMRC

The messages that businesses saw as communicating Fairness did seem have the power to shift perceptions of HMRC in a positive direction and the key elements of the messages that appeared to have a big impact are:

- HMRC is taking action against big businesses, multi-nationals, corporates
- HMRC is taking action against fraudulent businesses
- HMRC is taking action to stop businesses using legal means to avoid paying their fair share of tax in the UK
- HMRC is countering the efforts big businesses put into avoiding tax with efforts of their own to collect tax; meeting like with like

"It's good that they are going after the big boys ... getting them to pay more."
Construction, Cardiff.

"If they don't get that £60 billion from the big companies, we will get hammered ... we pay tax on everything ... fuel, beer, everything ... and that will just go up because they need to find the money for the NHS from somewhere." Construction, Cardiff

"It seems positive, it takes away the feeling that they (big businesses) are getting away with it." Transport, Glasgow

Key Findings: Behavioural Compliance

The messages that businesses saw as communicating Fairness did not appear to have the power to encourage small businesses to change their behaviour. Businesses saw themselves as paying their fair share and other businesses as not paying their fair share. HMRC taking action against those who do not pay their fair share was seen to be making the overall picture fairer, but did not have implications for their own behaviour.

Deterrence Messages

Deterrence messages did appear to have the power to impact behaviour, but they would need to be tailored and targeted to this audience.

Perceptions of HMRC

Deterrence messages did seem to have the power to impact perceptions of HMRC in a positive direction and the elements that appeared to have the greatest impact were:

- HMRC has a lot of resources at their disposal (e.g. 24,000 analysts)
- HMRC is powerful (e.g. a range of civil and criminal powers, prosecution and imprisonment, life-changing penalties, seizure of assets, sanctions)
- HMRC is effective (e.g. 5,400 criminal convictions)

All of these communicated that HMRC's claims that it is targeting big businesses and fraudsters were credible. They communicated that HMRC has the resources and the power to be effective.

"If people are deliberately trying to cheat the system then I hope they do get caught."
Consultancy, Glasgow.

Key Findings: Behavioural Compliance

The messages tested did resonate with small businesses as they communicated the power of HMRC to act and were quite alarming in that context. However, because the messages were seen to be targeting large businesses and/or fraudulent businesses and not as targeting them, there was no evidence the messages would impact on their own behaviour.

Businesses reported that they would need to feel that deterrence messages were directly aimed at them and/or businesses like theirs before it would have an impact on their own behaviour. Thus, messages would need to be clearly targeted at:

- Businesses of their size, for example sole traders
- Businesses in their sector, for example the construction industry
- Businesses who behave like them, for example sole traders who don't declare cash income

The businesses felt that the more targeted the message, the more likely they would be to take notice, assuming they felt any claims made in the message were credible.

Social Norming Messages

Social norming messages will struggle to cut through – non-compliance as a (perceived to be legitimate) norm was strongly entrenched and was a key driver of their own non-compliance.

Perceptions of HMRC

The messages that were intended to communicate a norm (only 0.3% involved in tax avoidance, the tax gap is only 5.6%) impacted in a variety of ways:

- They could be interpreted as demonstrating that HMRC is doing a good job and so paint HMRC in a good light
- They lacked credibility for some as they questioned the validity of the statistics on the grounds that they felt HMRC could not possibly have accurate information about the hidden economy; the number/scale of businesses that are 'off the grid', nor can they have accurate information about the amount of cash income that goes undeclared
- They were puzzling for some as they seemed to indicate that there is no problem with compliance so raised a question over why HMRC was conducting this research.

Key Findings: Behavioural Compliance

Although, these messages (only 0.3% involved in tax avoidance, tax gap only 5.6%) were not interpreted by businesses as communicating a norm, they did provide evidence that social norming messages would struggle to challenge the deeply held beliefs that businesses have around the prevalence of non-compliance.

Without proof (i.e. generalised claims about high levels of compliance) messages are very unlikely to be believed; businesses' experiences within their own sector would undermine HMRC claims.

Proof in the form of statistics (e.g. 0.3% of businesses are involved in tax avoidance) also tended not to be believed as businesses cannot see how HMRC can possibly know enough for the statistics to be credible which again leads businesses to rely on their own experience over HMRC claims.

“Will any of that (the messages as a whole) affect my day-to-day life ... has it got anything to do with me ... none of it seems relevant ... it won't make me think I need to be more careful or wise ... I'll just keep paying my tax the way I do now.” Construction, Cardiff.

5. Conclusions; How Can HMRC Use Communications to Impact Behavioural Compliance?

The research suggests that credible messages around fairness, competence and support have the power to improve attitudes towards HMRC and so enhance its potential as a messenger to be listened to.

Messages that appear to have the power to impact attitudes fall across five key areas:

- HMRC is addressing unfairness in the system and targeting big businesses to ensure that everyone pays their fair share
- HMRC is committed to ensuring all companies and individuals pay their fair share. They know that there will always be people who try to cheat the system and they will take firm action against them to ensure they don't get away with it
- HMRC has the power and resources to pursue those who do not pay their fair share.
- HMRC is effective in identifying, pursuing and getting redress from those who cheat the system
- HMRC is here to support businesses who play by the rules and pay their fair share. These businesses can rely on them to provide reliable and consistent advice/information when they need it and can rely on HMRC to treat them fairly

The research suggests that to have an impact on behavioural compliance, messages will need to be highly targeted and will need to focus on the key drivers of non-compliance.

Non-compliance appeared to be driven by three core factors:

- The opportunity afforded by the Self Assessment system
- The strongly held belief that a degree of non-compliance is the norm
- The strongly held belief that businesses like theirs are unlikely to be caught or suffer any consequence of non-compliance

These three factors worked together with the result that businesses felt able to under declare their tax, felt it was normal to do so and felt that it was safe to do so, i.e. that there would be no personal repercussions of doing so.

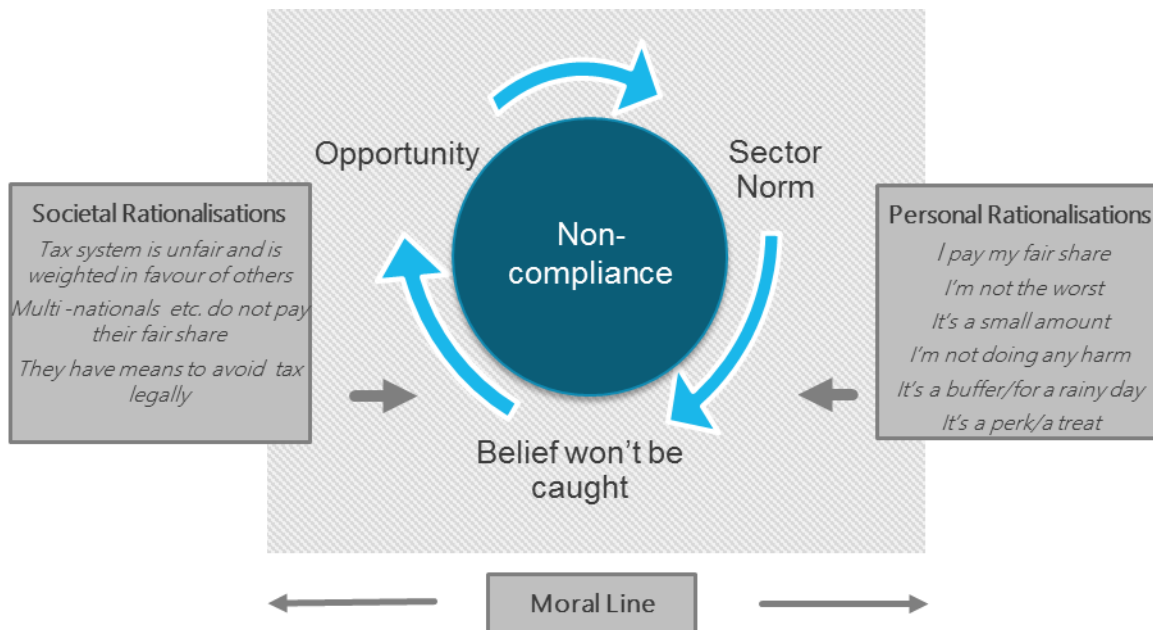
Businesses used a range of rationalisations, both societal and personal to justify their non-compliant behaviour.

Businesses explained or justified their non-compliance by placing it in a societal context where the tax system was felt to be weighted against them and in favour of large businesses and wealthy individuals; these businesses and individuals were felt to be able to 'legally' avoid tax on a large scale, allowing smaller businesses to feel their own avoidance was legitimate.

Businesses also explained or justified their own non-compliance by citing a range of more personal reasons for example, that the unpaid tax acted as a buffer against a rainy day or enable them to pay for treats for their family.

The degree of claimed non-compliance could be relatively higher or lower, depending on where each individual taxpayer drew their own line from a moral perspective; some individuals seemed morally comfortable with higher levels of non-compliance than others.

This is illustrated below.



The research suggested that to change compliance behaviour, HMRC will need to challenge the three core drivers of non-compliance, which would need to be challenged through firm, targeted and credible messages.

Messages targeting the core drivers appeared to have most chance of success and would need to convince SA taxpayers that businesses like them/in their sector are being targeted and that there is a good chance their non-compliance will be detected, i.e. that they will be caught. Ideally these would go out alongside messages communicating that large businesses are also being targeted, to avoid the risk of the existing perceptions of unfairness being amplified.

Messages targeting societal rationalisations would be well received by SA taxpayers but would be seen to be re-dressing existing imbalance in the tax system and so would be unlikely to affect their own behaviour.

Messages targeting personal rationalisations were unlikely to resonate with small/mid-sized businesses, as they will continue to believe they are paying their fair share while others aren't.

6. Appendix 1; Discussion Guide

Introduction (10 mins)

We are conducting some research about HMRC and the tax system. We want to explore your views on these and also look at some potential messages that HMRC could use in its communications.

- **First some reassurances and ground rules**
 - Introduce yourself as the moderator and explain Jigsaw's role as an independent research agency
 - Not trying to sell anything and there will be no follow-up – length of session
 - No right/ wrong answers, opinion that counts & not trying to gain consensus – everyone's views are important
 - Reassure responses are anonymous and that no identifying information will be passed onto anyone including HMRC – your opinions will only ever be reported back on a combined and completely anonymous basis
 - Seek permission to audio and video record for analysis purposes

- **Ask respondents to introduce themselves and their business**
 - Name, job role, just to be clear, if you are self-employed or have additional income outside your PAYE income you are considered to be a business for the purposes of this research.
 - Nature of business, size and number of employees, how long established, business life stage and performance
 - VAT registered?

Attitudes to HMRC (5 mins - warm up)

I want start by talking a bit about HMRC ...

Overall what are your impressions of HMRC as an organisation?

- What do they do well?
- What do they do less well?

Probe; in collecting taxes, ensuring people and organisations pay the correct amount of tax, providing support and guidance around tax

How would you describe your own relationship with HMRC? How do you feel about them? What makes you say that?

Reactions to the messages (45 mins)

MODERATOR: KEY SECTION TAKE OUTS

- TO EVALUATE A RANGE OF DIFFERENT MESSAGES
- TO UNDERSTAND HOW THE MESSAGES WERE RECEIVED AND INTERPRETED BY INDIVIDUALS; THEIR RESONANCE, CREDIBILITY AND IMPACT
- TO UNDERSTAND THE DEGREE TO WHICH THEY ENCOURAGE COMPLIANCE AND/OR COMMUNICATE FAIRNESS ON BEHALF OF HMRC, HMRC EFFECTIVENESS, THAT TAX AVOIDANCE IS NOT WIDESPREAD, THE LINK BETWEEN TAX AND PUBLIC SERVICES
- TO REFINE AND STRENGTHEN THE MESSAGES WITH A FOCUS ON THEIR POWER TO DRIVE VOLUNTARY COMPLIANCE

INTRODUCTION: I want to start by looking at some types of messages that HMRC could use in their communications, or could do in the future. So, for example they could appear on their website or in their letters, etc.

MESSAGES WILL BE POSTED ON THE WALLS AROUND THE ROOM. PROVIDE RESPONDENTS WITH A SET OF GREEN, RED AND BLUE STICKERS. ASK THEM TO READ EACH OF THE MESSAGES AND TO

- PUT GREEN STICKERS ON THE MESSAGES THAT MAKE THEM FEEL POSITIVELY ABOUT THE HMRC
- PUT BLUE STICKERS ON THE ONES THAT MAKE THEM FEEL THAT HMRC IS A FAIR ORGANISATION
- PUT RED STICKERS ON THE MESSAGES THAT MIGHT MAKE BUSINESSES LIKE THEIRS FEEL MORE COMMITTED TO PAYING THE RIGHT AMOUNT OF TAX

NB. IN THE DEPTHS WE WILL HAVE THE MESSAGES ON A4 PAPER AND WILL ASK THE RESPONDENT TO HIGHLIGHT THE ONES THAT MAKE THEM FEEL MORE POSITIVELY ABOUT HMRC, THE ONES THAT MAKE THEM FEEL THAT HMRC IS A FAIR ORGANISATION

AND THE ONES THAT MIGHT MAKE THEM FEEL MORE COMMITTED TO PAYING THE RIGHT AMOUNT OF TAX IN DIFFERENT COLOURED PENS.

ONCE TASK COMPLETE TAKE NOTE OF THE ONES WITH MOST GREEN, BLUE AND RED STICKERS.

FOR THE PRIORITY MESSAGES (AND THE ONES WITH MOST GREEN, BLUE AND RED STICKERS – ONE OF EACH – IF THEY DON'T FALL INTO THE PRIORITY SET), TAKE EACH MESSAGE IN TURN (ROTATE ORDER OF PRESENTATION):

- What is the main thing this message is telling you? What do you understand it to mean?

- Who is the message aimed at?
- What is it trying to achieve?
- How believable is this message?
- How relevant is this message to you personally? Why do you say that?
- How does it make you think/ feel about HMRC? If more positive, why?
- What does it make you think/feel about paying the correct amount of tax? If more likely, why?
- How could this message be altered to make it more powerful?

MODERATOR NOTE:

- **LISTEN OUT FOR ANY SPONTANEOUS MENTIONS OF COMPLIANCE OR FAIRNESS – PROBE FULLY**
- **BE AWARE OF MESSAGE TERRITORY/UNIQUE CONTENT – IF NOT MENTIONED SPONTANEOUSLY HIGHLIGHT AND EXPLORE**
- **KEY THEMES TO EXPLORE – WHAT IS THE POTENTIAL OF MESSAGES IN EACH OF THESE AREAS TO ENCOURAGE VOLUNTARY COMPLIANCE; PER SE AND RELATIVE TO ONE ANOTHER:**
 - **COMPLIANCE**
 - **FAIRNESS**
 - **SOCIAL RECIPROCITY**
 - **SOCIAL NORMING**
 - **HMRC EFFICIENCY/EFFICACY**

Message Choice Exercise (5 mins)

Now just focus on the 15-20 messages that had the most appeal from the 'wall' exercise – put them together on the wall and 'lose' the others

I'd like you to just look at these messages now and choose:

- The one with the strongest compliance message
- The one with the strongest Fairness message
- The one that gives the strongest message about HMRC's efficiency and effectiveness

Compliance (10 mins)

MODERATOR; KEY TAKEOUTS

- HAVE ANY OF THE MESSAGES IMPACTED VIEWS ON HMRC'S COMPLIANCE ACTIVITY
- HAVE ANY OF THE MESSAGES IMPACTED ON THEIR OWN ATTITUDES TOWARDS BEING COMPLIANT

HMRC's job is to ensure everyone is following the tax rules and pay the correct amount of tax when it's due.

Before you arrived today, how well would you have said HMRC performed in making sure everyone pays the correct amount of tax? Why do you say that?

Before today, in what ways would you have said HMRC were doing a good job of collecting all the tax that was due?

And in what ways would you have said (before today) that HMRC was not doing a good job of collecting all the tax that is due?

Have your views changed at all? In what way?

Have any of the messages we have seen today made you think that HMRC are doing a better job that you thought in this area? Which ones? Why?

How does this make you feel? How does it affect your own attitudes towards paying the correct amount of tax?

Fairness (10 mins)

MODERATOR; KEY TAKEOUTS

- HAVE ANY OF THE MESSAGES IMPACTED VIEWS ON HOW FAIRLY HMRC OPERATES
- IF SO, DOES THAT IMPACT ON THEIR OWN ATTITUDES TOWARDS BEING COMPLIANT

HMRC aims to carry out its work fairly.

Before you arrived today, how well would you have said HMRC performed in respect to fairness? Why would you have said that?

In what ways would you have said (before this evening) that HMRC operated fairly? And in what ways, if any, would you have said they were unfair?

What about businesses like yours? How fairly does HMRC treat you and your business?

Have your views changed at all? In what way?

Have any of the messages we have seen today made you think that HMRC operates more fairly than you thought? Which ones? Why?

How does this make you feel? How does it affect your own attitudes towards paying the correct amount of tax?

MODERATOR NOTE: LISTEN OUT FOR FAIRNESS OF THE TAX SYSTEM VERSUS FAIRNESS OF HMRC ADMINISTRATION OF THE TAX SYSTEM; EXPLORE AND DISCUSS THE DISTINCTION.

Wrap up (5 mins)

How could HMRC encourage businesses like yours to be more committed to paying the correct amount of tax?
What sorts of things do you think they would need to do to get businesses in your sector to be more compliant?
PROBE FULLY.

THANK & CLOSE