



Research report

RTI Employers Compliance Research - Quantitative

Encouraging Employer Behaviour Change

TNS BMRB

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RTI Employers Compliance Research - Quantitative

About Personal Tax Customer & Strategy (PT C&S)

Personal Tax Customer & Strategy works with colleagues in Personal Tax and across HMRC to help develop our approach to implementing the customer centric business strategy. We use customer insight to help PT design, deliver and operate services for individual customers which

- improve customer experience
- maximise tax yield
- ensure that those who need help get the support they need, when they need it

PT C&S also has a corporate role, to manage the relationship with the voluntary and community sector on behalf of HMRC

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RTI Employers Compliance Research - Quantitative

Research requirement (background to the project)

Real Time Information (RTI) aims to improve the process by which employers submit PAYE information to HMRC, making it easier to manage whilst at the same time improving the accuracy of PAYE.

Previous research among employers has looked at attitudes to RTI, and responses to messages designed to inform and encourage appropriate behaviour both before and after migration. This research, and other information known to HMRC, highlighted the need to understand potential issues around embedding RTI, and to assess how best to encourage required behaviour change

A programme of qualitative research undertaken by TNS BMRB in spring 2012 looked specifically at the issue of compliance. HMRC then commissioned this quantitative research to quantify some of the key qualitative findings, with the aim of aiding the development of a compliance strategy for RTI.

More specifically, the project had five key objectives:

- To estimate the impact of RTI on employer compliance, i.e. filing and paying on time and filing and paying accurately;
- To quantify which behavioural levers are likely to have the strongest effect on encouraging employer behaviour change and determine how they can be used to inform support, education, communications and the penalty regime;
- To test specific components of the penalty regime as well as the likely effectiveness of the overall regime;
- To quantify reactions to the 'on or before' requirement;
- To estimate the likely interest in Time to Pay (TTP) and Variable Direct Debit options.

Who did the work (research agency)

The research was conducted by TNS BMRB.

When the research took place

Fieldwork took place from the 8th to 19th October 2012.

Method, Data and Tools used, Sample

Interviews were conducted with employers in organisations which operate at least one PAYE system and within these, with individuals who have knowledge of the payroll system and are responsible for decisions relating to this. Interviewing was conducted online using CAWI (Computer Assisted Web Interviewing), with sample provided by E-Rewards (from Research Now).

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A sample of 800 employers was interviewed, with the sample distributed across four size bands as follows:

- Micro (1-9 employees) = 400;
- Small (10-49 employees) = 200;
- Medium (50-249 employees) = 100;
- Large (250-4999 employees) = 100.

Broad quotas were set on industry and geography. At the analysis stage, weighting was applied to adjust for under/over representations by size, industry and geography.

We also used a methodology known as conjoint analysis to inform the optimum penalty strategy. Conjoint analysis has the advantage over direct questioning that it allows us to infer the optimum mix in terms of how penalties might work without relying specifically on what respondents claim they want. By trading off different features and different options for each feature against each other, we can assess what the best penalty make-up might be.

The four features used in the conjoint were as follows:

Frequency of penalties
Structure of penalties
Escalating/additional penalties
Free go

Main Findings

Context

Earlier qualitative research showed that the current economic situation is having a profound impact on employers' behaviour and attitudes, and this situation heightens employers' priorities and affects their relationships with HMRC – and it will underpin their behaviour under RTI.

This latest research was conducted at a time when 45% of participating employers had not heard of RTI and therefore they answered questions on the basis of what they had learned from the explanations of RTI included in the survey. Reactions to RTI were very mixed – 37% felt positive about it, 34% were neutral and 28% negative.

Current compliance

Based on claimed previous behaviour a considerable proportion of employers (47%) could be considered as currently non-compliant, that is:

- on occasions paying an estimate of the amount owed each month/quarter (4%);
- ever paying late monthly/quarterly (44%); or
- filing their year end return late (11%).

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Reasons given for late filing or late and under payment suggest that PAYE is seen as relatively low in terms of priority for employers.

Earlier qualitative research found four broad reasons for employers to behave in a way that could be interpreted as non-compliant in terms of payment of PAYE: cash flow, alterations in payment of staff wages, skills and experience and business reasons. These were explored in more detail in the quantitative research.

- **Cash flow:** Unpredictable income means we sometimes have to prioritise other payments - supplier payments for example
- **Alterations in payment of staff wages:** Sometimes we are not too concerned about submitting an accurate PAYE return at the same time as staff are paid because we know we can do it later on, for example in the case of informal advances we would estimate the taxes that would be due
- **Skills and experience:** We don't have the accounting experience and/or the technology skills to do accurate accounting
- **Business reasons:** as long as all PAYE is paid by the end of the year we think it makes good business sense to "flex" our regular payments to use the money for other things.

As a further example of the extent of current non-compliance, almost half (47%) stated that at least one of these four reasons applied to their organisation. The proportion who stated that each reason applied to their organisation is shown in Table 1 (and it should be noted that there appeared to be overlap between cash flow and business reasons as far as employers were concerned).

Table 1 – Reasons applying to organisation

Base: All (800)	Applies completely	Applies to some extent	Doesn't really apply	Doesn't apply	Refused
Cash flow (%)	10	25	21	42	1
Alterations in payment to staff wages (%)	1	9	25	63	1
Skills and experience (%)	3	15	20	60	2
Business reasons (%)	4	21	22	51	1

Furthermore one fifth of those surveyed (20%) agreed that the cash flow advantage from not always paying PAYE deductions in full is critical to the survival of their business (65% disagreed).

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When considering both past filing and payment behaviour and whether reasons for non-compliance applied to their organisation, around three fifths of employers (61%) could be considered as behaving in a non fully compliant way. However relatively low numbers of employers see reasons for non-compliance as acceptable, as shown in Table 2.

Table 2 – Acceptability of reasons for non compliance

Base: All (800)	Always acceptable	Mostly acceptable	Mostly unacceptable	Always unacceptable	Refused
Cash flow (%)	3	21	42	32	1
Alterations in payment to staff wages (%)	2	15	43	39	2
Skills and experience (%)	1	8	36	53	1
Business reasons (%)	3	18	45	33	1

The research suggested that participants views are quite black and white in relation to compliance; it is clear that intentional (as opposed to accidental) non-compliance is unacceptable. Most respondents disapproved of ‘Business reasons’ as a driver of non-compliance

Impact of RTI

When prompted with specific queries, concerns about RTI were expressed by a significant minority on many key issues, as shown in Table 3 and Table 4.

Table 3 – Levels of concern about issues related to RTI

Base: All (800)	Very concerned	Quite concerned	Neither	Quite unconcerned	Very unconcerned	Don't know
Having to submit your return before or at the same time as paying your employees (%)	10	20	32	19	19	1
Having to let HMRC know if you didn't pay employees to avoid an automatic late filing penalty (%)	17	21	29	15	17	1
Having to regularly use payroll software (%)	11	16	30	16	27	1

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Table 4 – Agreement with statements about RTI

Base: All (800)	Agree strongly	Agree slightly	Neither	Disagree slightly	Disagree strongly	Don't know
If I have to pay all PAYE on time, I will have to look for other ways to help manage my cash-flow (%)	14	18	24	10	33	1
I would still be able to file if the person who manages the payroll was away (%)	27	18	17	17	17	4
I would worry about not being able to file on time because I sometimes have IT problems (%)	18	27	22	13	18	2

Overall, three quarters of employers (76%) expressed concern with at least one of the issues highlighted in Tables 3 and 4. Levels of concern were higher among those not aware of RTI and among those currently non-compliant, suggesting that a better understanding of RTI could help to allay some of these concerns

Under RTI, between 5% and 7% of employers claimed they would be unlikely to do each of the required actions, as shown in Table 5

Table 5 – Likelihood of doing actions required under RTI

Base: All (800)	Very likely	Quite likely	Neither	Quite unlikely	Very unlikely
File on time – so send a full payment submission on or before every payroll run (%)	43	35	17	3	2
File correctly at every payroll run – so send correct details of every payment made to every employee (%)	40	36	17	4	2
Pay exactly the correct amount of PAYE deductions (%)	45	37	13	3	2
Inform HMRC of changes to employee circumstances when the payroll is run (%)	39	37	17	4	3
Correct any errors the next time you run your payroll (%)	43	34	17	3	3

Overall, 12% indicated that they were unlikely to do at least one of the actions shown in Table 5 and only 3% claimed they were unlikely to do all.

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Whilst employers agreed it will be hard to file late under RTI (71% agreed), a similar proportion (75%) agreed they would rather file on time even if something is incorrect rather than risk a late filing penalty. Furthermore, 7% agreed (but only 1% strongly) that they would consider not including all employee payments on a submission to reduce the amount owed to HMRC. A full breakdown of these statements is shown in Table 6

Table 6 – Agreement with statements about RTI

Base: All (800)	Agree strongly	Agree slightly	Neither	Disagree slightly	Disagree strongly	Don't know
It will be hard to file late because you have to do it at the same time as you pay your employees (%)	38	33	21	4	3	2
Under the new system I would rather file on time even if something is not quite right than risk a penalty (%)	37	39	17	3	3	2
I'd consider not including all employee payments on a submission so I could reduce how much I owe to HMRC (%)	1	7	15	9	67	2

There was also some evidence that RTI will potentially impact on other taxes with 18% claiming they would use money required to pay other taxes to help manage cash flow.

Behavioural levers

A set of 15 behavioural levers was tested within the research to establish which were most likely to encourage and enable reliable compliance under RTI.

The most important levers for communications were those that help employers deal with RTI, specifically:

- Knowing that if we file accurately and on time consistently, HMRC will be more understanding if we do get something wrong occasionally (11% importance share¹);
- Understanding that HMRC will alert us if we have done something wrong or missed a deadline so that we can respond (11% importance share);
- Knowing that HMRC will give us time to get used to the system (10% importance share);
- Feeling confident that we are up to date with our submissions and payments to HMRC. (10% importance share);

Conversely, those levers which focus on the 'bigger picture' were less important (all less than 5% importance share):

- Understanding the reason for the change to RTI (1%);

¹ Importance share is a score out of 100 which acts as a summary score to represent the relative importance of each feature within the analysis technique used for this, amongst all respondents.

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- Knowing that the system will benefit the UK as a whole (3%);
- Knowing that if we don't get things right, Universal Credit could be wrong and we might get lots of queries from our employees (3%);
- Knowing that RTI data will mean calculations for any Universal Credit our employees receive are correct (4%);
- Knowing that HMRC can use RTI information to target non-compliant businesses for auditing (4%).

Among those claiming they are unlikely to comply under RTI (i.e. unlikely to pay or file on time or correctly), whilst a broadly similar pattern of levers was evident, levers around flexibility and understanding were relatively more important, specifically:

- Knowing that HMRC understands the constraints that businesses face, and will bear this in mind when applying RTI (11%);
- Having flexibility around payments offered from HMRC (8%).

A two-way flow of information between employers and HMRC is not only expected (79% agreed strongly that HMRC should be expected to send up-to-date information back to employers following timely submissions) but also essential to feed into the key behavioural levers above. At this stage, however, the link with Universal Credit is not likely to be beneficial.

Time To Pay

Compared to the very small proportion of employers who claimed to be using Time To Pay currently (2%), there is a much greater likely demand under RTI with one quarter of all participants (24%) claiming they would be interested in it (see Table 7).

Table 7 – Likelihood of needing Time to Pay under RTI

Base	All (800) %
Very likely	8
Quite likely	16
Not very likely	31
Not at all likely	33
Don't know	12

Demand is highest among those for whom cash flow advantage is critical to their organisation (51% interested in TTP), those who would use other taxes to manage cash flow (47% interested in TTP) and those unlikely to comply under RTI (44% interested in TTP).

Variable Direct Debit

Use of Variable Direct Debit under RTI is likely to be taken up by over half (56%) of employers (22% 'very likely'), particularly those in retail/hospitality/catering, large employers, those who use a 3rd party for payroll tasks and those who update their books after paying employees.

RTI Employers Compliance Research - Quantitative**Penalties**

Under the current PAYE system, 6% of employers claimed to have incurred a penalty for PAYE over the last 12 months, and qualitative research has indicated that penalties will be an important element in encouraging compliance with RTI (along with other levers as outlined above).

Of the four features tested within the research using a statistical methodology called Conjoint Analysis (as described in the methods section), having a ‘free go’ (no penalty for the first late filing) was far more likely to drive choice than the other attributes included, particularly among Micro and Small employers – reflecting the desire for understanding and flexibility from HMRC.

The results of the conjoint exercise indicated that the optimum penalty regime would be as follows:

- Based on number of employees
- Basic penalty only OR additional tiered penalty after 6/12 months
- Penalties would be charged monthly OR quarterly
- All employers would get one free go and small employers (less than 10 employees) and new employers (those in their first year) will be given an additional ‘free go’ each year.

The features of the optimum penalty regime showed little or no variation across size bands, or between compliant and non-compliant groups (compliance based on current filing and payment behaviour)

Over two thirds (69%) stated that a cap should be part of the penalty system and among those who thought this was the case 82% believed that the cap should increase by size of employer.

Over half (58%) had no preference whether filing and payment penalties should be issued together or separately. One fifth (21%) would prefer them together, whilst 22% would prefer them separately.