

High Risk Renewals

Tax credits customers' experiences of and responses to the High Risk Renewals intervention

HM Revenue and Customs Research Report 257

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¹ See annex to report 257.

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Glossary

HMRC HM Revenue & Customs

HRR High Risk Renewals

CTC Child Tax Credit

WTC Working Tax Credit

Key findings

Background

The High Risk Renewals (HRR) intervention is used by HM Revenue & Customs (HMRC) to target those tax credits customers identified as having a risk of error or fraud in their claim. Customers selected to undergo this compliance intervention are sent an HRR intervention letter in addition to, and separately from, their tax credits renewal pack. This report explores customers' experiences of and responses to the HRR intervention, and whether they discuss their experiences with other tax credits customers.

Customers' experiences of the High Risk Renewals intervention

- Typically, participants who read the initial letter understood it. However, some could not or did not read the letters.
- Participants commonly reported phoning the helpline for reassurance or clarification.
- Participants who did not engage with the HRR process tended to have poor or no English language skills and/or poor claim management behaviour more widely.

Attitudes to and perceptions of the High Risk Renewals intervention

- In cases where they acknowledged an error had occurred, participants commonly felt that the intervention and any resultant claim adjustment were fair.
- Participants who reported being unable to gather adequate evidence from childcare providers did not feel that their adjustment was fair.
- Following the HRR intervention, some participants said they would manage their claim more carefully in the future; others said they would continue as before.
- The HRR intervention increased perceptions among some participants that HMRC regularly checks claims and therefore that fraud is hard to get away with.

Conversations with others about the High Risk Renewals intervention

- Participants who did not speak to others about the HRR intervention tended to see their claim as private and/or did not know other tax credits customers.
- Some participants reported speaking to other tax credits customers about the HRR to warn them or to ask for advice; this group had regular conversations with friends and colleagues about tax credits.

Executive Summary

Background

Inclusion conducted 57 face-to-face depth interviews with tax credits customers who were identified as having recently undergone a High Risk Renewals (HRR) intervention.

The HRR intervention, which was introduced by HMRC in 2010, aims to target tax credits customers who have been identified as having a risk of error or fraud in their claim. Tax credits customers who are selected to have their claim checked in this way are sent an HRR intervention letter in addition to, and separately from, their tax credits renewal pack.

Forty interviews explored customers' experiences of and responses to the HRR intervention. An additional set of 17 interviews was conducted with a separate group of tax credits customers who had also experienced the HRR intervention. This set of interviews focused on exploring whether customers talked to others about the intervention they had undergone.²

Some customers who underwent the HRR process said they found managing their tax credits claims difficult, including: participants with poor understanding of English language; self-employed people; those who worked variable hours; and those who had been on maternity leave.

Customers' experiences of the High Risk Renewals intervention

As part of the HRR intervention, customers initially receive an 'information request' or 'discrepancy' letter. The information request letter asks the customer to send further evidence to support their claim. The discrepancy letter outlines a discrepancy in the customer's claim and states that their award will be amended unless the customer disagrees and sends in supporting evidence. Along with the initial letter, a penalty leaflet is sent outlining possible consequences of having an incorrect claim, including a fine of up to £3,000. At the end of the process, a closing letter is sent, outlining HMRC's decision.

Participants who read the initial letter typically understood it. However, some participants could not or did not read the letters.

Participants who received discrepancy letters were likely to think they were targeted because of a specific issue relating to their claim. Participants who received information request letters were likely to think they had been randomly targeted.

There was some anxiety reported by participants on reading the initial HRR letter; they felt particularly anxious about the possibility of a fine or having to repay an overpayment. Those

² These interviews explored a specific topic area in depth and therefore fewer interviews (a total of 17) were necessary to explore the full variety of experiences and attitudes. This topic was also covered in the other 40 interviews, but in less depth.

who did not feel anxious often believed they had been randomly targeted as part of an intervention to reduce fraud, which they supported.

Participants ranged in their responses to the HRR. Participants largely believed they had been asked to provide HMRC with further information, including those who received discrepancy letters. Some participants then collected the information and posted it to HMRC. It was common for participants to phone HMRC after receiving the letter either to confirm what they needed to do or to seek reassurance about why they had been targeted.

Participants who did not respond to the HRR were likely to have either: poor understanding of English language; poor claim management behaviour; or be planning to cease claiming tax credits in the future.

Participants whose claims were adjusted or terminated generally believed that this was fair. Those who said they were unable to provide the evidence required felt their amendment was unfair because of this. Typically this related to receipts for childcare payments they had made but could not evidence. We found no evidence of participants appealing a decision, even when they felt it was unfair. Some participants said they did not appeal because they agreed with the decision, while others felt that appealing was 'pointless'.

Where letters were tested, participants typically only looked at the first page. In general participants found the information request letter clear and easy to understand. Those who received a discrepancy letter could often not read it independently (due to poor English language skills or disability), and even when it was read out or translated for them, these participants found the discrepancy letter difficult to understand. Those participants who could read this letter independently were split between finding it easy or difficult to understand. Participants commonly felt the penalty leaflet was too long and some were unsure whether the entire leaflet was relevant to their case. Participants tended to find the tone of the leaflet was negative; although some approved of this approach, believing that it would help discourage fraud.

Participants were more likely to remember the earlier stages of the HRR process than the closing letter. While participants generally found the closing letter easy to understand, there was a consistent recommendation that it should give reasons for the decision as well as the amount of any amendment (or that it be sent at the same time as a new award notice). This was because it could cause anxiety to know that an amendment would be made, without knowing the amount of the amendment.

Attitudes to claim management behaviour and the compliance regime following the High Risk Renewals intervention

Tax credits customers participating in the research commonly told us they were actively managing their claims or were planning to manage them more actively in future. Some participants were already keeping a file of relevant paperwork and notifying HMRC of any changes to circumstances. Another group of participants had not previously managed their claim in this way but reported that the experience of the HRR intervention had made them decide to be more careful in future. Those participants who reported that they would now be more careful in managing their claim tended to have low or no amendments to their claim.

Those participants who were not actively managing (or planning to manage) their claims varied in their circumstances and rationale. Some had a poor recollection or understanding of the HRR process; this often included those with English as a second language. Others were planning to discontinue claiming tax credits in the future. These participants tended to be self-employed, had small tax credits claims and had received overpayments in the past.

Participants often understood the HRR intervention to be part of a broader process to prevent fraud in the tax credits system. They did not object to having their claim checked as it would ensure that those committing fraud would be caught. Some felt the compliance regime was getting tougher. Where participants held views on HMRC, they were generally positive about HMRC being tough on tax credits fraud and they were supportive of efforts to check the validity of claims.

The research did not find any evidence that fraud was perceived to be normal or justifiable by tax credits customers. Participants typically felt that error was more common than fraud in their experience and that, while it was right to punish tax credits cheats with a fine, those who made mistakes should be supported and not fined.

Conversations with others about the High Risk Renewals intervention

Participants who knew and regularly interacted with other tax credits customers frequently discussed tax credits. These conversations most frequently occurred around the renewal period when tax credits may have been top of mind, or when a particular incident occurred, such as a friend or colleague receiving an overpayment. Those participants who did not discuss tax credits with anyone were likely to consider it a private matter, and/or did not know other tax credits customers.

Where participants had spoken to other tax credits customers specifically about the HRR intervention this was usually because they were seeking advice and reassurance, discussing general experiences or warning others about being selected for review.

Participants believed that the conversations they had with other tax credits customers had the potential to affect others' claim management behaviour. They believed the strongest effect came when they specifically warned other tax credits customers about the HRR process. This often happened in groups of customers with similar life circumstances who spoke regularly about tax credits and who shared information and advice amongst themselves. While learning circulated around this immediate group, it did not appear to extend more widely.

1. Introduction

Research context

Tax credits

- 1.1. 4.7 million families, containing 7.8 million children, were tax credits recipients as of 1st April 2013.³
- 1.2. Tax credits are a flexible system of financial support designed to deliver support as and when a family needs it, tailored to their specific circumstances. Tax credits are made up of two components: Working Tax Credit (WTC) and Child Tax Credit (CTC). CTC brings together income-related support for children and for qualifying young people aged 16-19 who are in full time non-advanced education or approved training, into a single tax credit, payable to the main carer. WTC provides in-work support for people on low incomes, with or without children.
- 1.3. This research interviewed both customers who claim CTC and those that claim WTC.
- 1.4. The tax credits system has been designed to be responsive to the changing needs of customers and their specific circumstances, for example, the birth of a new child or starting a new job. The aim is to ensure that awards can be adjusted as customers' circumstances change. HMRC has taken steps to ensure that customers understand this process and to support them to claim what they are entitled to. It is intended that providing a system that enables and supports customers to report changes of circumstances will help HMRC to reduce error and fraud.

Tackling error and fraud

- 1.5. HMRC's 2008 tax credits error and fraud strategy set a target to reduce the level of error and fraud to 5% of tax credits expenditure by March 2011.⁴ The strategy included proposals for a new, more targeted approach to high-risk claims in order to tackle error and fraud before it enters the system – 'Check First, Then Pay'.
- 1.6. Building on the 2008 report, in October 2010, HMRC and the Department for Work and Pensions (DWP) set out a joint strategy to drive down the levels of error and fraud in the welfare system. The strategy is based around five principles: Prevent, Detect, Correct, Punish and Deter.⁵ The approach concluded that the main causes of error

³ HM Revenue & Customs (2013) 'Child and Working Tax Credits Statistics: April 2013' www.hmrc.gov.uk/statistics/prov-main-stats/cwtc-apr13.pdf

⁴ HM Revenue and Customs (2008) 'Reducing error and fraud in Tax Credits' www.hmrc.gov.uk/about/reducing-error-fraud.pdf

⁵ HM Government (2010) 'Tackling Fraud and Error in the Benefit and Tax Credit Systems' www.dwp.gov.uk/docs/tackling-fraud-and-error.pdf?dm_i=BVI,E4L2,3698EA,14H7Y,1

and fraud were complexity of the welfare system, perceived weaknesses of sanctions, organisational processes (within HMRC and DWP) and social norms.

- 1.7. Alongside this, HMRC aims to reduce losses from error and fraud through helping customers get their tax credits claims correct initially, supporting them to identify and amend where claims are inaccurate, and ensuring customers report any changes to personal circumstances on time.
- 1.8. The 2010 joint strategy outlined a range of strategic compliance interventions to drive down error and fraud, and support customers to make the correct tax credits claims. Within this, HMRC detailed plans to continue to use the Check First, Then Pay plan introduced in the 2008 strategy, and implement a number of interventions based around this approach. One of the main compliance checks within this approach is the High Risk Renewals (HRR) intervention, which was introduced in 2010.

The High Risk Renewals intervention

- 1.9. The HRR intervention targets tax credits customers who are identified by HMRC as having a risk of error or fraud in their claim, which means they may have received an incorrect amount of tax credits. This could be due to them having provided incorrect information or failure to report a change of circumstances (such as a change in income or household composition). The HRR intervention, along with responses from third parties, allows HMRC to use its information to make an informed decision about tax credits customers' awards that have been identified as presenting a high risk.
- 1.10. The HRR intervention is undertaken during the annual tax credits renewal process, i.e. when checks are made to ensure that customers have received the correct amount of tax credits for the previous year and when provisional awards for the coming year are set. Tax credits customers whose award is checked in this way are sent an HRR intervention letter in addition to, and separately from, their tax credits renewal pack.
- 1.11. There are two different types of HRR intervention letter sent to tax credits customers: a 'discrepancy letter' and an 'information request letter'. A discrepancy letter is used where HMRC holds information that suggests a discrepancy between entitlement and claim and states that the award will be amended based on this information. If the customer disagrees, they should contact HMRC. If they agree, they should take no further action. An information request letter is used where HMRC does not hold enough information to issue a discrepancy letter. It asks the customer to send further evidence to support a specific element(s) of their claim, for example, childcare receipts. Enclosed with both letters is a penalty leaflet, which explains to customers what the consequences may be if errors are found within the claim; this includes the possibility of a fine up to £3,000.
- 1.12. Tax credits customers then have a short period of time to respond to the letter. Customers who do not respond will have their awards adjusted on the basis of information held by HMRC. All customers are sent a closing letter at the end of the process to notify them of the decision that HMRC has made regarding their award.

Research aims

1.13. The aims of this research were:

- To explore tax credits customers' understanding, experience of and response to the High Risk Renewals (HRR) intervention.
- To gain insight into tax credits customers' perceptions, attitudes and intended behaviour relating to their claim management going forward, and towards HMRC's compliance regime.
- To explore tax credits customers' conversations with other tax credits customers about the HRR intervention.

Methodology

1.14. Inclusion conducted a total of **57 face-to-face depth interviews** with tax credits customers who were identified as having undergone an HRR intervention.

1.15. **Forty** of these interviews explored customers' experiences of the intervention.

1.16. An additional set of **17 interviews** were conducted with a separate group of tax credits customers who had also experienced the HRR intervention. This set of interviews focused on a specific area of interest: whether customers spoke to others about the intervention they had undergone, in order to explore any wider effects of the HRR intervention in more depth. Specifically, this meant exploring who they spoke to, the messages they communicated and their motivations for discussing it with others. Interviews were conducted either face-to-face (4) or via the telephone (13)⁶.

1.17. To explore tax credits customers' experiences of the HRR intervention, a qualitative approach was taken. In-depth interviews were conducted face-to-face with the HRR intervention group in order to build rapport with participants and to enable the use of stimulus materials such as sample HRR intervention letters. Where participants remembered the HRR intervention without prompting, this was done after discussion of their experience. In cases where the participant did not remember the HRR intervention independently, the sample letters were used to aid their recollection.

1.18. All interviews were conducted between August and November 2012. The in-depth interviews were either conducted in participants' homes or a cafe or library in their local area. Where possible, paired interviews were conducted with couples where they managed their tax credits claim together.

1.19. All interviews were recorded and transcribed. Initial analysis of the interviews was completed during the fieldwork through debriefs held by the research team. Final

⁶ Due to time and resource constraints, the majority of these interviews were completed via telephone. A small number were conducted face-to-face where possible. Where completed via telephone, stimulus materials such as sample HRR letters could not be used.

analysis was completed through a tabular framework approach which allowed researchers to summarise and break down interviews into themes.

Sample and recruitment

1.20. A sample of potential participants was provided by HMRC from tax credits records. Tax credits customers were sent information about the research and given the opportunity to opt out of the research. Excluding those who opted out, participants were then recruited by telephone.

1.21. The research was conducted in three locations: London, Liverpool and Birmingham.

1.22. In order to attain a good range of experiences, the participants for the 40 interviews about customers' experiences and responses were recruited against a range of criteria that may impact upon attitudes, perceptions and behaviours with regards to the HRR intervention. The sample criteria included:

- The type of initial letter received (information request or discrepancy);
- Whether customers had had their award adjusted as a result or not, and by what amount (yield);
- The element of their claim that was being queried (for example childcare).

1.23. Throughout this report, any quotes from participants are labelled to indicate the type of letter and the yield amount for that participant. 'Yield' represents the amount of money incorrectly claimed by the respondent. Yield amounts are labelled as 'high', 'medium', or 'low'.⁷ Where a respondent's claim was incorrect in both the previous and current year,⁸ the higher of the two yields is referenced.

1.24. A range of customer demographics were also sampled to ensure the research included customers from a range of backgrounds (further details can be found at Annex 1).

1.25. Customers who spoke English as a second language were interviewed in order to gain insight into issues specific to their experiences and understanding of the intervention. Fourteen customers with English as a second language were recruited for the 40 interviews about customers' experiences and responses to the HRR. In order to successfully recruit this customer group, bilingual recruiters were used. The recruiters spoke Urdu, Punjabi, Bengali and Somali in addition to English. Registered interpreters were then used to conduct interviews with any participants from these groups.

⁷ 'High yield' represents incorrect claims of £5,000 or more in one or both of the tax credits claim years; 'medium yield' represents incorrect claims totalling £3,000-4,999 in one of both years (and if neither year had a high yield); and 'low yield' is defined as up to £2,999 in one of both years (and if neither year had a high or medium yield).

⁸ Where a customer's award is incorrect in the current year, the yield includes the amount of money claimed incorrectly up to the time of the intervention, plus the amount that would have been claimed incorrectly in the remainder of the current year.

1.26. There were no criteria set in terms of demographics or background of customers recruited for the 17 interviews exploring conversations about the High Risk Renewals intervention.

Interviews and research material

1.27. Researchers used in-depth discussion guides in order to fully explore the customer journey of the HRR intervention. A range of stimulus material was used during the in-depth interviews. This included copies of the letters sent as part of the HRR intervention, and a sort card exercise which aimed to explore participants' general attitudes toward error and fraud when claiming tax credits. These interview materials are included in Annex 2.⁹

1.28. In-depth interviews lasted between one hour and 90 minutes. All research participants were provided with £30 of shopping vouchers for a single interview and £50 of vouchers for a paired interview from Inclusion as a thank you for their time.

Report structure

1.29. Chapter 2 examines participants' experiences of the High Risk Renewals intervention including their understanding of the HRR letter, how they responded, and how they felt about the process. It also explores participants' reactions to sample copies of the HRR letters.

1.30. Chapter 3 considers participants' intended claim management behaviour following the HRR intervention. It also explores their attitudes towards HMRC and tax credits, perceptions of the compliance regime, and attitudes towards tax credits error and fraud.

1.31. Chapter 4 outlines the circumstances under which participants had conversations about the HRR process with other tax credits customers. It also sets out the conditions under which they believed that this communication led to other tax credits customers changing the way they manage their claim.

1.32. Chapter 5 draws conclusions from the findings presented in the preceding chapters, based on the key aims of this research.

⁹ Annex 2 is saved as a separate document, and can be viewed at www.hmrc.gov.uk/research/reports.htm

2. Customers' experiences of the High Risk Renewals intervention

Summary

Tax credits customers who underwent the HRR process reported varying levels of ease in managing their tax credits claim. Those who found claiming difficult included those with a poor understanding of English language and self-employed people.

Participants who received information request letters were likely to think they had been randomly targeted. Participants who received discrepancy letters were likely to think they were targeted because of a specific issue relating to their claim. Some participants felt anxious about the HRR intervention, particularly the possibility of a fine or having to repay an overpayment.

Participants who underwent the HRR process typically believed they had been asked to provide HMRC with further information. Some participants immediately gathered the information and posted it to HMRC. However, participants commonly told us they had telephoned HMRC after receiving the letter either to confirm next steps or seek reassurance. Participants who did not respond to the HRR letter commonly had limited understanding or awareness of the intervention.

Participants whose claims were adjusted or terminated generally believed this was fair. Where participants said they were unable to provide the evidence required they often did not think the amendment was fair.

During letter testing, participants commonly looked only at the first page of the letters. Participants generally found the information request letter clear and easy to understand. Many of those interviewed who received discrepancy letters could not read it independently and found it difficult to understand; even when it was read to them or translated.

Participants typically felt the penalty leaflet was too long and some were unsure of its relevance. Participants described the tone of the leaflet as negative though some approved of this, believing that it would help to discourage fraud.

Participants found the closing letter easy to understand though it was common for them to recommend that the letter give reasons for the decision as well as the amount of any amendment, or that it be sent at the same time as a new award notice.

2.1. This chapter is based on findings from the 40 interviews examining customers' experiences of the High Risk Renewals intervention. It discusses the extent to which those who underwent the HRR process have difficulty managing their tax credits claims, before looking in detail at how participants remembered the HRR process. This includes how participants felt during different parts of the process, any action they took on receiving the initial letter, any intermediate contact with HMRC and experiences of

claim adjustment or termination. Finally, this chapter details participants' reactions to the sample HRR letters they were shown.

Experiences of claiming tax credits

- 2.2. Participants were asked about their experiences of the process of claiming tax credits. Responses varied widely between those who found claiming tax credits complicated or easy. Some reported that they found claiming tax credits difficult, for the following reasons:
- poor understanding of English language;
 - difficulties associated with self-employment, such as estimating income;
 - reporting income when working variable hours;
 - estimating income including periods of maternity leave.
- 2.3. Others reported having frequent problems with their claim or reported incorrect claim behaviour, for example, thinking that they only needed to report a change of circumstances during annual renewal.
- 2.4. Participants who reported difficulties claiming tended to be relatively new claimants (less than two years). However, these participants typically reported the same issues as more experienced claimants who had difficulties. Participants with poor or no English language skills generally found claiming difficult.

Experiences of the High Risk Renewals intervention

- 2.5. In general, participants reported a good understanding of the annual renewal process and remembered that they had also received a letter checking a particular element, or elements, of their claim, i.e. the initial HRR letter. Some participants did not remember the HRR intervention or were very confused by it. These participants had commonly received discrepancy letters. Participants in this group often had poor or no English language skills and/or poor claim management behaviour (such as reporting that they did not open letters from HMRC).
- 2.6. Participants who received discrepancy letters, and remembered the process, often linked receiving the letter to the issue with their claim; for example, this included instances where a participant knew there had been a change to their childcare, but failed to notify HMRC about it. They were then unsurprised that they received a letter regarding this.

"I think it was more tailor-made because I'd had to give an estimate of my childcare costs ... I knew that there was an overpayment."

(Discrepancy, High Yield)

- 2.7. Participants who received information request letters often believed they had been randomly checked. In some cases they stated that the letter they received had told them or implied that it was a random check.

"I have no idea [why I was checked]. They wrote on the letter saying that I'm not the only one ... I think it's like with research, like they select some people that have to provide receipts"

(Information Request, Low Yield)

- 2.8. Other participants thought they had been checked because HMRC knew there was a problem with their claim, or were checking a group of people with similar circumstances who may have problems with their claims (such as those with college-aged children).

- 2.9. Participants occasionally felt that they had been personally targeted because HMRC believed they were committing fraud, or owing to previous problems with their tax credits claim. For example, one customer who was overpaid when her eldest child started university, thought that she was being checked because of this previous overpayment.

"I just thought they were being a bit funny with me because of what had happened previously."

(Information Request, Low Yield)

Feelings about the intervention

- 2.10. Participants who remembered the HRR process ranged from those who felt very worried and anxious to those who felt that the letter was reasonable and did not provoke any strong feelings. Those who felt worried sometimes had their anxiety triggered by a particular element of the communication, such as the penalty leaflet or seeing the word 'compliance' on the envelope. For example, this customer remembered the £3,000 fine mentioned in the penalty leaflet:

"It made it sound like it was your responsibility ... it did worry me a bit at the time. I think it was something like a £3,000 penalty or something like that and I thought this is a bit excessive ... because I hadn't deliberately overestimated."

(Discrepancy Letter, High Yield)

- 2.11. Other participants did not feel anxious about a particular element of the communication but generally worried that they had done something wrong, or were worried about being overpaid and then losing money that they relied on. Those who thought that their claim had been randomly selected often felt reassured by this belief. Other participants who did not feel worried or anxious on receipt of the letter felt that tax credits claims were being checked in order to reduce fraud, and they supported HMRC in this action. For example:

“Well, they’ve got to do it haven’t they? It’s important, otherwise any Tom, Dick or Harry could be saying anything, couldn’t they? So it was the right thing to do, and obviously you’re going to adhere to what they want.”

(Discrepancy, Claim Not Amended)

- 2.12. There did not appear to be any major differences in characteristics between participants who felt worried about the letter and those who did not. Some participants felt confused when they received their letter; these customers either had poor English or generally found the process of claiming tax credits complicated.

Understanding of the intervention

- 2.13. The information request letter asks the customer to send further evidence to support a specific element(s) of their claim, for example, childcare receipts.

- 2.14. In general, participants who received information request letters said, correctly, that the letter had asked them to provide information to HMRC. Participants largely remembered this independently, though some only did so after prompting with a sample letter. Participants occasionally had no recollection of ever receiving the letter, even after seeing the sample letter. Some participants reported that they had phoned HMRC to confirm what information they needed to send, as they had been unclear about what was required. Their experiences of phone communication with HMRC are discussed in section 2.22 and 2.23.

- 2.15. The discrepancy letter is used where HMRC holds information that suggests a discrepancy between a customer’s entitlement and claim. The letter states that the award will be amended based on this information. If the customer disagrees, they should contact HMRC. If they agree, they should take no further action.

- 2.16. Some participants who received discrepancy letters also said that they had been asked to provide information to HMRC. This request was primarily for information on letters from childcare providers or schools, similar to those who had received information requests. The other recipients of discrepancy letters had very little or no recollection of the letters, owing to a range of reasons, including: lack of English language skills, not opening letters, or a disability meaning they could not read. Some participants who had a slight recollection of the HRR process believed that the letter had told them they had been overpaid. Some inaccurately remembered the element(s) of their claim that the letter referred to. For example one participant told the interviewer that they had been asked to provide payslips, whereas HMRC records show that their childcare costs were being checked.

Response to the intervention

- 2.17. Participants who remembered the HRR process were split between those who phoned HMRC and those who immediately gathered information and sent it to HMRC by post. There were no major differences in characteristics between these two groups. Participants who gathered information and sent it to HMRC did so because they

believed that this is what they had been asked to do in the letter. Those interviewed who phoned HMRC did so for one, or more, of the following:

- To provide information to support their claim directly to the helpline advisor;
- To clarify the information that they were required to evidence;
- To seek reassurance about why they had been targeted.

2.18. Some participants phoned to give the information, such as dates of their child's schooling, to HMRC over the phone. These participants all had poor claim management skills, sometimes due to lack of English language skills. All of these participants had amendments recorded in administrative data, though not all were aware of this.

2.19. Participants commonly reported phoning HMRC to clarify what they needed to collect, prior to sending the information. Some participants reported that they phoned HMRC because they were worried that they were being investigated for fraud and were seeking reassurance. Some of these participants were reassured during the phone call that they had been selected randomly. For example:

"Well, when they sent me the letter, I was, I was a bit puzzled. I was thinking, why now? You know, I was a bit puzzled, but at the end of the day, when I phoned them and they explained to me they were just checking people on random and then I said, okay then."

(Information Request, High Yield)

2.20. While some participants phoned HMRC shortly after receiving the information request or discrepancy letter, others only phoned HMRC when difficulties gathering evidence emerged; for example, to report delays in receiving evidence from a third party (typically childcare provider) or to inform HMRC that they did not have access to all of the evidence, such as receipts for childcare.

2.21. In some cases participants had been unable to send adequate evidence to HMRC but believed that they had spent the money on childcare. For example, one participant reported having used an afterschool club that no longer existed and so was unable to access copies of receipts or a letter, while another participant had stopped using a childminder due to concerns about the standard of care and was unable to get a letter from them.

"But those companies are gone, so I didn't have the means of contact. I contact[ed] the school, but they just say that the companies are dissolved. There is no one to contact about it."

(Information Request, High Yield)

Satisfaction with phone calls

- 2.22. Participants who phoned HMRC were usually satisfied that their query was resolved. The purpose of their call was either to: clarify what information they needed to send or seek reassurance that HMRC did not suspect that they were committing fraud. Some participants who were satisfied with the outcome of their call, were unhappy at the length of time it took to have their phone call answered. In particular, this was due to anxiety about the cost of the phone call.
- 2.23. In other cases, participants were not satisfied with their phone call. This was sometimes due to the attitude of the adviser they spoke to or due to not receiving the information they wanted. For example, one participant had sought reassurance but felt the adviser could not explain why she had been selected.¹⁰ Some participants reported that they were advised to send information or give information over the phone and were told that their issue was resolved but went on to have their claims amended. These participants often had poor English language skills.

The closing letter

- 2.24. Fewer participants remembered the closing letter than the information request and discrepancy letters. Some of those who recalled the closing letter did so only when prompted with a sample copy of a closing letter. The group who did not recollect the closing letter included those who had no memory of the HRR process at all. As discussed above, this group was more likely to have received a discrepancy letter and were more likely to have poor English language and/or claim management behaviour. Some participants who did not remember the closing letter did recall the letter outlining their new award, or only realised a decision had been made when they noticed less money coming into their bank account.
- 2.25. Among those participants who remembered the closing letter, some felt that it would have been useful to receive a single letter containing the decision and new award, or the new award letter at the same time as the closing letter. This was because it could cause anxiety to know that an amendment would be made, but not know how much money they would need to repay. For example, one participant reported that the closing letter told them that they had been overpaid, but did not say by how much and they had to wait until they received the new award letter for that information.

“It didn’t really explain in detail, it just said, so your new award will be sent out to you shortly, so you were kind of, left waiting for a few weeks thinking, I wonder what kind of difference that’s going to make.”

(Information Request, Low Yield)

¹⁰ Advisors would not have access to information regarding why a customer’s claim has been selected for review. Advisors use wording similar to the initial HRR letter which explains that HMRC checks thousands of claims every year. Contact phone numbers are provided on all letters issued.

Claim termination and claim adjustment

2.26. As well as poor recollection of the closing letter, some participants also struggled to remember their claim being terminated or adjusted. Some participants were not aware that their claim had been adjusted. Others believed that their claim had been adjusted or terminated for a reason unrelated to the HRR intervention, for example, believing that their adjustment or termination was due to an increase in earnings rather than the childcare receipts that they had been asked to send to HMRC.

2.27. Participants who remembered that their award had been changed due to the HRR intervention commonly reported that they believed the adjustment or termination was fair. This meant that they did not want to appeal the decision even though many were aware that they could.

“It’s fair because he’s not studying, not doing anything, so it’s fair. ... Yes, they said I can appeal, but why? They are right.”

(Discrepancy, Low Yield)

2.28. Some participants did not feel their adjustment was fair as they reported being willing but unable to gather adequate evidence from childcare providers, as outlined in section 2.20. Like most of those who believed that the termination or adjustment was fair, these participants were also aware that they could appeal, but did not feel that they would be successful if they tried. For example:

“You know what, at the end of the day that’s like a waste of time, you’re going to phone them, and you’re going to spend time. And then they do the recalculation and stuff, and then you find out it’s the same thing, so I’d rather not go through that.”

(Information Request, Low Yield)

2.29. No participants reported that they had appealed the decision to adjust or terminate their claim.

Case study

Ms A is a lone parent living with her young son in Liverpool. She works full-time in a clothes shop earning minimum wage and has been claiming tax credits for two years. Ms A claims both Working and Child Tax Credits to supplement her low income and provide financial support for the full-time childcare she uses. Ms A remembered receiving a letter from HMRC asking for evidence of her childcare costs. She remembered that the letter said that if she didn't provide the evidence they would take away that element of her tax credits. Ms A sourced some of the childcare receipts needed (those from her current provider), but could not find the remaining evidence. She was unable to approach her former childcare provider because she had taken her child out of the nursery following a disagreement over the standard of care her son received. Ms A reported sending the receipts that she did have and a letter explaining that she could not provide receipts from the former nursery but was told it was insufficient evidence. As a result her tax credits were reduced by £60 per week.

Ms A said she would have welcomed more information on how to manage her claim when she started claiming tax credits.

“I was thinking that, you know if they would have at least sent me a letter saying that we might ask you for receipts then I would have kept them ... and it would have been easy.”

Ms A reported that the adjustment had a significant effect on her finances as she relied heavily on tax credits. *“I’m just surviving really.”*

Views on the High Risk Renewals intervention letters

2.30. During the interview, participants were shown: sample copies of discrepancy or information request letters; a tax credits penalty leaflet; and, a closing letter. Where participants remembered the HRR intervention without prompt, this was done after discussion of their experience. In cases where the participant did not remember the HRR intervention independently, the sample letters were used to aid their recollection. For each letter, participants were asked:

- Whether they found the letter easy or difficult to understand, highlighting any particularly easy or difficult passages;
- To describe the tone of the letter and how it made them feel; and
- To suggest any changes to the letter.

2.31. Researchers also noted which part of the letter the participant looked at first. The following describes participants’ reactions to the letters.

Information request letter

2.32. Twenty-six interviews were conducted with tax credits customers who received information request letters. A sample information request letter was tested with each of these. Participants tended to look first at the title ‘Your tax credits award to 5 April 2012’ or the subheading ‘What you need to do now’. Some first looked at the line ‘Every year we check thousands of tax credit claims ...’. It was uncommon for customers to look independently at the second page of the letter and, when prompted to do so, they did not spend long looking at it before returning to the front page.

2.33. Participants generally found the entire letter clear and easy to understand, though some of these reported that it was difficult to identify what HMRC was going to do, rather than what the recipient was required to do. Some participants found the entire letter difficult to understand. These participants typically had English as a second language.

2.34. Participants were split between those who described the tone of the letter in neutral terms and those who described the tone of the letter in negative terms. Those who described it neutrally used descriptions such as: ‘informative’, ‘straightforward and to the point’, ‘formal’, and ‘not threatening’. Those who described the letter negatively

used descriptions such as: ‘harsh’, ‘rude’ and that ‘it would make you think that you had done something wrong’.

2.35. Participants were also asked whether they thought anything about the letter should be changed; most did not. Among those who did suggest changes, customers commonly suggested making the letter shorter. Other suggestions included:

- Participants believed that they had been randomly selected for the check. On that basis, they believed the letter should state that the check was random.¹¹
- Removing or clarifying the line ‘We welcome your co-operation with our enquiry and in establishing the correct amount of tax credits due. The extent to which you co-operate with us and provide us with information is entirely a matter for you’. This was felt to be ambiguous.
- Removing the line ‘it is quite possible that customers are selected for review in successive years’. This was felt to be worrying or difficult to understand.
- Moving the section ‘What you need to do’ nearer to the top of the letter.

Discrepancy letter

2.36. Fourteen interviews were conducted with tax credits customers who received discrepancy letters. A sample discrepancy letter was tested with each of these.

2.37. Some participants who received discrepancy letters could not read the letters independently; this was most commonly due to not being able to speak or read English and, in one case, due to visual impairment.¹² In the case of the visually impaired participant, the researcher read out the letter, and for those who did not speak or read English, the interpreter directly translated the letter to the participant. In all of these cases, participants still found the content of the letter difficult to understand or believed that their usual interpreter (typically one of their children) would find the content difficult to understand and translate for them.

2.38. Participants who were able to read the letter, typically first looked at the title ‘Your tax credits award to 5 April 2012’. Others first looked at the line “We have selected your award for review...” or “We cannot pay Child Tax Credit if...” As with the information request letter, it was rare for participants to look independently at the second page of the letter and, when prompted to do so, participants did not spend long looking at it before returning to the first page.

¹¹ The check is not random. Customers are selected following profiling techniques, where they have been identified as having a risk of error or fraud being present in their claim (see section 1.9).

¹² As a result the findings reported in this section are based on a smaller number of responses.

2.39. Where participants found the discrepancy letter easy to understand, they pointed particularly to the bullet points and subheadings as helpful, as well as drawing positive comparisons to the award letter. For example:

“No, that one’s pretty simple. It’s the other one [award letter] they send to you with how much income you have and so on. That is the complicated one, but this one is pretty much a straightforward one, really.”

(Discrepancy, Low Yield)

2.40. Most participants described the tone of the letter in neutral terms such as ‘formal’, ‘not in your face’ or ‘alright’. However, many participants pointed to certain lines in the letter that they felt were more negative, including: ‘we have found that the information you have given is not the same as the information we currently hold about you’ and ‘If we suspect you may have committed a criminal offence, we may carry out a criminal investigation, which could lead to prosecution’. These lines were described as upsetting, threatening or worrying.

2.41. Most participants did not suggest any changes to the letters. Among changes suggested were removing the reference to criminal investigation unless the individual did not cooperate, and making the letter shorter. For example:

“Well for what they actually wanted, I think it was a very long letter. I mean, I know they’ve got to kind of explain why they’re doing it. I just kind of want to get to the bit of what they want and get it over with.”

(Discrepancy, Claim Not Amended)

Penalty leaflet

2.42. Participants tended to look first at either the word ‘penalty’ in the title of the letter or at the mention of a ‘£3,000 fine’ half way down the first page. Once again, participants generally looked only at the first page.

2.43. Participants were split between those who felt that the leaflet was easy to understand and those who found it difficult. Those who found it easy pointed in particular to short sentences and bullet points. No section of the leaflet was consistently identified as difficult.

2.44. Participants often felt that the leaflet was too long and some of these said that they would not read the whole leaflet. For example: *“It’s so big. Normally I wouldn’t read everything, sorry.”* (Discrepancy, Low Yield)

2.45. Some participants said that they would be unsure whether the leaflet or particular sections of the leaflet applied to them. This was because they were unclear about whether the penalty related to a first offence or which sections of the leaflet were relevant to their situation. For example:

“I’m thinking, that’s fine, that’s all there, but I want you to talk to me about [my claim]. Can you tell me what I need to do, you know. It’s fine having all of it in

black and white, but I wouldn't know what applied to me. It's the same as all these potential penalties and how does that apply to me?"

(Information Request, High Yield)

- 2.46. Some participants believed that the leaflet only related to those committing fraud and therefore did not apply to them. For example:

"No, because maybe even if they send this one, I don't read [it]. When they said the penalty this one I would just, oh what's that, no, nothing to do with me, just put it on the side, you know."

(Information Request, High Yield)

- 2.47. Participants largely described the tone of the leaflet in negative terms; these included 'frightening', 'rude', 'threatening' and 'offensive'. Not all of these participants, however, felt that this was a bad thing. Some believed that this strong tone would help to discourage fraud. For example:

"It's got to be official, hasn't it? I suppose, to do its job, it's got to have a bit of a [strong tone] otherwise some people will just go, yes, whatever, and shove it in a drawer never to be seen again."

(Information Request, Low Yield)

Closing letter

- 2.48. Participants generally first noticed the line 'I have made a decision that I do not accept ...' Some of these first looked at the start of the sentence and others looked immediately at the words 'I do not accept'.

- 2.49. Participants generally found the letter easy to understand; some described it as clear and precise. Participants who described the tone of the letter in neutral terms used words such as 'straightforward', 'formal' and 'ok'. Participants who described it negatively used words such as 'impolite', 'horrible' and 'harsh'. In particular these participants felt that this was because of the line 'I have made a decision that I do not accept your claim...' Those who described the tone of the letter negatively were more likely to have had a high yield amendment than those who described it in neutral terms.

- 2.50. Participants were also asked whether they thought anything should be changed about the letter. Participants often felt the letter should give some information about why the decision had been made or to give the reasons why the decision had been made. For example:

"That's the letter that came and I queried it because there's nothing on there to say ... if she had said on there, I've taken into account all three of your childcare providers and I don't accept it, then ok, but to me I was like, oh, I've got a feeling she's missed one off."

(Information Request, Low Yield)

2.51. Some participants suggested that the letter should contain information about how to appeal the decision or how to get advice. Some participants thought the line 'If you have an adviser acting for you, please show them this letter' should be changed. They felt that few people receiving the letter would have an adviser and it would be more relevant to give information about what those without an adviser should do next. As with the discussion of the closing letter before the letter testing, some participants felt that the letter should give information about the amount of the amendment, or be sent at the same time as the new award notice.

3. Attitudes to claim management and the compliance regime following the High Risk Renewals intervention

Summary

The tax credits customers participating in the research typically reported that they were managing their claims carefully or were planning to manage them more carefully in future. Some participants were already keeping a file of relevant paperwork and notifying HMRC of any changes to circumstances. Another group had not previously managed their claim in this way but reported that the experience of the HRR intervention had made them decide to be more careful in future. Participants who reported that they would now be more careful in managing their claim tended to have low or no amendments to their claim.

Participants who were not actively managing (or planning to manage) their claims varied in their circumstances and rationale but some had poor recollection or understanding of the HRR process, often those with English as a second language.

Where participants held views on HMRC, they generally thought HMRC should be tough on tax credits fraud and they were supportive of efforts to check the validity of claims.

Participants largely believed the HRR intervention to be part of a broader process to prevent fraud in the tax credits system. They did not object to having their claim checked as it would ensure that those committing fraud would be caught. Some felt the compliance regime was getting tougher.

Participants did not perceive that tax credits fraud was common or justifiable. In general, participants felt that error was more common than fraud in their experience and that, while it was right to punish tax credits cheats with a fine, those who made mistakes should be supported and not fined.

3.1. This chapter considers customers' intended claim management behaviour in the future. It also explores customers' attitudes towards HMRC and claiming tax credits following the HRR process and looks at their perceptions of the compliance regime as a whole. The final part of the chapter explores prevailing attitudes towards tax credits error and fraud and whether there was any apparent change in attitudes as a result of having undergone the HRR intervention.

Claim management behaviour following the High Risk Renewals intervention

3.2. This research identified a range of responses to the HRR intervention in terms of any subsequent change to customers' claim management behaviour. There were a

number of groups into which participants' responses tended to fall and which are set out in Figure 1 below. The groups are described in more detail below.

Figure 1: Different groups of tax credits customers and attitudes to claim management following the HRR intervention



- 3.3. One group of participants suggested that since they had been through the HRR process they had either changed the way they managed their claim or planned to change in the near future. These participants said that in future they would be **more careful** to read letters from HMRC thoroughly and they would keep all the relevant receipts and evidence that they may not have kept in the past. In particular, participants often said that they would make contact with HMRC (usually by phone) every time there was a change in their circumstances in future. In general this group was largely made up of customers who had either had low yield or no amendments made to their claim following the HRR process:

"I've learnt my lesson now which is traceability. I have a BACS payment to prove [payment of childcare] so I must admit that's a lesson I've learnt ... if you want the help you've got to do something in correspondence with that."

(Information Request, Low Yield)

"I think what I will do though, is make a conscious effort that if there's the slightest bit of change ... even if my daughter's after-school club, if that goes up slightly, I'm just going to tell them straight away. Because I thought you could leave it to your renewal pack unless it was a massive change, like say if I went

from full-time to part-time or say if my boyfriend moved in. You know those kind of changes ... but if it was like, you know, my mum having [my daughter] in the holidays I just thought, I didn't think, it'd make a difference straight away."

(Information Request, High Yield)

Case study

Mr B is a lone parent, living in London and cares for his young son full-time. Up until six months ago he was working part-time in retail, but was made redundant. He is currently claiming Child Tax Credit for his son. Mr B received an information request letter asking for childcare receipts and evidence of dates and days his son had attended a childcare provider. On receiving the letter he was concerned that HMRC thought he might be committing fraud, due to the fact that he was a lone father caring for a child. Once he provided all of the relevant information to HMRC, he remembered receiving a closing letter that said his award had been reduced, but not significantly.

He understood the reduction was due to him being made redundant and that he was no longer entitled to Working Tax Credit. Following the HRR intervention, Mr B reported that he had made two changes to his claiming behaviour. Firstly, in future he would make sure that all of his documents were in order: *"I'll put them in, you know, in order just in case someone or I need it for anything."*

Secondly, he would carefully read all correspondence received from HMRC and make sure he understood what the letters were asking him to do:

"Now [I] organise myself... normally I don't read it anyway when they send [the letter]... I just look at the first page and see, yes, this is your renewal to this date and this, and that's it. I didn't go through the whole thing and, you know, start watching, you know, line to line. But now I look through it and read the whole thing and understand it."

- 3.4. A further group that said they had changed their claim management behaviour were those who had experienced a significant overpayment in the past and who, as a result of that **prior overpayment** (rather than the HRR intervention), were concerned about the consequences of making an error in their claim and were anxious about their ability to get their claim right in future.
- 3.5. Conversely, there was a group of participants who said that they would make very few changes to the way they managed their claim. However, this was because this group already felt that they were doing everything they could, such as keeping records and notifying HMRC of changes to their circumstances. They felt they already managed their claim conscientiously; for them, claim management was **business as usual** and they did not need to do anything differently. This group generally understood the HRR intervention to be part of a process to randomly check all tax credits customers; for them, this validated their existing conscientious behaviour. For example: *"You just make sure that you've got everything intact, you know, you have a folder and all your paperwork there and ... ready for them whenever they want."* (Information Request, Claim Not Amended)

- 3.6. In many cases this group did not realise they had received an amendment to their claim. This was often because they had only experienced small amendments or changing circumstances and entitlements had occurred around the same time, disguising a high amendment.
- 3.7. There was another group of participants who said that there would be **little change** in their claim management behaviour following the HRR intervention. These customers varied in their characteristics and rationale: some felt that checking entitlement and circumstances was the responsibility of HMRC; others would respond only when required; and others considered it pointless.
- 3.8. Finally, for some individuals the HRR process will make little difference to their behaviour due to **poor recollection** or confusion about what had happened to them. As discussed in earlier chapters this group was made up largely of those with limited understanding of English.

Attitudes towards HMRC and claiming tax credits following the High Risk Renewals intervention

- 3.9. Participants were asked whether the HRR process had made them think differently or changed their views about HMRC. Participants typically had little to say about HMRC, and this was particularly common among those customers who had low yield amendments to their claims or no amendments at all. Where participants did have a view it was generally that HMRC were doing their job by checking customers' claims. The HRR process was seen to be evidence of HMRC being tough on fraud and checking that the 'right people' are claiming tax credits.

"The world we live in now, there's things, people that do things. I'm sure they just want to make sure and know that people have got the right to claim the tax credits."

(Information Request, Low Yield)

- 3.10. Some participants were reluctant to claim tax credits in future. These were largely the group discussed in paragraph 3.4, who were primarily influenced by prior experiences of overpayments (or overpayment of friends and family) rather than the HRR intervention. Some of these participants who could not see how they could manage their claim better or differently in future, such as those working irregular hours or the self-employed, said they were unsure whether it was worth their while continuing to claim if they just had to pay it back in the end.
- 3.11. In some cases, participants reported positive experiences with HMRC even where they had experienced overpayments:

"Your perception is that, you know, they're going to be just thinking I've made a fraudulent claim... but actually, you know, the people are quite helpful in terms of how you can pay it back in your situation."

(Information Request, High Yield)

Perceptions of the compliance regime following the High Risk Renewals intervention

3.12. Participants commonly believed the HRR intervention to be part of a broader process to prevent fraud in the tax credits system. Participants tended not to say that they thought that HMRC was checking for errors or mistakes in their own claim rather that they were checking to make sure other people were not committing fraud. Participants did not object to having their claim checked on the basis that it would ensure that the people who were intentionally over-claiming would not be able to get away with it. Participants were often positive about the fact that HMRC were clearly taking fraud seriously and were 'on the ball'.

"I think it's good that they check [claims] because then, obviously, you hear about all the time, people claiming for things they shouldn't be claiming for and it gets you a bit angry."

(Information Request, Claim Not Amended)

3.13. Some participants believed that all claims are checked in this way by HMRC. As a result they reported that they did not understand how fraud was possible. This was often expressed in terms of seeing fraud as 'pointless' because the money would need to be paid back if they were caught. In some cases participants cited the sentence at the start of the information request letter 'every year we check thousands of tax credit claims ...' as evidence that HMRC would eventually detect fraud.

"Based on myself, because they're making these checks, I'm thinking how do you get away with cheating?"

(Discrepancy, Low Yield)

3.14. Some of the longer-term tax credits customers (those claiming for two years and over) believed that HMRC was getting tougher on error and fraud. This was largely because they had been checked for the first time in a claim that may have been ongoing for a number of years.

3.15. However, at the same time, the fact that they had not been checked before meant that they were more able to identify a reason for the check and less likely to think that all claims were routinely checked. Therefore they could comprehend how fraud could occur and felt that HMRC could do more to prevent it.

"I've been claiming for nine years and that's the first time they've ever got in touch with me and I've never heard of anybody else ... having to send off evidence, so maybe they could do more spot checks."

(Information Request, Low Yield)

3.16. Participants occasionally said that they felt the compliance regime was too harsh for people who had made a mistake. These were often customers who had previous experience of overpayments and who felt that HMRC should focus on supporting people to avoid error and tackling cheats – not penalising people for making mistakes.

Attitudes to error and fraud following the High Risk Renewals intervention

3.17. The views that participants expressed about the HRR process appeared to be rooted in their broader attitudes towards error and fraud. Interviewees rarely suggested that they had any personal experience of tax credits fraud. Reporting of fraud in the media (often cited in relation to benefit claims) seemed to be the main source of knowledge about fraud.

3.18. Participants generally thought that fraud was unlikely to be widespread.¹³ This could be linked to perceptions of the compliance regime and the view that HMRC is doing a good job of checking claims and will identify fraudulent claims. This perception was further affirmed by experiences of the HRR intervention.

"I know people do [commit fraud] because, you know, there's always something in the news but ... if the tax office have got all your information of what you were earning and things ... I think it would be quite hard to claim what you shouldn't be entitled to really, wouldn't it?"

(Information Request, Claim Not Amended)

3.19. Participants often reported that their experience with the compliance regime had led them to believe that error was far more common than fraud.¹⁴ The process of claiming tax credits was perceived to be complex and it was felt to be easy to make mistakes. Participants suggested that the tax credits system was more difficult to navigate for some groups than others; two groups that were specifically mentioned were the self-employed and people with little or no English language skills.

3.20. Where participants had previously had to repay overpayments this was almost always described as resulting from an error rather than an intention to commit fraud. Some participants said that they had waited to notify HMRC of changes in the past or had failed to notify of minor changes but again this was perceived more as a 'grey area' than actual fraud.

3.21. In general, participants did not believe that fraud was normal or justifiable. Some participants condemned fraud as 'just wrong' or 'unfair' and said that notifying changes of circumstances was a 'responsibility' to uphold.

¹³ HMRC estimates that fraud was present in around 190,000 finalised tax credits awards in 2010-11, equating to approximately three per cent of awards. See HM Revenue & Customs (2012) 'Child and Working Tax Credits: Error and Fraud Statistics 2010-11' www.hmrc.gov.uk/statistics/fin-error-stats/cwtcredits-error.pdf

¹⁴ This is also supported by HMRC's 2010-11 error and fraud statistics which estimated error in favour of the customer in around 1,190,000 awards compared to around 190,000 for fraud: a ratio of around 6:1. See HM Revenue & Customs (2012) 'Child and Working Tax Credits: Error and Fraud Statistics 2010-11' www.hmrc.gov.uk/statistics/fin-error-stats/cwtcredits-error.pdf

“But it’s just not fair that at the end of the day, they are better off with just completely cheating and they’re just living their easy life, when I’m struggling and I still have to pay all of the taxes. I mean it’s not fair.”

(Information Request, High Yield)

3.22. Others said that the negative consequences, i.e. a fine or repayment, would act as a deterrent from committing fraud and an incentive to notify HMRC of changes.

3.23. Participants generally agreed that people cheating on their tax credits should be punished with a fine.

“At the end of the day, it does come out of my taxes which I pay as well. I mean, if you’re caught cheating on the system you should get caught and you should get fined.”

(Information Request, High Yield)

3.24. However, they were against the idea of a fine for those who had made an honest mistake. When questioned some acknowledged that it would be difficult for HMRC to know what was intentional fraud and what was unintentional error.

4. Customer communications with others about the High Risk Renewals intervention

Summary

Some participants who knew other tax credits customers regularly had general conversations with them about tax credits. These conversations most frequently occurred around the renewal period when tax credits may have been top of mind, or when a particular incident occurred, such as an individual receiving an overpayment.

Those who did not discuss tax credits with anyone were likely to consider it a private matter, and/or did not know other tax credits customers.

Where participants had spoken to others specifically about the HRR process this was usually to seek advice and reassurance, discuss general experiences or warn others about being selected for review.

Participants believed that the conversations they had with other tax credits customers did have the potential to affect others' claim management behaviour. They believed the strongest effect came when they specifically warned other tax credits customers about the HRR process. This often occurred within a group of customers in similar life circumstances who spoke regularly about tax credits and who shared information and advice amongst themselves; they did not appear to share this information more widely.

- 4.1. This chapter details who customers spoke with about the HRR intervention, if anyone, and their motivations for discussing it. The chapter also sets out the conditions under which customers believed that their communications led other tax credits customers to change the way they managed their claim.
- 4.2. Findings in this chapter are based on all 57 interviews completed; 17 of these were an in-depth exploration of the conversations that customers had with others about the HRR intervention.

Conversations about tax credits

- 4.3. Participants who had close friends or colleagues that also claimed tax credits regularly had general conversations about tax credits. These conversations most frequently occurred around the renewal period when tax credits may have been top of mind, or when a particular incident occurred, such as someone receiving an overpayment. Topics of conversations included:
 - Reminding each other to renew
 - Talking about overpayments

■ Comparing payment amounts

■ Complaining about HMRC.

“Mostly it’s like when it’s time to renew, like we’re reminding each other, remember the tax credits need to go in by this time, so it’s not really as if we sit down and discussing it every time - it’s just like when it’s time to do the renewal pack.”

(Information Request, Medium Yield)

- 4.4. Participants tended to discuss tax credits in social settings such as when picking children up from school or nursery, or at work. Workplace conversations were particularly prevalent amongst groups of female, part-time workers.

“You know, when you’re at work and you talk to friends and you’ve got something on your mind, if one starts talking about it then you find, oh yes, because the majority of the girls that were on there were on, you know, family credit, so, you know, we would talk about it now and again.”

(Discrepancy, Claim Not Amended)

- 4.5. Some participants mentioned discussion of tax credits with others prior to making their first claim, and had been warned about the complications of claiming and frequency of overpayments.

“Well, the first thing I ever heard about tax credits was don’t get involved with tax credits, it’s not worth it because you’ll just have to pay everything back. That was the first thing I ever heard, and then you’ll get in trouble because it’ll go wrong and you won’t understand really what it is and then you’ll be in trouble for doing the wrong thing.”

(Information Request, Medium Yield)

Conversations about the High Risk Renewals intervention

- 4.6. Tax credits customers who go through the HRR process may or may not choose to speak other individuals or groups about it. This research found that some participants said they had spoken to others (not necessarily tax credits customers) about their experience and others had not. Some participants who knew other tax credits customers told us they had discussed their HRR intervention with them.

Who customers spoke with about the HRR intervention

- 4.7. Where participants said they had not discussed the HRR intervention with anyone else, this was because there was an element of embarrassment and reluctance to discuss with others what they considered to be a private matter. For example: *“Well, I might have been a little bit embarrassed. I don’t know. Being checked up on – nobody likes to be checked up on, do they?”* (Information Request, Low Yield)
- 4.8. Some participants who did not know other tax credits customers stated that they would have liked to speak to someone about the HRR process. For example:

“I didn’t really have anybody to really talk about it with. So that again was a bit of a worry, there wasn’t anybody in my circle really that I felt that I could, like, that I felt, trusted enough that I could speak to.”

(Discrepancy, Claim Not Amended)

- 4.9. Some participants did speak about their experience to a friend or family member who did not claim tax credits. In general, this was to seek reassurance, ask for advice and in some cases to ask for help with collecting evidence. Some participants did not discuss tax credits outside of their immediate family (i.e. with their partner or children). Finances were typically expressed as a private, family matter by this group.
- 4.10. Some participants spoke about the HRR intervention with other tax credits customers, either friends or work colleagues. These participants tended to discuss tax credits regularly with others, particularly around the renewals period, and several knew someone who had previously had an HRR letter or received an overpayment.

Case study

Ms C, a lone parent who works part-time (20hrs per week) lives at home with her mother and 4-year-old son. She contacted HMRC to renew her claim prior to receiving her renewals pack, and reported income information from her previous year’s P60. Ms C also informed HMRC that her childcare costs had been reduced. She subsequently received an information request letter querying her working hours and childcare payments. She was initially shocked and concerned by the letter as she had called HMRC previously.

“I’ve never received a letter like that before, it made me panic, because I thought they were going to stop paying a percentage of childcare costs, until they received the information.”

Ms C works with a number of other mothers who also have young children and who work similar hours. This group had previously discussed tax credits, and she brought the matter up with them.

“I work on a part-time team, most of the part-time team is part-time single mums, so I was, like, oh God, what do I... I don’t know what this is...”

A colleague had previously received a similar letter requesting information about her claim and was able to advise her. Her colleague explained that this was a random check and she needed to collect receipts from her nursery, which she subsequently did.

“I asked one of the girls who I work with, because she’s a single mum as well. And she said they did it to her last year. It was just, basically, like a check on so many people. They just do it randomly each year, or they could ask me to get a letter from work or a letter from the nursery, or something like that. I think it’s just a few selected to look into it, to see if they’re claiming for the right amount.”

Upon providing receipts and an updated P60 to HMRC, her claim was renewed without amendment. Although attempting to be vigilant by contacting HMRC early, she was advised

not to make contact until she received her renewals pack. Ms C stated that in future she would wait, and would retain her receipts.

Motivations for discussing the HRR intervention with other tax credits customers

4.11. The primary motivations for discussing the HRR process with other tax credits customers were to:

- Ask for advice about what to do and gain reassurance from others' experiences that they were not the only ones who had gone through this process.
- Warn others about the HRR process

4.12. Some participants who spoke to another tax credits customer(s) did so to seek advice. These participants appeared to be most confused about why they had received a letter, and sought advice and reassurance from a 'trusted' person before taking further action, such as contacting HMRC directly or gathering the information requested. For example: *"it's people I trust ... you know. I wouldn't just go and talk to anyone."* (Discrepancy, Medium Yield)

4.13. Other participants were motivated to warn others about the HRR intervention, and to offer advice. Participants commonly had these conversations with people who had similar circumstances to themselves, for example they may have had children of similar ages or worked the same hours.

"I went to [friends] and then I explained to them what's happened to me. I warned a friend about it, I said "make sure you check your details". The first thing, check how much hours you do, and check if they put any childcare, or you call them back to make sure."

(Information Request, High Yield)

4.14. At other times the purpose of the conversation was purely to complain about HMRC. This commonly occurred when participants discussed the HRR intervention with others who had a history of issues with their tax credits claims. In these cases, the purpose of the discussion was not to inform or advise others but to generally 'complain' about tax credits claims and sanctions they had received. These conversations were not limited to tax credits and often included general complaints about claims for other benefits.

4.15. In other cases the discussion about the HRR process came up as part of a more general discussion about tax credits or was raised by someone else who had gone through an HRR intervention.

"Probably somebody might have mentioned it, or something, you know, has happened familiar to them, or asked me a question about it, or, you know, even, like, when you're sitting socially and people have started talking."

(Information Request, Claim Not Amended)

4.16. As discussed in paragraph 4.3, these conversations tended to be face to face and were particularly prevalent amongst groups of female, part-time workers.

Reported responses of other tax credits customers

4.17. There is some evidence to suggest that, following a conversation about the HRR intervention, tax credits customers who had not been through the HRR process intended to make changes to their claim management behaviour. This appeared to occur most frequently when the specific purpose of the conversation was to warn other tax credits customers about the HRR process. Participants who advised others to retain receipts or prepare for a review of their claim believed that the people they spoke to took their advice, although they may not have taken any immediate action. For example:

"[My friend] said that she'd start making sure that she keeps her receipts. Yes, so I guess some of them, probably even though they didn't voice it to me they might have thought oh, gosh, I'd better keep my receipts."

(Information Request, Medium Yield)

4.18. The main situation in which participants reported a change to others' claim management appeared to be when participants had discussed the HRR intervention in a group context. These were often groups of friends or colleagues in similar social circumstances, such as groups of lone parents, who were warning or advising others to take care. Interviewees felt that, as a result of those conversations, other tax credits claimants may have been prompted to take some action to check their claim.

"I'm sure that they would check... maybe they would phone or check their details, or whatever, but I'm sure that they would do something about it after talking because we were, sort of, advising each other."

(Information Request, Low Yield)

4.19. There was no evidence that those present at such group discussions subsequently passed this advice on to others outside of the group. Information appeared to circulate within a particular group of similar individuals and not to extend beyond the group.

4.20. There were also circumstances under which participants said that they had discussed the HRR intervention with other tax credits customers but that they did not believe that it would lead to any changes in others' claim management.

4.21. In some instances, participants spoke to someone they knew had previously been through the HRR process, either to seek advice or to compare experiences. In these cases, as the other tax credits customer had already been through the process, participants believed the conversation would have had little effect on the others' subsequent behaviour.

5. Conclusions

- 5.1 Participants who read the initial HRR letter typically understood it. However, some could not or did not read the letters. The receipt of the initial HRR letter tended to prompt immediate action among both information and discrepancy letter recipients. It was common for participants in both groups to believe they had been asked to provide additional information, although this is not always the case for discrepancy letter recipients. Participants often said they telephoned HMRC on receipt of the letter to confirm their understanding and seek reassurance. The processing of unnecessary phone calls and letters could have resource implications for HMRC, as well as incurring expense for tax credits recipients.
- 5.2 Participants generally found the closing letter easy to understand. However, they commonly recommended that the letter give reasons for the decision as well as the amount of any amendment. In cases where they acknowledged an error had occurred, participants commonly felt the intervention and any resultant claim adjustment to be fair.
- 5.3 Likely changes to future claim management was mixed. Some participants reported that they were already proactively managing their claims. These customers tended to think the HRR intervention was random, had not noticed an adjustment, and were pleased to have their conscientious behaviour validated. Other customers felt that the HRR intervention would make them more careful in future; by keeping receipts and advising HMRC of any changes of circumstances, for example. There was also a group of participants with poor recollection or understanding of the HRR intervention and for whom the experience would make little difference to their claiming behaviour.
- 5.4 Participants were generally supportive of HMRC's efforts to reduce fraud through the compliance regime. Participants reported little personal knowledge of fraud outside of media reports but tended to view it as unfair and committed by 'others'. The HRR intervention appeared to have increased perceptions among participants that HMRC is checking claims randomly and regularly and that fraud is therefore hard to get away with.
- 5.5 Where participants said they had discussed the HRR intervention with other tax credits customers, they had often done so to gain reassurance and share advice. They believed that this may have caused others to change their behaviour in relation to how they managed their own tax credits claims. Participants believed that discussing the HRR intervention in a group context may have impacted others' claim management. These were often groups of friends or colleagues in similar social circumstances, e.g. groups of lone parents, who were warning or advising others to take care. These groups shared information but did not tend to pass it on to others outside their social circle. Those who did not discuss tax credits with anyone were likely to consider it a private matter, or did not have friends and family that claimed tax credits.

6. Annex 1: Participant quotas

The following table details quotas set for the 40 interviews about customer experience and responses to the HRR intervention. N.B. No quotas were set for the 17 interviews exploring in more depth conversations customers had with others about the HRR intervention.

| Category | Option | Number of interviews completed |
|--|---------------------|---------------------------------------|
| When HRR closed | Apr-Jun | 9 |
| | Jul-Aug | 31 |
| Geographical area | London | 20 |
| | Liverpool | 11 |
| | Birmingham | 9 |
| Award amended | Award amended | 32 |
| | Award not amended | 8 |
| Yield from intervention for HMRC | Not amended | 8 |
| | Low yield | 16 |
| | Medium yield | 8 |
| | High yield | 8 |
| Type of letter received | Discrepancy | 14 |
| | Information request | 26 |
| Key risk group (expected) | Multiple risks | 5 |
| Key risk group (actual) | Childcare | 11 |
| | Children | 16 |
| | Work & hours | 1 |
| English as a second or additional language | Yes | 14 |

| | | |
|-------------------------------------|----------------------|----|
| Recent Vs long term claimant | Over 2 years | 27 |
| | 2 years and under | 13 |
| In work/ out of work/ self employed | In work | 18 |
| | Out of work | 12 |
| | Self employed | 10 |
| Household status | Single parent | 28 |
| | Couple with children | 12 |
| Age | Under 30 | 5 |
| | 30-40 | 12 |
| | 40-50 | 20 |
| | 50 and over | 3 |
| Gender | Male | 8 |
| | Female | 32 |
| Income | Under £12 p/a | 25 |
| | £12-£20k p/a | 7 |
| | Over £20k p/a | 8 |