



Research report

Capital Gains Tax Main Pilot Evaluation

Research to explore the impact of CGT pilot letters on customer behaviour

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About Personal Tax Customer & Strategy

Personal Tax Customer & Strategy (PT C&S) works with colleagues in Personal Tax and across HMRC to help develop our approach to implementing HMRC's 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
- serve willing and able customers at the lowest possible cost to them and us
- 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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Research requirement (background to the project)

As part of the 'Mass Personalisation' approach, Her Majesty's Revenue and Customs (HMRC) aims to differentiate and tailor communications sent to customers, drawing on segmentation of those customers. One area of the tax system in which mass personalisation may be utilised is Capital Gains Tax (CGT).

Prior to a larger scale pilot around CGT, a preliminary pilot (pre-pilot) was carried out in August 2011 to test the methodology¹. The mass personalisation approach for CGT customers was fully piloted in April 2012. HMRC developed two letter variants, tailored by segment type, and one generic letter. One of these letters was then sent to each of around 1,200 individual customers, categorised as either 'willing' or 'unwilling'², who had sold property and were identified as potentially CGT liable. About 300 customers in each segment received the letter appropriate to their segment while a further 300 per segment received the generic letter. All the letter variants alerted customers to their potential CGT liability and directed them to two pages about CGT and Self Assessment (SA)³ on the HMRC website. A control group of 300 customers in each of the two segment groups were not sent a letter. The actions of those in each group of customers are being subsequently tracked.

This qualitative research aimed to complement HMRC's quantitative analysis and explore the impact of the pilot letters on customer attitudes, experiences and behaviour – considering both immediate and intended (future actions).

¹ Additionally, research was carried out with customers in the pre-pilot. A separate report is published on this

² The HMRC customer segmentation organises personal tax customers into five segments based on their abilities and attitudes towards tax – the five segments are Willing and Able; Willing but in need of Help; Unaware; Potential Rule Breakers; and Rule Breakers. The segmentation was built on four key dimensions which were:

- awareness (of one's obligations);
- motivation (to comply with one's obligations);
- ability (to comply with those obligations);
- opportunity (to not comply).

The willing segment targeted in the pilot included: 'willing and able' and 'willing, but in need of help'; the unwilling segment included; rule breakers and potential rule breakers

³ HMRC customers must declare CGT liability via an SA return for the year in which the gain arose

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Main Findings

Behavioural drivers

Financial capability was the main driver of views and responses to the letters. Three main typologies were identified: financially-savvy; financially cautious; and, financially inexperienced. The typologies of financial experience were also related to whether respondents were predominately SA customers or non-SA (PAYE) customers, with greater levels of financial capability being driven by the awareness implicit within the SA process. Although not directly mirroring the HMRC segmentation, the typologies can be seen to share similarities with the segment profile in terms of customers' financial awareness and ability. The financially-savvy customers were most likely to share similarities with the 'willing and able' segment and the financially inexperienced with the 'willing but need help'. Variation in the awareness and capability of respondents meant that customers were in quite different positions in understanding and ability to respond when they received the letter.

Linked to financial capability, the research identified three wider behavioural influences impacting on the responses to the letter:

- Awareness and self-efficacy - Awareness of CGT and ability to confirm liability/non-liability and take appropriate action.
- Costs versus benefits - Evaluation of the costs of paying/not paying CGT if liable.
- Legitimacy - Whether CGT was viewed as fair and therefore right to pay.

Impact on behaviour and experience

The letters could be seen to be driving desired behaviour for most customers. However there were customers for whom the letter prompted unnecessary low value contact with HMRC. **Receiving the letter had an impact on customers' journeys in five ways** which can be seen as either **positive**, **negative** or **neutral** according to the criteria of making customers aware of their potential liability and ultimately increasing SA filing/payment:

Neutral:

- No impact on future actions because the customer regarded the **matter as already in hand**: there were no changes to customer awareness and subsequent actions

Positive:

- Provided clear information to ascertain **no action needed to be taken** because they were not CGT liable: the letter limited any non-essential contact with HMRC.
- Prompted the request for **additional necessary information** to understand CGT liability: alerted the less financially experienced who had no prior knowledge of liability. This led in some cases to calls to the SA helpline which were either necessary due to complicated circumstances, but could also be potentially negative and low value when

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the website should have provided them with the necessary information to ascertain whether they were liable or not.

Negative:

- Prompted the need for **additional information for reassurance**: this had potentially negative outcomes where customers were already aware of their CGT liability, but the letter triggered them to seek unnecessary reassurance via the SA helpline or other HMRC contact.
- Had no impact because the customer was **still unclear and took no action** regarding the potential liability: the customer needed more intensive support than the letter provided and remained unaware of whether CGT liable or not.

Experiences of using HMRC website and SA helpline

HMRC aims to minimise low value and resource-intensive contact to the SA helpline by directing customers to the website. Amongst those customers who took further action, following receipt of the letter, most used the **website** in the first instance and found the information they required to decide whether they were liable or not.

However, the website did not maximise the support of desired behaviours for all in the sample, particularly the financially inexperienced and those less confident online. Some customers required additional contact via the **SA helpline** either because: they experienced challenges navigating the website; lacked confidence in their own interpretation of the guidance; or did not see reference to their specific circumstances (e.g. Executors, owners of rented properties and making a loss on a property). The main benefit of speaking to a helpline adviser was the opportunity it provided to ask specific questions regarding their case and receive direct advice from HMRC on their tax position. A few customers needed further contact (beyond the website or SA helpline) to further understand the SA process or ensure HMRC were aware that they had checked their liability and no CGT was due.

Targeting of the letter

The three letters were largely seen as appropriate whether targeted at willing or unwilling segments. However, there was little evidence of differences between responses to the targeted letters and generic letter. Although the letters were largely viewed positively, customers felt that they could be modified to provide greater clarity around CGT exemptions through more detailed information, either as part of the letter or on the website, as well as clearer reference to what liability means in specific circumstances.

Conclusions and recommendations

This qualitative research raises questions regarding the cost-effectiveness of targeting due to: the imprecise nature of the segment targeting; the limited evidence of differences in

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responses to the targeted letters versus the generic letter; and the finding that financial capability is the main factor impacting on how customers responded to the letter rather than willingness.

HMRC has two possible options to modify current targeting:

- 1) to target the least financially capable by focusing on HMRC's 'willing but need help' and 'unaware' segments
- 2) to target non-SA customers, who were found to be more financially inexperienced and most likely to be unaware of any potential liability.

Also, if customers are not responding to the nuanced tailoring of the letters, another route could be to widen the differences between the letters variants.

If HMRC are to operationalise targeting by segment, it is crucial that the letters work effectively in two ways – to provide information to reassure those who are already aware of their liability, so limiting unnecessary contact with the SA helpline, and to signpost additional information for those who are unclear of their liability. Both maximise outcomes for HMRC.

The letter could be further modified to limit unnecessary calls to the helpline by providing clear information regarding the main exemptions and clearly signposting to the website as the best source for more details regarding the exemptions. The website itself could also be further developed to target the least financially literate.

The forthcoming quantitative analysis of responses to the letter and filing behaviour will provide further evidence on the impact of the pilot by segment type.

Research Agency and when the research took place

The research was undertaken by TNS-BMRB during May and June 2012

Method, Data and Tools used

The research comprised a total of 21 qualitative telephone depth interviews (45-60 minutes) with customers within the 'willing' and 'unwilling' segments.

The sample was organised according to:

- HMRC customers across two segment groups – willing and unwilling segments
- Test group (who received a tailored letter according to segment group) and Control group (received a generic letter) from within each of these segments
- Those who were existing SA customers and those who were not.