



Research report

Real Time Information: Individuals Research

Research to understand how individuals are likely to behave under RTI

TNS BMRB

30th July 2012

Individuals Research

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

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

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

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

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Research requirement (background to the project)

From April 2013, the current PAYE system will be replaced by Real Time Information (RTI). Under RTI, employers will report details of staffs' salaries each payday, rather than at the end of the year. It is important for Her Majesty's Revenue and Customs (HMRC) to understand the likely impact on businesses and their employees in order to address these when launching the new system.

HMRC has commissioned TNS BMRB to conduct this research in order to understand how individuals are likely to behave under RTI, the expectations of Tax Credit recipients, and any unintended consequences for individuals for whom PAYE works well.

The project had key objectives to:

1. Examine the impact that RTI will have on individuals who currently experience problems with PAYE
2. Determine whether RTI could have unintended consequences for individuals where PAYE currently works well
3. Understand tax credit recipients expectations about improvement of their renewals experiences
4. Explore issues regarding providing employers with personal identity information and being asked to verify this
5. Examine individuals' relationship with employers and the impact that RTI could have on these
6. Understand how RTI is likely to effect individuals' sense of responsibility regarding tax and their views about the P45
7. Explore the relationship between HMRC and individuals

When the research took place

Fieldwork took place throughout March and early April 2012.

Who did the work (research agency)

The research was conducted by TNS BMRB.

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Method, Data and Tools used, Sample

A two stage qualitative approach was used. Stage 1 used depth interviews to explore in detail individuals' PAYE and Tax Credit journey, and then discuss the likely impact of RTI in the context of their experience. Focus groups were employed in the second stage to reflect on possible negative consequences for at risk groups identified in the depth interviews, and to consider support needs.

Stage 1: 72 depth interviews, each lasting 90 minutes, with individuals with diverse working arrangements, including:

- Tax Credit recipients
- Employees with fluctuating incomes
- Frequent job movers
- Students, migrants, pensioners

Interviews were also carried out with employees with a single stable income to explore whether there would be any unintended consequences of RTI for this group.

Stage 2: 4 two-hour group discussions were held with Tax Credit recipients with varying levels of income and trust in their employers. Reliance on Tax Credits and trust in employers to process RTI correctly were identified in the first stage of the research as key determinants of individuals' perceptions of RTI.

Main Findings

From individuals' perspectives, PAYE and Tax Credits operated as two distinct ecosystems. The needs and actions of individuals, and their relationships with their employers and with HMRC differed within each system.

For PAYE, individuals are passive and largely reliant on their employers to deal with income tax and National Insurance: the principle relationship and interaction occurs between HMRC and the employer. Interaction between HMRC and the individual occurs intermittently and only if there is a problem that the employer cannot or will not deal with. By contrast, individuals play a much more active role where Tax Credits are concerned. Here the principle relationship is between HMRC and the individual: the employers' role is solely to provide the information used by individuals to make their claim.

Tax Credits were more salient to individuals than their tax and National Insurance contributions: they relied on Tax Credits as a regular and predictable source of income, were anxious about being over paid and receiving a large bill, and in general tended to take

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more notice of money they received than money they lost. Individuals were therefore both more involved and more engaged with Tax Credits than with PAYE, so the impact of the move to RTI on this ecosystem may be emotional as well as practical.

The PAYE ecosystem

Individuals did not want to engage with PAYE, and most were happy to defer responsibility to their employer. They tended to check their income rather than tax deductions and assumed they were being taxed correctly if the net amount looked right (i.e. similar to last time). Occasionally they checked that tax had been deducted, and they sometimes compared this to the previous months or with colleagues. Respondents tended to file all tax paperwork, including payslips and P60s, although they seldom had a clear reason for doing so. Few felt they had any other responsibilities with regard to their tax.

There were several beliefs that underlay this attitude:

- Individuals were accustomed to and expected their employer to handle their tax on their behalf; this was considered to be a benefit of being employed
- Income tax was perceived as complex and few engaged with the system; this led to a cycle of low engagement and low understanding.
- Individuals who were not confident dealing with financial matters thought that their employer would understand the system much better than they could.

Only the most confident or those least well served by their employers engaged with their income tax. This included individuals who had been self employed in the past and therefore knew that they were capable of dealing with tax themselves. Those working for less conscientious employers also felt obliged to engage with PAYE – in particular, frequent job movers sometimes found their employers were slow to process their P45 causing them to be taxed at the basic rate for all earnings.

The PAYE system, and reliance on employers, was working well for those in stable employment, regardless of whether they had more than one employer or their income fluctuated. However, problems arose for individuals who moved jobs frequently or only worked part of the year. Frequent movers were often overtaxed because their P45 was not processed in time, particularly if their new or previous employer was disorganised. Students were routinely overtaxed if they did not give employers a P38S: their tax was based on their annual salary when they were only working for part of the year. Migrant workers were unfamiliar with the system and were therefore less able to spot errors, which could mean they were taxed at the basic rate for a long time.

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Tax credits ecosystem

Individuals dealt directly with HMRC with regard to their Tax Credits: their employer had no active role, although they did generate the information required to make a claim. Some recipients were more reliant on their Tax Credits than others, but few really understood the Tax Credit rules and systems.

A number of recipients seemed to be over and under-reporting of income, because they did not know how much their income could increase by before it affected their award. Recipients who were more reliant on their Tax Credits tended to over-report income changes: they valued predictability in their finances, and were concerned about being overpaid and attracting; they preferred to be 'on the safe side'. Recipients who were less reliant often held off reporting changes to their income and circumstances until they renewed because they did not want their payments to be reduced. Less confident recipients were unsure when they should contact HMRC and were worried about sounding incompetent. They also tended not to plan ahead and therefore did not think about how under-reporting income might result in a large bill at the end of the year.

Overall responses to RTI

Reactions to RTI were generally positive, although muted. Most could see wider advantages to the UK, brought about by what seemed like a more modern, effective tax system, but relatively few could imagine clear impacts or benefits for themselves.

Responses to RTI were largely influenced by the term 'real time'. Individuals assumed that any changes to their income or working status would affect their tax and Tax Credits straight away. This could be seen as a benefit, as records would be up-to-date, but also a drawback as it might make Tax Credit income less predictable, and any mistakes employers made when filing information would have an immediate impact on employees.

Individuals in stable employment and with stable incomes did not think that RTI would affect them and they were unlikely to adjust their behaviour after the new system is launched. They were happy not to be engaged with PAYE, and indeed assumed that the system already worked in this way.

Individuals who anticipated a positive effect of RTI for themselves personally included:

- Those who had experienced basic rate tax several times, particularly frequent job movers who assumed that the correct tax code would be applied automatically as information would be passed to their new employers in 'real-time'
- Less reliant tax credit recipients thought they would no longer need to report income changes because their employer would provide income information to HMRC

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- People who were confident in their employer and were frustrated by HMRC assumed that the 'real-time' element would make tax calculations more accurate and reduce the risk of errors, making it less likely that they would need to contact HMRC.

Individuals who had concerns about RTI included:

- Those less confident in their employers, particularly more reliant tax credit recipients who were concerned that errors their employers made would immediately impact their tax or Tax Credits. They seemed likely to continue to over-report income changes under RTI, as they would not trust their employer to get this right. In the short-term, they may also contact HMRC more for reassurance that their information is correct.
- Those who currently play the Tax Credits system, for example by reporting their annual salary but not regular overtime as they recognised that HMRC would have a record of all their earnings.

Impact on PAYE

Few individuals could imagine how RTI would affect their involvement or engagement with PAYE, or cared very much about this. There were several interrelated reasons: they were not particularly concerned about potential problems as tax was not salient; they expected that under RTI they would continue to have little involvement with tax; and many assumed PAYE already worked this way. In the short term, individuals may check their payslips more for mistakes that result from the change.

Individuals had no concerns about providing a single form of identity and could not think of a reason why someone would unless they were working illegally. The only areas of concern were Date of Birth - some older employees were uncomfortable about potentially highlighting their age and, more generally, there was some anxiety about how securely employers may store personal data.

There was some attachment to the P45, but this was based on familiarity rather than any particular property of the P45 (and it was often 'filed' along with other tax documents rather than handed to a new employer). Some individuals often expressed unease about the leaver's statement: it felt less neutral because it would be supplied and branded by their previous employer; and as such it would highlight their last post, which they may not want to disclose to a new employer, and would imply that they needed to approach their previous employer if there was a problem with the statement. However, if the leaver's statement looks official, most individuals would accept the change

Frequent job movers and migrants did anticipate some benefits under RTI, expecting that the correct tax code would be applied because information would be transferred from their

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old employer to their new employer in *real-time*. But pensioners and students, who were also more at risk of being taxed incorrectly under PAYE, did not expect RTI to affect them. The move to RTI seemed unlikely to have any impact on people's relationships with their employers. Most individuals trusted their employers to get it right; those who did not felt more secure because there was a perception that RTI would pick up mistakes faster and would make non-compliant behaviour more difficult.

Individuals did not worry about any effects that RTI might have their relationship with HMRC, in PAYE terms. Few were not concerned about HMRC having greater access to their personal records, and many assumed that HMRC already has this. Some did wonder whether they would have to contact HMRC more frequently, to check that their employers had supplied the correct information, or whether HMRC would contact them whenever an income change was registered. They did not want either of these situations to arise.

Impact on tax credits

Tax Credit recipients believed that RTI represents a significant change to the Tax Credits ecosystem, in that the employer would be actively involved in determining Tax Credit awards. There were several potential benefits: income information may be more accurate and up to date; there would be less hassle for recipients in reporting; and the system would be fairer for everyone because it would prevent under-reporting of income.

However, increasing employers' involvement with administering Tax Credits seemed wrong to many on an emotional level, and in particular was considered inappropriate if it meant individuals were required to report changes in their personal circumstances to their employer.

RTI seemed likely to affect relationships with employers, with regard to Tax Credits. Recipients felt uncomfortable about employer's involvement with their award and many were concerned about losing control and worried that their awards might change without warning on the basis of (potentially incorrect) information provided by their employer, making their income less reliable and predictable.. It did not occur to anyone that they might put pressure on their employer to under-report income – and when prompted, all said that their employer would not be willing to do this.

Employer reporting is expected to loosen the relationship between HMRC and Tax Credit Recipients, but most individuals are not concerned about this and believed that HMRC is trying to improve the process and prevent overpayments. In the short term, contact with HMRC seemed likely to stay the same, although recipients who were less confident may become more confused, particularly around what they should report and to whom.

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Individuals seemed likely to continue to over-report or under-report. Some would continue to over-report for peace of mind, to keep control of applications and to ensure that HMRC had the correct information. Other individuals may stop reporting income changes altogether, believing that under RTI this was the responsibility of the employer.