



Research report

Going online: Unrepresented Corporation Tax customers

A study exploring unrepresented customers' attitudes and barriers to online filing

Business Customer Unit, HMRC

About the Business Customer Unit (BCU)

Business Customer Unit (BCU) is part of Business Tax responsible for ensuring businesses pay the right amount of tax whilst improving our customer's experience and the overall UK business environment.

The BCU role is to help colleagues make customer focus a reality by understanding our Business Customers needs better and using that understanding to design better products, processes and service delivery.

Contents

1. Research requirement (background to the project)	3
2. Who did the work (research agency)	4
3. When the research took place	4
4. Method, Data and Tools used, Sample	4
5. Main Findings	5
5.1 General attitudes to online	5
5.2. Current Corporation Tax return filing behaviour	6
5.3. Filing online	10
5.4. Concerns about mandation and potential solutions	11
5.5. Changes to accommodate the move	13
5.6 Typologies	14
5.7 Conclusions	16

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1. Research requirement (background to the project)

From April 2011, all Corporation Tax customers will be mandated to file their returns online using XBRL, and will be required to pay electronically. HMRC needs to assist small unrepresented corporate customers who are not using an accountant or third party to file their Corporation Tax returns to prepare effectively for mandation. In order to help these unrepresented customers HMRC needs to understand their current attitudes and behaviours relating to accounting and taxation and the challenges they perceive from the upcoming changes.

Opinion Leader was commissioned to investigate these issues with small and unrepresented Corporation Tax customers, and assess how they could best be supported through the change to online filing. Specifically this project sought to understand:

- Current attitudes and skills relating to online activities
- Current accounting processes and filing behaviours
 - How software is used
 - How third parties are used
- How likely people feel they are to file Corporation Tax online in the future
 - And what barriers they perceive to filing online
- What their response to the mandation will be
- What support might be useful to make the change easier

2. Who did the work (research agency)

Opinion Leader, a multi-disciplinary research-based consultancy carried out the work. The research team working on this project consisted of: Katie Shearn, Ben Knight, Ashvinder Kaur Matharoo and Erim Tuc.

3. When the research took place

The research took place in June 2009.

4. Method, Data and Tools used, Sample

Opinion Leader conducted a total of 28 semi-structured 20 minute in depth telephone interviews.

Respondents were 'self filers' of Corporation Tax returns (those who file their Corporation Tax returns but do not necessarily prepare them). All respondents were filing paper Corporation Tax returns for their organisation; none of the respondents used a third party for filing (either in-house or external). Respondents were all untrained in tax or accounting.

The breakdown of the sample is shown below:

Criteria	Number of respondents
Type of organisation	
Business	24
Charities	1
Clubs	2
Mutuals	1
Turnover	
£1M+	4
£501k - 1M	7
£251k – 500k	5
£100k - £250k	9
Less than £100k	3
Size of workforce	
20+	2
10-19	6
5-9	11
Less than 5	9

5. Main Findings

5.1 General attitudes to online

5.1.1 Internet usage

All participants used the Internet to some degree. However, the extent to which they used online facilities varied. Most stated that they used online facilities to some extent for some things, but preferred to do other things manually. The remaining respondents were split between those who stated that they avoided using online facilities wherever possible, and those who stated that they used online facilities wherever possible.

Most people's online activity was focused on information gathering; using the Internet as an information resource. This included referring to the HMRC website. Fewer people used the Internet for financial activities such as banking and activities that require registering personal information.

"All I'd do is keep track of any fundamental changes in legislation etc, off the website. For the most part the Inland Revenue do have a reasonably helpful website".

5.1.2 Attitudes towards the Internet for financial/tax related issues

There was an even split between those who were confident with their use of the Internet, and those who used it but were less confident. There were high levels of confidence for general Internet usage such as Internet browsing e.g. internet searches for information. However, respondents were generally less trusting and could be more cautious when using the Internet for financial matters such as online banking.

This cautiousness stemmed from a fear of the security of their financial and personal details when making online transactions or filing online forms. These fears were reinforced by 'horror stories' people have heard: of fraud and of records being mishandled.

Participants also felt less confident in making financial transactions online as they worry about the consequences of something 'going wrong' while making an online transaction e.g. a computer crashing. They felt their data might be lost and a transaction not completed, or that they would have to repeat the process. This is a particular consideration for tax where form filling is perceived to be quite time consuming, and because the consequence of not filing returns correctly can be relatively severe i.e. financial penalties.

Many felt more secure in making more 'important' transactions manually i.e. on paper, as they could feel more certain it has been completed correctly e.g. because they posted a cheque personally.

"I suppose I'm a bit concerned about the security, very concerned about how government sites are open to all...In the past I have tried to file my personal tax

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return online, and it's started crashing, it's been a disaster, it's put me back really".

5.2. Current Corporation Tax return filing behaviour

5.2.1. Perceptions of ease of filing currently

All respondents were filing their own Corporation Tax returns; and most were also preparing their accounts to work out Corporation Tax. Generally the people we spoke to found the Corporation Tax process relatively easy. Most had completed the filing process several times, by whichever method they used, and now felt comfortable with it. However there were some sticking points. These included the length of time it takes to complete, the risk of error, and the potential consequences of making an error.

"Some of the phrasing and the wording of it is a little confusing sometimes, but generally now that I've done it since 2002 you just get into a rhythm and you know where things are if that makes sense"

Participants found the process of preparing and filing a Corporation Tax return somewhat long and arduous. The process of preparing their accounts, bearing in mind none are trained accountants, involves a high initial investment of time for some. Some found navigating the Corporation Tax return form rather daunting due to its length and scope. The length of the form, and the amount of information that you are required to read, can make it a very time consuming process. Many also like to build up an 'audit trail' of the filing process in case of error. This includes copies of documents, receipts and returns, and proofs of postage and delivery. This is also felt to make the filing process more lengthy. When discussing this some mentioned filing online as offering potential benefits for saving time due to the perceived efficiencies of 'doing things online'.

"All of it. It's just a nightmare. It's very time consuming and because effectively every time we have to turn around and work out what we can and can't do. It's not as simple as looking at how much money you've spent. It's what's deductible and what isn't, what is the gross net profits, and changes in yearly... it's complex. It would be much easier if... with the PAYE we got a disc sent out with it and there was a lot of advice on those discs and they were quite useful. With the VAT we had an online form we could fill in which made it a lot simpler as well. It would probably be a lot easier if we could fill it in online"

The frustrations created by the arduousness of the process were compounded by the perceived high financial cost of failing to calculate the return correctly. This increases anxiety around filling in the form and people feel the need to check the return in detail for errors. The perceived complexity of the filing process is felt to make it difficult to spot errors.

"I just think that, for me personally, it's probably the biggest thing in business that I do that has to be right, it's a one shot thing, if I do a VAT return incorrect I can address it the next quarter, if I do a PAYE every month, and there is an

inaccuracy in it then the following month I can redress that, but with the Corporation Tax, you need to be 100% sure and then 100% sure again that what you are submitting is right because you don't get an awful lot of redress if what you are submitting is wrong"

The level of accessible support available was stated by some as inadequate. For example, some expressed difficulty in getting through to the HMRC telephone helpline. Individuals with less experience filing Corporation Tax returns, in particular, emphasised the need for more information to help answer their queries about the filing process and help in rectifying any errors made.

"Information would be handy, but I'm sure the HMRC has that on their website but again it's not clear. The Internet is good but it may not be working that day and you might need to file your tax return then so you may need a helpline as well".

5.2.2. Variation in the preparation process

As stated, most participants prepared their company accounts in order to complete the Corporation Tax return. In the remainder of cases it was either an external third party or someone else within the organisation preparing the tax return.

The Corporation Tax preparation process varied greatly across the group we spoke to. People used a variety of methods and aids for preparing accounts. We found differing levels and ways of using software, third parties and other types of support. Through the rest of this section we will explore these varying processes and the factors that underlie them.

5.2.3. Use of software in the preparation process

Most participants who were preparing their own accounts used software to complete the Corporation Tax return and a significant minority were preparing their Corporation Tax return entirely manually i.e. relying just on pen, paper and other basic stationary as their main resource while preparing their Corporation Tax. Participants who were preparing their return manually did so out of habit, because they felt it was reliable and because they did not see the process as a complicated task and therefore didn't feel the need to use software. Those who did not use software described themselves as 'old fashioned'.

"We prepare all the accounts manually then send off to the accountant for rubber stamping. We do it literally on paper".

People who used software during the preparation process often used Sage. The second most commonly used software was Excel. However the way these types of software were used varied across the group, with some claiming more advanced use of software than others.

Participants only used a few of the Sage functions, in these cases it served as a ledger for purchase and sale orders. In some cases this was because these simple functions were all they wanted, or were able to use. In other cases they were smaller businesses whose lower turnover

prevented the purchase of specific add-on modules to Sage as they felt unable to justify the expense.

Other participants fully utilised the features offered by Sage, often having the necessary modules to automate much of the Corporation Tax return process. As a result of this automation these individuals expressed fewer difficulties in filing the Corporation Tax return. These individuals tended to be from higher turnover businesses.

“Well every sales order we input onto the system creates an invoice, and any product we need to buy we have purchase orders, and from that it’s literally clicking a button and it does your VAT, your Tax, everything.”

Use of Excel was more uniform, with respondents using it as a calculation tool and to assist with the preparation of the Corporation Tax return, entering figures manually from their accounts, or keeping accounts in Excel.

“I only use Excel... that’s been set up for years so I inherited that. I have an understanding of Excel as well so it makes it easier for me. I know it’s quite a drawn out process because he (boss) uses 1 system then passes it to me and it’s translated into Excel”.

5.2.4. Use of third parties

A significant minority of participants were found to use third parties in preparing the Corporation Tax return; their use varied from partial use to complete reliance.

Those that used third parties in a limited way, tended to be smaller organisations. In these cases accountants were used as a quality filter for accounting i.e. using them to check completed accounts which had been prepared in-house prior to the filing of Corporation Tax returns. They also used them as a source of information while preparing accounts. Respondents that limited their use of accountants did so for two reasons: confidence in their own abilities, and/or to minimise costs of professional services.

Larger organisations tended to use third parties more extensively. These participants essentially outsource the Corporation Tax process. Here the participant’s role was merely to sign and file the completed return. In these cases the third parties are also the prime source of information for new developments in taxation.

“It’s just a habitual process that we know - we will check with the accountants for updates, we have a lot of connections with accountants”

5.2.5. Use of other forms of support

HMRC was a key source of support for some during the Corporation Tax return filing process. Many participants visited the HMRC website for information. Participants generally thought it was a useful tool, some referred to the usefulness of the search function which made it easier to navigate

and reach the specific information they required. However, a small minority expressed difficulties regarding the clarity and accessibility of the website. These people tended to be less articulate with financial and tax related terminology and less comfortable with the Corporation Tax return process generally. The HMRC telephone service was also used by some; some finding it helpful while others felt that it can be difficult to locate the right person to answer their query.

“If I have got a problem I go to the HMRC website because you just have to type in your question in the search and it pretty much brings up anything that you need there. If I get stuck with the Corporation Tax I either go on HMRC website or I speak with our accountant because they are very knowledgeable”.

Other general sources of accounting information mentioned include electronic information from Business Link on legislative changes; information through informal networks and, links to bank managers.

5.3. Filing online

5.3.1. PAYE/VAT

Many participants were currently filing their PAYE/VAT return online. Convenience was the primary reason for filing PAYE/VAT return online. Participants using this service generally reported that they found it relatively straight forward; largely due to the simplicity and efficiency of the online form. For some, PAYE was also connected to the organisation’s payroll software which made participants feel it is easier to file online.

For some the transition to PAYE online was made smoother by the usefulness of the supplied CD-ROM which included examples.

Some participants filing PAYE/VAT returns online felt initial apprehension and some therefore still ran their manual versions on paper and backups on external hard drives: “we needed to be sure that the return didn’t get lost in the ether somewhere”. Others stated it was simply a force of habit that had accustomed them to the manual format, as it is perceived as a very straightforward process for small companies. Some respondents were unaware that filing VAT or PAYE return online was an option.

The majority of those surveyed did not pay PAYE/VAT online, most finding it simpler to write a cheque.

“VAT is absolutely straightforward, its just like filling out the form you would have on your desk, just typing out the numbers, the PAYE because that is tied in with payroll software its just a press of the button when you have done your year end checks, and it’s gone, and it’s great.

5.3. Filing online

5.3.2. Likelihood of filing Corporation Tax online in the future

Although a significant number of participants were aware of the upcoming mandate to file online from 2011, this was often due to looking on the HMRC website upon being asked to participate in the interview. Most participants (including those aware of the mandate) felt it was likely that they would be filing Corporation Tax online in the future. Those who were unaware of the changes but also felt it was likely seemed to feel a sense of 'inevitability' about online filing. They feel that this is just the way things are going, and that they find themselves doing more and more things online as time goes by. They also spontaneously mention the possibility that it could make the filing process simpler, quicker and less stressful.

Despite the majority believing it is likely they will move online, most did not file VAT online, and none used the currently available online filing process for Corporation Tax. This suggests there may be a level of over-claim of their propensity to move online. People appear to be held back from moving online for two reasons – inertia and perceived barriers.

People did not perceive any particular incentive to move online at present. There are no financial benefits to moving to file online, and the process would involve moving from well established habits they are comfortable with, to establishing new habits. The time and effort required to make this change appears to prevent people from making it.

People also perceived barriers to moving online. Cost can be a reason; they felt they may be required to invest in new IT equipment, software, staff time etc. to make this change. This was particularly a concern for smaller organisations with lower turnovers. Secondly, there are fears and uncertainty around moving online, e.g. security of financial information.

The problem of inertia to move online may possibly be remedied simply by mandate i.e. this will provide the required 'push' to online filing. However the perceived barriers may remain. In the next section we will look in more detail at these barriers and potential ways for people to be supported to overcome them.

5.4. Concerns about mandation and potential solutions

5.4.1. Level of concern relating to filing Corporation Tax online

The vast majority of those surveyed had some concerns about the upcoming requirement to file Corporation Tax online but felt that it would be manageable. Few people felt that this change would cause them major problems. Overall, they felt that the required changes would be limited and that they would be able to make them with little difficulty. Many participants referred to how they are used to processing PAYE and VAT online, and feel that getting used to Corporation Tax filing online will be similar.

However, people did perceive certain potential stumbling blocks to moving online, and certain concerns they would want more information on. These concerns centre around: the process of moving online and how easy that will be and the security of their financial information once they have moved online.

5.4.2. Concerns around the process of filing online and potential support

While respondents were generally not familiar with XBRL, none voiced concern about using it. They simply assume this is the 'format' of the system, and that it will be similar to existing online web applications. However, people are concerned about the ease of setting up and using this new system, and the consequences of what happens if things go wrong.

People can be concerned about the ease of registering to use the new system. Those who have moved to use online PAYE/VAT filing could relate difficulties in the process of registering e.g. it taking a long time. The concern was that this may be repeated when moving to file Corporation Tax. Others perceived the 'tax system' as generally being prone to inefficiencies so could worry that processes like registering might be time consuming and difficult.

People also had concerns about using the new system for filing. While they felt they should be capable of using it, concerns centred on fear of making mistakes while using this new system and the possible consequences. The fear was that they may make an error in calculating Corporation Tax and filing the return, or that they may accidentally 'send' the return by pressing the wrong button before they were ready to. They were unsure of how easy it will be to rectify these mistakes online; they were fearful that it will be more difficult than making manual amendments. This could mean that they may miss the deadlines, or be unable to rectify mistakes and possibly face fines.

"My only concern would be if I made a mistake, so I suppose it would be using the XBRL - if you make a mistake with writing you can always correct it, but if you make a mistake online, that worries me a bit yeah"

To counter these concerns participants were looking for a mix of practical support through the set-up and filing procedure to make it as simple as possible. Participants had different preferred formats and sources of support. Some preferred online support whereas others would prefer one-to-one support through a telephone helpline or email support. For all the key for provision of support was that it be accessible and provide a quick response to queries. For some a business

organisation e.g. Business Link was seen as the best place to go for this advice, whereas others would want it to be provided directly by HMRC.

“I suppose the one thing that I do find difficult, I mean the website is really good because I can search for anything but if I want to speak to somebody it is very difficult to find the telephone number for the person I am wanting because there are so many, so if I had a direct line to a department that dealt with that sort of thing that would help. You can spend a good half an hour trying to find the telephone number for the person you want”.

People would want this support to help them step-by-step through the process of registering for Corporations Tax online, and through filing their return. Suggestions of how this could be provided include

- An interactive CD-rom, similar to that provided to help with VAT return
- An online step-by-step written ‘idiots’ guide’ to filing Corporation Tax
- An on-line ‘demo’ possibly with videos explaining how to fill in the form
- A ‘dummy’ system, allowing to trial the filling in of the return without having to submit (online or downloaded systems allowing multiple attempts at completing the return before filing may suffice)
- Tax awareness workshops i.e. training sessions to learn how to use the new system. Business Link, as a current provider of similar courses, is seen as a potential suitable source of training
- A financial incentive was felt to make it more likely that they would move online. This could encourage people to move online prior to mandation

The idea of free software was not mentioned spontaneously by the respondents, but once mentioned this received a positive response. It was felt that it could be a helpful aid for preparing Corporation Tax return for the new system, as long it is relatively simple and user-friendly. This was also seen to be a positive gesture from HMRC in recognition that the move online may be challenging for some. Organisations with lower turnovers were particularly likely to feel they would use free software.

Participants also wished to be reassured that the system was ‘failsafe’ i.e. that there would be checks so they could not file a return without meaning to. Some suggested that being able to alter a return after it has been filed would offer an additional measure of reassurance to their concern about the need to rectify mistakes.

5.4.3. Security concerns and potential support

As already mentioned there was a degree of fear among this group for the security of online portals. Recent negative publicity around the handling of sensitive personal information by the government has added to this. These fears could take two forms. Firstly that the return may get ‘lost in the ether’ of the Internet and not properly filed. Or that they may be subject to fraud.

Some in this group liked to keep a detailed paper trail to be able to prove what they had done should anything go wrong. They expressed a desire to be able to save back-ups of returns they have filed, and to receive confirmation of receipt of their return to provide evidence that they had

submitted it correctly. People suggested this could be sent as an email. People would also like reassurance that systems that are in place to protect their data while filing online.

5.5. Changes to accommodate the move

5.5.1. Flexibility to change

Generally, participants felt that their organisations would be flexible enough to accommodate changes required in the move to online filing. This was because the changes they felt they would have to make would be limited.

Some participants envisaged they might need to make some improvements to their IT systems e.g. investing in more modern equipment, extending broadband coverage. However, this perception is based on not knowing what the requirements will be, and assuming they will need 'up-to-date' equipment. In general people were reluctant to upgrade due to the investment required.

Some felt they may need to improve their own, or other staff members' knowledge through training/spending time conducting research. However, this was felt to be manageable; they felt the support suggested above in section 5.4.2 would help to make these changes.

Some felt they may need to rely more heavily on third parties, especially initially, to support them with the new online system. This could mean some increased costs.

Having to make online payment was generally not a concern, especially for those already banking online. Where people were not banking online, people still felt making electronic payments would be manageable through the branch/on the telephone. The barriers to making electronic payments are generally attitudinal, and would simply require a change in habit.

5.5.2 Timing of change

The deadline of 2011 was seen as manageable. In fact some respondents were keen to make changes sooner and didn't want to wait till 2011. They professed a desire to move online as soon as possible so they may be able to file their first online return before mandation. This would allow the additional back-up of being able to file manually if they were unable to complete the online return.

Three to four months was deemed a sufficient lead time to be able to make any necessary changes and prepare them to move online.

5.6 Typologies

During analysis we identified 3 ‘typologies’ of small and unrepresented Corporation Tax corporate customer. These were Hands Off, Hands On – Tech Savvy, and Hands On – Non-tech Savvy. These typologies are based on qualitative analysis (rather than a quantitative segmentation) and describe associations between types of attitude and behaviour described through this report. They describe the broad types of audience HMRC may have when communicating with this type of customer

5.6.1 Typologies - Hands off

Attribute	Typical behaviours/attitudes of this group
General attitude to tax	Tend to find tax returns difficult to comprehend, and have a fear around tax i.e. making a mistake and getting fined
Use of support in tax/accounting	Generally try to rely on a third party for the Corporation Tax return process and tend to be somewhat technophobic
Filing PAYE/VAT	Most do not file PAYE/VAT online due to being comfortable with existing manual procedure
Filing Corporation Tax online	Most feel they are likely to file online, but would still outsource the preparation
Barriers/concerns about filing Corporation Tax online	Concerns about enforced change largely centre around increased costs in professional services fees to third parties
Typical demographics	Respondents tend to be older, in more established organizations

5.6.2 Typologies - Hands on non tech savvy

Attribute	Typical behaviours/attitudes of this group
General attitude to tax	Tend to be confident with handling their tax but find it time consuming
Use of support in tax/accounting	Third parties are not used at all in most cases. A small portion use basic spreadsheet software, but mostly use manual processes. Tend to be somewhat technophobic generally
Filing PAYE/VAT	Most do not file online; feeling comfortable and confident doing so manually
Filing Corporation Tax online	Most tend to have accepted they will have to switch to online, but are reluctant
Barriers/concerns about filing Corporation Tax online	Security seems to be the most prevalent barrier, with many respondents citing the recent government data loss scandals as well as stories of electronic identity theft as reasons for their apprehensiveness. Other barriers include a lack of familiarity with online form filling and therefore concern of their capability of managing it
Typical demographics	Respondents tended to be older, working for more established organisations

5.6.3 Typologies - Hands on tech savvy

Attribute	Typical behaviours/attitudes of this group
General attitude to tax	Some find tax returns very time consuming, although most say they are comfortable with it now, having done it for a few years
Use of support in tax/accounting	More likely to use specialist software in Corporation Tax return process and to use it throughout the Corporation Tax process
Filing PAYE/VAT	Most do file online and are happy with the process
Filing Corporation Tax online	Generally not concerned with the proposed move online, although do not see much incentive for them to change habits
Barriers/concerns about filing Corporation Tax online	Tend to have fewer barriers, citing habit as a reason for manual filing, and finding the time to make the change an issue. Some are concerned about potential for error when change occurs
Typical demographics	Respondents tended to be younger, and working for newer organisations

5.7 Summary

The upcoming mandation of Corporation Tax customers to file returns online caused little alarm. The overall feeling among small and unrepresented customers was that this change will be manageable. Most participants did have some concerns about the changes, however these were seen as surmountable, especially if appropriate support is provided.

These concerns centred around the ease of the process of registering for online filing and the process of completing the form.

Some in this group also related high levels of fear around using technology in general and the Internet in particular. Participants felt comfortable with traditional, manual systems, with some trying to avoid online systems entirely. This was especially the case for financial transactions where there are fears of fraud. Participants were also fearful of making mistakes with taxation due to the potential consequences of error e.g. financial penalties. The change therefore could combine these fears for some and lead to a certain level of anxiety.

There was a perceived need for support through the new processes, preferably in a simple and user-friendly format. This may include: guides to using the systems; personal support through a telephone line; and software/a dummy system to allow people to trial and, adapt to the new system.

Participants were also keen for reassurance while using the system. They wanted to know that they have filed the return correctly and it has been received, and that their data will be secure once submitted via the Internet.