



HM Revenue
& Customs

Research report

Simplified Expenses

Usability testing of the online checker

Business Customer & Strategy

August 2013

Simplified Expenses

About Business Customer and Strategy (BC&S)

Business Customer and Strategy is part of Business Tax.

The goal of BC&S is to maximise Business Customer compliance for HMRC at best cost for both HMRC and the customer. This is done by developing business tax strategies through customer understanding, working with teams in HMRC and across government departments.

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Research requirement (background to the project)

The Finance Act 2013 introduced a simplified tax system for small unincorporated businesses whereby taxable profits can be accounted for on a cash receipts and payments basis, and where the calculation of common expenses (specifically the use of cars and motorcycles; the home for business purposes; and private use of business premises as a home) is simplified through the option of using flat rates to calculate deductions.

Her Majesty's Revenue and Customs (HMRC), working with the Government Digital Services (GDS), have developed an interactive online tool which eligible businesses can use in order to assess whether using a simplified expenses approach is likely to work for them. The tool works as follows:

1. Businesses are asked basic questions which establish whether they have previously claimed business expenses, and which of the following expenses their business incurs: (i) business costs for vehicles (car/van and/or motorcycle), (ii) business use of home, or (iii) private use of business premises as a home.
2. For all relevant expense categories, businesses are then asked to estimate expenses for the tax year under the standard expenses calculation approach
3. As appropriate, businesses then enter estimates of their business mileage, hours worked at home and number of people living on the business premises, which feed into a flat rate simplified expenses calculation
4. The online tool then provides a comparative output of what businesses might be able to claim under the simplified expenses and standard expenses approach – so they can understand which might work best for them.

HMRC commissioned research to test the tool with potential users to gather feedback on how useful it was perceived to be, how easy it was to use, and whether users will need additional explanation or guidance notes in order to use it successfully. This research will inform refinement to the tool and/or the supporting information and guidance materials.

The primary objectives of the research were to:

- Illustrate **how users engage** with the tool, and which aspects of the process require additional clarification, support and/or guidance
- Identify **which aspects of the tool may benefit from further development** (navigation, user interface, content, features and design)
- Understand the **perceived utility** of the tool
- Anticipate **likely future use/action** based on the outcomes of using the tool

When the research took place

Fieldwork took place in July 2013.

Who did the work (research agency)

The research was conducted by TNS BMRB.

3/E03, 100 Parliament St. London, SW1A 2BQ

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Method, Data and Tools used, Sample

Usability testing was undertaken with 13 businesses (either self-employed or representatives of business partnerships) across three UK locations: Manchester, Birmingham and London. Each testing session was conducted in-situ (in business participants' homes or place of work) and consisted of three distinct segments, summarised as follows:

- 1) **Context-setting discussion with users** about the nature of their business, and views and experiences of calculating expenses
- 2) **Observation of task completion**, incorporating 'think aloud' protocol - users were asked to describe what they were looking at, thinking and doing as they use the simplified expenses tool.
- 3) **Semi-structured interviews** reviewing task completion to explore the experience and how this could be optimised

Half of the sample were also provided with the tool guidance and asked to read this in advance of their testing session.

All tests were recorded by video; participants provided verbal and written consent for these to be shared with the HMRC team.

All participants in research met criteria for use of the simplified expenses approach – i.e., all participants were un-incorporated sole traders/partnerships, had a maximum income of £79,000, and were currently unrepresented by an accountant. The sample also represented a mix across eligibility for simplified expenses categories; new versus existing businesses; IT literacy, and business type. Details are as follows:

New/Existing Business	13
New Business	7
Existing Business	6
Use of vehicle for business	11
Car/Van	9
Motorcycle	2
Use their home for business	9
Live on business premises	2
Business Type	
Arts/entertainment	2
Construction/maintenance	1
Accommodation/food services	3
Professional/scientific/technical	3
Transportation/storage	2
Personal services	2

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Main Findings

Users' financial literacy and comfort with business expenses calculation varied widely, which strongly affected ease of tool use and understanding of tool outputs. Differences between users' literacy related to whether they were older or newer businesses, industry differences, their own personalities (e.g. creative versus 'numbers oriented'), and how often they calculated expenses.

Overall, there was interest in a simplified expenses approach and in a tool to help self-employed individuals understand how simplified expenses might work for them. Some users, particularly those who were more financially literate, found this very easy to use.

However, many users found the tool confusing overall or misunderstood what it was meant to do – which often led to misinterpretation of tool outputs. This was largely due to 1) low financial literacy about how to calculate business expenses in general. This suggests a need for education about the standard approach, what this involves, and what is different about the simplified approach.

2) anxiety about providing 'correct' figures, which led to need for reassurance and hand-holding to understand how figures were calculated and what they meant.

The **presentation and layout** of the tool was considered attractive, simple and clear. Blue, white and green colours eased task completion and navigation, while the text size was easy to read. However, there was sometimes a disconnect between users' expectation that tax will be complicated and the minimal appearance of the tool, which (unless countered) may raise anxiety about the accuracy and legitimacy of the process. Users are likely to be accepting of additional text or information within the tool.

In terms of **navigation, links and terminology**, users found the language straightforward and simple, and were clear about how to progress the tool. They had easy sight of previous questions and answers, which they found simple and reassuring. Where confusions occurred, this was due to lack of familiarity with financial terms. The clustering of links in the tool output rather than during question process (where questions often occur) also resulted in some confusion or difficulty when answering questions. Some users also became lost or confused when clicking links as they do not open in the same window.

Participants found the **home page** to be clear. All users understood their eligibility to use the tool, while the 'What you need to know' guidance was clear and straightforward. Entering the task was clear, with all users correctly & easily locating the 'Start Now' button. However, many users skipped or skimmed the introduction text and did not take it in, which led to uncertainty about the tool's purpose and later confusion about the outputs – often assuming it was an expenses calculator.

When **choosing expenses categories**, the format of screening questions was found clear and straightforward. Users had sufficient information to correctly identify themselves for home and vehicle use. However, there was frequent misinterpretation of the 'living on business premises' question, which led to users filling out these sections without realising they didn't actually qualify, as well as resultant incorrect calculations and outputs. Many

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'using home for business' users also incorrectly identified as 'living on business premises' (and one vice versa).

For questions on **using a van/ car/ motorcycle** for business, there was uncertainty around Capital Allowances; this was an unfamiliar term. There was also widespread confusion when calculating vehicle expenses via the standard approach, with users uncertain what they could claim. As a result, users tended to 'make a guess' but felt concerned about inaccuracy or 'doing it wrong'. Many did not understand that questions were comparing the standard and simplified expenses approaches, which exacerbated concerns about accuracy. There were also potential confusions in relation to the standard expenses question for users claiming against both car/van and motorcycle use.

There were no issues noted with simplified expenses questions on '**using home for business**' with estimations of hours per month expected to work from home considered to be clear. However, as elsewhere there were issues around understanding how to estimate expenses via the standard approach.

Regarding the '**Living on business premises**' questions, users most easily and correctly responded to the 'How many people normally live on the business premises' question. However, many users filled this section out without realising they didn't actually qualify and there was some concern about calculating via the standard approach.

The more financially savvy found the **tool outputs and 'next steps'** straightforward, and understood the tool mimicked the experience of a standard versus flat rate approach. These users were interested in the idea this could provide simpler and easier calculations. However, outputs were often described as 'confusing', for several reasons:

- Uncertainty what the tool was for – and not understanding it was comparative
- Missing explanatory text as users' skim-read, resulting in doubt and anxiety
- Difficulty understanding where figures came from
- Introduction of new terms and ideas found to be too complex to understand (flat rate, private versus business use)

Misreading of the outputs was driven by

- Failure to understand there were two outputs
- Assumption that outputs were for filing purposes

There was consequent doubt that outputs can be trusted, and users needed reassurance that HMRC considered flat rates legitimate.

Guidance was considered to be clear and straightforward when read in isolation – though some users wondered what happened next in the process. There was also interest in a more immediate summary and example of what 'flat rates' mean as this was a key area of confusion. Most tool users did not access the guidance during tool use, and reading the guidance (pre-task) did not always result in understanding the tool and outputs provided.

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Key research findings	HMRC response
<p>1. Overall audience findings and difficulty of ‘expenses’ as a topic / business task</p>	
<p>The research identified wide differences in financial literacy, as well as showing that users have difficulty in understanding simplified expenses because they don’t have sufficient information on full expenses calculations to contrast this with. Related to this, Recommendation (1) noted that users are likely to accept a greater level of information within the tool; Recommendation (5) is to provide linked information within the tool about both types of expense calculation; and Recommendations (12), (14) and (18) are to provide more information in relation to each expense category about what can be included in the full calculation figure.</p>	<p>HMRC recognises that, although guidance exists on both types of expense calculations, currently this is not easy to access in one place. In response, we are developing a new guide for GOV.UK, drawing on HMRC’s current guidance, on calculating expenses. This will address this user needs gap, and we will provide a link to this guide from the expenses tool when it is complete.</p> <p>In addition, we have made adjustments to the text within the expenses tool, for example more detailed ‘hint text’ to suggest to users what they might include in their expense estimates.</p>
<p>2. Explaining what the tool does more clearly</p>	
<p>It was evident in testing that not all users were able to understand the purpose of the tool and how it could (and couldn’t) help them.</p> <p>Relevant to this, Recommendation (4) is to increase the visibility of explanatory text and provide better information about what the tool is for; Recommendation (6) is to provide stand-out notification that the tool is not meant to provide estimates for tax filing purposes or to calculate expenses; Recommendations (7), (13), (15), (19) and (20) relate to</p>	<p>To avoid repetition, and in line with recommendation 26, we have tried to address these points so far as possible through changes in the introductory page of the tool.</p> <p>The title of the tool has been changed, and a fuller first paragraph added to explain that the tool compares two types of calculation (both legitimate choices for businesses) – in due course this will link to the new expenses guide as well as to guidance on simplified expenses.</p> <p>This page also now clarifies that estimates</p>

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<p>improving clarity for users about the estimates they make and how these will be used; Recommendation (26) is that key concepts should be introduced sooner (before output page); and Recommendation (27) suggests providing reassurance to users that both simplified and full expense calculations are legitimate methods.</p>	<p>need not be fully accurate, and that the tool is not intended to provide expense calculations for tax returns.</p>
<p>3. Clarifications for ‘living on business premises’ and ‘working from home’</p>	
<p>It was clear from testing that the ‘living on business premises’ category was causing confusion – both intrinsically as a topic and because it is a deduction from what should be claimed rather than an amount to claim. There were also problems with how this was presented within the tool, and with users confusing this with ‘working from home’.</p> <p>Recommendation (8) is to clarify what was meant by ‘living on business premises’; Recommendations (9) and (10) are around confirming users choice of this category and making it mutually exclusive with ‘working from home’; Recommendations (16) and (17) are to fix issues with ‘working from home’ so that users did not see further questions when they were ineligible for this expense but did see a clearer output page; and Recommendation (21) is to clarify that both adults and children count as premises residents.</p>	<p>We have made substantial revisions to how these two categories are presented, including:</p> <ul style="list-style-type: none"> • making selection of these categories mutually exclusive; • improving ‘hint text’ describing what they cover; • reordering the questions around ‘working from home’ so that those who don’t work sufficient hours to qualify don’t waste their time on further questions; • clarifying the hint text about who lives at the premises to include children and guests; and • ensuring output pages are clear and not misleading.
<p>4. Other clarifications and navigation improvements</p>	
<p>Testing brought out other suggestions</p>	<p>We are working with the Government Digital</p>

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<p>for clarification and navigation improvements, as follows: Recommendation (2) is to explain any ‘financial language’ such as ‘flat rates’ at the time this occurs; Recommendation (3) is to consider pop up or new windows for information to avoid navigation confusion; and Recommendation (11) is to consider clarifying ‘capital allowances’.</p>	<p>Service (GDS) on whether links can open in new windows. On capital allowances, testing showed that although some users paused over this, the question had the desired effect i.e. those who had never heard of it correctly identified that they had not claimed these previously – so the text has not been amended. On other language, we hope that tweaks to the introductory page and hint text on each page will remove the need for links that would take the user out of their tool journey.</p>
<p>5. Explaining tool outputs more clearly</p>	
<p>Because the tool was not sufficiently clear up front about its purpose, many of the test audience struggled to interpret the outputs.</p> <p>Relevant to this, Recommendation (22) was that user may need a reminder about what the output tells them; Recommendation (23) is that the output should be fronted with some explanatory text; Recommendation (24) is to provide output for the two methods side by side if possible; Recommendation (25) is to provide greater transparency about how figures are calculated; Recommendation (28) is to provide links to directions about tax filing; and Recommendation (29) is to offer a final reminder that output is not calculations for filing.</p>	<p>We are working with GDS on how output can be presented side by side. Meanwhile, we have made changes to the output page to:</p> <ul style="list-style-type: none"> • remind users up front that there are two results comparing two different calculation methods; • improve the presentation of output figures, in particular to ensure that results for living on business premises are not misleading; • retain a link to filing tax returns and a reminder that these are estimated figures not calculations for filing. <p>We have not explained how calculations are made, because in the case of vehicles in particular this is complex and part of the purpose of the tool is to hide some of the complexity – however we will review this in testing the new version.</p>