



HM Revenue
& Customs

Research report

Simpler income tax and business expenses

Qualitative research to test simpler income tax forms and guidance; an online tool for Simplified Expenses; and business expenses guidance

BE&IT

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Simplified Expenses and business 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

Simpler Income Tax applies for the 2013/2014 tax year onward. It refers to the introduction of two measures to make it easier for the smallest unincorporated businesses to work out their income and expenses for their Self-Assessment tax return: Cash Basis Accounting and Simplified Expenses. Both measures will have guidance notes and a help sheet, which are designed to help complete a Self-Assessment (SA) return. Research was required to test drafts of these guidance notes and help to develop them. A Simplified Expenses web tool has also been developed, designed to help businesses choose between using flat rates to calculate their allowable expenses or deducting the actual expenses incurred.

One outcome of the research into the Simplified Expenses online tool was the finding that small businesses needed more clarity about business expenses as a whole. This led to a need to focus on business expenses as part of this suite of work, testing a new draft GOV.UK guide.

This research was conducted in three separate phases. Phase 1 looked at the changes made to one of the SA return forms to accommodate the Simpler Income Tax rules, related guidance notes on completing the form and a proposed help sheet; phase 2 looked at the online tool; and phase 3 focused on business expenses.

Phase 1 objectives:

- To test the return form, draft return notes (in two versions: “brief notes” and “full notes”) and a draft help sheet for: clarity, comprehension, call to action and usefulness.
- Do they help people to make a correct Self-Assessment?
- Assessing both emotional (e.g. confidence, satisfaction etc) and intellectual responses (e.g. clarity, comprehension etc).
- Identify any gaps in information and improvements to be made

Phase 2 objectives:

- To evaluate the changes to the Simplified Expenses Tool, understanding whether: people understand what the tool is for; the tool does what it is supposed to do; the tool aids decision making; the tool fits well alongside the simplified expenses guidance.
- Identify any gaps in information and improvements to be made
- Assessing both emotional (e.g. confidence, satisfaction etc) and intellectual responses (e.g. clarity, comprehension etc).

Phase 3 objectives:

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- To test/understand businesses approach to business expenses, sources of help about expenses, terminology and to test a new draft expenses guide

Main Findings**Phase 1 – 10 key findings**

- 1. Simplified expenses was positively received, being perceived as a straightforward and something that they could do themselves without an accountant**
- 2. The draft return notes and help sheets tested over-complicate rather than empower people to accurately calculate their tax**
- 3. Participants use notes in different ways. Some read them thoroughly whereas others skim read them**
- 4. There was a perceived lack of flow between the notes, help sheet and Self-Assessment form**
- 5. Notes and help sheet were deemed to be text heavy which deterred reading**
- 6. Participants found it confusing having multiple help documents**
- 7. Some of the terminology used caused confusion and was a barrier to using the help sheet return notes**
- 8. There was perceived to be poor signposting to different parts of the documents or different documents**
- 9. The brief notes were considered to be more effective at signposting participants to the help sheet than the full notes**
- 10. The help sheet was perceived to be better laid out than the full notes, however, despite this some key information was missed which led to mistakes being made**

These findings were presented to HMRC, who used them to rework the notes and help sheet substantially before publication.

Simplified Expenses and business expenses**Phase 2 – 10 key findings**

- 1. The tool itself is perceived to be easy to use. It is the context rather than the structure of the tool that is the issue. Participants did not understand the context of Simplified Expenses and that it is an alternative way of calculating business expenses.**
- 2. Participants typically did not understand Simplified Expenses and did not link it with the tool**
- 3. There is confusion about the purpose of the tool - participants typically expect the tool to be a calculator they can use for completing their Self-Assessment form, not a comparison tool**
- 4. Choice is an alien concept in relation to HMRC and is uncomfortable for some participants who would prefer to be told what they should do**
- 5. It was unclear to participants what records needed to be kept for Simplified Expenses**
- 6. Some participants missed information if they needed to scroll down to the bottom of the page**
- 7. Some of the terminology requires explanation, specifically: proportion of business expenses, capital allowances and low-emission vehicles**
- 8. Participants found it difficult to navigate back to the tool after clicking on the links in the introduction text**
- 9. Any significant disparity between the amount of allowable expenses under the two systems can lead to uncertainty and doubt about whether both are correct.**
- 10. Using the tool resulted in a number of different outcomes. Some would find out more about Simplified Expenses, some would continue to use their current way of working out expenses and others would start using Simplified Expenses**

These findings were presented to HMRC, and alongside other work demonstrated a need for better guidance on GOV.UK about business expenses. Draft guidance was prepared, and tested in Phase 3, alongside wider discussion of participants' understanding and behaviours in relation to business expenses.

Simplified Expenses and business expenses**Phase 3 – 10 key findings**

- 1. There was little consistency in the way participants calculated the business proportion of their expenses**
- 2. Travel and use of home were seen as particularly complex expenses to record and keep track of**
- 3. Participants used and trusted informal sources of advice and information as much as formal sources**
- 4. Some aspects of expenses terminology were considered unfamiliar, complicated or ambiguous**
- 5. The expenses categories contained in the guidance broadly fitted with participants' expectations**
- 6. The guidance was generally considered to be user friendly, clear and concise**
- 7. Participants liked the reassurance provided by the guidance about what they can and can't claim for**
- 8. Participants expected (and needed) the guidance to provide firmer direction to calculate the proportion of their business expenses accurately**
- 9. Reference to simplified expenses in the guidance caused confusion**
- 10. The guidance leaves some questions unanswered and participants expect additional help**

These findings were presented to HMRC and are being used to shape the guide for publication.

When the research took place

The research took place between October 2013 and March 2014

Who did the work (research agency)

The research was conducted by Opinion Leader a research agency based in London.

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Method, Data and Tools used, Sample
Phase 1

16 depth interviews, each lasting an hour. The details of these are shown in the table below

Depth #	New business/existing business and completed Self-Assessment	Aspect of simplified expenses scheme
1	New	Use home for business (but not work from home)
2	Existing	Use car/van for business
3	New	Use motorbike for business
4	Existing	Use home for business (but not work from home)
5	New	Use car/van for business
6	Existing	Work from home
7	New	Use home for business (but not work from home)
8	Existing	Use car/van for business
9	New	Use home for business (but not work from home)
10	Existing	Use car/van for business
11	New	Use car/van for business

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12	Existing	Use motorbike for business
13	New	Work from home
14	Existing	Use home for business (but not work from home)
15	New	Use car/van for business
16	Existing	Use home for business (but not work from home)

Additional recruitment criteria

- All unincorporated sole traders / partnerships with business income not greater than £79,000
- All unrepresented i.e. preparing accounts and filing tax returns themselves
- Across the sample we will achieve:
 - a variety of IT literacy
 - a spread of businesses by trade sector

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Phase 2

12 depth interviews, each lasting an hour where participants used the online tool using example data. The details of these are shown in the table below:

Depth #	New business/existing and completed Self-Assessment	Aspect of simplified expenses scheme
1	New	Use home for business (but not work from home)
2	Existing	Use car/van for business
3	New	Use motorbike for business
4	Existing	Live on business premises
5	New	Use car/van for business
6	Existing	Use home for business (but not work from home)
7	New	Live on business premises
8	Existing	Use car/van for business
9	New	Use home for business (but not work from home)
10	Existing	Use car/van for business
11	New	Use car/van for business
12	Existing	Use motorbike for business

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Phase 3

Four focus groups lasting 1.5 hours and four depth interviews lasting 1 hour were conducted. The details of these are shown in the table below:

Group #	Recruitment criteria
1	SME's All to be new to self-employment (less than 1 yr) No accountant
2	SME's All to be established self-employed (2-3 years) No accountant
3	SME's who have more complex business affairs Min 2 x who have employees Min 2 x who are registered for VAT Min 2 x who use an accountant New or established business (more likely to be established)
4	SME's 4 x new to self-employment (less than 1 year) 4 x established self-employed (2-3 Years) No accountant
4 x depth interviews	Small businesses with non-complex business affairs and did not use an accountant