



HM Revenue  
& Customs

*Research report*

# Tax Credits: New Guidance Notes

Usability Testing iii (customer requirements to support In-year finalisation 2015)

**Ipsos MORI Social Research Institute**

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## *About Benefits and Credits (B&C) Design & Customer Engagement*

Design & Customer Engagement is part of the Benefits and Credits business area in HMRC.

We work collaboratively with colleagues in the HMRC Universal Credits Programme, across B&C and the wider HMRC to incorporate customer centric design principles by:

- Ensuring customer understanding sits at the heart of processes, products and procedures
- Represent customer needs and seek to influence their behaviour in order to ensure the best possible experience of HMRC
- Ensure HMRC plans and processes are compliant with equality legislation

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## *Introduction and background*

Over the next few years, most tax credit customers will start to receive Universal Credit instead of child and working tax credits. When a tax credit customer has moved over to Universal Credit their tax credit award will end, as they are not entitled to receive both at the same time. HM Revenue and Customs (HMRC) will ask tax credit customers to end their tax credit claim by completing and posting a form or calling a helpline. Tax credit customers will be required to do this within the current financial year; hence the process is called 'in-year finalisation'.

Tax credit customers required to 'in-year finalise' will receive a pack containing an Award Review (TC603URR), Award Declaration (TC603UD) and Guidance Notes (TC603URD). If a customer is not required to reply to finalise their claim, they will be sent a shorter version of the Guidance Notes (TC603UR) with the Award Review (TC603RR). For a more detailed explanation of the purpose of each of these see Appendix A.

This research study aimed to assess the effectiveness of the TC603URD and the TC603UR Notes with a range of tax credits customers, with a view to ensuring customers are able to complete the process with the minimum of confusion, inaccuracy and low value contact. Specifically, the research aimed to explore:

- How easy it is to identify relevant sections and understanding of key messages;
- How well the Notes indicate what action to take and how the parts of the pack relate to each other;
- How easy or difficult it is to understand the Notes;
- How to overcome difficulties understanding or areas of confusion.

## *Sampling and methodology*

Ipsos MORI conducted 20 depth interviews and one group discussion (with six participants) in London between Thursday 19<sup>th</sup> March and Friday 27<sup>th</sup> March 2015. The depth interviews explored the content of the Notes and the group discussion focused specifically on design. A slightly later version of the TC603URD Notes was tested at the focus group. Participants were recruited to include a cross section of tax credits customers including:

- Those claiming as a couple and as a single claimant;
- A range of ages;

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- Employed and self-employed claimants (including those who received/did not receive benefits in kind from their employer).

A full breakdown of the sample profile is included at Appendix B.

Participants were recruited by specialist recruiters using free-find methods. A purposive sampling approach was adopted, whereby key quotas were set and participants were recruited according to these using a screening document. The interview data were fully analysed using a robust inductive approach, as part of which the data were synthesised thematically and interrogated for patterns and relationships.

### *Previous research - renewals guidance notes testing*

People in receipt of tax credits are currently asked annually by HMRC to renew their tax credit claim.<sup>1</sup>This can be done by completing and posting a form, responding online or calling the helpline. HMRC provides guidance notes as part of a pack to support this process.

Ipsos MORI tested versions of the renewals guidance notes in November 2014 and January 2015. While the renewals process differs from in-year finalisation there are similarities between the prototype guidance notes tested. Many of the section headings are the same, with both documents being laid out in a similar way. There are consistencies with the findings from this research, and these have been highlighted in subsequent sections.

### *Overall responses and views*

#### **Initial responses to seeing the prototype Guidance Notes (TC603URD)**

Participants understood the purpose of the pack, and identified that they were required to complete their Award Declaration. Specific parts of the Notes worked very well and made completing the Award Declaration easier (especially the guidance for specific boxes under 'Part 2 – Income details'). Participants were grateful for these sections which were described as 'advice giving'.

However, there were some areas of confusion and suggestions for improvement. The purpose of the Award Review letter was not always immediately obvious to participants. For example, a participant assumed it stated what you would receive from HMRC in the future rather than a record of what had already been received.

On first look the pack appeared similar to the one for renewals. This familiarity was well received because it made the in-year finalisation pack feel accessible and as a

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<sup>1</sup> Tax credit customers will be required to renew their claim until they move onto Universal Credit.

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result participants felt more confident in their ability to complete the Declaration. However, participants also highlighted that this familiarity could result in people unintentionally treating the pack as if it was for renewals, and complete the Declaration accordingly:

*'It looks similar and familiar...I would think, this looks familiar and I would jump straight to box 2.4 and fill it in.'*

(Male, single claimant, self-employed)

Further differentiating the in-year finalisation Notes could clarify specific action required. Participants suggested this could be done by referring to the purpose of the pack on each page - ending your tax credits because of a claim for Universal Credit.

### **Understanding in-year finalisation**

The concept of in-year finalisation was straightforward and well understood, participants gleaned they were being asked to complete the Award Declaration within the financial year. However, the term "part-year award period" was harder to understand; it was not immediately obvious what this meant. Participants suggested this could be clarified by explaining the term in a glossary and referring to the date period in the Award Review. Additionally, the consequences of not completing the Declaration were not obvious to participants, who questioned if it would affect their Universal Credit claim. Participants reported that an explanation could make them more likely to complete the Award Declaration.

### **Responses to the pack**

As is consistent with previous rounds of testing renewals Notes, participants responded to the pack in a range of different ways depending on their backgrounds and tax affairs. Three key types of response emerged:

- Simple tax affairs: These participants had a single source of income. It was easy for them to collate income details. They were likely to find the pack straightforward and clear, and were not daunted by the prospect of in-year finalisation.
- 'Good record keepers': Those who had more complicated tax affairs (for example multiple incomes and/or a mix of self-employed and non-self-employed incomes), but that kept good tax/financial records and found the pack straightforward, and similarly were not daunted by the prospect.

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- Daunted by forms: Those who identified as ‘not good with forms’ and felt they did not keep tax documents in an organised way were more likely to feel daunted by the pack on first look. They were also more likely to be phased by new terms like ‘part-year award period’.

An experience amongst the ‘daunted by forms’ groups was feeling panicked in response to the title ‘Your tax credits are ending’. This title triggered concerns about having significantly less income, for example a participant explained:

*‘This is going to really scare people, because I don’t know what Universal credit is. I’m struggling to keep my head above water as it is and having to visit food banks.’*

(Single, female claimant, self-employed)

In these cases advanced information about Universal Credit would be especially important to avoid distress and help engagement with the content. A later version of the Notes tested at the focus group, titled ‘Ending your tax credits award because of a claim for Universal Credit’ did not cause panic or alarm amongst participants.

### *Your income*

On close reading this section was felt to be relevant and contained helpful information. However, participants felt this section did not stand out and could be overlooked. The ‘Childcare costs’ section at the top of this page was a distraction from the ‘Your income’ heading. It was felt this could be overcome if ‘Your income’ started on a new page. In a similar vein, at first glance self-employed participants assumed this section might not be relevant to them, but felt it was on closer reading. To manage this, participants suggested the section could be labelled ‘Self-employed and employed income’.

### **Main section**

The two sentences in bold part-way through this section caused some confusion amongst participants:

**“Although we have been told about this income, this is shown as a guide only. We still need you to work out and tell us your joint income details from 6<sup>th</sup> April to the date your part – year award period ended.”**

This text caused a degree of confusion and slight irritation as it was unclear why this information was needed, if HMRC already knew. An explanation would have been welcomed. The reference to ‘joint income’ in the bold sentence also caused some confusion; with those who had not made a joint claim questioning the relevance of

this section. Additionally, the reference to 'part-year award period' was confusing. Participants were unsure what date this referred to and would have welcomed an explanation or being referred to the relevant page of the Award Review letter.

### **Income you need to tell us about**

This bullet point list usefully indicated relevant sources of income. It was said to be clear and useful to have this in one place. However, the final bullet point, 'any other income – you and your partner's total other income' caused some confusion. Here participants speculated they would be required to declare income received through tax credits. Further clarification of what was meant by 'any other income' would be welcomed.

### ***Completing your Award Declaration (TC603UD)***

Sections of the Notes which provided guidance on how to complete specific parts of the Award Declaration were viewed positively. Participants were easily able to identify sections that were relevant to them and tended to find the content clear and straightforward. As a participant explained, it felt as though '*more thought had gone into explaining*' here compared to earlier sections. Feedback relating to specific parts of this section is outlined below.

### **Earnings as an employee from all jobs – Box 2.2**

Overall, this section was easy to use and welcomed by participants. The description of how to use payslips provided a helpful illustration and made the guidance more accessible. The explanation of the 'total pay to date' was also clear and useful – with participants able to understand the content even if they were unfamiliar with the concept.

Those who described themselves as less organised or felt less confident at managing their tax affairs reported feeling daunted by having to use old pay slips or their p45. A suggestion to provide further clarification for those less confident was to include an image of a p45 or pay slip highlighting the 'pay to date' figure. However, it was acknowledged that pay slips look different and this could be confusing in itself.

Further assurance that it was correct not to include income received just before the cut off of 6<sup>th</sup> April was also noted. The 'Deductions' section was felt to be less straightforward conceptually; especially when participants had given it less thought.

### **Company car and fuel, taxable vouchers and benefits in kind from all jobs – Box 2.3**

There was confusion about the term ‘benefits in kind’ even amongst those who received them. In some instances, this led participants to believe the section was not relevant to them, when it was. Participants suggested that a brief definition of ‘benefits in kind’ and providing further detail of what was meant by ‘taxable vouchers’ could clarify. The word ‘apportion’ was initially confusing and participants were also unsure about how they would go about doing this, but noted the reference to Working Sheet 2 on page 14.

### **Income from self-assessment – Box 2.4**

On close reading participants were able to understand what was required of them – work out taxable profits for their part-year award period or provide an estimate. The separation of sections based on whether your accounting period had or had not ended was felt to assist clarity.<sup>2</sup> However, this section was harder to understand compared to the earlier ones.

An important factor influencing initial responses was the length of time participants had been self-employed. Both experienced and inexperienced self-employed participants reported they would read through this guidance but not necessarily follow it closely. The guidance intimidated those who were newly self-employed and described themselves as generally unfamiliar with self-employed processes; these participants reported they would be likely to call HMRC for clarification here. In contrast an experienced self-employed participant described it as being asked to complete a ‘mini self-assessment’ and explained that once they had gleaned what was required, they did not see a need for the guidance.

The content of the text box in this section was felt to be unfair: *“If you provide us with an estimate, we will not be able to revise it at a later date.”* Participants were not able to understand why this was the case and felt it was unreasonable. This could prompt participants to look online or call HMRC for more information.

#### *Design and lay-out*

A revised version of the guidance notes were tested at the focus group discussion, the guidance for Box 2.4 differed in content and lay-out. The diagrams in the text made the page look *‘more attractive to read’*. Participants welcomed text being broken up which helped overcome feeling intimidated. Participants felt it important to have visual elements for this reason. It felt like there was less content on this page

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<sup>2</sup> The two sections were labelled:

‘If your accounting period ended between 6<sup>th</sup> April and the date your part-year award period ended, and your accounts are made up’

‘If your accounting period has not yet ended and your accounts are not made up’

compared to others, and it was therefore perceived as easier to take in. The content did not present any immediate problems, but this was not explored at the focus group in detail.

### **Total other income – Box 2.5**

This box was generally less relevant to participants hence exploration was more limited. However, when it was identified as relevant this guidance was described as clear and it was felt that it would help participants to complete their Declaration.

### ***Working sheets***

Overall the purpose of these was understood; participants understood they were supposed to be used to help calculate figures for specific boxes on the Declaration. However, as with earlier rounds of testing, there was some confusion about how these should be used and specifically whether participants were required to send these to HMRC. The ‘Please do not send to us’ text at the top of Working Sheets was sometimes overlooked.

Participants differed in how likely they were to use the Working Sheets, with certain participants suggesting they would simply ignore the sheets and move straight to the Declaration; and other suggesting they would be more likely to use them. In general, the more complex tax affairs were perceived to be, the more likely participants were to use the Working Sheets. As a participant explained:

*‘[Working Sheets are] better for people with partners or multiple income, more useful for them’.*

(Female, joint claimant, employee)

Whether participants would use these or not depended on the following factors:

- **Income sources** – those who had multiple income sources were more likely to use the Working Sheets compared to someone who just had one, who perceived no need for a Working Sheet.
- **Joint or single claim** – those who had made a joint claim felt the Working Sheets could be help ensure accuracy.
- **Personal preferences** – those who were worried about making a mistake or described themselves as thorough form fillers, would be more inclined to use them. Equally, those who felt overwhelmed or daunted by the process were also less likely to use the Working Sheets.

When asked to look at these pages closely participants reported that they had not previously thought about some of the income sources and deductions. While one experience was to assume these simply were not relevant, alternatively, others started to wonder whether they had previously overlooked possible deductions. For example, on Working Sheet 1:

“Flat-rate expenses agreed by your employer and us to maintain or renew tools or special clothes you need for your job.”

In addition, the following specific areas of confusion in relation to the Working Sheets were highlighted:

- Mileage allowance, Working Sheet 2 – This Working Sheet asks participants to “enter the taxable amount” participants reported being unsure how to calculate this.
- Notional income, Working Sheet 3 – The explanation of this was described as abstract and not well understood: ‘This includes things like stock dividends, or income that you could have received but chose not to’.
- ‘Take off £300’, Working Sheet 3 – Participants were unclear why they were being asked to take off this amount, and would have welcomed an explanation.

With the above areas of confusion participants welcomed the invitation to call HMRC for clarification (“Please phone our helpline if you need more information about this”).

### ***Online business income calculator***

An online calculator to work out income from self-employment was also tested. A live version of the online ‘business income calculator’ was tested at the focus group, and screen shots were explored at interviews. The calculator requires information on:

- When the tax credits award ended;
- Whether the accounts cover the 12 months up to 5<sup>th</sup> April;
- The taxable profit for the 12 months up to 5<sup>th</sup> April.

It then generates the figure to be entered into the Declaration. Focus group participants reported that the live version was easy to use. The online option was preferred to a paper Working Sheet because *‘it was more simplified’*. It was also felt to be user-friendly; most people have access to a computer and spend time on them.

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However, participants acknowledged this was one small part of the process, and they would still need to collect information beforehand.<sup>3</sup>

However, participants at interviews felt more mixed about the idea of using the online calculator. While some agreed that it would be user-friendly and preferable, others did not see the need as the calculation was relatively straightforward.

*‘As a self-employed person, there is so little information to provide, that I don’t see the need for all this’.*

(Male, single claimant, self-employed)

In some cases, participants reported a personal preference for paper over digital options out of fear that something could go wrong:

*‘As soon as you start doing things online, it usually goes horribly wrong, particularly if it’s the government collecting because their websites are awful.’*

(Female, joint claimant, employee)

### ***TC603D Short notes***

Participants felt this version looked like it has been consolidated; there was a lot less reading required which was well received. This meant it was preferred to the longer version of the notes. The key messages were understood and the purpose was clear – tell HMRC straight away if something is incorrect, but otherwise no action is required. As is consistent with previous rounds of renewals testing, the A,B,C steps were generally well-received because they made the process feel less daunting.

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<sup>3</sup> It is important to note that participants at the focus group were not exclusively self-employed.

## *Conclusion*

To conclude, the key points following testing of the new prototype Guidance Notes with a range of Tax Credit customers:

- Participants understood the purpose of the pack, and identified that they were required to complete their Award Declaration.
- The concept of 'in-year finalisation' was not difficult to understand conceptually, but the term 'part-year award period' was confusing. Greater explanation would be welcomed.
- Participants reported that a better understanding of why this was required would make them more likely to complete the Declaration and return it.
- Similarity with the renewals process was welcomed because the familiarity made the process feel more accessible, but further differentiation is needed to avoid confusion with the current tax credits renewals process.
- Seeing 'Your tax credits are ending' was initially alarming and could make participants feel concerned that they owed money or would be losing money.
- Overall the guidance notes worked very well and were easy to use. These sections helped explain how to complete the Declaration - participants were grateful for this and felt HMRC had thought carefully about the content.
- As with previous rounds, there was a preference for the shorter version of the notes.

## *Appendix A*

### **Award Review (TC603URR)**

The Award Review (TC603RR) is a document which details the information held by HMRC and which has been used to calculate the current award. It is divided into three steps: A, B and C. Step A relates to the details that HMRC held about the customer at the start of the award period; Step B details any changes in circumstance during the award period that the customer has informed HMRC of and Step C provides information for the customer about how to complete the Award Declaration (TC603UD).

### **Award Declaration (TC603UD)**

The Award Declaration (TC603UD) is the form by which customers must declare their income if they are required to do so and post back to HMRC. There are separate columns to declare income if a couple claim needs to be made. Alternatively they can make the declaration by telephone.

### **Guidance Notes (TC603URD and TC603UR)**

The TC603URD Guidance Notes accompany the Award Review and Award Declaration in the in-year finalisation pack for those customers who are required to reply. They provide comprehensive information about each of the three steps a customer must undertake in order to finalise their tax credit claim.

The shorter version of the Guidance Notes (TC603UR) is sent to tax credit customers who are not required to reply, with the TC603URR (but not TC603D). If there have been no changes, their claim is automatically renewed. However, if the customer's circumstances have changed, this version of the Guidance Notes includes information about what action to take.

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**Tax Credits: New Guidance Notes**
***Appendix B***

The sample profile that was achieved for this research is presented in the table below.

	<b>Characteristic</b>	<b>Depth interviews</b>	<b>Group discussion</b>	<b>Total</b>
<b>Type of claim</b>	Single	15	4	19
	Couple	5	2	7
<b>Type of tax credit customer</b>	Employed	14	5	19
	Self-employed	6	1	7
	Received benefits in kind	3	-	3