



HM Revenue  
& Customs

KANTAR PUBLIC

Mid-size Business Customer Survey

Wave 2: 2016

HM Revenue and Customs Research Report 475



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# 1. Executive summary

## 1.1 Introduction and background

This research is the second wave of the annual survey of HMRC's mid-size businesses customer group<sup>1</sup>. The research explores mid-size businesses' customer experience of HMRC, measures general perceptions of HMRC and tax administration, and assesses the effect of operational and policy changes. This research shows comparisons to the baseline survey at Wave 1. The research was mixed method: a quantitative survey<sup>2</sup> provided rigorous measures and tracked changes since the previous survey, while qualitative research explored areas of particular interest in more depth, namely experiences of telephone helplines and attitudes towards compliance.<sup>3</sup>

## 1.2 Customer experience

Fifty five per cent of mid-size businesses rated their overall experience of dealing with HMRC over the past 12 months positively. This was an improvement from 51% in the previous survey. The improvement was largest for the following sub-groups, although their experience with HMRC remained less positive than average for mid-size businesses overall:

- Businesses with more than 250 employees: 45% gave a positive rating of HMRC, compared to 34% in Wave 1
- Businesses using a mix of digital and non-digital channels: 51% gave a positive rating of HMRC, an improvement from 46%
- Businesses that reported experiencing a growth event<sup>4</sup>: 53% gave a positive rating of HMRC, compared to 46% in the previous survey

Consistent with Wave 1 of the survey, Key Driver Analysis<sup>5</sup> showed that 'HMRC getting tax transactions right' was the most important dimension in determining customers' overall experience. Nearly six in ten (57%) respondents gave a positive rating for this dimension.

'Acceptability of time taken to reach the end result' was the next most important dimension in influencing overall customer experience. Positive ratings for this dimension increased since Wave 1, from 42% to 46% in Wave 2.

A summary of all the customer experience dimensions is shown in chart 1.1.

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<sup>1</sup> HMRC currently defines mid-size businesses as those with Corporation Tax or Income Tax Self-Assessment turnover of £10m or more and/or more than 20 employees, although there are some other assessment criteria.

<sup>2</sup> Throughout percentages may not add to exactly 100% due to rounding, and unless otherwise stated, all differences reported are significant to the 95% confidence level. Ratings of customer experience and general perceptions were asked on a 5 point scale, with 4 and 5 referred to as 'positive', 3 as 'neutral' and 1 and 2 as 'negative'. Please refer to section 2.3 for further information on the analysis and reporting of the survey findings.

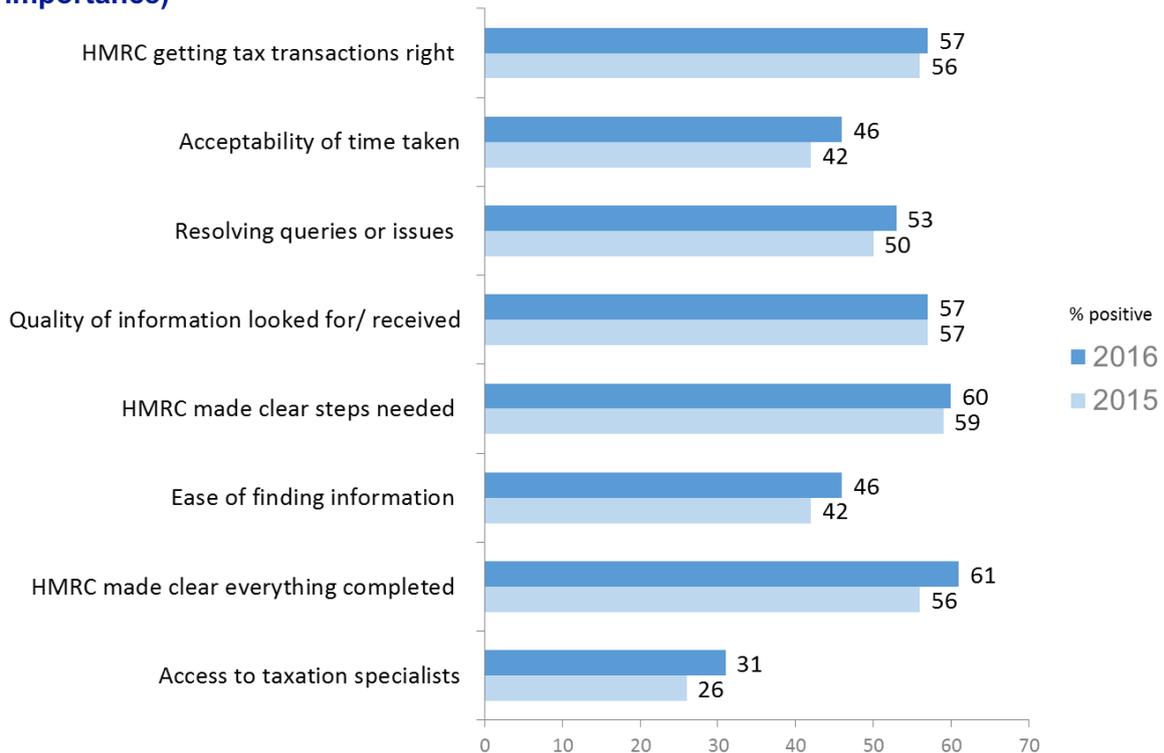
<sup>3</sup> While qualitative research offers flexibility to question and probe beyond initial reactions, there are a number of considerations to bear in mind when interpreting findings. In this research, we used purposive sampling ensuring that we heard from a range of voices. As such, the qualitative sample is not representative and the findings will not be generalizable to all.

<sup>4</sup> A 'growth event' is defined by a business reporting having experienced any of the following over the last 12 months: a substantial increase in turnover, a substantial increase in the number of employees, acquired or merged with another business, started trading internationally or opened operations outside the UK

<sup>5</sup> Key Driver Analysis was carried out to understand the relative importance of different variables in driving the overall customer experience score. This analysis is based on multiple linear regression: it measures the change in overall customer experience when only one variable is changed while all others are held constant. Variables were then ranked by how much overall experience changes for each variable.

**Chart 1.1 Summary of customer experience dimensions**

**Customer experience dimensions summary (in order of importance)**



Base: All respondents with dealings in the last 12 months, excluding not applicable. For base sizes please refer to chart 3.3 to 3.10.

**1.3 Interactions of businesses**

Almost all (95%) businesses reported having some form of interaction with HMRC in the last 12 months. The majority of businesses (71%) used a combination of digital and non-digital channels to contact HMRC, and 20% used exclusively digital channels.

Use of HMRC’s website and online services remained consistently high compared to Wave 1. Seventy nine per cent of respondents reported having used the HMRC website (81% in Wave 1) and 80% had used the online services (80% in Wave 1). Similar to the previous wave, positivity remained high amongst those who had used online services, with 72% rating them positively (73% in Wave 1) and only 7% giving a negative rating (7% in Wave 1). Use of the Business Tax Account increased, with 43% of businesses reporting to have used it compared to 38% in Wave 1.

The number of businesses using the telephone to contact HMRC had decreased from 58% in the last survey to 53% at Wave 2. The decrease was largest among businesses with more than 250 employees, whose use of telephone fell from 74% at Wave 1 to 56% at Wave 2. The decline in telephone use was also seen in businesses with turnover between £3m and £100m. The telephone helpline rating also improved, with 41% of those who had used it rating it positively at Wave 2, compared to 32% in Wave 1.

Meanwhile, the qualitative research found that businesses continuing to use the telephone, suggested a number of reasons for doing so. These included:

- **Need for quick resolution:** generally, telephone contact was viewed by businesses as being a quicker way to resolve queries, compared to other channels
- **Previous experience:** businesses tended to describe fairly habitual behaviour around contacting HMRC by telephone when they had a query
- **Nature of query:** businesses tended to contact HMRC by telephone regarding queries which they felt unable to resolve via other channels
- **Need for reassurance:** businesses expressed the need for query resolution and, generally felt that using the telephone would offer the best chance of getting their query answered.

## 1.4 Health of the tax administration service

Businesses' views on the health of the tax administration service were consistent with Wave 1. A good customer experience tended to enhance businesses' views of the tax administration service.

There was a strong correlation<sup>6</sup> between whether businesses perceived HMRC treated them as honest and where they felt HMRC treated them fairly; around eight in ten businesses agreed with each of these statements (81% and 76% respectively).

Sixty one per cent of businesses agreed HMRC ensured they only paid or received the correct amount of taxes, which was consistent with the results from the first wave of the survey (63%). Businesses with a positive overall experience of dealing with HMRC were more likely to agree with this statement (81%).

There was no change in businesses' views of how easy or difficult they found it to deal with their business's tax issues over the last 12 months, with 57% responding that they found it easy (56% at Wave 1).

## 1.5 Reputation of HMRC

Overall confidence in the way HMRC are doing their job was consistent at 47%, with Wave 1's score of 46%. The proportion of businesses saying they were not confident has decreased from 19% to 15%.

Perceptions of HMRC ensuring confidentiality of data has improved compared to the previous survey, from 69% agreeing to the statement in Wave 1 to 74%. Consistent with Wave 1, 35% of businesses agreed with the statement that 'HMRC applies penalties and sanctions equally for all its customers'.

## 1.6 Compliance

Six in ten (61%) businesses said that exploiting tax rules to gain an advantage Parliament did not intend was never acceptable. Overall, businesses that found this acceptable focused more on the behaviour being legal than it being immoral.

More than nine in ten businesses (92%) said not declaring all income to HMRC to reduce tax paid was never acceptable. This opinion was primarily due to evasion being illegal, but some also cited the moral element.

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<sup>6</sup> Pearson's correlation coefficients of 0.591 and 0.696 respectively.

Businesses perceived avoidance to be more widespread than evasion, with 37% reporting that they felt avoidance was widespread, compared with 20% perceiving evasion to be widespread. The qualitative research found that the difference in perception was due to the illegality of evasion. Businesses which thought evasion was widespread did so primarily because of the perception that a large number of small businesses and individuals did not declare cash transactions.

## 1.7 Mid-size businesses and growth

A quarter (26%) of businesses reported at least one event related to growth in the last 12 months, most commonly a substantial increase in turnover (12%) or the number of employees (8%).

The majority of mid-size businesses reported their main priorities for the next year were to increase profit (84%) and increase turnover (81%), and this was consistent irrespective of the size of the business.

When businesses were asked about their plans to grow in the next 2 to 3 years, increasing the skills of the workforce was the most frequently mentioned (75%), an increase from Wave 1 (71%).

## 1.8 Policy changes

There was no significant difference in awareness of policy changes compared to Wave 1. When asked about the Corporation Tax decrease in 2010 and further cuts in 2017 and 2020<sup>7</sup>, 59% of mid-size businesses thought the change in the Corporation Tax rate would have a positive impact on their competitive position. A fifth (21%) reported that the change to the Annual Investment Allowance would make them more likely invest; 16% said the same regarding the changes to the Research & Development (R&D) Expenditure Credit scheme.

One in ten (11%) mid-size businesses had heard of and knew something about the changes to the structure of the Patent Box, and nearly one in ten (8%) had heard of the changes but knew nothing more about them.

Awareness of Missing Trader Intra-Community Fraud (MTIC fraud) was low, with 8% of businesses having heard of and knew something about it and a further 9% having heard of it but knew nothing more about it. However, the majority (96%) of businesses did not operate in the most relevant sectors, which could explain the low level of awareness.

If businesses could make one change to a policy area, they reported that they would most like to change 'anything to do with VAT' (26%). At Wave 1, the rate or threshold of Employer National Insurance was the area of the tax system that businesses most wanted to change, with 27% reporting that last time, which decreased to 22% at Wave 2.

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<sup>7</sup> The question wording was unchanged from the previous survey, however additional text was added in Wave 2 to inform respondents of the further proposed cuts to Corporation Tax.

## 2. Introduction

### 2.1 Context

Research commissioned by HMRC in autumn 2012<sup>8</sup> produced insight into distinct characteristics and behaviours of mid-size businesses. This highlighted the significant contribution they make to the UK economy, not least in terms of their growth potential. These findings led HMRC to recognise mid-size businesses as a distinct customer group, allowing them to better respond to the specific needs of businesses within this population. Consequently, HMRC developed a new business model<sup>9</sup> for mid-size business customers, with the aim of providing a more effective and targeted service to improve customer engagement and compliance.

The mid-size business unit became operational in April 2014, and covers approximately 170,000 active businesses. HMRC currently defines mid-size businesses as those with Corporation Tax or Income Tax Self-Assessment turnover of £10m or more and/or more than 20 employees. There are additional assessment criteria that can also qualify a business as mid-size, for example, if it has more than 10 partners. The strategic approach adopted by HMRC for these businesses centres around the customer, providing them with targeted support and certainty on their complex queries, supporting business growth and ensuring they are paying the correct tax.

### 2.2 Research aims and objectives

This research provides strong and balanced evidence to evaluate the mid-size business model. The aims of the research were to:

- Understand and track mid-size businesses' experience of dealing with HMRC and overall perceptions of HMRC, including aspects of the tax administration system
- Identify where customer experience and the business model could be improved
- Help assess the effects of HMRC operational and policy changes.

This report presents results from the second year (Wave 2) of the survey (2016) and, where appropriate, presents these alongside results from the first year of the survey (Wave 1 in 2015<sup>10</sup>) with particular reference to any changes that have occurred between these two years. Changes between 2015 and 2016 that are mentioned in the report are only those that are statistically significant.

### 2.3 Research methodology

In line with Wave 1, the research involved both quantitative and qualitative components. The quantitative research covered a range of topics, including customer experience, interactions of businesses, policy change, growth and compliance. The qualitative research was designed to explore issues arising in the quantitative research and to look in more depth at issues of particular

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<sup>8</sup> <https://www.gov.uk/government/publications/understanding-mid-size-businesses>

<sup>9</sup> <https://www.gov.uk/mid-size-businesses>

<sup>10</sup> <https://www.gov.uk/government/publications/mid-size-business-customer-survey-2015>

interest. In Wave 2, the qualitative research explored use of telephone helplines, as well as attitudes to compliance. Full details of the method are given in appendix A.

### **2.3.1 Quantitative research**

1800 telephone interviews were conducted with mid-size businesses between October and December 2016. Interviews lasted around 20 minutes.

The survey used a representative, random probability design. This means that results can be generalised to the wider population; it enables the use of statistical techniques on the results to provide confidence on the accuracy of the findings, and determines whether differences over time or between sub-groups are statistically significant, rather than a result of chance. Respondents were selected using a sample provided by HMRC from their records of businesses that met the definition of a mid-size business<sup>11</sup>. Following collection, the data was weighted to ensure that results are representative of the mid-size businesses population. Counts of weighted and unweighted interviews are detailed in appendix A.

The individual with overall responsibility for tax matters was interviewed on behalf of the business. The questionnaire collected information on the characteristics of mid-size businesses and their interactions with HMRC. Where businesses reported having had at least one interaction with HMRC in the past 12 months, the questionnaire also collected their views about their experience, concentrating on the totality of their experience over the previous 12 months. Attitudes to compliance and recent policy changes were also measured.

### **2.3.2 Qualitative research**

The qualitative element of the research involved telephone depth interviews with 20 mid-size businesses. These businesses were sampled from the survey and had agreed to be re-contacted after taking part in the survey. Interviews lasted 30 minutes, and were conducted between February and March 2017. The interviews covered 3 main topics: reasons for contacting HMRC by telephone; views on the acceptability; and prevalence of both tax avoidance and tax evasion (see appendices for topic guide and achieved sample). All businesses interviewed as part of this stage had made contact with HMRC by telephone in the last 12 months, and included a mix of turnover, number of employees, and family owned/not family owned businesses. Businesses were also selected to include a range of views on the acceptability and prevalence of tax avoidance and tax evasion, based on their responses to questions in the survey.

While qualitative research offers flexibility to question and probe beyond initial reactions and therefore to gain in-depth insights, there are a number of considerations to bear in mind when interpreting qualitative findings. In this research, we used purposive sampling and, as such, the qualitative sample is not representative and the findings will not be generalizable to all.

## **2.4 Analysis and reporting**

All qualitative interviews were digitally recorded and analysed using 'Matrix Mapping'<sup>12</sup>, Kantar Public's approach to the fine-grain analysis of qualitative material. The quantitative data were

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<sup>11</sup> Self-employed businesses were excluded due to their likelihood of overlap with other customer groups (who may be covered by other research).

<sup>12</sup> This involves the rigorous and systematic charting of the data across the 3 topics covered in the interviews. More detail about this is provided in the Appendix.

analysed using specialist computer software, including tests for “significant differences”, i.e. meaningful differences that were unlikely to have occurred by chance within the sample. Sub-group analysis was performed to explore any difference among groups within the sample, i.e. different sizes of business. As part of the survey, mid-size businesses were asked about a number of dimensions of customer experience. Key Driver Analysis was carried out to understand the relative importance of different variables in determining the overall customer experience score<sup>13</sup>. This time, the report examines, in particular, the changes that have occurred year on year.

The following points should be kept in mind when reading this report:

- Percentages for single-response questions do not always add up to exactly 100% due to the effect of rounding
- Unless otherwise stated, all differences reported are statistically significant to the 95% confidence level. This means that we can be 95% confident that the differences observed are genuine differences, and have not just occurred by chance. Similarly, any changes between 2015 and 2016 discussed in the text are statistically significant at the 95% probability level. Significant differences from 2015 are shown on each chart by an upwards or a downwards arrow
- Ratings of customer experience and general perceptions of HMRC were asked on a 5 point scale. Scores of 4 and 5 (out of 5) are referred to as ‘positive’, 3 is ‘neutral’ and 1 and 2 are ‘negative’
- Zero per cent is indicated in tables using ‘-’ and figures above 0 but below 0.5% are indicated using ‘\*’
- Base sizes for each result reported are shown with the charts. A result with a base size of fewer than 100 should be interpreted with caution and the findings should be viewed only as indicative<sup>14</sup>

## 2.5 Profile of mid-size businesses

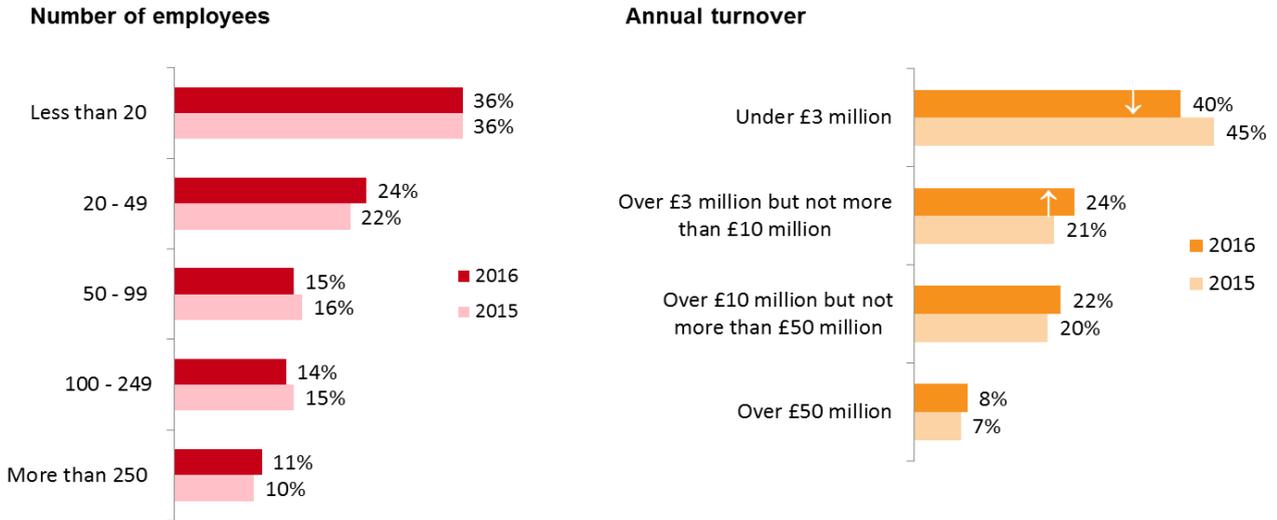
HMRC’s definition of a mid-size business is one that has annual turnover of £10m or more, and/or 20 or more employees. HMRC also classifies businesses that are part of a corporate group which collectively meets these criteria as mid-size. Particularly complex businesses are also included in this population and defined through indicators including businesses that have 10 or more partners. All sampled businesses were within the remit of the mid-size business unit. In total there were 170,000 mid-size businesses; chart 2.1 shows the distribution of these businesses according to their reported turnover and employee figures.

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<sup>13</sup> Key Driver Analysis was carried out to understand the relative importance of different variables in driving the overall customer experience score. This analysis is based on multiple linear regression; it measures the change in overall customer experience when only one variable is changed while all others are held constant. Variables were then ranked by how much overall experience changes for each variable.

<sup>14</sup> Table A.6 indicates the unweighted base sizes for the main sub-groups.

**Chart 2.1 Distribution of businesses by turnover and number of employees**



Q3 Could you just tell me the approximate number of people employed by your business – including yourself? Q5 What is your annual turnover?  
 Base: All businesses (2016 n=1800; 2015 n=2006)

As shown in chart 2.1, the profile of mid-size businesses remained similar to that of the first wave of the survey, although there were fewer businesses with turnover of under £3m, and an increase in businesses with turnover between £3m and £10m.

# 3. Customer Experience

This section examines mid-size businesses' experiences of interacting with HMRC over the last 12 months compared with the previous survey, and identifies which aspects contribute most to a positive customer experience.

## Summary

Over half of businesses (55%) rated their overall experience of dealing with HMRC over the last 12 months positively. This has improved from 51% in Wave 1, particularly among larger mid-size businesses (those with more than 250 employees improved from 34% positive to 45%, and those with a turnover of more than £100m improved from 26% positive to 44%).

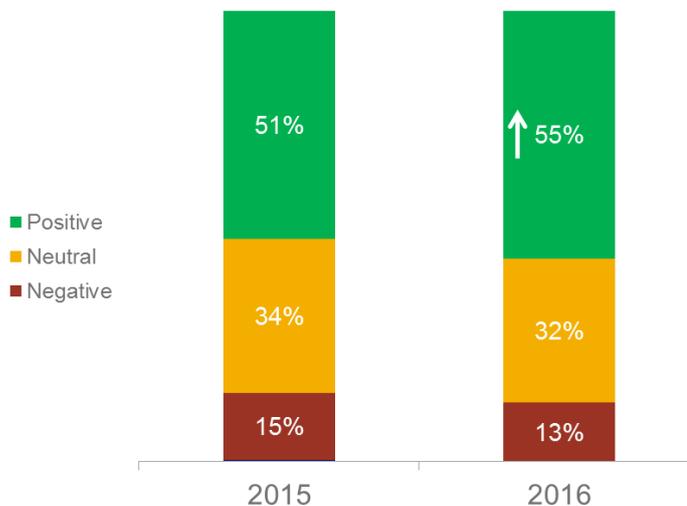
'HMRC getting tax transactions right' remains the most important factor in determining overall customer experience, with 57% rating this positively. Views around 'acceptability of time taken to reach the end result' have improved, with 46% of respondents rating this positively, an increase from 42% in Wave 1. There were also improvements in views of 'ease of finding information' (42% to 46% positive), 'HMRC made clear when everything was completed' (56% to 61% agree) and 'HMRC provided access to taxation specialists when needed' (26% to 31% agree).

## 3.1 Overall rating of experience

Fifty five per cent rated their overall experience of dealing with HMRC over the last 12 months positively, which was an improvement from 51% positive in the previous survey. Of the remaining respondents, 32% gave a neutral rating and 13% gave a negative rating.

Chart 3.1 Overall rating of experience

### Overall experience



Q18 Thinking of all your experiences of Revenue and Customs over the last 12 months, please rate Revenue and Customs on a scale of 1 to 5, where 5 is very good and 1 is very poor.  
Base: All businesses with interactions, excluding not applicable (2015:1,884; 2016:1,698)

Consistent with Wave 1, the smallest businesses were most positive, and there was a general trend of positivity decreasing with increasing size of business. 58% of businesses with a turnover under £3m rated HMRC positively, compared with 44% of those with a turnover of £100m or more<sup>15</sup>.

Particular sub-groups that showed an improved rating were as follows:

- The largest businesses contributed most to the improved overall rating. Those with 250 or more employees increased in positivity from 34% to 45%; 44% of those with more than £100m turnover were positive in 2016, compared with 26% in 2015
- Businesses that used a mix of digital and non-digital channels to contact HMRC improved from 46% positive to 51% positive. Of customers that reported only using digital channels to contact HMRC, 68% rated their customer experience positively, higher than those that used a mix of digital and non-digital channels (51% positive) or non-digital channels only (55% positive)
- Businesses that reported experiencing growth<sup>16</sup> had an improved rating, 53% positive at Wave 2 compared to 46% in Wave 1.

## 3.2 Comparison with past experiences

Respondents were also asked how they felt about their experience over the last year compared to the previous 12 months. One in five (21%) reported their experience had improved, while six in ten (61%) reported it was the same, which was consistent with businesses' views at Wave 1. The number of businesses who reported that their experiences had worsened went down from 13% at Wave 1 to 9% at Wave 2. There were no notable differences by sub-groups in this dimension, although respondents who were positive about their overall satisfaction were more likely to say their experience had improved (26%, compared with 19% that were neutral overall and 8% of those that were negative overall).

## 3.3 Key driver analysis

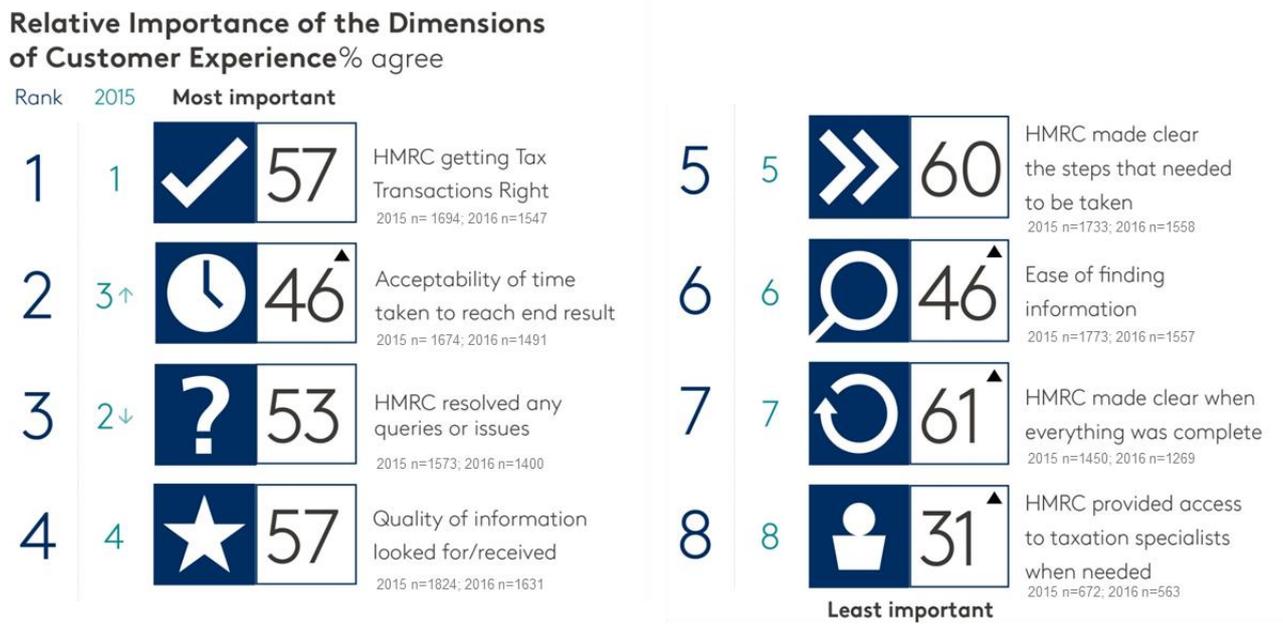
Respondents were asked a range of questions related to overall customer experience, and Key Driver Analysis (KDA) was conducted to understand which dimensions were most important in determining overall customer experience (KDA is explained in more detail in the appendix, section A.1.5). The relative importance of the dimensions is shown in chart 3.2. Throughout this section, the dimensions have been shown by businesses as a whole and split by number of employees, as an indicator of business size, which may reflect complexity of tax affairs.

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<sup>15</sup> Weighted and unweighted base sizes for sub-groups can be found in the appendix in Table A 6

<sup>16</sup> A 'growth event' is defined by a business reporting having experienced any of other following over the last 12 months: a substantial increase in turnover, a substantial increase in the number of employees, acquired or merged with another business, started trading internationally or opened operations outside the UK

**Chart 3.2 Relative effect of dimensions of experience on overall experience**



Dimensions are ranked by their level of impact on the overall customer experience score, using statistical analysis techniques.

⬆ Significant change from 2015 results at the 95% significance level, this is the industry standard.

Base: All business with interactions, excludes not applicable

**HMRC getting tax transactions right**

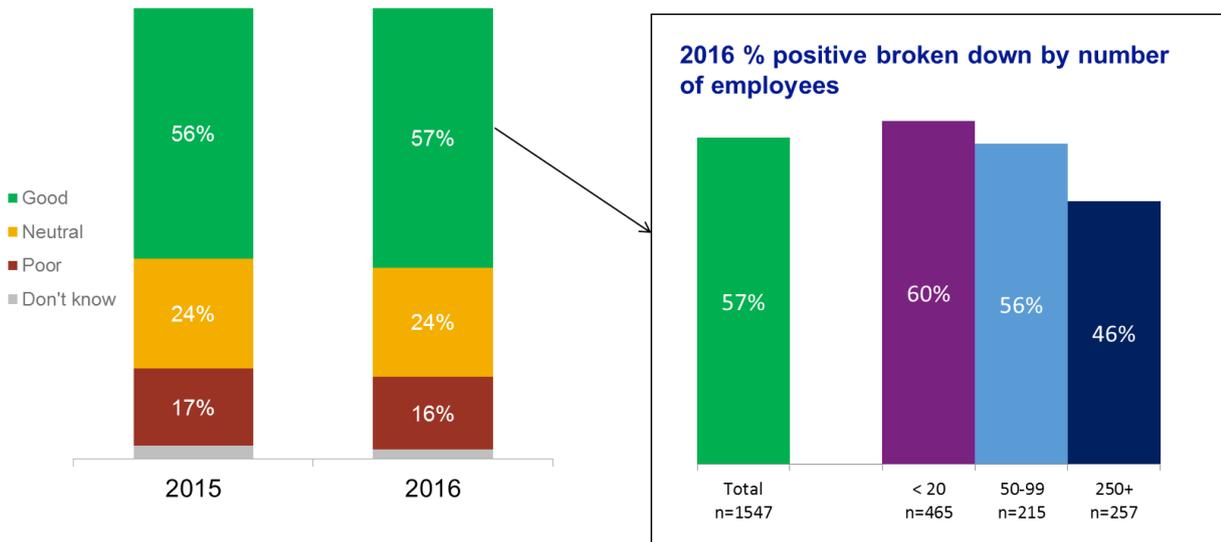
‘HMRC getting tax transactions right’ was found to be the most important dimension in driving customer experience, both in Wave 1 and in Wave 2. Of those who gave a positive score in their overall satisfaction of HMRC, 83% were positive about HMRC getting transactions right. Of those who gave a negative score in their overall satisfaction, 69% were negative about this dimension.

Nearly six in ten (57%) respondents gave a positive rating for this dimension (56% at Wave 1), as shown in chart 3.3. Sub-group differences were as follows:

- As in Wave 1, businesses with fewer employees were more positive, with 60% of businesses with fewer than 20 employees rating HMRC positively (60% in Wave 1) compared to 46% positive for businesses with more than 250 employees (42% in Wave 1)
- Those who had contact with HMRC via digital channels only were more positive (69%) than those that used a mix of digital and non-digital channels (55%), consistent with Wave 1 findings
- Businesses that trade internationally were more likely to be positive than in Wave 1 (54% in 2015 compared to 60% in 2016).

### Chart 3.3 HMRC getting tax transactions right

#### HMRC getting tax transactions right



Q14. Overall, on a scale of 1 to 5, where 5 is very good and 1 is very poor, how good or poor were Revenue and Customs at getting tax transactions right?  
 Base: All businesses with interactions, excluding not applicable(2015: 1694; 2016: 1547)

### Acceptability of time taken to reach the end result

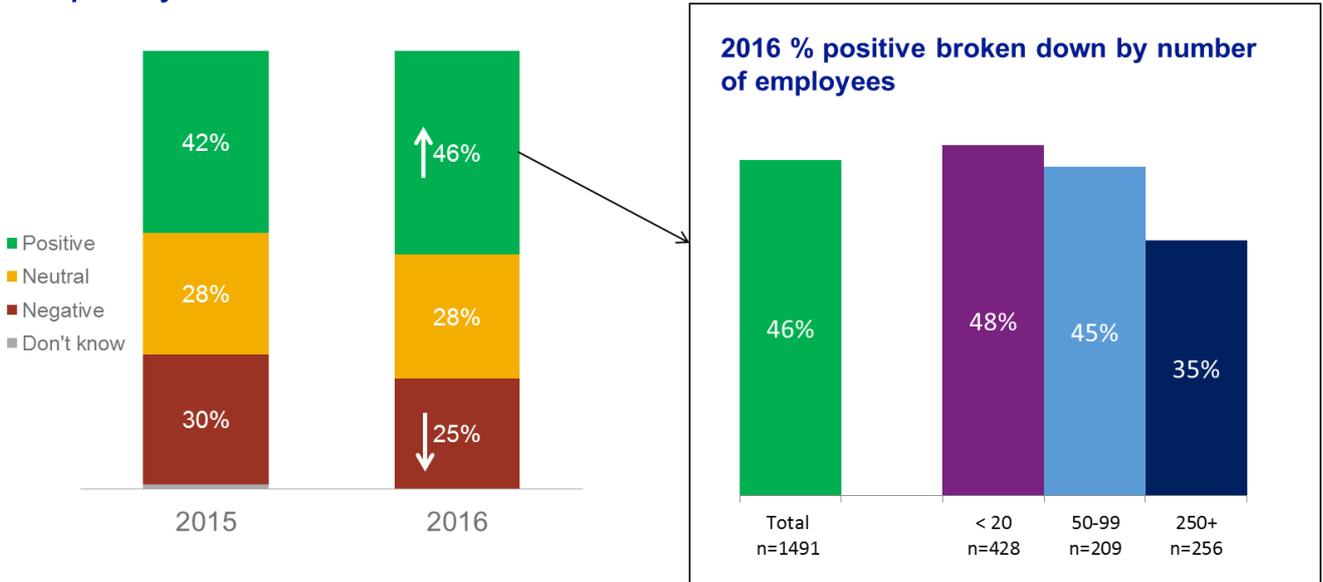
The next most important dimension was the 'acceptability of time take to reach the end result', with 46% of businesses responding positively (chart 3.4). Sub-group differences were as follows:

- Small businesses were more likely to be positive (48% of businesses with fewer than 20 employees were positive compared to 35% of those with more than 250 employees)
- Largest businesses with over 250 employees were the most negative (38%)

Positivity about this dimension increased since the previous survey from 42%. In particular it was businesses with a turnover of £100m or more whose ratings had improved, with 35% rating it positively in Wave 2 compared to 23% rating it positively in Wave 1.

### Chart 3.4: Acceptability of time taken to reach the end result

#### Acceptability of time taken to reach the end result



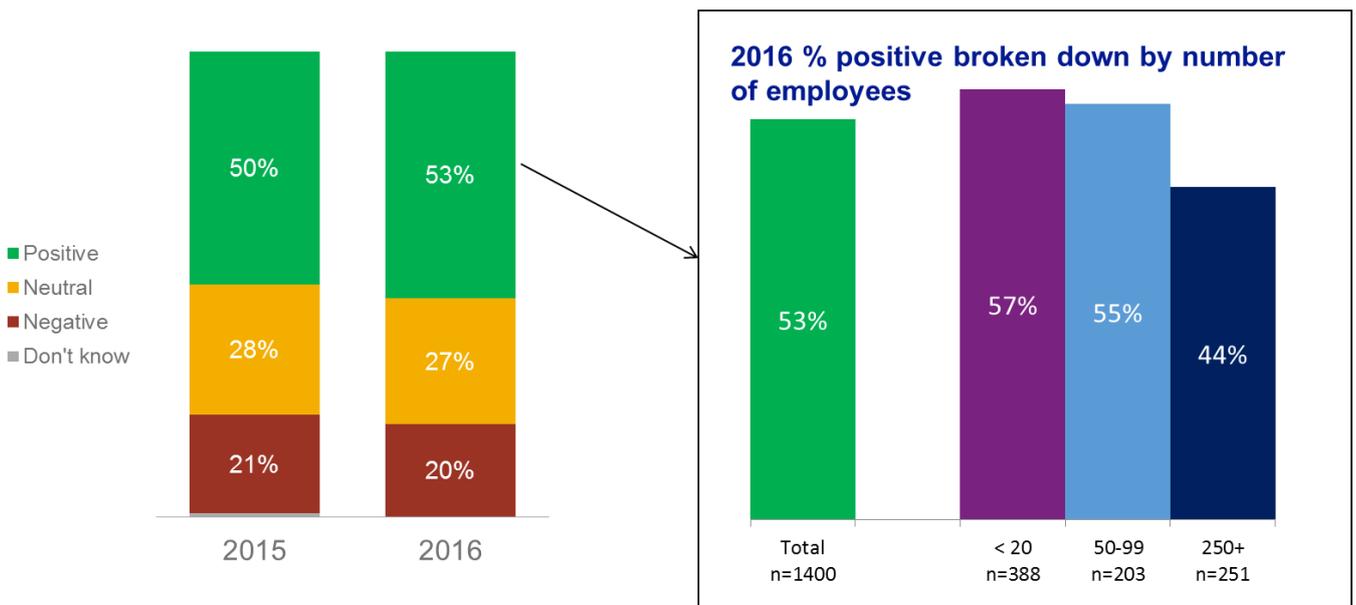
Q16 Generally during your dealings with Revenue and Customs over the last 12 months, how acceptable was the time taken to reach the end result? Please answer on a scale of 1 to 5, where 5 is very acceptable and 1 is very unacceptable. Base: All businesses with interactions, excluding not applicable (2015: 1674; 2016: 1491).

### HMRC resolved any queries or issues

As shown in chart 3.5, 53% of respondents answered positively regarding 'HMRC resolved any queries or issues', consistent with Wave 1 (50%). Businesses that trade internationally were more likely to be positive about this dimension in the Wave 2 (55%) compared to Wave 1 (49%).

### Chart 3.5 HMRC resolved any queries or issues

#### HMRC resolved any queries or issues



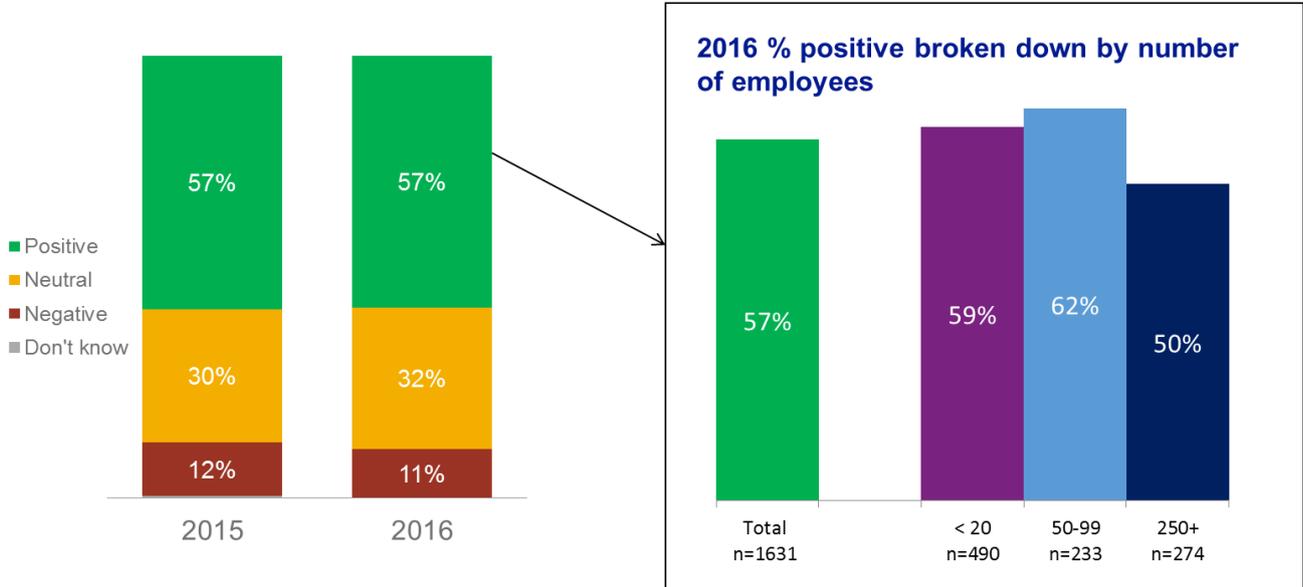
Q15 On a scale of 1 to 5, where 5 is very good and 1 is very poor, how good or poor were Revenue and Customs at resolving any queries or issues? Base: All businesses with interactions excluding not applicable (2015: 1573; 2016: 1400).

### Quality of information looked for/received

57% of respondents were positive about the 'quality of information looked for/received' (chart 3.6). Those businesses using only digital channels to interact with HMRC were more likely to be positive about this dimension (72%) compared to those who used a mix of digital and non-digital channels (53%).

**Chart 3.6 Quality of information looked for / received**

#### Quality of information looked for / received



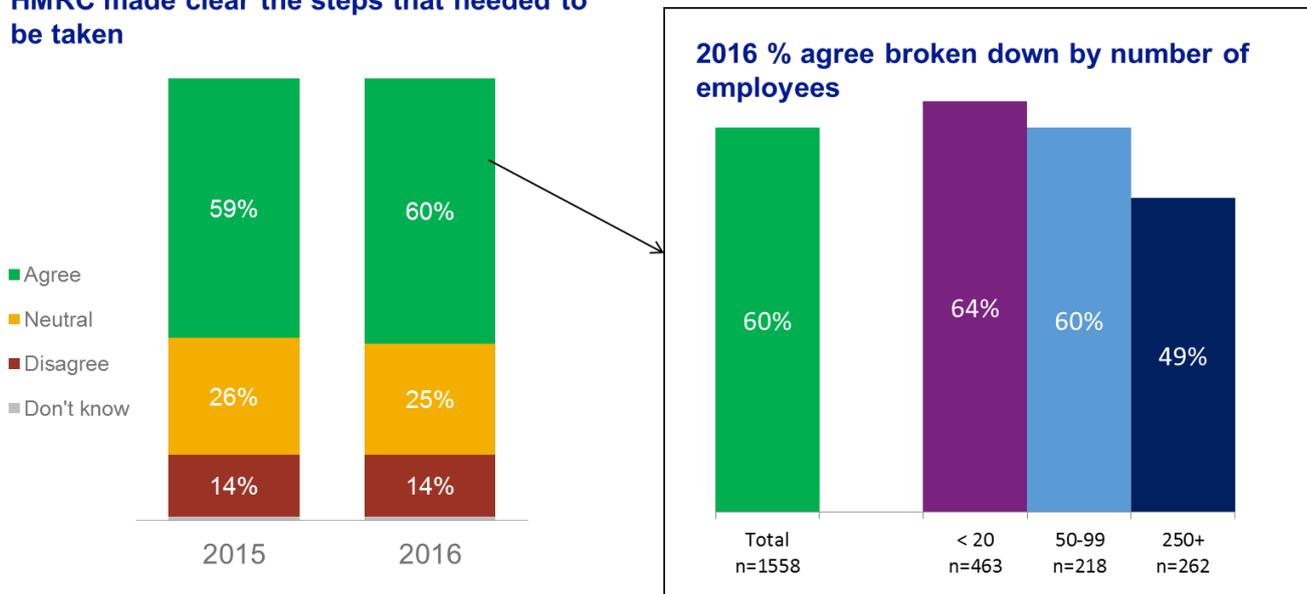
Q12 How would you rate the quality of information you have looked for or received from Revenue and Customs over the last 12 months? Please rate the quality of information on a scale of 1 to 5, where 5 is very good and 1 is very poor.  
Base: All businesses with interactions excluding not applicable (2015: 1824; 2016: 1631).

### HMRC made it clear what steps I needed to take

60% of respondents agreed that 'HMRC made it clear what steps I needed to take' (chart 3.7). Businesses with fewer than 20 employees were more likely to agree with this statement (64%) compared to those with more than 250 employees (49%).

**Chart 3.7 HMRC made it clear what steps I needed to take**

#### HMRC made clear the steps that needed to be taken



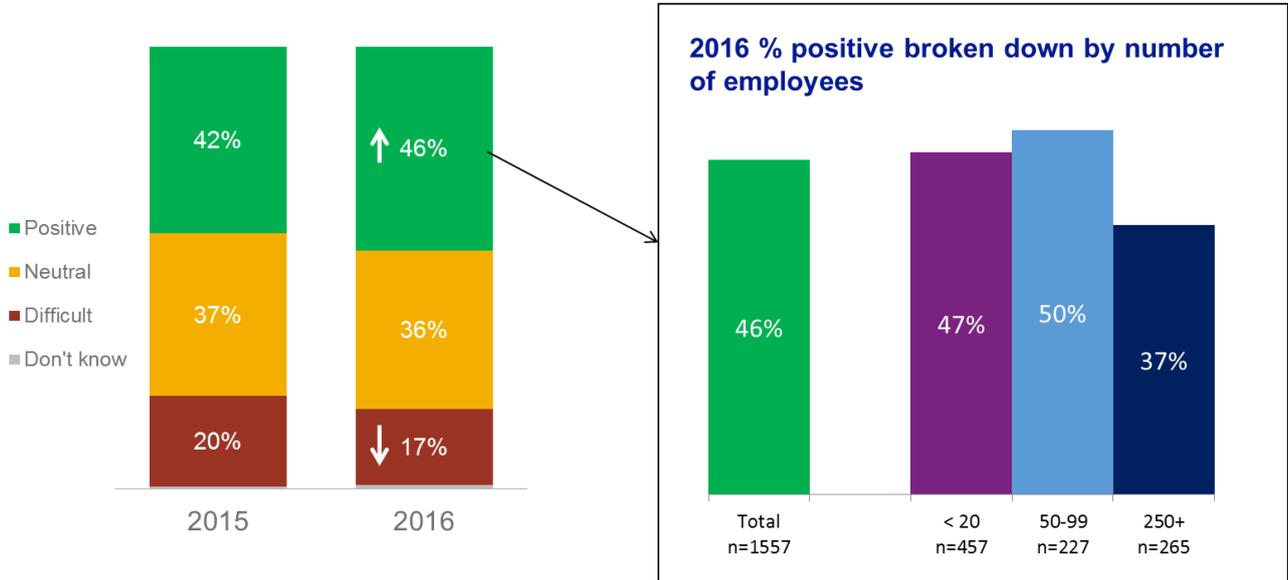
Q13 Please answer on a scale of 1 to 5, where 5 is agree strongly and 1 is disagree strongly. Revenue and Customs made clear what steps I needed to take  
Base: All businesses with interactions excluding not applicable (2015: 1733; 2016: 1558)

## Ease of finding information

Positive ratings about 'ease of finding information' improved from 42% to 46% from Wave 1 to Wave 2 (chart 3.8). The increase in positive ratings was largest among those with 50 to 99 employees (39% positive in Wave 1, 50% in Wave 2) and those with more than 250 employees (29% positive in Wave 1, 37% in Wave 2).

**Chart 3.8 Ease of finding information**

### Ease of finding information



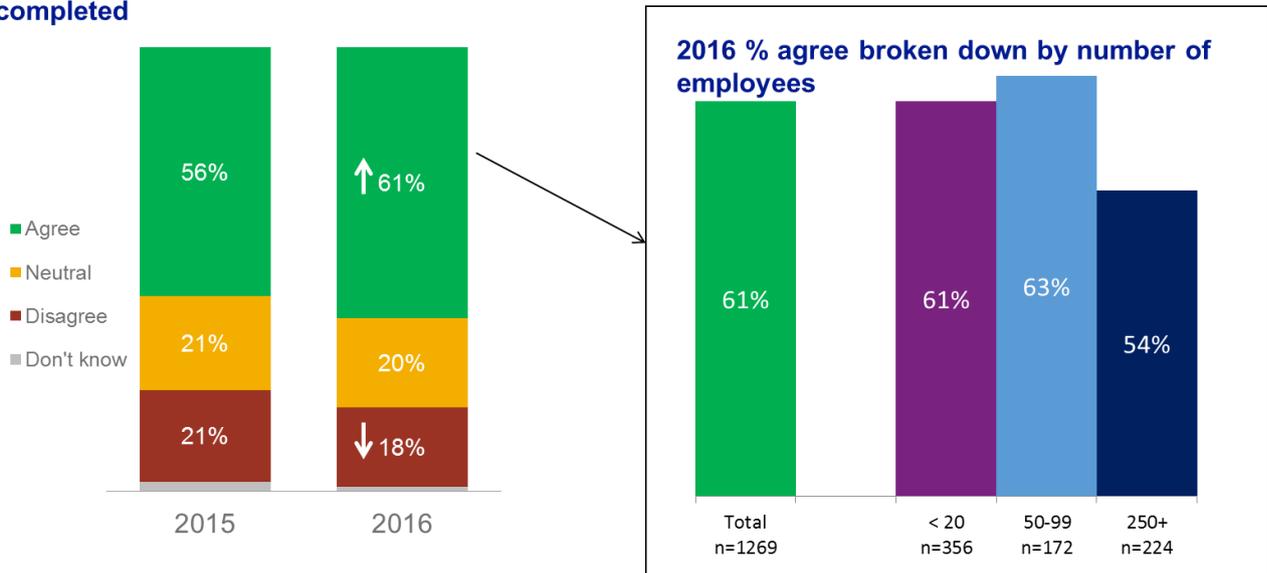
Q11 On a scale of 1 to 5, where 5 is very easy and 1 is very difficult, how easy or difficult was it to find any information you needed for your business on tax issues from Revenue and Customs?  
 Base: All businesses with interactions, excluding not applicable (2015: 1773; 2016:1557)

## HMRC made clear when everything was completed

As shown in chart 3.9, 61% agreed with this statement, which had improved from 56% in the first wave of the survey. The improvement came predominantly from businesses with turnover of more than £100m (from 50% to 65% agree). Fewer businesses disagreed than in Wave 1 (18%, down from 21%).

**Chart 3.9 HMRC made clear when everything was completed**

### HMRC made it clear when everything was completed



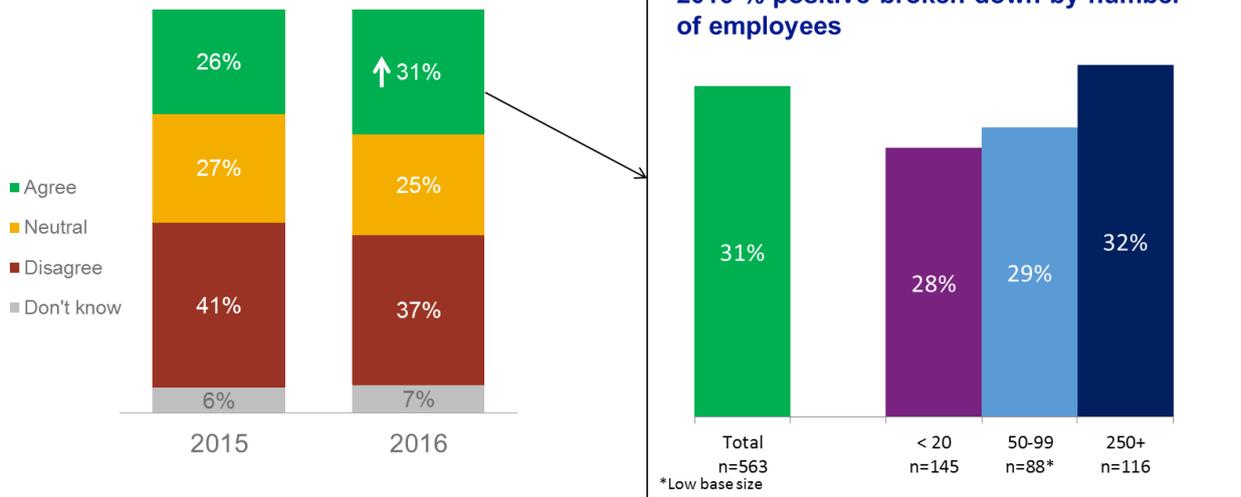
Q13 Please answer on a scale of 1 to 5, where 5 is agree strongly and 1 is disagree strongly. Revenue and Customs made it clear when everything was completed  
 Base: All businesses with interactions, excluding not applicable (2015: 1450; 2016: 1269).

## HMRC provided access to taxation specialists when needed

31% agreed with this statement, which was an increase from 26% in Wave 1 (chart 3.10). The improvement came predominantly from businesses with more than 250 employees (21% agreed in Wave 1, 32% in Wave 2) and they were also less neutral. This dimension is the least important in determining overall experience.

**Chart 3.10 HMRC provided access to taxation specialists when needed**

### HMRC provided access to taxation specialists when needed



Q13 Please answer on a scale of 1 to 5, where 5 is agree strongly and 1 is disagree strongly. Revenue and Customs provided access to taxation specialists when needed to resolve complex queries)  
 Base: All businesses with interactions, excluding not applicable (2015: 672; 2016: 563).

## 4. Interactions of businesses

This chapter explores the channels and services used to contact HMRC in the last 12 months, as well as looking at the rating of these channels.

### Summary

Almost all (95%) businesses have had some interaction with HMRC in the last 12 months including contact through at least one channel. The majority of businesses (71%) used a mix of digital and non-digital channels to contact HMRC. 20% used digital only channels, and these were predominantly smaller businesses.

The most used channels were online services (80%) and website (79%). Use of telephone to contact HMRC decreased from 58% to 53% between Waves 1 and 2.

The main reasons for contacting HMRC by telephone were for a faster resolution, for a query which was of a nature that businesses perceived could not be addressed by other channels and the need for reassurance.

Ratings for online services and the Business Tax Account remained high with seven in ten businesses (72% and 68% respectively) rating them positively.

### 4.1 Channels and services used to interact with HMRC

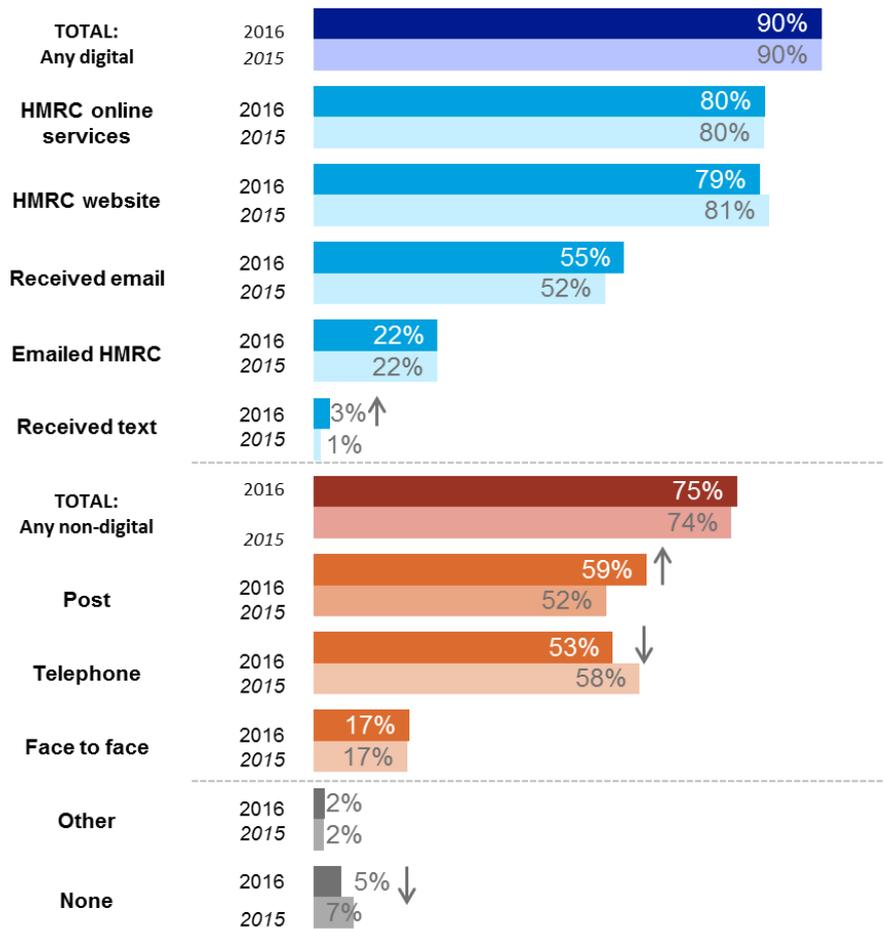
#### 4.1.1 Channel mix

Overall, the mix of channels used to contact HMRC has remained consistent with Wave 1 (detailed in chart 4.1). Online services were again the most likely to be used method to interact with HMRC, with nine in ten (90%) using at least one digital channel in the last 12 months. Such contact included searching for information on HMRC's page on gov.uk, using HMRC's online services, receiving an email, emailing HMRC with a query, or receiving a text from HMRC. The majority of mid-size businesses used a mix of digital and non-digital channels (71%) to contact HMRC.

One in five (20%) mid-size businesses used exclusively digital channels and, similarly to Wave 1, these were most likely to be smaller businesses (24% of businesses with fewer than 20 employees, compared to 14% of businesses with more than 250 employees). Four per cent of businesses used non-digital channels only, including telephone, post, or face-to-face contact.

Businesses with more than 250 employees were less likely overall to use exclusively digital channels, however the proportion of these businesses using only digital channels increased from Wave 1, from 9% to 14%.

**Chart 4.1 Channels businesses used to make and/or receive contact with HMRC**



Q8 In which of the following ways have you had any dealings with Revenue and Customs over the last 12 months?  
 Base: All businesses (2016 n=1800; 2015 n=2006)

### 4.1.2 Digital channel use

Use of HMRC’s website, as well as HMRC’s online services remained consistently high between the two waves of the survey, with around eight in ten businesses having used the website (81% in Wave 1 and 79% in Wave 2), and similar proportions using HMRC’s online services (80% in both years). Similarly to the first wave of the survey, the use of HMRC’s website to search for information was particularly high among larger businesses, with 93% of businesses with more than 250 employees (91% in Wave 1), and 95% of businesses with a turnover of more than £100m having done so (93% in Wave 1). Similar to the findings at Wave 1, positivity remained high for those who had used the online services, with seven in ten (73% in Wave 1 and 72% in Wave 2) rating them positively and 7% rating them negatively in both waves of the survey.

*"I do use the website... The website is definitely a tool I use more than phones. I guess every month I'll have things to check on the website"* (£10-50m turnover, 100-249 employees, Hospitality)

Use of the online Business Tax Account saw an increase from 38% of businesses having used it in Wave 1 to 43% in Wave 2. In particular, sub-groups that increased their use were those:

- With 50 to 99 employees (increased from 38% to 49% in Wave 2)
- With a turnover of £100m or more (increased from 34% to 58% in Wave 2)
- That trade internationally (increased from 38% to 45% in Wave 2)

Among those that had used it, ratings of the Business Tax Account remained high, with seven in ten (68%) rating it positively, remaining consistent with the findings at Wave 1 (72%).

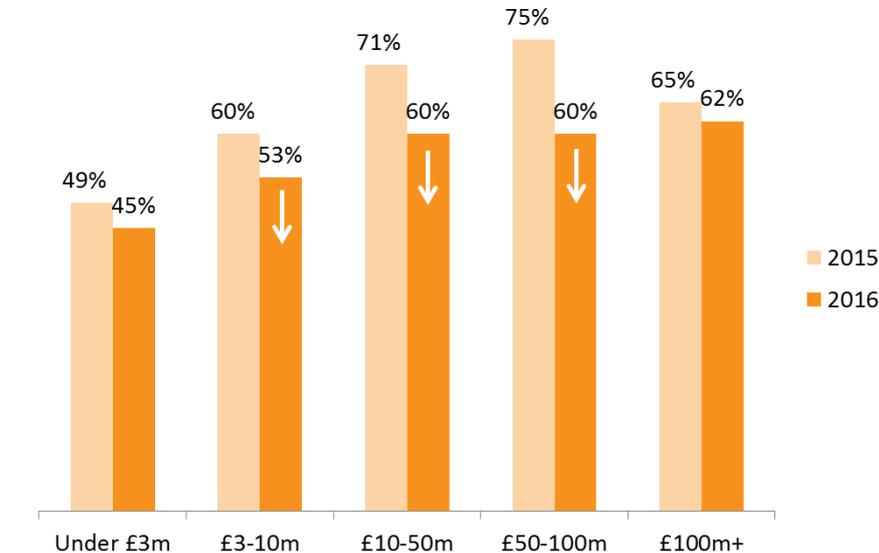
*"It's fairly simple to log on and check CT payments"* (more than £200m turnover, more than 250 employees, Consultancy)

### 4.1.3 Non-digital channels

The use of post as a method of contacting HMRC increased from Wave 1 (from 52% to 59% at Wave 2). Although larger businesses remained the most likely to use post to contact HMRC with at least seven in ten businesses with more than 250 employees doing so at Wave 1 and 2 (71% and 73% respectively), there was an increase in smaller businesses using this method with 43% of businesses with less than 20 employees doing so at Wave 1, increasing to 53% at Wave 2.

At Wave 2 the number of mid-size businesses using the telephone to contact HMRC has decreased, from 58% in 2015 to 53% in 2016. The decrease was particularly evident among businesses with more than 250 employees, whose use of telephone fell from 74% in 2015, to 56% in 2016. The decline was also seen across a number of the medium size mid-size businesses in regards to turnover, reflected in chart 4.3.

**Chart 4.3 The use of telephone to contact HMRC by turnover**



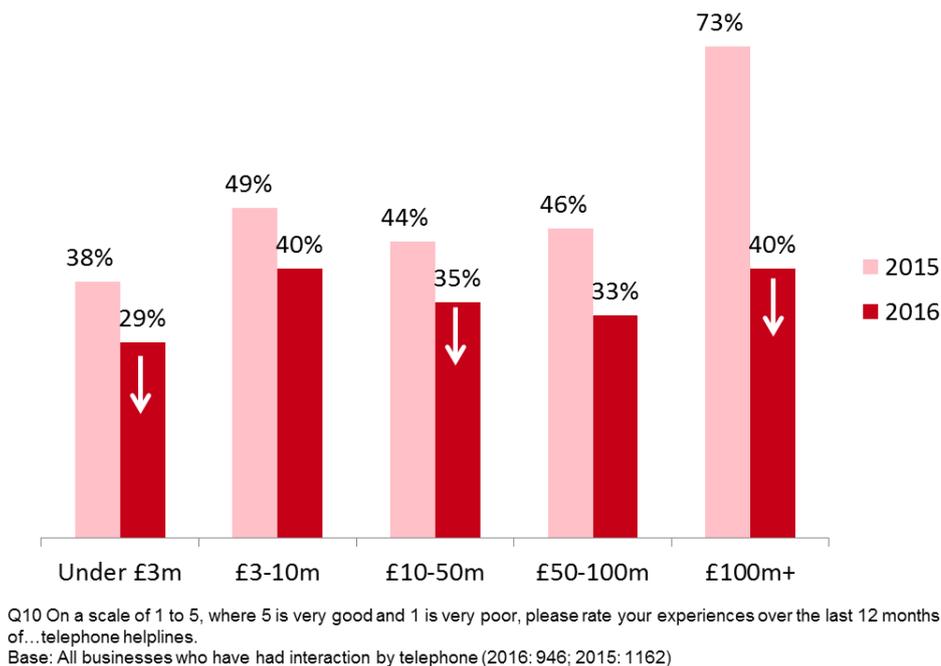
Q8 In which of the following ways have you had any dealing with Revenue and Customs over the last 12 months?  
 Base: All businesses who have had interaction by telephone (2016: 1800; 2015:2006)

Of the telephone helplines used to contact HMRC, the employer helpline (49%) and the VAT enquires helpline (41%) were the most frequently used, followed by the general business helpline (22%) and the corporation tax general enquires helpline (20%). Less frequently used were the construction industry helpline (12%), corporation tax group payments helpline (5%) and the VAT international trade helpline (5%).

*"[The adviser on the phone] was very good and explained exactly why there was a discrepancy."  
(less than £3m, less than 20 employees, Financial Services)*

The rating of the telephone helplines improved from Wave 1, with 41% of those who had used it giving a positive rating at Wave 2 compared to 32% previously. This increase in positive ratings was consistent across a range of business sizes. As well as an increase in positivity, there was a decrease in negativity, with only one third (33%) rating negatively at this wave compared to 44% at Wave 1. This was most marked among businesses with a turnover of £100m or more, where negative ratings decreased from 73% in 2015, to 40% in 2016, but was also the case with the smallest businesses, as well as some medium size businesses as shown in chart 4.4.

**Chart 4.4 Changes in the number of businesses rating HMRC's telephone helplines negatively**



## 4.2 Reasons for telephone use

While recognising the decrease in overall telephone use reported as part of the survey, HMRC wanted to understand why some businesses contacted them by telephone, as opposed to using other channels. This was intended to further support HMRC's strategy of increased uptake of its digital services, by reducing the use of telephone helplines – in particular, for low value calls (e.g. calls seeking confirmation or reassurance); while also recognising the role of helplines in resolving more complex, high value queries. As such, during the qualitative follow-up interviews, businesses were asked about their reasons for dealing with HMRC by telephone and for feedback regarding their experience.

Overall, the qualitative follow-up interviews revealed there was a mix of queries for which businesses contacted HMRC by telephone. The most common were PAYE-related queries, such as checking PAYE codes, and VAT-related queries, including rectifying errors on VAT return forms. There were also examples of businesses that had made contact by telephone due to what were perceived to be HMRC-driven issues; these included actions and processes that were not seen to

be possible to complete online, such as amending tax codes, rectifying RTI<sup>17</sup> errors, changing an address or resetting a password, and reporting CT payments that had not been updated automatically.

*"We can't physically amend a tax code via any other channel." (£10-50m turnover, 50-99 employees, Financial services)*

There were also a number of more niche queries for which businesses contacted HMRC by telephone; for example, EU trade and commodity trade queries, and acquiring certifications for tax clearance.

As part of the qualitative interviews, businesses suggested a number of reasons for using the telephone, as opposed to other channels, to resolve their queries. These included:

- **Need for quick resolution:** Telephone contact was generally viewed by businesses as being a quicker way to resolve queries, compared to other channels. This tended to be related to previous experiences of dealing with HMRC by telephone that had resulted in fast, often on the spot, resolution. Businesses also cited experience of alternative channels that had taken longer; for example, when seeking a written response from HMRC, which businesses reported taking over a week.

*"[It's] much quicker for us to talk it through on the telephone." (£200m or more turnover, more than 250 employees, Law firm)*

- **Previous experience:** On the whole, businesses described fairly habitual behaviour around contacting HMRC by telephone when they had a query. Previous positive experiences of contacting HMRC by telephone were typically cited as reasons for continuing this habit.

*"I always prefer the phone. It's always easier." (£100-150 turnover, more than 250 employees, Entertainment)*

- **Nature of query:** Businesses tended to contact HMRC by telephone regarding queries which they felt unable to resolve via other channels. Some businesses described trying to self-serve first by searching HMRC's website, but then turned to telephone contact when they were unable to resolve their query; as in the case where a business had a specific EU trade query.

*"I guess every month I'll have things to check on the website...if I can't figure them out I'll call." (£10-50m turnover, 100-249 employees, Hospitality)*

- **Need for reassurance:** Businesses expressed the need for query resolution and generally felt that using the telephone would offer the best chance of getting their query answered. Some commented that the effort and time involved in attempting to self-serve via the website did not guarantee resolution; whereas they were fairly certain, due to previous experience, they would get an answer over the telephone. Moreover, businesses described the need for confirmation

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<sup>17</sup> The introduction of PAYE Real time information (RTI) in April 2013 fundamentally reformed PAYE tax reporting, requiring all UK employers to notify HMRC of their liability to PAYE at the time or before they make payment to their employees.

they were doing the 'right thing'. They felt more reassured they were being compliant though 'human' contact.

*"I don't want the company to get any sort of bad mark against...I usually find the easiest way is to speak to someone on the phone..."* (£10-50m turnover, 50-99 employees, Financial services)

# 5. Health of the tax administration service

This section examines customers' perceptions of how HMRC administers the tax system.

### Summary

Generally, there was little change compared to Wave 1 in this area. A good customer experience tended to enhance businesses' views of the tax administration service.

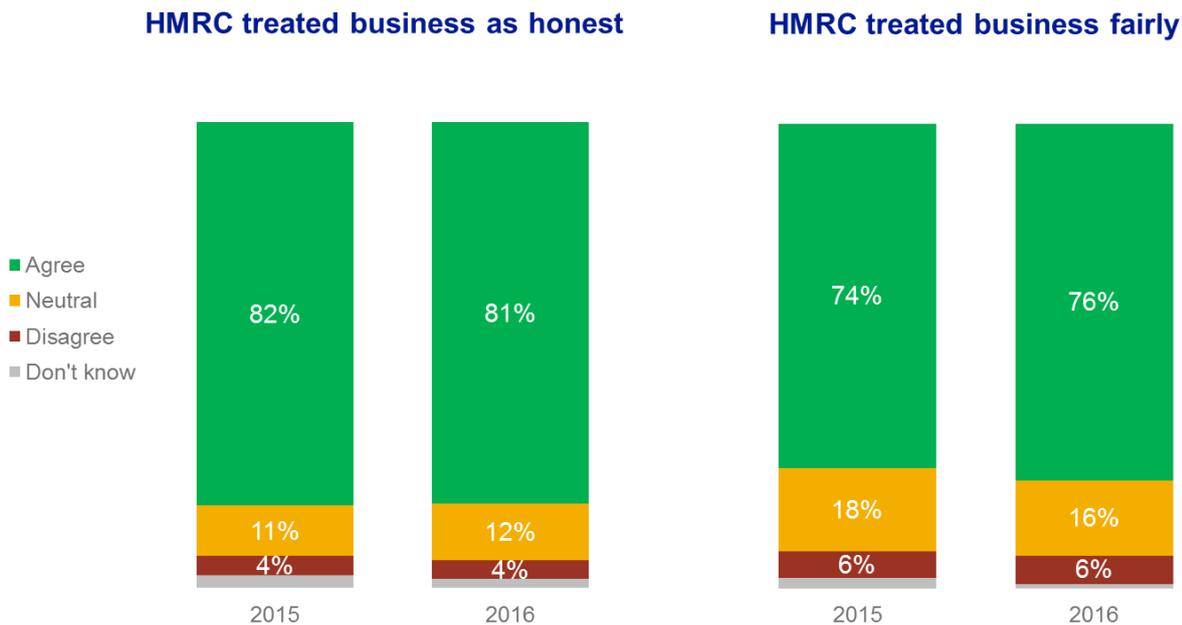
There was a strong link between businesses' perceptions of whether HMRC treated them as honest and whether HMRC treated their business fairly; the majority of businesses agreed with these statements, 81% and 76% respectively.

Of respondents who disagreed with the statement 'HMRC ensured business paid/received correct taxes', the majority (73%) also disagreed with 'HMRC minimised time/cost/effort to deal with tax affairs'

## 5.1 HMRC treated business as honest and treated business fairly

Over eight in ten businesses (81%) agreed HMRC treated their business as honest and 76% agreed HMRC treated their business fairly (chart 5.1). This was consistent with the results from the previous survey. There was a strong positive correlation between these two factors, which was illustrated in that 94% of those that felt they were treated fairly also agreed that they were treated as honest.

**Chart 5.1 Ratings for 'HMRC treated business as honest', and 'HMRC treated business fairly'**



Q20 Please tell me how strongly you agree or disagree with the following statements... Treated my business as honest (2015: 1737; 2016: 1575) Treated my business fairly (2015: 1758; 2016: 1586)  
 Base: All businesses with interactions, excluding not applicable.

Views around these factors were similar across sub-groups, although there was some underlying variation:

- While agree/disagree responses were similar by size of business, smaller businesses were more likely to agree strongly:
  - HMRC treated business fairly: of those with fewer than 20 employees, 45% agreed strongly with the statement, compared with 25% of those with more than 250 employees
  - HMRC treated business as honest: 53% of businesses with fewer than 20 employees agreed strongly, compared with 38% of those with more than 250 employees
- Larger businesses (turnover of £100m or more) were more likely than at Wave 1 to feel they were treated fairly, an increase from 55% to 73%

## 5.2 HMRC ensured businesses paid/received correct amount of taxes

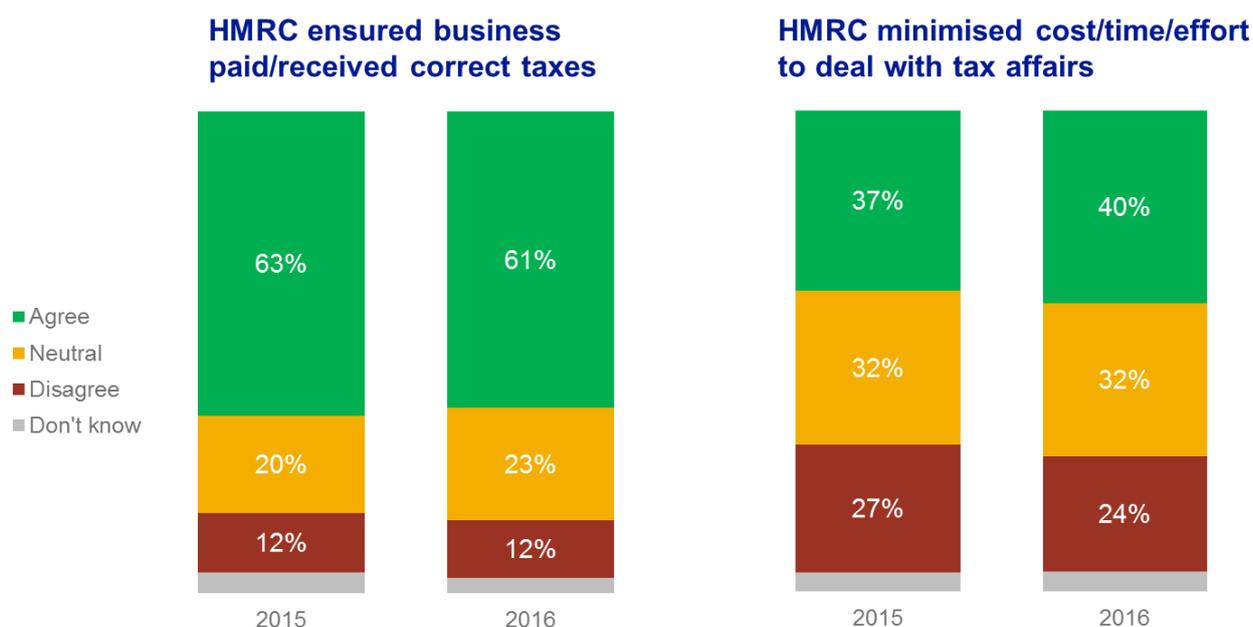
Overall, 61% of businesses agreed HMRC ensured they only paid or received the correct amount of taxes, which was consistent with the results from the previous survey (chart 5.2).

There was a trend for the smaller businesses to be more likely to agree with this statement, in particular to strongly agree:

- 63% of businesses with fewer than 20 employees agreed with this statement, compared with 52% of those with more than 250 employees
- Of businesses with fewer than 20 or 20 to 49 employees, 36% strongly agreed with the statement. By contrast, 20% of businesses with 250 or more employees strongly agreed

Businesses whose overall satisfaction was positive were more likely to agree with this statement (81%). Similarly, businesses with negative overall satisfaction were more likely to disagree (41%).

**Chart 5.2 Ratings for 'HMRC ensured business only paid/received correct amount of taxes', and 'HMRC minimised time/cost/effort to deal with tax affairs'**



Q20 Please tell me how strongly you agree or disagree with the following statements... Ensured my business only paid and received the correct taxes (2015: 1735; 2016: 1555). Revenue and Customs minimised the cost, time and effort it took to deal with my business' tax affairs (2015: 1623; 2016: 1472).

Base: All businesses with interactions, excluding not applicable.

### **5.3 HMRC minimised cost/time/effort to deal with tax affairs**

When businesses were asked whether HMRC minimised the cost, time and effort it took to deal with their tax affairs, 40% agreed, 32% were neutral and 24% disagreed. There were no clear trends by size of business, although the largest, with more than 250 employees, were most likely to feel neutral (42%) and least likely to agree (30%).

Again, there was a pattern linked to overall satisfaction. Of those with an overall positive view of satisfaction, 63% agreed with this statement. Three-quarters (74%) of businesses with negative overall satisfaction disagreed with this statement.

Of respondents who disagreed that HMRC ensured they paid or received the correct taxes, 73% also disagreed that HMRC minimised the cost, time or effort to deal with their tax affairs.

### **5.4 Ease of dealing with tax issues**

There was no change in businesses' views of how easy or difficult they found it to deal with their business's tax issues over the last 12 months, with 57% responding that they found it easy (56% in 2015), 30% neutral (27% in 2015) and 12% difficult (15% in 2015).

The smallest businesses were most likely to say they found it very easy, with 61% of those with fewer than 20 employees rating it as such, compared with 48% of those with more than 250 employees.

## 6. Reputation of HMRC

This section outlines businesses' broader views of HMRC as an organisation, including their confidence in the way HMRC does its job, its application of sanctions and penalties, and the confidentiality of data.

### Summary

Overall confidence in the way HMRC are doing their job was consistent with Wave 1 at 47% (46% at Wave 1). The proportion of businesses saying they were not confident has decreased, from 19% to 15%. There was a link between confidence and overall customer experience.

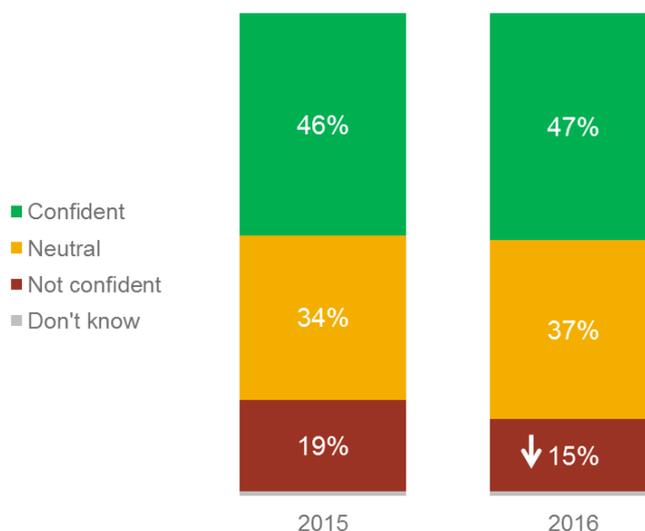
Perceptions of HMRC ensuring confidentiality of data improved compared to the previous survey; 74% agreed to this statement compared with 69% at Wave 1.

### 6.1 Confidence in the way HMRC are doing their job

The proportion of businesses confident in the way HMRC are doing their job was consistent with Wave 1, with 47% saying they were confident and 37% neutral (as shown in chart 6.1). There was a decline in the proportion of businesses saying they were not confident, from 19% to 15%.

**Chart 6.1 Confidence in the way HMRC are doing their job**

#### Confidence in the way HMRC are doing their job



Q31 How confident are you in the way Revenue and Customs are doing their job?  
Base: All businesses. (2015: 2006; 2016: 1800)

Despite the consistent overall picture, there were changes from Wave 1 in certain sub-groups:

- Larger businesses were less likely to say they are not confident compared with Wave 1: 17% of those with 250 or more employees said they were not confident, compared with 24% in the first wave of the survey.

- Those using a mix of digital and non-digital channels were less negative than Wave 1: 14% of those using a mix of channels were not confident, a decrease from 20% in 2015.

Businesses that were positive about their overall customer experience were more likely to feel confident in HMRC (70%). Businesses with negative overall customer experience were less likely to feel confident, with 8% agreeing with the statement and 53% disagreeing.

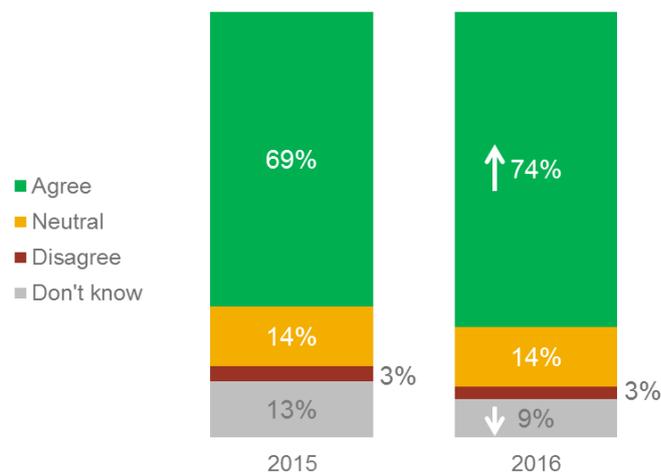
## 6.2 Confidentiality of data

As shown in chart 6.2, there was an improvement in the proportion of businesses that agreed with the statement 'HMRC ensures customers' data and personal information is treated confidentially', from 69% in 2015 to 74% in the latest survey. This is as a result of changes in views of both the smallest and the largest businesses:

- Largest businesses were more likely to agree and this has further increased at Wave 2; 81% of those with more than 250 employees agreed, which was an increase from 72% at Wave 1.
- 74% of those with fewer than 20 employees agreed, compared with 67% at Wave 1.

Chart 6.2 HMRC ensures data is treated confidentially

### HMRC ensures data is treated confidentially



Q27 Revenue and Customs ensures customers' data and personal information is treated confidentially  
 Base: All businesses (2015: 2006; 2016: 1800).

## 6.3 Equal penalties and sanctions

Overall, 35% of businesses agreed with the statement that 'HMRC applies penalties and sanctions equally for all its customers', 26% felt neutral and 22% disagreed. This was consistent with Wave 1 (where 37% agreed, 23% felt neutral and 20% disagreed) and there were no significant differences by sub-groups.

## 7. Compliance

This section examines perceptions and attitudes towards compliance, in particular late payment of tax, tax avoidance and tax evasion, including acceptability and prevalence.

### Summary

Businesses were more likely to perceive tax evasion to be unacceptable than tax avoidance, with 92% saying evasion was never acceptable and 61% saying avoidance was never acceptable.

Businesses that found tax avoidance acceptable tended to think this because avoidance is a legal behaviour and tended not to consider the moral implications of the behaviour. Tax evasion was considered to be unacceptable due to illegality, and, for some, due to immorality too.

Businesses perceived avoidance to be more widespread than evasion, with 37% reporting that they felt avoidance was widespread, compared with 20% perceiving evasion to be widespread. Those that thought evasion was widespread did so primarily due to the perception that a large number of small businesses and individuals did not declare cash.

### 7.1 Late payment of taxes

Over half (51%) of respondents perceived the late payment of tax to be widespread. Most respondents reported they perceived it to be fairly widespread (42%), and one in ten perceived it to be very widespread. Around a third (32%) felt it was not very or not at all widespread.

Businesses that were more likely to think late payment of taxes was widespread included:

- Those with cash flow problems (63%)
- Those who had been through a merger or acquisition (61%)
- Those who had reported changes in profit (57%) or decrease in turnover (57%).

Businesses with higher turnover were more likely to think late payment is not widespread: 45% of those with turnover of £100m or more felt it was not widespread, compared to an average of 32%.

### 7.2 Understanding of tax avoidance and tax evasion

Prior to exploring businesses' opinions on tax avoidance and tax evasion, the follow-up qualitative interviews explored businesses' unprompted understanding of the terms. While the terms were not universally understood or differentiated, those businesses that had a clearer understanding tended to recognise the difference in terms of legality.

*"[Avoidance] – it's not the illegal one is it, it's using loopholes to not have to pay as much tax as they should do." (Under £3m turnover, 20-49 employees, Transportation)*

Analysis of businesses' demographics, alongside their views and perceptions revealed a number of factors that influenced businesses' understanding of the terms. These included:

- **Role and experience:** There tended to be a clearer understanding of the terms among more experienced senior staff. This suggested there may be greater responsibility among senior staff to make sure their businesses are compliant, leading to greater clarity around avoidance and evasion
- **Source of knowledge:** On the whole, those businesses with greater understanding of the terms tended to refer to formal training (e.g. as part of accountancy training, or internal audit process) received as the source of their knowledge; whereas those with little understanding tended to cite media as the main source of knowledge
- **Business sector:** There tended to be greater clarity around the terms among legal and financial businesses than businesses operating in other sectors, such as manufacturing. This was primarily due to exposure to formal training within legal and financial businesses
- **Structure of business:** Larger businesses with more complex structures generally had a greater understanding of the terms than smaller businesses.

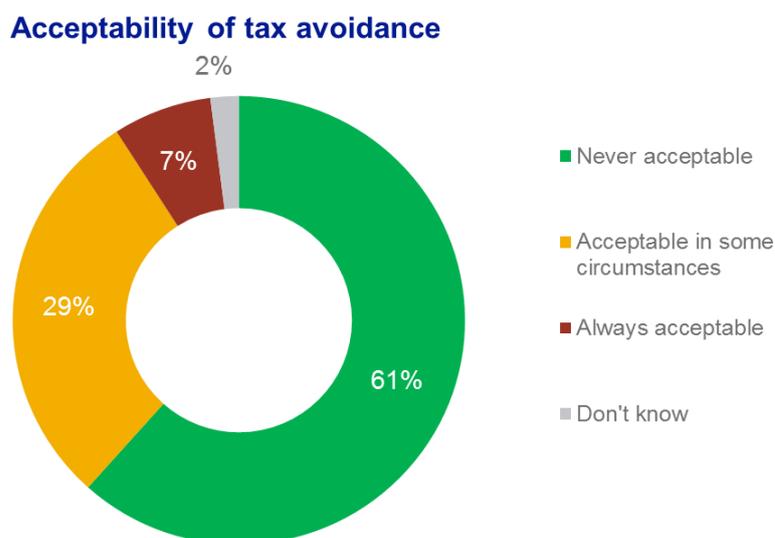
## 7.3 Acceptability of tax avoidance and tax evasion

### 7.3.1 Acceptability of avoidance

In the quantitative survey, respondents were introduced to the concepts of tax avoidance and tax evasion, rather than the terms themselves. Avoidance was introduced as: 'Some businesses try to exploit tax rules to gain a tax advantage that Parliament didn't intend – in other words, operating within the letter, but not the spirit of the law'.

Respondents were asked their views on acceptability and prevalence. As shown in chart 7.1, six in ten (61%) said "exploiting tax rules to gain an advantage Parliament did not intend" was never acceptable and 29% said that it was acceptable in some circumstances.

**Chart 7.1 Acceptability of tax avoidance**



Q33 Some businesses try to exploit tax rules to gain a tax advantage that Parliament didn't intend – in other words, operating within the letter, but not the spirit of the law. Which of these statements best describes your view of how acceptable it is for businesses similar to yours to do so?  
Base: All businesses (2016: 1800).

This behaviour was perceived to be more acceptable by larger businesses, with 44% of businesses with turnover of £100m or more perceiving it to be acceptable in some circumstances (compared with 27% of businesses with a turnover of under £3 million) and 49% perceived it to be never acceptable (compared with 62% of businesses with a turnover of under £3 million). Respondents who reported they were not confident in HMRC doing their job perceived avoidance to be more acceptable (40%) than those who were confident in HMRC (25%).

### 7.3.2 Reasons for attitudes towards tax avoidance

One of the aims of the qualitative research was to better understand what was behind views about perceived acceptability of tax avoidance. On the whole, those businesses that found tax avoidance always acceptable said they did so because it was legal so they saw it as permissible and did not consider whether the behaviour was immoral. Moreover, some businesses attributed avoidance to loopholes in the tax system and, as such, found it acceptable that individuals and businesses wanted to take advantage of these.

*"If it's legal, it's legal...whether it's frowned upon or not."* (£100-150m turnover, over 250 employees, Financial services)

*"If you've got loopholes, people are going to exploit them...until it becomes illegal you can't argue otherwise."* (£100-£150m or more turnover, over 250 employees, financial services)

Meanwhile, those who thought tax avoidance was always unacceptable tended to cite moral or ethical reasons, discounting legality. Arguments driving moral considerations ranged from the importance of maintaining a level playing field for businesses to the importance of contributing to the 'public pot'.

*"I think people should be morally correct, and if there is a loophole it doesn't mean to say it's right [to exploit it]."* (£3-10m turnover, fewer than 20 employees, Manufacturing)

Businesses that thought tax avoidance was acceptable in some circumstances tended to cite legal and moral considerations. However, these businesses often found it hard to identify actual circumstances in which avoidance might be acceptable. There was a perception among these businesses that 'accidental' avoidance was more acceptable than 'intentional' avoidance where businesses deliberately set out to find ways to reduce their tax liability. However, businesses were unable to comment on the point at which 'accidental' avoidance became deliberate and therefore unacceptable.

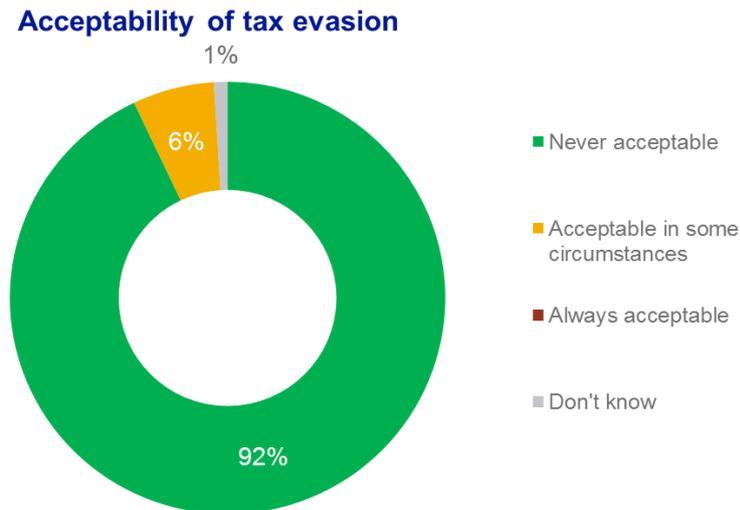
*"If you happen to identify that by changing your business practice slightly you could fall into a different part of the law, but still be perfectly in the letter of the law then that seems to me to be, sort of reasonable."* (£200m or more turnover, 250 or more employees, Consultancy)

### 7.3.4 Acceptability of tax evasion

Tax evasion was introduced as a concept using the following definition: 'Some businesses try and reduce the amount of tax they have to pay by not declaring all of their income to HM Revenue and Customs'.

More than nine in ten respondents (92%) said that not declaring all income to HMRC to reduce tax paid was never acceptable (as shown in chart 7.2). There were no significant variations by subgroup.

## Chart 7.2 Acceptability of tax evasion



Q31a Some businesses try and reduce the amount of tax they have to pay by not declaring all of their income to HM Revenue and Customs. Which of these statements comes closest to your views about businesses similar to yours doing this? Would you say...  
Base: All businesses (2016: 1800).

### 7.3.5 Reasons behind attitudes towards tax evasion

All 20 businesses included in the follow-up qualitative interviews claimed tax evasion was unacceptable due to illegality, and, for some, due to immorality too. On the whole, businesses believed those who evaded tax were breaking the law and were therefore criminals, irrespective of the size of the business or circumstance of the individual involved.

*"They're criminals...it's like someone doing 45 miles on a 30 mile street...you're breaking the law."*  
(£100-£150m turnover, more than 250 employees, Financial services)

Businesses that cited moral or ethical reasons for unacceptability tended to refer to evasion as a way of defrauding the government of income and it was therefore seen to be socially unacceptable. Similarly, some businesses claimed evasion resulted in an unequal playing field for businesses, with some businesses gaining a competitive advantage over others by paying less tax.

*"They're not paying their fair share into the country pie."* (£100-150 million, more than 250 employees, Food wholesaler)

## 7.4 Prevalence of tax avoidance and tax evasion

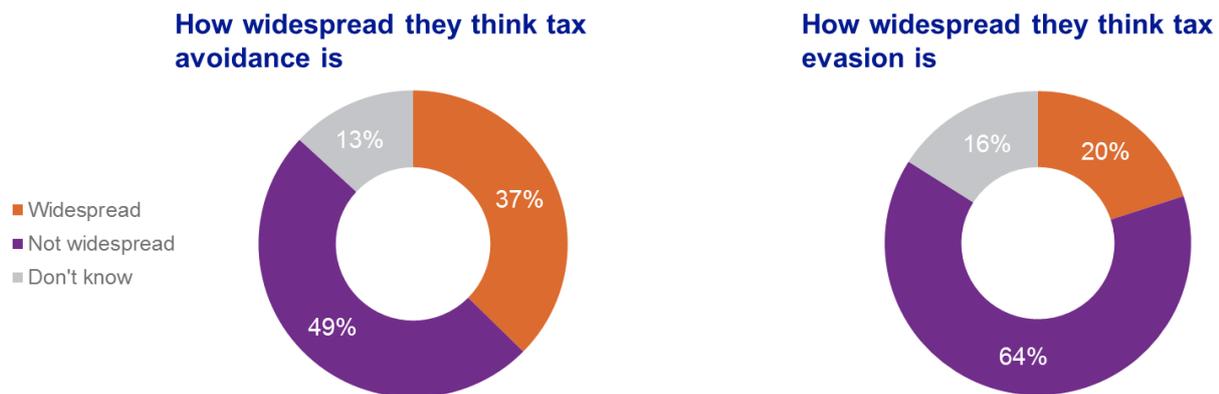
### 7.4.1 Prevalence of avoidance

When asked how widespread respondents thought it was for businesses to exploit tax rules to gain an advantage, 49% thought it was not widespread. Following the same trend as acceptability, it was businesses with the highest turnover (£100m or more) that were more likely to think it is widespread, 54%, compared to the average of 37% (chart 7.3).

## 7.4.2 Prevalence of evasion

When asked about how widespread they thought it was for businesses not to declare all of their income to HMRC, 64% thought that it was not widespread and 20% thought it was (chart 7.3). It was the companies with the highest turnover that were most likely to say it was not widespread: 82% of those with turnover of £100m or more compared with 60% of businesses with turnover of under £3m.

**Chart 7.3 Prevalence of tax avoidance and of tax evasion**



Q34 In your view, how widespread do you think this type of behaviour is by businesses similar to yours? (2016: 1800). Q32 In your view, how widespread do you think it is for businesses similar to yours to not declare all their income for tax? (2016: 1800).  
Base: All businesses

## 7.4.3 Views on how widespread tax avoidance and evasion are

Overall, most businesses in the follow-up qualitative interviews perceived avoidance to be more widespread than evasion due to the fact that it is legal.

*"I guess avoidance is more widespread...because evasion, they are actually breaking the law. Avoidance they are using the law, the grey areas of the law for their benefit...they are not breaking the law." (£10-50 m turnover, 100-249 employees, Hospitality)*

Businesses thought the total amount of tax revenue lost through avoidance was probably higher than that lost through evasion. This was due to the perception that larger firms with the resource to hire advisers are more likely to avoid tax, so they were probably avoiding larger amounts.

However, some believed that the incidence of evasion was probably greater than the incidence of avoidance. This was primarily due to the perception that a large number of small businesses and individuals did not declare cash.

*"[It's a] cash society...in terms of self-employed...they're not declaring all their income." (£50-100m turnover, 100-249 employees, Engineering)*

Businesses that thought evasion was widespread tended to base their perceptions on observation; for example, observing friends and acquaintances doing 'cash in hand' jobs. Some cited previous experience living abroad as the main reason they thought that evasion was prevalent; for example, living in a country where evasion was deemed to be widespread due to media exposure and word of mouth.

## 8. Mid-size businesses and growth

This section examines the major events businesses experienced in the last 12 months, and what their main priorities were for the next 12 months. It also explores what plans businesses had to grow in the next 2 to 3 years.

### Summary

The number of businesses who reported experiencing a growth event in the last 12 months is consistent with last year, with a quarter of businesses doing so, most commonly an increase in turnover. Half of all businesses experienced no major life events over the last 12 months.

Increasing profit and increasing turnover were the most frequently mentioned priorities for businesses in the upcoming year.

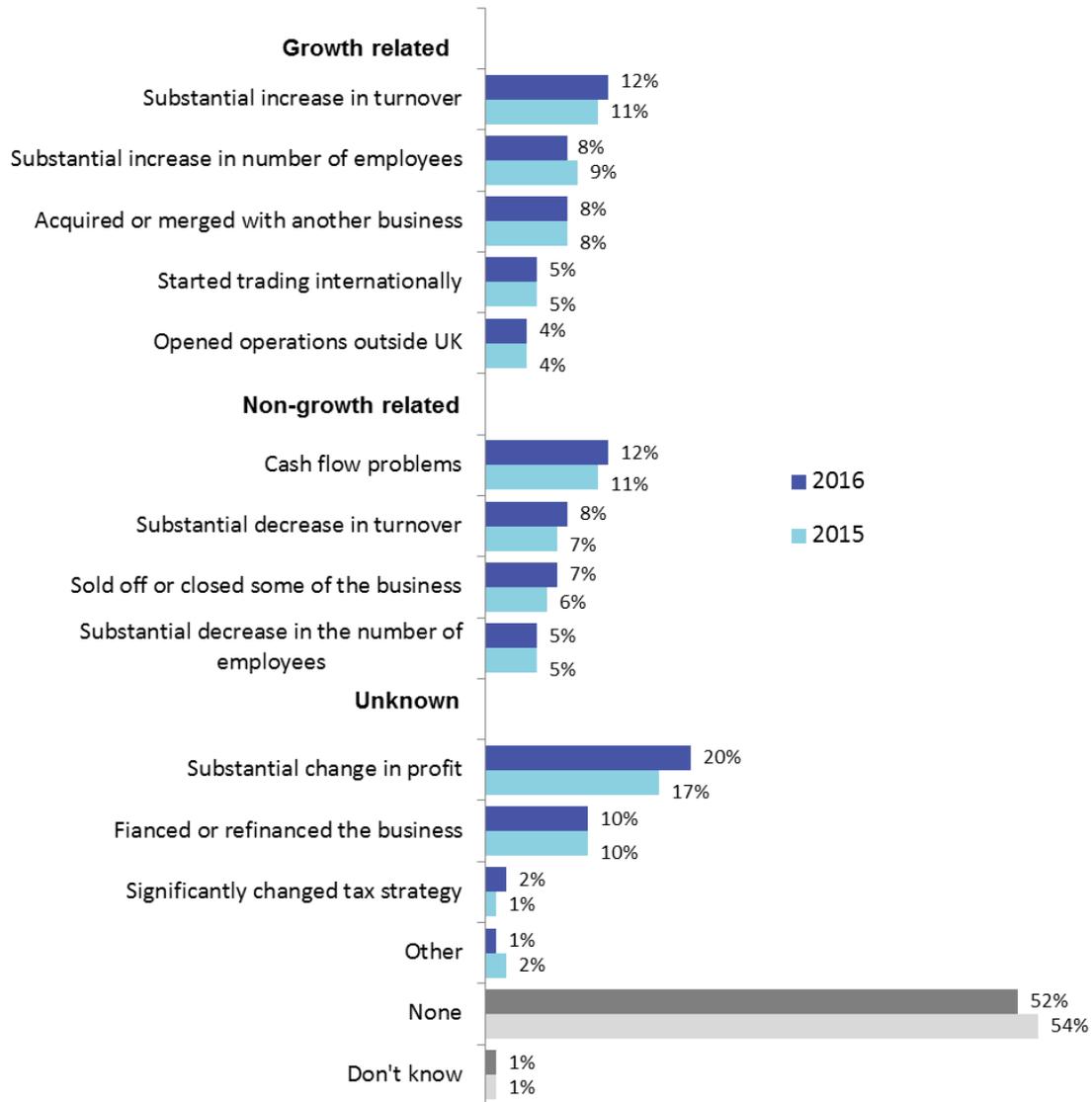
More businesses than last year plan to grow by increasing the skills of the workforce (an increase from 71% to 75%). There was also an increase in the number of businesses planning to expand into new markets.

### 8.1 Major 'life events'

Businesses were asked if they had experienced any major event in the last 12 months, or something which the business perceived to have had a major effect (hereafter referred to as a life event). Nearly half (47%) of businesses had experienced at least one major life event in the last 12 months, consistent with the findings in the first wave of the survey, as shown in chart 8.1.

A quarter (26%) of businesses reported at least one life event related to growth in the last 12 months, most commonly a substantial increase in turnover (12%) or a substantial increase in the number of employees (8%). The same proportion acquired or merged with another business (8%), while smaller numbers reported starting to trade internationally (5%) or opened operations outside the UK (4%). These findings were consistent with those at Wave 1, with no significant changes year on year.

**Chart 8.1 Major events experienced in last 12 months**



Q23 Which, if any, of the following major events has your business experienced over the last 12 months?  
 Base: All businesses (2016 n=1800; 2015 n=2006)

Businesses with more than 250 employees were the most likely to have experienced a growth event in the last 12 months, with 41% reporting some growth, compared to 19% of businesses with fewer than 20 employees (as shown in table 8.1). Again, this finding was consistent with Wave 1 with larger businesses more likely to experience growth events.

**Table 8.1 Differences in percentages reporting experiencing major events related to growth by business size**

Major event relating to growth	<20 employees		250+ employees	
	2016	2015	2016	2015
Increase in turnover	10%	8%	14%	16%
Increase in employees	4%	4%	13%	20%
Merger or acquisition	4%	5%	22%	18%
Opened operations outside UK	3%	3%	11%	8%

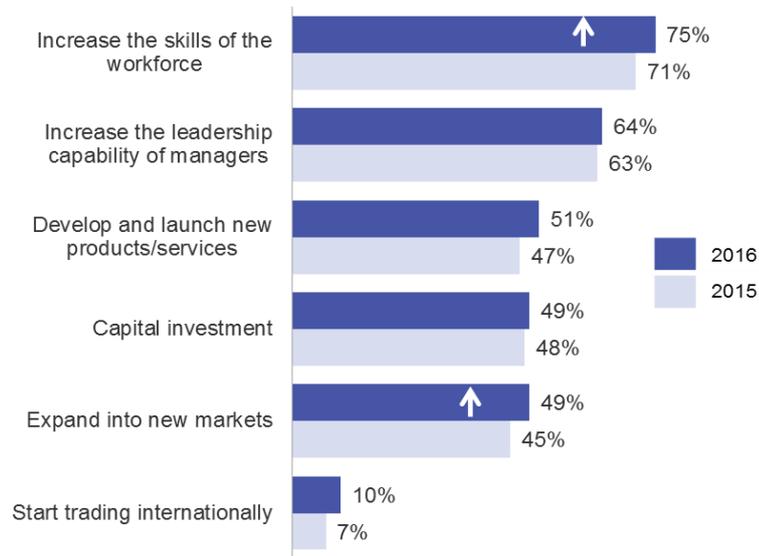
## 8.2 Main priorities for next year and future growth ambitions

The majority of mid-size businesses reported that among their main priorities for the next year was to increase profit (84%) or increase turnover (81%), and this was consistent irrespective of the size of the business. Another common priority of businesses for the next year was to reduce overheads or costs (61%) or increasing the number of employees (29%). Less frequently mentioned was acquiring or merging with another business (10%), start trading internationally (9%) and financing or refinancing the business (9%).

Larger businesses were more likely to prioritise acquiring or merging with another business, with almost a quarter (23%) of business with more than 250 employees highlighting this as a priority compared to 7% of businesses with fewer than 20 employees. Smaller businesses with fewer than 20 employees were more likely to prioritise starting to trade internationally (12%), compared with only 5% of businesses with more than 250 employees. Medium and larger businesses with more than 50 employees were most likely to prioritise reducing overheads and costs (69%).

When businesses were asked about their plans to grow in the next two to three years, more businesses were planning on increasing the skills of the workforce compared to the first wave of the survey (75% in 2016 compared to 71% in 2015). There was also an increase in the number of businesses planning to expand into new markets, as demonstrated in chart 8.2.

### Chart 8.2 Plans to grow in next two to three years.



Q42 Does your business plan to do any of the following over the next two to three years?  
 Base: All businesses (2016 n=1800; 2015 n=2006)

## 9. Policy changes

This section explores the awareness and perceived impact of a number of changes to tax policies that have been implemented, and explores areas of the tax system that businesses would most like to change. It should be noted that the policy changes mentioned occurred some time ago, therefore it is the same change which businesses are being asked about year on year. Some of these changes are on-going, for example the continued reduction in Corporation Tax rate, and businesses were asked to think about changes that have occurred to date, as well as prospective changes.

### Summary

There was no difference in awareness of policy changes compared to Wave 1, with awareness of the reduction in Corporation Tax being higher than changes to the structure of the Patent Box. At Wave 2, fewer businesses learned of these changes through the business' regular tax advisor, and more from the media.

Six in ten businesses thought the reduction in Corporation Tax Rate would have a positive effect on their business' competitive position. One in five (21%) thought the policy changes to the Annual Investment Allowance would make them more likely to invest, and 16% thought that the R&D Expenditure Credit scheme would also make them more likely to invest.

If they could make one change to the tax system, businesses would most like change anything to do with VAT or the Employer National Insurance rate or threshold.

### 9.1 Awareness, knowledge and impact of general policy changes

Awareness of general changes to tax policy varied according to the change, but remained consistent with awareness levels from Wave 1 (as shown in chart 9.1).

#### 9.1.1 Reduction in Corporation Tax rate

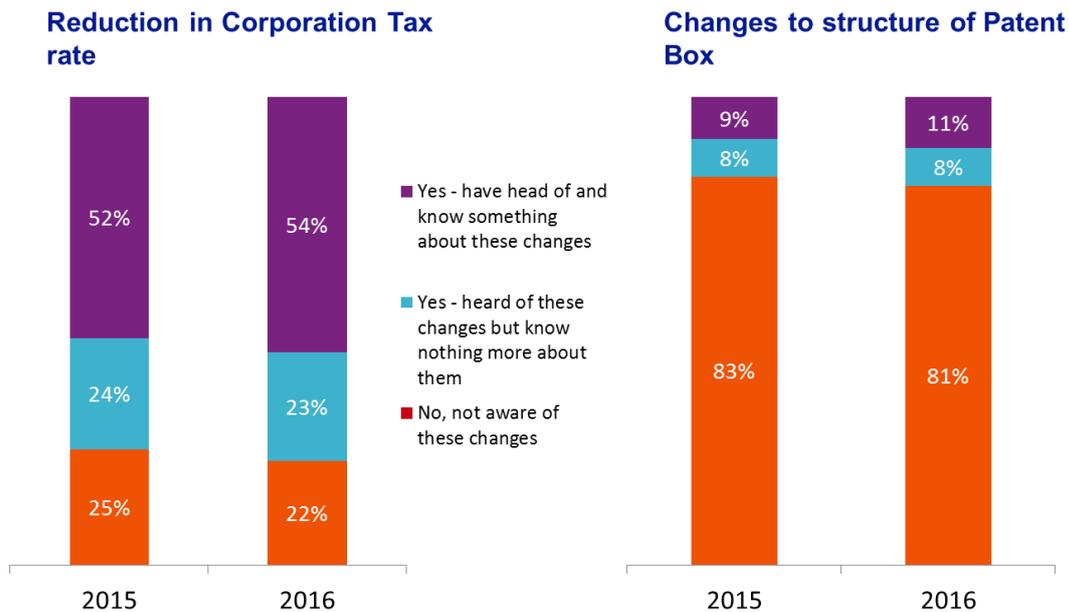
Businesses were asked if they were aware of the reduction in the Corporation Tax rate, which was introduced as an on-going change; businesses were told that since 2010, the UK's main rate has been reduced from 28% to 20%, and this will be cut further to 19% in 2017, and 17% in 2020. Just over half (54%) of mid-size businesses had heard of and knew something about the reduction in Corporation Tax rate. Almost a quarter (23%) had heard of the changes but knew nothing more about them, and over one in five (22%) were not aware of the changes. These findings were consistent with those at Wave 1. Overall, awareness and knowledge was higher among businesses with the highest turnover and the highest number of employees, however at Wave 2 there was an increase in awareness and knowledge among businesses:

- With 50 to 99 employees (an increase to 60% from 48% at Wave 1)
- With more than 250 employees (an increase to 62% from 51% at Wave 1)
- With turnover of £50m to £100m (an increase to 73% from 62% at Wave 1)

- That are not part of a group (an increase to 59% from 42% at Wave 1)

Businesses were asked what impact the proposed reductions in the Corporation Tax rate going forwards would have on their businesses' competitive position. Six in ten (59%) mid-size businesses thought that this change would have a positive impact on their business, which was higher among businesses whose main priority was to increase the number of employees (66%). A third of businesses felt that the changes would have no impact, and only 1% thought it would have a negative impact on their business' competitive position.

**Chart 9.1 Awareness of general policy changes**



Q37 Are you aware of...?  
 Base: Corporation Tax rate - All businesses (2016 n=1800; 2015 n=2006), Patent Box - All companies (2016 n= 1571; 2015 n=1740)

### 9.1.2 Changes to structure of Patent Box

Similarly to Wave 1, one in ten (11%) mid-size businesses had heard of and knew something about the changes to the structure of the Patent Box, with a further one in ten (8%) having heard of the changes but knew nothing more about them. The majority (81%) were not aware of the changes. It is worth noting that not all businesses will make use of patents, and therefore may not need to be aware of policy changes in this area. Overall, awareness and knowledge was higher among businesses with a higher turnover, and who had opened operations outside the UK. This time there was an increase in awareness and knowledge among businesses:

- With 250 or more employees (an increase to 18% from 7% at Wave 1)
- Who plan to start trading internationally (an increase to 13% from 5% at Wave 1)

Like in 2015, businesses were most likely to learn about these policy changes through the business' regular tax advisor or agent, however the number of businesses learning this way decreased (47% at Wave 1 compared to 43% at Wave 2). Less frequently, these changes were

learned of through the press (16%), the media (15%, an increase from 8% at Wave 1) or through HMRC (11%).

### **9.1.3 Impact of policy changes on likelihood to invest**

In this second wave of the survey, businesses were asked about the impact of changes in two policy areas, Annual Investment Allowance and the R&D Expenditure Credit scheme, on the business' likelihood to invest. Two in ten businesses (21%) reported that the increases in the level of Annual Investment Allowance made their business more likely to invest, and 1% were less likely to invest. The majority (69%) thought that the policy change would have no impact on their likelihood to invest. Likelihood to invest was highest among businesses:

- That were family owned (29%)
- That had increased turnover (30%)
- That had increased the number of employees (29%)

Sixteen per cent of mid-size businesses with 100 or more employees thought that the R&D Expenditure Credit scheme made their business more likely to invest, with 2% less likely to invest. Again, the majority (70%) thought that the policy change would have no impact on their likelihood to invest. Likelihood to invest was highest among business:

- Who traded internationally (25%)
- Who planned to launch and develop new products (28%)

### **9.1.4 Missing Trader Intra-Community Fraud**

Awareness of Missing Trader Intra-Community Fraud (MTIC fraud) was low. Fewer than one in ten (8%) businesses had heard of and knew something about it, with a further one in ten (9%) having heard of it but knew nothing more about it. Of those that were aware, most had learned of it through the press or media (51%). Other channels mentioned included via a trade or professional body (29%), through the business' regular tax advisor or agent (24%). One in five (19%) became aware of MTIC fraud through HMRC. While awareness of MTIC fraud was low, 96% of businesses said they did not operate in the trades where this type of fraud is especially prevalent.

## **9.2 What aspect of the tax system they would change**

At Wave 2, if businesses could change one area of the tax system, the most common choice was anything to do with VAT (26%), an increase from Wave 1 where 20% of businesses mentioned this change. Whereas at Wave 1 National Insurance rate and threshold was the most mentioned (27%), at Wave 2 there was a decrease with 22% citing it as an aspect they would most like to change. For the largest businesses with more than 250 employees, this was still the area they most wanted to change (36%) compared to 14% of businesses with fewer than 20 employees.

The third most frequently mentioned change was anything to do with Corporation Tax rate (13% in 2016 and 15% in 2015). Consistent with the findings from Wave 1, the R&D tax credits rate was cited less frequently overall (8% in 2016 and 7% in 2015), but was mentioned more often among businesses that planned to start trading internationally (18%), or who had started operations outside the UK (16%).

Among businesses who would most like to change anything to do with VAT, findings were fairly consistent across sub-groups. However, those with cash flow problems, or who had financed or re-financed the business, were higher (32% and 30% respectively).

# Appendix A: Methodology

## A.1 Quantitative research

### A.1.1 Sample design

The survey was designed to consist of approximately 1,800 interviews, and the sample came from the HMRC database of mid-size businesses. Population counts from HMRC were used to inform the sample design; the design balanced the need to ensure precise results at the overall level while ensuring that different groups were represented and that analysis could be conducted between main sub-groups. To ensure that the obtained sample had a good spread of larger businesses, businesses with a high turnover were oversampled. Turnover correlates highly with employee numbers; this would therefore also boost the number of businesses with higher numbers of employees. The design also aimed to boost the number of interviews achieved with partnerships so that these results could be analysed alone. Following data collection, data were weighted to account for the sample design (as well as non-response), to ensure that results are representative of the mid-size business population. Table A.1 shows the final sample design used for the survey compared with the number of interviews that would be achieved within each group if the sampling was fully proportionate to the overall mid-size business population.

**Table A.1 Final sample design**

	Study design (estimated number of interviews in each cell)	Interviews if the design was fully proportionate
Partnerships	220	108
Company (missing turnover)	325	522
Company <£3m	510	602
Company £3m-£9.9m	190	235
Company £10m-£49.9m	215	268
Company £50m+	340	65
Total	1,800	1,800

To ensure that the obtained sample also had a good spread by other important analytical categories the population was stratified by region, employee number, foreign ownership, age, operating structure and sector prior to sample selection within each of the turnover categories.

Under Data Protection Act requirements, an opt-out stage was included for the drawn sample. This involved sending a letter to all selected respondents and inviting them to call a free phone number, write or email if they did not want to take part in the survey. Two weeks were allowed between mail out of the letter and the start of fieldwork, but respondents were able to opt out at any point during fieldwork, including when they were contacted for interview. Participation in the research was

voluntary and respondents could refuse to take part for any reason. Opt-out levels were approximately 3%.

Interviews were conducted with the person with overall responsibility for tax matters, such as the director responsible for the firm finances and tax affairs, on behalf of the sampled business. Before fieldwork began, an electronic look-up was conducted to find the names of individuals within the business who would be most appropriate to speak to, to improve the efficiency of the interviewing process. However, names were not available in all cases, and, additionally, interviewers were allowed to accept referrals if it was not possible to speak to this individual.

### A.1.2 Questionnaire

The questionnaire was updated from last year's by HMRC and Kantar Public to address the research objectives, and to maintain comparability between the 2 years. New questions were subject to cognitive testing as well as a desk review by the research team using Kantar Public's Questionnaire Appraisal Framework<sup>18</sup>.

The questionnaire began with screening sections and ends with demographic questions. The majority of the questionnaire consisted of modules on customer experience, health of the tax administration system, reputation, attitudes towards compliance and recent tax policy changes. The topics included in the questionnaire are detailed in Table A.2. Where individuals reported having had no interactions with HMRC on behalf of the sampled business over the past 12 months, they were not asked questions on customer experience or the health of the tax administration system. The questionnaire remained largely similar to last year, however additional questions on MTIC fraud were included, as well as a redesign of the questions in the section on compliance.

**Table A.2 Questionnaire structure**

Topic	Question	Changes from 2015
Customer interactions	<ul style="list-style-type: none"> <li>■ Channels of contact used</li> <li>■ HMRC services used</li> <li>■ Assessment of service used</li> </ul>	<ul style="list-style-type: none"> <li>■ Removed a question on taxes paid</li> </ul>
Customer experience	<ul style="list-style-type: none"> <li>■ Ease of finding information</li> <li>■ Rating the quality of information looked for or received</li> <li>■ Ease of navigation:</li> <li>■ Whether Revenue and Customs made it clear what steps were needed</li> <li>■ Whether they made it clear when everything was completed</li> <li>■ Whether they provided access to taxation specialists when needed</li> <li>■ How good or poor Revenue and Customs were at getting the tax transaction right</li> <li>■ How good or poor Revenue and Customs were at resolving any queries or issues</li> <li>■ Acceptability of time taken to reach the end result</li> </ul>	<ul style="list-style-type: none"> <li>■ No change</li> </ul>

<sup>18</sup> The Questionnaire Appraisal Framework (QAF) is a systematic approach to examining potential issues with the wording and/or structure of questions, to ensure that questions can be administered correctly and answered easily by respondents. The Questionnaire Appraisal Framework (QAF) is based on the QAS-99 framework (see: <http://appliedresearch.cancer.gov/areas/cognitive/qas99.pdf>), but has been adapted to be more tailored and relevant to social research.

	<ul style="list-style-type: none"> <li>■ Overall rating of customer experience</li> <li>■ How experiences in the last 12 months compared with the previous 12 months</li> </ul>	
Health of the tax administration system	<ul style="list-style-type: none"> <li>■ Whether treated fairly</li> <li>■ Whether Revenue and Customs ensured they paid and received the correct amount</li> <li>■ Whether Revenue and Customs minimised the cost, time and effort to deal with tax affairs</li> <li>■ Whether Revenue and Customs treated them as honest</li> <li>■ Ease of dealing with tax issues</li> </ul>	<ul style="list-style-type: none"> <li>■ No change</li> </ul>
Life events	<ul style="list-style-type: none"> <li>■ Which life events the business had experienced in the past 12 months</li> <li>■</li> <li>■ Businesses' key priorities over the next 12 months</li> </ul>	<ul style="list-style-type: none"> <li>■ Removed questions on channels of assistance in dealing with major life events and rating of support received from HMRC</li> <li>■ New question on businesses' key priorities</li> </ul>
Reputation	<ul style="list-style-type: none"> <li>■ Whether Revenue and Customs applies penalties and sanctions equally</li> <li>■ Whether Revenue and Customs ensures personal information is treated confidentially</li> <li>■ Confidence in the way Revenue and Customs are doing their job</li> </ul>	<ul style="list-style-type: none"> <li>■ No change</li> </ul>
Compliance	<ul style="list-style-type: none"> <li>■ Views on acceptability of tax evasion is</li> <li>■ How widespread they think tax evasion is</li> <li>■ Views on acceptability of tax avoidance</li> <li>■ How widespread they think tax avoidance is</li> <li>■ How widespread they think the late payment of tax is</li> </ul>	<ul style="list-style-type: none"> <li>■ Removed questions on likelihood of getting caught and whether HMRC deals more or less firmly on customers who avoid paying tax</li> <li>■ New questions on acceptability of tax evasion, and how widespread tax evasion is and how widespread the late payment of tax is.</li> </ul>
Policy	<ul style="list-style-type: none"> <li>■ Awareness and knowledge of policy changes to CT and the structure of the Patent Box</li> <li>■ How became aware of these changes</li> <li>■ Impact of the changes to CT, AIA and R&amp;D tax credits</li> <li>■ Awareness and knowledge of MTIC fraud</li> <li>■ How became aware of MTIC fraud</li> <li>■ Whether business trades in specific areas</li> <li>■ What aspect of the tax system they would change</li> </ul>	<ul style="list-style-type: none"> <li>■ Removed questions on awareness of AIA, R&amp;D tax credits and awareness of VAT and PPD policy changes. New question on MTIC fraud</li> </ul>

### A.1.3 Data collection

The quantitative interviews were carried out with the aid of Computer Assisted Telephone Interviewing (CATI), meaning the questionnaire was displayed and responses captured on-screen. Interviewing was carried out in the controlled environment of the research agency's dedicated

telephone interviewing centres. Rigorous interview quality control procedures prescribed in ISO 20252 were followed, including a supervisor listening into interviews remotely on a systematic basis.

Interviews were conducted between 24<sup>th</sup> October and 14<sup>th</sup> December 2016 and took an average of 19 minutes. The final achieved sample comprised 1800 mid-size businesses. Overall the estimated response rate was 40%. Table A.3 summarises the fieldwork outcomes.

**Table A.3 Fieldwork outcomes**

Outcome	N
Sample issued (S)	5262
Interviews (I)	1800
Unknown respondent eligibility (UO)	2712
Resolved sample	1024
Unresolved sample	1688
Not eligible - removed from eligible base (NE)	105
Non-working numbers - removed from eligible base (DW)	645
Estimated eligibility - EI	94%
Estimated response rate - RR	41.3%
Usable sample % - US	86%

- Estimated eligibility - EI = number eligible divided by number for whom eligibility is known, among working numbers =  $I / (I + NE)$
- Estimated response rate - RR = interviews divided by estimated number of eligible records =  $I / (I + EI*UO)$
- Usable sample % - US =  $1 - ((NE + DW) / S)$

#### A.1.4 Data weighting

A two-step weighting approach was used. The first step involved the calculation of a design weight based on the estimated sampling probability. The design weight was applied to the dataset, and then the weighted data was calibrated so that it was representative of the population being sampled.

The population figures needed to be amended to account for duplicate companies. Furthermore, when conducting the survey some of the businesses were no longer found to be eligible (having closed down or moved outside of the UK). The survey eligibility rates were also used to adjust the population totals as shown in table A.4.

**Table A.4 Deduplication and survey eligibility**

Sample group	% Remaining after deduplication	% Observed eligible in survey	% Valid after deduplication and eligibility check
Partnerships	100.0%	98.0%	98.0%
Company (missing turnover)	99.1%	97.2%	96.4%
Company <£3m	99.2%	97.3%	96.5%
Company £3m-£9.9m	99.4%	98.3%	97.8%
Company £10m-£49.9m	99.6%	99.4%	98.9%
Company £50m+	98.2%	99.4%	97.5%

The population from which the sample was drawn is shown alongside the final population estimate was calculated by adjusting the sample group populations to reflect these rates (table A.5).

**Table A.5 Sample group population and estimated survey population distribution by structure and turnover**

Sample group	Sample group population distribution	Estimated survey population distribution
Partnerships	9,155	8,975
Company (missing turnover)	44,324	42,708
Company <£3m	51,169	49,371
Company £3m-£9.9m	19,980	19,534
Company £10m-£49.9m	22,777	22,537
Company £50m+	5,507	5,371
Total	152,912	148,496

All cases were allocated a sampling probability which was calculated as the product of two separate components: the proportion of sample group population that were sampled; and the proportion of usable sampled cases.

Usable cases were defined as those cases for which a telephone number was found.

The design weight is the inverse of the estimated sampling probability (i.e. 1 divided by the sampling probability).

Data was rim weighted<sup>19</sup> by turnover and age of business at the analysis stage to correct for over-sampling certain groups and any differential response by sub group.

The first column of table A.6 shows the actual number of interviews conducted by sub group i.e. before weighting was applied. The second column shows the number after corrective weighting was applied.

<sup>19</sup> Rim weighting is an iterative process that generates the most efficient way of weighting data by multiple factors.

**Table A.6 Unweighted and weighted number of interviews**

	Interviews completed (unweighted)	Weighted number of interviews
<b>Turnover (from sample)</b>		
Unknown	272	386
Under £3m	451	465
£3m-£4.9m	74	81
£5m-£6.9m	34	35
£7m-£8.9m	41	46
£9m-£9.9m	17	20
£10m-£49.9m	189	223
£50m-£99.9m	139	32
£100m-£149.9m	55	12
£150m-£200m	9	2
Over £200m	18	4
<b>Employees (from sample)</b>		
Unknown	1145	1172
Less than 20	21	24
20-49	24	22
50-99	31	32
100-249	43	44
250+	35	14
<b>Sector (from sample)</b>		
Unknown	231	261
Agriculture or fishing	14	11
Construction	52	54
Education	22	29
Finance and Insurance	49	40
Health or social work	20	14
Hotels and restaurants	17	20
Manufacturing	250	262
Mining, electricity or gas and water supply	12	15
Real Estate	18	17
Renting or business activities	150	164
Transport storage and communication	42	37
Wholesale and retail	160	134
Any other activity	262	252

<b>Age of business (from sample)<sup>20</sup></b>		
Unknown	3	6
Less than 5 years	76	154
5-7 years	111	173
8-10 years	112	156
11-15 years	221	246
16-20 years	174	172
More than 20 years	458	332
<b>Sampling group</b>		
Partnerships	144	68
Company (missing turnover)	272	386
Company <£3m	378	430
Company £3m-£9.9m	141	170
Company £10m-£49.9m	149	204
Company £50m+	215	48

The design effect based on the weighting of the sample is estimated at 1.30.

### **A.1.5 Key Driver Analysis (KDA)**

Key Driver Analysis is a multivariate analysis technique that indicates the relative importance of each dimension of customer experience to ratings of overall experience.

The relative importance scores were derived using multiple linear regression. This technique was used to model the overall service rating which customers gave, and how this score differed based on their rating of different aspects of their interaction with HMRC. As this analysis allowed for multiple variables to be included in the model at the same time, it was used to measure the change in overall service rating when only one variable was changed and all others are held constant.

The analysis was run as an iterative process, following the calculation of the correlation between the dependent variable (rating of overall experience) and the independent variables (the other dimensions of customer experience).

## **A.2 Qualitative research**

Small scale follow-up qualitative research was conducted to identify the experiences and views of respondents, as well as drawing out insights about how issues might usefully be addressed.

20 depth telephone interviews lasting approximately 30 minutes were conducted with mid-size businesses between February and March 2017. This method was used both because it is more convenient for respondents and because it is a more cost effective method than face-to-face interviews. Respondents received £100 to thank them for their participation. Participation was voluntary, confidential and anonymous.

<sup>20</sup> Age of business was only available for companies, so these figures do not include partnerships.

The sample consisted of telephone survey respondents who had agreed to be re-contacted by Kantar Public. Respondents were recruited by the Kantar Public specialist in-house recruitment team and contacted via telephone.

All interviews were audio recorded with the consent of the participants. Matrix mapping was conducted and the data were thematically organised from the recordings and transcripts. This involves the rigorous and systematic mapping of data from the interviews to main themes and topics. Matrix mapping draws on a number of sources of evidence (the recordings, transcripts and recall) and comprises of:

- A process-driven element, using the recordings to understand how the issues breakdown into themes and sub-themes and how these apply across different groups of businesses;
- More intuitive elements to consider, for example, behavioural issues, how to enhance service quality etc., and involves brainstorm sessions, led by the project director; and
- A final element which draws the two together, and provides a rounded picture of the issues under exploration.

#### A.2.1 Qualitative Achieved Sample

<b>20x tele-depths (30mins)</b>		
<b>PRIMARY QUOTAS</b>		
<b>Those who have agreed to be re-contacted</b> <b>(survey code: recon)</b>	All	20
<b>Made contact with HMRC by phone in the last 12 months</b> <b>(survey code: dealingsHMRC)</b>	Recruit 20	
<b>In your view how widespread do you think tax evasion is?</b> <b>(survey code: declare)</b>	Aim to recruit a min of 6 who answered: · Very widespread OR · Fairly widespread	10
<b>Which of these statements best describes your view of how acceptable tax avoidance is?</b> <b>(survey code: exploit)</b>	Aim to recruit a min of 6 who answered: · It is acceptable in some circumstances OR · It is always acceptable	10
<b>SECONDARY QUOTAS</b>		
<b>Number of employees</b>	Recruit a mix · Under 20	2

<b>(survey code: employeesize)</b>	· 20-49	4
	· 50-99	4
	· 100-249	4
	· 250+	6
<b>Turnover</b>	Recruit a mix	
<b>(survey code: turnover)</b>	· Under £3mil	3
	· £3 mil - £10 mil	5
	· £10 mil - £50 mil	2
	· £50 mil - £100 mil	2
	· £100mil - £150 mil	3
	· £150 mil - £200 mil	2
	· £200 mil +	2
(Don't Know = 1)	Don't know	1
<b>Family owned/not family owned</b>		4
<b>(survey code: structure)</b>		16

# Appendix B: Topic Guide

## **HMRC Mid-Size Business Customer Survey Year 2 Qual follow up work**

## 10. B. Topic Guide (30 minutes)

Introduction to the research (2 minutes)

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### **Warm up and introduction**

- Introduce yourself and Kantar Public – an independent research agency
- Conducting this research on behalf of HM Revenue and Customs
- Recently conducted the business customer survey for HMRC which they kindly took part in. The survey aimed to understand business customers' views of and satisfaction with the service provided by HMRC.
- We are now carrying out follow up telephone interviews with a selection of businesses who took part in the survey.
- The aim of this interview is to explore your experiences of HMRC's services in more depth and to discuss how HMRC could further support your business.
- Interview length – 30 mins.
- Research is completely voluntary, confidential and anonymous. The information you provide will be used for research purposes only. Kantar Public is completely independent from HMRC. We will not give HMRC any details that could be traced back to you. None of the questions will ask for details of your personal or organisation's tax affairs.
- Gain permission for audio recording – this will only be listened to by the Kantar Public research team and by transcribers. Anonymised transcripts will be provided to HMRC.

1. Introduction of participant (2 minutes)

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### **Section aim: to warm-up the participant and establish context**

- 1.1. Explore participant's current role and responsibilities
- 1.2. Background information about the business, sector, and their product(s) / service(s)
- 1.3. Explore participant's responsibilities with regards to tax affairs and HMRC within their business

2. Contact with HMRC by phone in the last 12 months (10 mins)

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### **Section aim: to explore factors which drive businesses to contact via phone rather than another channel – drivers and barriers**

Explain that as part of the HMRC business customer survey, they indicated that they contacted HMRC by phone in the last 12 months.

2.1. Ask participant how many times they made contact with HMRC by phone during this period.

*Note to researcher: if participant only contacted HMRC once by phone, go to 2.3.; if they contacted HMRC multiple times ask the following:*

2.2. Ask whether they contacted HMRC multiple times regarding the same query or different queries.

*If same query continue to 2.3; If different queries:*

- Ask them to briefly summarise number and type of queries for which they contacted by phone in the last 12 months;
- Explore why they continue to use the phone instead of other channels
  - Quality, clarity, relevance of information
  - Speed of resolution
  - Reassurance
- Explore key barriers to other channel use (e.g. website)
  - Quality, clarity, relevance of information
  - Speed of resolution

Ask participant to think about the most recent query they had for which they contacted HMRC by phone.

2.3. **Explore journey** to making contact by phone; channels they may have used and reasons for phoning.

*Note to researcher: HMRC is interested in understanding why participants choose to call as opposed to other means of contact.*

- Ask participant about the nature of their query / reason for contacting HMRC by phone on behalf of their business.

If they are uncertain, prompt on the following and ask them to explain in detail what elements within these areas they were specifically contacting about:

- a) Self-Assessment Tax Return
  - b) PAYE
  - c) National Insurance
  - d) Income Tax
  - e) VAT
- Explore how they first got in contact with HMRC for this query (i.e. what channel – online, call centre etc.); why this particular channel?
    - Are different channels better for different queries; why?
    - Probe on digital services: How confident are they using online services? Do they use online services often?

*Note to researcher: Use probes on each subsequent step of the customers' journey.*

Probe in detail for each point of contact/channel used during journey:

- the quality/clarity/relevance of information provided or accessibility of information where on website
- What went well or less well at each point of their contact with HMRC; how did this make them feel and how did this impact their decision to pick up the phone.
- Any suggestions for improvements?

### 3. Compliance (15 minutes)

***Section aim: to explore businesses' understanding, perception of and views on the prevalence and acceptability of tax avoidance and tax evasion and to explore the drivers behind these views.***

Explain that in addition to understanding participant's experience of making contact with HMRC, we are also interested in exploring customers' views on issues around payment of tax.

#### **3.1. Tax avoidance**

3.1.1. Explore participant's **understanding** of tax avoidance:

- What they understand by the term?
- What they think informs their understanding?
  - HMRC/other guidance

- Media
- Interaction with businesses
- Colleagues
- Family/friends

3.1.2. Explore participant's views on the **acceptability** of tax avoidance

- Explain that avoidance, as defined in the survey, is 'businesses trying to exploit tax rules to gain a tax advantage that Parliament didn't intend – in other words, operating within the letter, but not the spirit of the law.'

*Note to researcher: please identify (from profile sheet) participant's response to how acceptable they think tax avoidance is.*

- Remind participant that when completing the survey, they thought that tax avoidance was [insert: never acceptable, acceptable in some circumstances, always acceptable, don't know]
  - Explore why they think this.
  - Explore under which circumstances, if any, they think avoidance might be acceptable;
  - What they think influences their view on this?
    - HMRC/other guidance
    - Media
    - Business practices
    - Colleagues
    - Family/friends
- Who they think avoids tax; why they think they do it?
- Explore how avoidance makes them feel (i.e. do they think it's unfair, do they feel they are losing out)?
- Explore what they think of businesses that engage in tax avoidance? How tax avoidance affects their relationship, if at all, with these businesses?

## 3.2. Tax evasion

3.2.1. Explore participant's **understanding** of tax evasion:

- What they understand by tax evasion?
- What they think informs their understanding?
  - HMRC/other guidance
  - Media

- Business practices
- Colleagues
- Family/friends

### 3.2.2. Explore participant's views on the **prevalence** of tax evasion

Explain that evasion, as defined in the survey, is when a business does not declare all their income for tax. *Note to researcher: please identify (from profile sheet) participant's response to how widespread they think tax evasion is.*

Remind participant that when completing the survey, they thought that tax evasion was [insert: very widespread, fairly widespread, not very widespread, not widespread at all, don't know]

- Explore what they think informed their opinions?
  - Media
  - Colleagues/friends/family
- Explore who they think evades and why they think they do it?
- What they think of businesses that engage in tax evasion? How tax evasion affects their relationship with these businesses?

### 3.2.3. Explore participant's views on the **acceptability** of tax evasion;

- Explore under which circumstances, if any, they think evasion might be acceptable;
- What they think influences their view on this?
  - HMRC/other guidance
  - Media
  - Business practices
  - Colleagues
  - Family/friends

## 3.3. Tax avoidance versus tax evasion

Ask participant to think about the differences between tax avoidance and evasion, in terms of prevalence and acceptability.

- Explore whether they think avoidance is more/less widespread than evasion; why?
- Explore whether they think avoidance is more/less acceptable than evasion; why?

## 3.4. Explore what they think HMRC should be doing, if anything, to tackle:

- Tax avoidance
- Tax evasion

#### 4. Close (1 minute)

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4.1. Thank and close

4.2. Explain process for receiving their incentive

- £100 incentive will be sent to their address
- It will be in the form of a debit card with instructions