

## **NEW INTERVENTIONS**

### **AN ALTERNATIVE APPROACH TO COMPLIANCE ACTIVITY**

### **MANAGEMENT SUMMARY AND EVALUATION REPORT**

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## **NEW INTERVENTIONS**

### **AN ALTERNATIVE APPROACH TO COMPLIANCE ACTIVITY**

## **MANAGEMENT SUMMARY**

## New interventions pilots – lessons learned

HMRC is committed to a sustained programme of transformation. A central part of this is modernising the way we do our compliance work to create a more flexible set of compliance checks or “interventions” (the approaches HMRC makes to taxpayers to assure their compliance), tailored to meet the needs of taxpayers, and minimise the burden on the compliant. We want to use “lighter touch” interventions for those taxpayers we believe have made errors and reserve the more formal interventions for those taxpayers who we believe may have made serious understatements.

As part of this ambition, we designed and piloted six new interventions in 2006. These pilots, the timing of which, in particular, was subject to some challenge from external stakeholders, have given us valuable insight and practical learning about what is needed to introduce new ways of tackling non-compliance, and we are keen to share and apply these lessons.

Lessons learned from the pilots include:

- Taxpayers welcomed the opportunity to resolve more minor errors and queries as early and quickly as possible. There are real benefits for both the taxpayer and HMRC in having quicker alternatives to a traditional time-consuming enquiry;
- Tax advisers share our ambition to find more flexible intervention options and they are willing to work with us to develop these;
- Taxpayer safeguards must be properly considered; and
- Interventions must be tailored to the risk and the taxpayer to maximise their potential for success.

But perhaps the key lesson learned was that timely and fuller engagement with external stakeholders improves the design, development and delivery of new compliance interventions.

In partnership with representatives from Professional Associations and the Federation of Small Business, we have designed a programme of work to progress together this year. This includes engagement with small and medium businesses on how we can make tax easier for them at different stages of their development, looking at how we can communicate and share risk assessment better with tax advisers and considering how we can improve the formal enquiry process and create more flexible ways of working.

## Background

In March 2006 HMRC issued a consultation document entitled “Modernising powers, deterrents and safeguards: A consultation on the developing programme of work”. In this paper HMRC set out a commitment to complement existing formal processes with more cost-effective, flexible and taxpayer-focused ways of working in compliance assurance.

HMRC designed six new interventions which were intended to be less cumbersome and more taxpayer friendly. They were aimed at those taxpayers who make mistakes or who may not take sufficient care to avoid errors. Where possible the designs allowed for an integrated approach across taxes.

Pilots to test the design of the new interventions commenced in July 2006 and ended in October 2006.

## Management of the pilots

The pilots’ objectives were to:

- deliver a range of pilot designs, and introduce, monitor and evaluate the results to inform future activity;
- design new interventions for use across more than one tax;
- inform the consultation on the compliance assurance framework for HMRC, which is part of the Review of Powers, Deterrents and Safeguards;
- develop processes and procedures to enable HMRC to best use bulk third party information; and
- develop good practice.

The new interventions which were piloted were:

- **Self Audit**  
Taxpayers within specific risk groups were provided with guidance on areas where we find a high incidence of errors and asked to either confirm that they had made a correct declaration or to correct the position voluntarily.
- **Short Risk Review**  
Taxpayers within trade, professional or behavioural groups were issued with information about common errors and a short questionnaire. The questionnaire invited them to revisit their return and either confirm that it was correct or seek further assistance from HMRC.
- **Real Time Health Check**  
Taxpayers were invited to review potential errors on their return and confirm its accuracy, identify any errors or seek further assistance from HMRC via a reply stencil.

- **Real Time Records Review**  
Taxpayers were offered the opportunity to allow HMRC to review and discuss their business records pre-return. Any potential errors were advised to the taxpayer.
- **Telephone Contact**  
Taxpayers were contacted by telephone at pre-arranged times to discuss potential errors identified based on information held by HMRC, to resolve the issue or address any error found.
- **Correction Challenge**  
Taxpayers were issued with letters detailing potential understatements of tax based on information held by HMRC. If no satisfactory explanation for the potential understatement was agreed between the taxpayer and HMRC an assessment or re-coding notice was issued.

Participation in the pilots was on a voluntary basis. Over 13,000 taxpayers were approached as part of the pilots with more than 9,000 choosing to participate. The pilots were designed so that non-participation would not result in any further challenge by HMRC nor would it directly result in a taxpayer being risk assessed and selected for further enquiry<sup>1</sup>. However, all participants and non-participants remained subject to HMRC's routine enquiry selection processes outside of the pilots.

## Pilot findings

Analysis of the pilot results is based on four sources of information:

- quantitative data obtained from the management information recorded;
- qualitative research carried out by Ipsos MORI on both participants and non-participants;
- feedback obtained from HMRC pilot personnel in a staff survey; and
- the representations of individual agents and the professional bodies.

A wide range of variable factors have influenced the measurable outcomes of the pilots including:

- high levels of non-participation for some of the interventions;
- the voluntary nature of the pilots means that the results may not be representative of the taxpayer population;
- except for the most implausible responses, taxpayers' responses were accepted without further challenge or credibility check; and

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<sup>1</sup> It was identified early in the pilots that a very small number (less than 20) of non-participation cases had been referred for further enquiry. Procedures were put in place to prevent further recurrence.

- some of the interventions piloted were aimed at preventing future errors rather than addressing errors already made. The benefits of these should accrue in future years and could not be measured in immediate yield generated. It is impossible to know at this stage whether the taxpayers that took part in the pilot will take more care or seek advice to avoid errors in future. The longer-term effects of the interventions piloted have not therefore been considered in this report.

Consequently the results present a complex picture which is detailed in the chapters *Evaluation Results*, *Customer Experience Research* and *Agents' Experience and Role* of the main evaluation report. Although the quantitative evidence is inconclusive because of the many variable factors, valuable learning can be drawn from the results and reactions to the pilots on both the principles underpinning the design and purpose of interventions and how the development and testing of new kinds of interventions can be improved.

## Key findings

According to the customer experience research, most respondents preferred the new interventions to traditional enquiries. The fact that HMRC was anticipating difficulties rather than reacting to situations was viewed positively. The pilot interventions were considered to be a better way to address mistakes in tax returns, but not necessarily the best way to tackle those who deliberately understated their tax liability. Key to this was the impression that the intervention was seen as being proactive and avoided the need to check up on individuals and challenge people directly.

There are, therefore, potential benefits for both HMRC and taxpayers in having a quicker and simpler means of resolving minor issues and errors than the current formal type of enquiry intervention. In particular, where the risk is clearly identifiable, current and can be simply articulated. More complex or serious errors require more in-depth consideration for both HMRC and taxpayer or agent than the piloted interventions provide. In addition the Pilots found that:

- Results were generally poorer where risks were found to enable an intervention type to be tested, rather than those where an intervention was designed to address a risk;
- The interventions piloted were relatively low cost compared to formal self assessment enquiries and offered significantly reduced the average elapsed times for completing each check.
- Some taxpayers are not able to declare the correct amount of tax because their business records are not adequate. If this is left unaddressed it could subsequently lead to more significant errors; and
- Where possible HMRC needs to ensure the accuracy of third party information before they make an intervention if that intervention is to be successful and less burdensome.

The opinions of those who chose to participate in the intervention process were mostly neutral or positive. Despite this, there were a few occasions where respondents in the customer experience research felt their time (or HMRC's) had been wasted. Most participants felt that the interventions could be completed without

assistance from agents. Those that involved agents tended to be taxpayers who were lacking in confidence in terms of their finances generally, and tax affairs specifically, or those whose tax affairs were especially complex. However, many taxpayers and agents felt that some of the letters used in the pilot interventions:

- were confusing (in some instances technically unclear);
- failed to explain the risks and issues sufficiently; and
- left the taxpayer uncertain of what to expect.

Members of the Working Together forum were, and remain, supportive of the underlying principle of developing “lighter-touch”, more flexible interventions. However agents’ concerns arose around some of the practical implications and technical issues arising from the pilots. Specifically, the time given for consultation was considered by external stakeholders to be too short and gave too little time for them to inform and influence the design of the processes, procedures and letters before the pilots began. Also, concerns were expressed about the lack of a legal framework and safeguards and how this affected their client’s rights. The lack of clarity caused some agents to advise their clients not to participate in the pilots.

More generally, participants’ perceptions of HMRC staff throughout the pilot were generally positive. Staff were praised for being polite, friendly and helpful.

## Next steps

The activity undertaken within the six pilots ended in October 2006. Since then the Compliance Reform Forum has been established bringing together representatives from HMRC, small business, the Low Incomes Tax Reform Group and the agents’ community to discuss how to take forward work on developing a more flexible and customer-focused compliance assurance regime for HMRC. The key learning points and conclusions identified in this report have informed the development of that programme of work. A programme of work to take forward development of work on new interventions has been agreed, including:

- helping new business;
- better communication with HMRC through the use of email and telephony;
- sharing information on methods of risk assessment between HMRC and tax advisers to generate better understanding;
- sharing workflow processes to enable HMRC and tax advisers to understand the role of each party in assuring tax return compliance;
- reviewing and improving current intervention processes and exploring alternatives and safeguards;
- communication to interested parties about proposals and possible developments; and

- improved consultation framework and implementation.

Where the above programme involves developing and testing new approaches to improve how HMRC checks and assures compliance the following points of learning from the pilots should be considered:

- Development work on interventions should begin with an identified risk and design the type of intervention and intervention mix which is proportionate and effective to address that risk;
- Where bulk data is the basis of an intervention, to reduce unnecessary burdens on compliant taxpayers HMRC must be careful in checking third party data before the intervention is made. This includes, where appropriate, checking information held by HMRC, such as the “white space” on self-assessment returns ;
- Assurance of the quality and technical accuracy of the outcome of an intervention is essential to safeguard the taxpayer’s position and to enable appropriate evaluation. Quality assurance should form an integral part of the future testing of new approaches to compliance work;
- The approach and design of the opening contact with taxpayers is important in influencing the likelihood of a positive response. The communication methods used to deliver an intervention should be appropriate to the risk and to the taxpayer. The purpose and expectation of the intervention should be clear and easily communicable. External stakeholders could provide assistance and advice to improve the design of the contacts or approach to meet both HMRC’s and taxpayers’ needs;
- Full and timely engagement with external stakeholders will improve the design, development and testing of new approaches; and
- Where less formal compliance interventions are to be tested or used, taxpayer safeguards should be established which are clear, adequate, robust and understood by HMRC, taxpayers and agents.

## The legislative framework

HMRC is looking at how it can best work in partnership with taxpayer representatives to design its operational responses to common forms of non-compliance using the powers that are currently available. However, many of the criticisms of HMRC’s ways of working stem from the powers themselves and the structures they impose. Importantly, the different powers inherited from the former departments can mean inconsistent taxpayer experience and can increase the compliance burden.

The Review of Powers, Deterrents and Safeguards aims to develop modern, proportionate, efficient and effective powers, with commensurate safeguards for citizens. The framework will support interventions appropriate to the range of risks. Lessons learned from the pilots will inform this work.

## **NEW INTERVENTIONS**

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### **EVALUATION REPORT**

## Background

This section sets out the commitments made by HMRC which motivated the new intervention pilots, the environment in which they were commissioned and carried out, and the aims of the exercise.

When HMRC was formed it retained the compliance assurance legislation of its two former departments. Making no changes at that time ensured that work was not disrupted and provided a breathing space in which to consult on what was needed in the future.

In March 2006 HMRC issued a consultation document entitled “Modernising powers, deterrents and safeguards: A consultation on the developing programme of work”. In this paper HMRC set out a commitment to complement existing formal processes with more cost-effective, flexible and taxpayer-focused ways of working in compliance assurance.

Within HMRC the Compliance and Enforcement Programme has been developed to transform the Department into one which:

- is risk and intelligence driven with the ability to develop effective end-to-end strategies for tackling the causes rather than the symptoms of risk, tailoring each strategy to the nature and the size of the risk; and
- understands taxpayer behaviour and has a flexible range of approaches that encourage voluntary compliance, and tackle non-compliance with a response proportionate to the risk and behaviour involved.

New compliance interventions that are tailored to taxpayer behaviours are, therefore, integral to achieving the necessary improvements to help HMRC achieve its goals to support the compliant and to tackle the non-compliant.

HMRC designed six new interventions which were intended to be less cumbersome and more taxpayer friendly. They were aimed at taxpayer groups likely to make mistakes or who may not take sufficient care to avoid errors. Where possible the designs allowed for an integrated approach across taxes.

The aim was to test more flexible and innovative ways of supporting compliant taxpayers by helping them prevent errors occurring, or resolving errors that had occurred, quickly, simply and with minimal burden to the taxpayers. This would help taxpayers avoid burdensome traditional interventions and help HMRC to support compliance in a more cost-effective way.

This report evaluates the results from the six new interventions pilots which commenced in July 2006 and ended in October 2006. It looks at the strategic and specific aims of the pilots and measures results with reference to evaluation criteria. The evaluation draws on the following sources:

- quantitative data obtained from the management information recorded;
- qualitative research carried out by Ipsos MORI;
- feedback obtained from HMRC pilot personnel in a staff survey; and

- the representations of individual agents and the professional bodies.

It also identifies generic learning points and key themes.

## Management of the pilots

### Aims and objectives

As part of its Compliance Strategy, HMRC must design and develop a graduated range of new compliance interventions, responding to compliance risk by being:

- taxpayer focused;
- efficient and cost-effective;
- designed to help businesses to comply with as little interference as possible, thus reducing the burden on them;
- tailored to the risk and behaviour;
- more flexible in the use of existing resource; and
- holistic and consistent in approach to differing tax regimes.

The pilots' objectives were to:

- deliver a range of pilot designs, introduce, monitor and evaluate the results to inform future activity;
- design new interventions for use across more than one tax;
- inform the consultation on the compliance assurance framework for HMRC, which is part of the Review of Powers, Deterrents and Safeguards;
- develop processes and procedures to enable HMRC to best use bulk third party information; and
- develop good practice.

### New compliance interventions piloted

A key part of the early research and design involved contact with other tax authorities, looking at a number of their initiatives as potential models for less confrontational and resource intensive strategies.

From this research and through a series of workshops held in late 2005 and early 2006, the concept designs for the six options ultimately tested were developed:

- **Self Audit**  
Taxpayers within specific risk groups were provided with guidance on areas where we find a high incidence of errors and asked to either confirm that they had made a correct declaration or to correct the position voluntarily.

- **Short Risk Review**  
Taxpayers within trade, professional or behavioural groups were issued with information about common errors and a short questionnaire. The questionnaire invited them to revisit their return and either confirm that it was correct or seek further assistance from HMRC.
- **Real Time Health Check**  
Taxpayers were invited to review potential errors on their return and confirm its accuracy, identify any errors or seek further assistance from HMRC via a reply stencil.
- **Real Time Records Review**  
Taxpayers were offered the opportunity to allow HMRC to review and discuss their business records pre-return. Any potential errors were advised to the taxpayer.
- **Telephone Contact**  
Taxpayers were contacted by telephone at pre-arranged times to discuss potential errors identified based on information held by HMRC, to resolve the issue or address any error found.
- **Correction Challenge**  
Taxpayers were issued with letters detailing potential understatements of tax based on information held by HMRC. If no satisfactory explanation for the potential understatement was agreed between the taxpayer and HMRC an assessment or re-coding notice was issued.

Participation in the pilots was on a voluntary basis. Over 13,000 taxpayers were approached as part of the pilots with more than 9,000 choosing to participate. The pilots were designed so that non-participation would not result in any further challenge by HMRC nor would it result in a taxpayer being risk assessed and selected for further enquiry<sup>2</sup>. However, all participants and non-participants remained subject to HMRC's routine selection processes outside of the pilots.

## Stakeholders and governance

Key internal stakeholders were engaged at each stage of the pilot process, with appropriate Directors' support confirmed. Governance of the pilots was through the establishment of a formal project under the Enforcement and Compliance Change Programme.

External stakeholders comprised representatives from the professional bodies identified through the Working Together forum. The timetable for the pilots limited the scope for full consultation on the design and running of the pilots with external stakeholders.

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<sup>2</sup> It was identified early in the pilots that a very small number (less than 20) of non-participation cases had been referred for further enquiry. Procedures were put in place to prevent further recurrence.

## Pilot data

The pilots ran from July to October 2006. There were fifteen pilot teams throughout the UK, staffed by one hundred and eighty-nine team members. Of these teams, twelve carried out only one type of pilot intervention and three carried out both Self Audit and Short Risk Review. Team members came from varied backgrounds within direct and indirect taxes.

In order to gain the most from the opportunity of joint working, it was recommended that teams be co-located. Some teams could not achieve this due to factors such as accommodation and IT restrictions, the outcomes in terms of both results and staff perceptions will form part of the lessons learned.

The costs reflected in the quantitative data refer only to time spent working directly within the pilot teams and so exclude training costs and Head Office staff costs. They are not a like-for-like comparison with published Departmental cost figures.

## Conduct and evaluation criteria

'Starter Packs', which set out the conduct and evaluation criteria, were developed for each of the new interventions. These starter packs detailed:

- the purpose of the pilot;
- the scope of the pilot;
- the timing of the pilot;
- the role of the project team in conducting the pilots;
- the role of the pilot team leaders and their staff in conducting the pilots;
- operational business requirements essential to the functioning of the pilots;  
and
- any additional software, equipment or other resources required to carry out the pilot.

The pilots sought to include more than one tax where possible. Differences identified across the regimes meant that workarounds had to be sought for the pilots to be able to function effectively. In addition, the pilot teams were not resourced to undertake contract settlements, leading to the need for higher yielding cases to be escalated to Local Compliance teams. Risk profiles were, therefore, developed to target only relatively low risks and taxpayers likely to have made minor mistakes. The pilot teams were also instructed not to challenge the veracity or accuracy of any but the most implausible responses.

## Risk selection

The pilot teams were asked to test the interventions by reference to specific cases selected following detailed consultation with HMRC's National Compliance Risk and Knowledge, Analysis and Intelligence Directorates.

They were required to test the interventions across combinations of the taxes for which the Department has responsibility both individually and in combination. This meant that a wide range of relatively low-level risks had to be identified which would provide cross-tax populations in various combinations and with sufficient cases per risk profile to provide the statistically robust sample size required.

Where interventions were being tested in non-location specific pilots, national profiles could be run, however, there was an added complication for those new interventions with geographical constraints, such as the Real Time Record Review which required officers to visit the taxpayers' premises.

The risk selection process adopted for the pilots was necessarily different to the Risk selection process normally conducted for HMRC's compliance work. In normal circumstances the type of risk identified indicates the most appropriate type of intervention to check it. However, for the pilots, the intervention type was pre-determined and the most suitable cases available were sought to match the intervention within the timetable set for the pilots. That resulted in a less targeted selection of cases than would normally happen.

The requirement to test feasibility across regimes in various combinations resulted in a need for thirty-eight different risk profiles. With hindsight this was an exceptionally stretching challenge and may well have resulted in interventions being tested with inappropriate risks.

While risk driven, Correction Challenge and Telephone Contact and to a limited extent Self Audit are based on designing a response to risk resulting from analysis of existing third party information. They were not, therefore, subject to the same risk profile limitations as the other new interventions. While the third party information was claimed to be inaccurate by many of those participating in those interventions, especially Telephone Contact, the cases had not been subjected to normal deselection processes and the pilot teams had been instructed not to challenge the veracity or accuracy of any but the most implausible responses.

## Repayments

Some of the pilot letters were not sufficiently detailed to enable the taxpayer to identify errors where the taxpayer had made an overpayment, especially those who did not use an agent. Many of the new interventions were based on a self-help ethos and the pilots identified some cases where the taxpayer had made an error, which when rectified led to a repayment becoming due. The future design of interventions must ensure that there are effective processes and guidance for identifying and making repayments.

## Evaluation results

This section begins by outlining the criteria and key drivers against which the pilot results were evaluated. This is followed by a description of the methodology behind both the quantitative and qualitative analyses which have been carried out and the caveats attached to their findings. The section is completed by an individual summary of the key findings and conclusions for each intervention based on:

- quantitative data obtained from the management information recorded;
- qualitative research carried out by Ipsos MORI on both participants and non-participants;
- feedback obtained from HMRC pilot personnel in a staff survey; and
- the representations of individual agents and the professional bodies.

## Evaluation criteria

The results of the pilots were measured against the following evaluation criteria:

- impact on taxpayer compliance time;
- impact on HMRC compliance time;
- impact on time taken from beginning to end of the intervention;
- the number of mistakes averted and penalties avoided as a result of the intervention;
- the number of mistakes corrected;
- additional tax yield;
- impact on the risk assessment processes;
- HMRC resource costs including training;
- taxpayer resource cost;
- taxpayer reaction to the approach;
- impact on joint working across ITSA/CTSA/VAT/PAYE;
- any evidence for any new legislative requirements to be taken forward in PBR 2006 for FB 2007;
- number of formal ITSA/CTSA/VAT etc enquiries/reviews avoided; and
- better understanding of commercial pressures of HMRC

The following section sets out a summary analysis of the results per intervention type against the above criteria. In particular, the key findings have been summarised against the two key drivers for the pilots:

- The cost-effectiveness of the interventions as a means of improving compliance; and
- The impact of the interventions in terms of reducing burdens on compliant taxpayers.

## Long-term evaluation

Many of the non-yield benefits and the longer-term impact on yield cannot be identified or measured in the short-term.

A long-term evaluation strategy would be required to establish the impact that the interventions had on taxpayers' future behaviour, whether as participants or part of a wider policing effect, and on HMRC's perceptions of the taxpayers.

## Caveats and methodology

The full quantitative report is at Appendix 2 and the full qualitative report is at Appendix 3.

### Quantitative data

The results presented in this report should be treated with caution. The analysis has been produced at the earliest possible stage following the completion of the pilot, and as such does not reflect the final results for all cases. Furthermore to fully ascertain the impact of these interventions it would be necessary to wait and observe the longer term compliance effects.

Average elapsed time figures are based on closed cases only, and do not include the time spent on cases that had not reached an outcome at the time the analysis was conducted. Furthermore elapsed times do not take into account the additional time spent on cases that have been escalated.

Total direct yield and error amounts reflect the values identified from cases that had reached an outcome at the time the analysis was conducted. It is likely that yield amounts are incomplete as they exclude any additional yield identified from escalated cases, as well as any yield due from the outstanding cases which may include the more complicated and higher-yielding cases.

HMRC costs are based on the time spent by grade of staff working directly within the pilot teams. Staff costs include expenses and time spent further de-selecting cases, but exclude training costs. These figures also exclude the costs of all Head Office staff involved in the risk and case selection process, setting up and monitoring the pilots.

Percentages may not sum to 100% due to rounding.

## Qualitative data

HMRC commissioned Ipsos MORI to undertake an in-depth qualitative study to provide a detailed understanding of taxpayers' experiences of the pilots. The research method for the primary data collection was in-depth exploratory qualitative interviews with intervention pilot participants and non-participants. Depth interviews are suited to this type of exploratory research because they enable the researcher to gain an in-depth understanding of the pilot experience from the taxpayer's perspective.

The qualitative approach affects the nature of the information produced by the study. One of the key differences between quantitative and qualitative research is that quantitative research produces numerical data whereas qualitative research does not. This is because quantitative research is designed to produce standard measurements that are the same across all respondents. The principle weakness of quantitative research is that it involves the use of a structured questionnaire, which necessarily obtains a lesser depth of information.

Qualitative research is concerned with individuals' own accounts of their attitudes, motivations, experiences and behaviour. It allows a deeper understanding of why people think and behave in the way they do. Conducting in-depth interviews as the qualitative part of this evaluation has provided a detailed understanding of the experience of the pilots and its impact from the perspective of the individual's involved and complements the quantitative economic evaluation work. It does not, however, identify what proportion of pilot participants' hold a particular view or how widespread a particular experience is.

The timetable for the research has a number of implications for the evidence which has been produced:

- In order to inform the evaluation, the customer experience fieldwork was carried out before the pilots ended. This means the research sample had to be drawn from early pilot participants who may have experienced 'teething troubles' not experienced by later participants. This bias in the sample means the research findings cannot be viewed as reflecting the experiences of all pilot intervention participants, only early pilot intervention participants;
- Anecdotal information suggests that compliant taxpayers tend to respond quicker than non-compliant taxpayers. Therefore, the timing of the research may mean that the sample is biased towards compliant taxpayers;
- The researchers only interviewed pilot participants whose cases had been closed; ongoing and escalated cases were excluded. This is likely to have introduced further bias, as the closed cases were early cases and cases which were straightforward to resolve. It means that the research findings cannot be viewed as capturing the experiences of participants with more complex cases;
- The start dates for the different risk profiles mean that not all the risk profiles were included in the research and the research sample was biased towards participants in the risk profiles which started first; and
- The length of time between the first contact being made and the date when the sample was be drawn was less than six weeks for almost all of the risk

profiles involved. This meant that the 'non-participants' who were included in the research were people who had actively not participated, i.e. informed HMRC that they did not wish to take part, not people who simply had not responded to the initial contact (passive non-participants).

## Self Audit

### Introduction

The Self Audit intervention targets specific risks within segments of the taxpayer populations. A contact letter provides guidance to taxpayers detailing the specific risk and offering guidance as to how that should be declared correctly for tax purposes. It invites them to revisit their declared return to confirm that they have made an accurate declaration or correct the position by advising HMRC of any errors identified. For the purposes of the pilot, if no response was received to the initial contact letter after fifteen days, a further contact was attempted. If the taxpayer had still not responded after twenty-five days the case was closed.

The risks addressed by the pilot are summarised in the table below.

Risk	Relevant regime	Taxpayer group	No of interventions	No of interventions closed	Non-participation rate
SAu 1 – Repairs (Dentists/Doctors)	ITSA	Business (Dentists/Doctors)	118	105	35%
SAu 1 – Repairs (Hotels)	VAT	Business (Hotels)	125	99	55%
SAu 2 – Stock Valuation (Antiques Dealers)	ITSA CTSA	Business (Antiques Dealers)	250	247	22%
SAu 3 - Output Tax on Asset Disposal (Coach Operators)	VAT	Business (Coach Operators)	248	247	19%
SAu 4 – VAT Rates Applying (Estate Agents)	VAT	Business (Estate Agents)	250	238	28%
SAu 5 – Operation of PAYE/Employee Costs	EC	Business (Employers)	249	245	28%
SAu 6 – Operation of PAYE (Restaurants)	EC	Business (Restaurants)	245	242	37%
SAu 7 – Incidental Income (Tyre & Exhaust Fitters)	ITSA CTSA VAT	Business (Tyre & Exhaust Fitters)	250	250	34%
SAu 8 – Round Sum Turnover	ITSA CTSA VAT	Business	250	250	26%
SAu 9 – Treatment of Common Expenses	ITSA	Individuals (Directors and Employees)	257	251	42%
SAu 10 – Land & Property Losses	ITSA	Individuals	250	249	22%
SAu 11 – Third Party Information Based On Untaxed Income	ITSA	Individuals	250	250	59%
TOTAL			2742	2673	33%

## Key findings

### Participation

Participation in this intervention was relatively high at 67%<sup>3</sup>. Of the remainder contacted 8% specifically chose not to participate and the rest simply did not respond<sup>4</sup>.

*“Self Audit was not always easily remembered by respondents [to the customer experience research], as it often involved fairly minimal input in terms of reading through the letter and then ticking a box if they felt their tax affairs were in order. Participants were therefore sometimes confused about this intervention and were not entirely sure what it had entailed.”<sup>5</sup>*

Where specific third party information was held (profile SAu11) the reaction from those who responded was more positive and indicated a more active participation by the taxpayer in critically reviewing the risk and notifying errors<sup>6</sup>.

### Cost-effectiveness

Self Audit is much quicker than traditional interventions, in terms of time spent undertaking the intervention by HMRC and overall elapsed time from first contact to completion<sup>7</sup>. However, time spent on undertaking the cases and overall elapsed times would increase if further action were taken to follow up cases of non-participation. Nevertheless, the speed of Self Audit and the lesser level of training required to undertake it offers potential for a much wider coverage of risk populations than traditional interventions.

Overall the cost of the interventions exceeded the value of additional yield identified. Within that there are wide variances, for example one risk profile produced a return of £2.70 yield for every £1 cost<sup>8</sup> (these statistics exclude amounts escalated to local compliance teams). Of the 2673 cases concluded 13% resulted in adjustment for errors totalling £125,270 yield to date. There is also an estimated £37,300 potentially arising from escalated cases<sup>9</sup>. The adjustment rate and yield/cost return is much lower compared to traditional interventions. A number of factors contributed to this:

- The risk profiling was not optimal and was aimed at relatively low-risk minor error issues; and
- The voluntary nature of Self Audit meant that only those taxpayers willing to participate did so. Potentially non-compliant taxpayers who did not participate were not addressed.

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<sup>3</sup> Appendix 2, Quantitative Monitoring Report Section 2 Table 2

<sup>4</sup> This section, Table SAu 1

<sup>5</sup> Customer experience research Section 5.4

<sup>6</sup> Appendix 2, Quantitative Monitoring Report Section 2 Table 2

<sup>7</sup> Appendix 2, Quantitative Monitoring Report Section 2.6

<sup>8</sup> Appendix 2, Quantitative Monitoring Report Section 2 Table 7

<sup>9</sup> Appendix 2, Quantitative Monitoring Report Section 2.8

## Reduced burdens

The customer experience research indicates that all of the pilots with the exception of Real Time Record Review (which involved visiting the taxpayer) were perceived on an individual taxpayer by taxpayer basis as less time consuming and burdensome than those taxpayers' perception of traditional interventions<sup>10</sup>. Although Self Audit is light touch, the low (11%) adjustment rate<sup>11</sup> means that there would be an overall impact on compliant taxpayers unless risk targeting was significantly improved.

Despite being designed as a very straightforward intervention requiring a simple response, one-third of taxpayers felt it was necessary to engage agents<sup>12</sup>. This may be in part due to the structure of the initial contact letter which seemed to confuse some taxpayers. Help sheets were included with letters in the later stages of the pilot. The engagement of an agent may also be due to the low level of confidence some taxpayers have in dealing with their tax affairs themselves, no matter how straightforward the issue<sup>13</sup>.

## Conclusions

Self Audit is simple, cost-effective to run for HMRC and relatively easy for taxpayers to respond to. The intervention offers HMRC the potential for much wider coverage of the population than traditional interventions. While there are contributing factors the low adjustment and low or negative yield/cost outputs suggest that this is a fairly ineffective tool for tackling non-compliant taxpayers. Also, to be successful the purpose of the contact and the risk or issue to be resolved must be more clearly communicated to and understood by the taxpayer.

The longer-term indirect effects of Self Audit were not measured in the pilot. Wider coverage could deliver more general policing and deterrent effects. However, unless Self Audit is perceived as effective, it is equally possible that wider coverage could have an inverse deterrent effect.

The success of Self Audit is heavily dependent on the quality of the risk profiling. If that can be improved then the compliance outcomes will improve. However, the nature of Self Audit means that the risk will always be generic as opposed to taxpayer specific. That suggests this type of intervention would be better suited as part of a broader graduated response to risks across populations to self-help taxpayers avoid errors rather than as a stand-alone compliance intervention.

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<sup>10</sup> Customer experience research Section 4.3

<sup>11</sup> Appendix 2, Quantitative Monitoring Report Section 2 Table 2

<sup>12</sup> Appendix 2, Quantitative Monitoring Report Section 2 Table 4

<sup>13</sup> Customer experience research Section 2.1

**Table SAu 1 – Overview of Results by Risk Group**

Self Audit (SAu)	Cases Opened	Cases Closed	Outcome						Yield (£)	Cost (£) Excluding head office & formal training	Yield Cost	Average Yield Per Closed Case (£)	Average Yield Per Participant (£)
			No Adjustment Required	Adjustment Required	Escalation Required	More Info Required	Non-Participation	Non-Response					
Total	2742	2673	1508 (56%)	232 (9%)	55 (2%)	5 (0%)	202 (8%)	671 (25%)	125,270	182,500	0.7	47	70
SAu1 (D) - Dentists & Doctors	118	105	62 (59%)	3 (2%)	3 (3%)	nil	4 (4%)	33 (31%)	7,419	14,500	2.0	71	109
SAu1 (H) - Hotels	125	99	35 (35%)	2 (2%)	8 (8%)	nil	4 (4%)	50 (51%)	21,947			222	488
SAu2 - Antique Dealers	250	247	187 (76%)	2 (1%)	3 (1%)	nil	9 (4%)	46 (19%)	1,856	15,400	0.1	8	10
SAu3 - Coach Operators	248	247	199 (81%)	2 (1%)	nil	nil	1 (0%)	45 (18%)	894	15,100	0.1	4	4
SAu4 - Estate Agents	250	238	161 (68%)	9 (4%)	1 (0%)	nil	7 (3%)	60 (25%)	17,122	22,400	0.8	72	100
SAu5 - Round Sum Employee Costs	249	245	154 (63%)	3 (1%)	15 (6%)	4 (2%)	13 (5%)	56 (23%)	1,139	48,000	0.0	5	6
SAu6 - Restaurants	245	242	148 (61%)	nil	3 (1%)	1 (0%)	10 (4%)	80 (33%)	200	12,500	0.0	1	1
SAu7 - Tyre & Exhaust Fitters	250	250	166 (66%)	nil	nil	nil	20 (8%)	64 (26%)	0	4,600	0.0	0	0
SAu8 - Round Sum Turnover	250	250	180 (72%)	3 (1%)	3 (1%)	nil	23 (9%)	41 (16%)	0	4,600	0.0	0	0
SAu9 - Mileage Allowances	257	251	125 (50%)	17 (7%)	3 (1%)	nil	45 (18%)	61 (24%)	14,881	16,100	0.9	59	103
SAu10 - PAYE cases with Land & Property	250	249	35 (14%)	155 (62%)	5 (2%)	nil	24 (10%)	30 (12%)	44,434	16,600	2.7	178	228
SAu11 - Section 16 Income on TPI Mart	250	250	56 (22%)	36 (14%)	11 (4%)	nil	42 (17%)	105 (42%)	15,378	12,800	1.2	62	149

\*Yield anticipated from escalated cases is a further £37,300

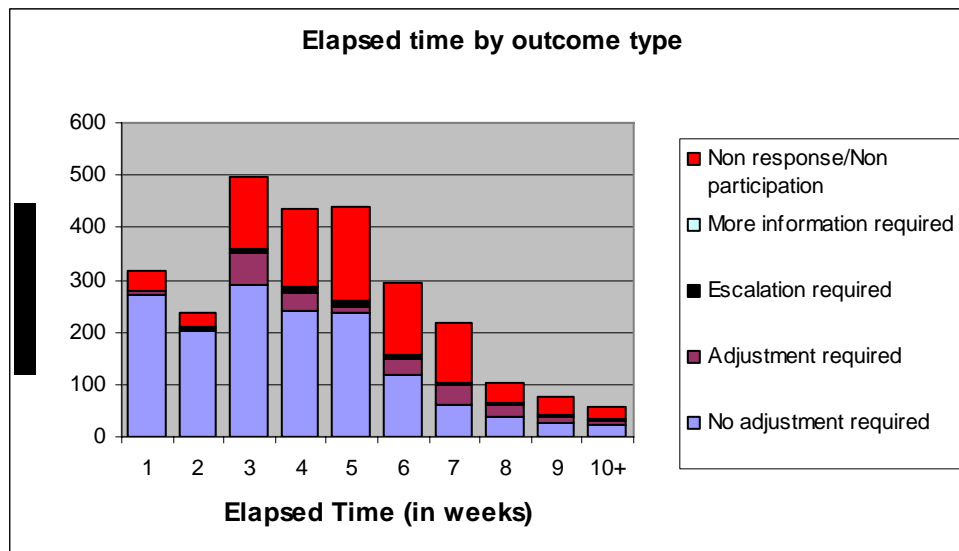
Individual cost and yield/cost figures for SAu1 (D) and SAu1 (H) are not available

**Table SAu 2.1 – Elapsed Time Analysis**

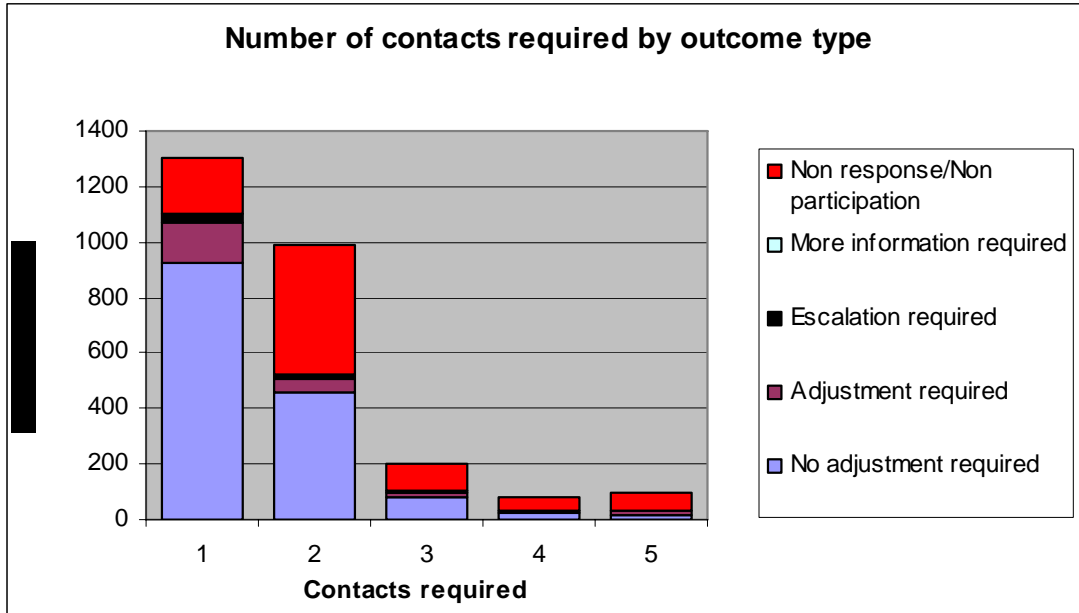
Weeks to completion	Percentage of cases	Cumulative Percentage
1	12%	12%
2	9%	21%
3	19%	40%
4	16%	56%
5	16%	72%
6	11%	83%
7	8%	91%
8	4%	95%
9	3%	98%
10+	2%	100%

NB – Average time taken for a case to reach conclusion was almost 4 weeks.

**Table SAu 2.2 – Elapsed Time by Outcome**



**Table SAu 3 – Number of Contacts Required by Outcome Type**



**Table SAu 4.1 – Agent Involvement by Outcome**

Outcome	Agent Involved		Not involved	
No Adjustment Required	612	71%	896	50%
Adjustment Required	77	9%	155	9%
Escalation Required	21	2%	34	2%
More Info Required	3	0%	2	0%
Non-Response/Part'n	153	18%	720	40%
<b>Total cases closed</b>	<b>866 (32%)</b>		<b>1807 (68%)</b>	
<b>Yield £</b>	<b>£52,765</b>		<b>£72,505</b>	

**Table SAu 4.2 – Agent Involvement by Outcome (Participants Only)**

Outcome	Agent Involved		Not involved	
No Adjustment Required	612	86%	896	82%
Adjustment Required	77	11%	155	14%
Escalation Required	21	3%	34	3%
More Info Required	3	0%	2	0%
<b>Total cases closed</b>	<b>713 (40%)</b>		<b>1087 (60%)</b>	
<b>Yield £</b>	<b>£52,765</b>		<b>£72,505</b>	

**Table SAu 5 – Yield by Tax Regime**

Profile	Regime Targeted	Yield			
		VAT	IT/CT	NIC/EC	PAYE
SAu1 (D) - Dentists & Doctors	ITSA	0	7,419	0	0
SAu1 (H) - Hotels	VAT	0	21,947	0	0
SAu2 - Antique Dealers	ITSA / CTSA	0	1,856	0	0
SAu3 - Coach Operators	VAT	894	0	0	0
SAu4 - Estate Agents	VAT	17,122	0	0	0
SAu5 - Round Sum Employee Costs	EC	0	62	0	1,077
SAu6 - Restaurants	EC	0	200	0	0
SAu7 - Tyre & Exhaust Fitters	ITSA / CTSA / VAT	0	0	0	0
SAu8 - Round Sum Turnover	ITSA / CTSA / VAT	0	0	0	0
SAu9 - Mileage Allowances	ITSA	0	10,256	0	4,625
SAu10 - PAYE cases with Land & Property	ITSA	0	42,808	292	1,334
SAu11 - Section 16 Income on TPI Mart	ITSA	0	0	0	15,378

(Targeted Regime)

## Short Risk Review

### Introduction

Short Risk Review targets segments of the taxpayer population where specific risks are commonly found. A letter is sent to the taxpayer and their agent, if one is acting, detailing the relevant risk and offering guidance on how to correctly deal with it for tax purposes. The letter invites the taxpayer to look at their return again and asks them to complete a short questionnaire relating to the risk. The taxpayer is asked to confirm that they are satisfied that they have dealt with the matter correctly and are given the opportunity to discuss any areas of concern. For the purposes of the pilot, if no response was received to the initial contact letter, a further contact was attempted by HMRC after fifteen days. If the taxpayer had still not responded after twenty-five days, the case was closed.

The risks addressed in the pilot are summarised in the table below.

Risk	Relevant regime	Taxpayer group	No of interventions	No of interventions closed	Non-participation rate
SRR1 Stock Valuation (Jewellers)	ITSA	Business (Jewellers)	250	250	27%
SRR2 Private Motoring Costs (Dentists)	ITSA	Business (Dentists)	250	246	32%
SRR3 VAT Liability Errors (Staff Agencies)	VAT	Business (Staff Agencies)	250	247	46%
SRR4 VAT Rates Applying to Building Work (Builders)	VAT	Business (Builders)	250	235	49%
SRR5 Operation of PAYE (Hairdressers)	EC	Business (Hairdressers)	250	249	23%
SRR6 Operation of PAYE (Contract Cleaners)	EC	Business (Contract Cleaners)	249	248	25%
SRR7 VAT on Purchase of a Motor Vehicle/Allowable Motor Expenses	VAT ITSA CTSA	Business	250	250	60%
SRR8 Treatment of Costs as Disbursements/Treatment of Certain Costs (IT Consultants)	VAT ITSA CTSA	Business (IT Consultants)	250	250	42%
SRR9 Directors Expenses	ITSA	Individuals (Directors)	255	248	65%
SRR10 Rent-A-Room Relief Qualifying Conditions	ITSA	Individuals	254	250	26%
TOTAL			2508	2473	39%

## Key findings

### Participation

Participation in Short Risk Review was reasonably high at 61%<sup>14</sup>, although it had the highest non-response rate of the letter-based interventions<sup>15</sup>. Some of the responses from participants interviewed in the customer experience research suggest a greater willingness to participate where the design and tasks involved were simple<sup>16</sup>. There are indications from this research that Short Risk Review was perceived as complex, requiring the taxpayer to complete questionnaires containing overly detailed and difficult questions on the risks being targeted. The research and feedback from agents also indicated that the letters were confusing, which may have deterred taxpayers from taking part. The involvement of agents may also be an indicator of underlying taxpayer confidence levels with the results showing a higher rate of non-participation for taxpayers who did not involve an agent (44%) compared to those who were represented (28%)<sup>17</sup>.

### Cost-effectiveness

Short Risk Review is designed to be much quicker than a traditional intervention. The average case took less than four weeks to complete and the majority involved just two taxpayer contacts<sup>18</sup>. However, no follow-up action was taken in cases of non-participation and time spent on pursuing those cases would inevitably have resulted in greater cost for both HMRC and those taxpayers.

The cost of dealing with escalated cases was not measured. As these would lengthen the elapsed time and involve more (technical) resources for HMRC and the greater likelihood of agent involvement for the taxpayer, the costs for both would be higher.

Overall the cost of the intervention exceeded the value of the additional yield identified, with only one risk profile producing a return in excess of £1 yield for every £1 cost<sup>19</sup> (these statistics exclude amounts escalated to Local Compliance teams). Total yield assessed was £42,983<sup>20</sup>, with further potential yield of £47,100 from escalated cases<sup>21</sup>. Just 2% of closed cases required adjustment and a further 1% of cases were escalated<sup>22</sup>. These results are much lower than traditional interventions and there are a number of factors which may have contributed to this:

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<sup>14</sup> Appendix 2, Quantitative Monitoring Report Section 3 Table 2

<sup>15</sup> The “Letter based” interventions are defined as Self Audit, Short Risk Review and Real Time Health Check.

<sup>16</sup> Customer experience research Section 2.3

<sup>17</sup> Appendix 2, Quantitative Monitoring Report Section 3 Table 4

<sup>18</sup> Appendix 2, Quantitative Monitoring Report Section 3.5 – 3.6

<sup>19</sup> Appendix 2, Quantitative Monitoring Report Section 3 Table 7

<sup>20</sup> Appendix 2, Quantitative Monitoring Report Section 3 Table 6

<sup>21</sup> Appendix 2, Quantitative Monitoring Report Section 3.8

<sup>22</sup> Appendix 2, Quantitative Monitoring Report Section 3 Table 2

- Risk profiles used were not aimed at maximising yield through targeting seriously non-compliant taxpayers;
- The letters were confusing and failed to engage taxpayers into critically examining their tax declaration. Some thought the questionnaire was a survey;
- The voluntary nature of Short Risk Review meant that only those taxpayers willing to participate did so. Potentially non-compliant taxpayers who did not participate were not addressed; and

Risk profiling needs to improve in order to target more appropriate cases. The profiles used produced varying levels of success with profile “SRR2” producing the most yield, £29,973 from 15% of the 246 participating cases<sup>23</sup>.

Better drafting of questionnaires and guidance on the risk would have been more effective in focusing the taxpayer on the issues involved and action required. Taxpayer help sheets were sent out with letters in the later stages of the pilot, but too late to be evaluated for their effectiveness. Challenging some “satisfactory” responses may have given Short Risk Review more compliance edge, and countered the complacent and those “testing” HMRC’s credibility. This was not feasible given the voluntary nature of the pilot, but should be considered if Short Risk Review is to be a viable and cost-effective alternative to traditional interventions.

### **Reduced burdens**

The customer experience research indicates that all of the pilots with the exception of Real Time Record Review (which involved visiting the taxpayer) were perceived on an individual taxpayer by taxpayer basis as less time consuming and burdensome than those taxpayers’ perceptions of traditional interventions<sup>24</sup>.

Individual responses in the customer experience research suggest that taxpayers interviewed who had confidence in their tax affairs and accuracy of their declarations were more likely to participate, seeing this more as a simple survey than a compliance intervention<sup>25</sup>. Inevitably the burdens increased for those with less confidence who were more inclined to turn to their agents for help (29% of closed cases) and this is reflected in slightly higher adjustment rates, escalations and time taken to resolve.

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<sup>23</sup> Appendix 2, Quantitative Monitoring Report Section 3 Table 2

<sup>24</sup> Customer experience research Section 4.3

<sup>25</sup> Customer experience research Section 5.2

## **Conclusions**

Superficially Short Risk Review can be viewed as a simple and cost-effective intervention. But the simplicity of the design and letters failed to engage taxpayers in addressing the risks being targeted in the pilot. The requirement to keep the subject simple meant that this intervention is not particularly suited to cross-tax working.

The longer-term indirect effects of Short Risk Review were not measured in the pilot. Wider coverage could deliver more general policing and deterrent effects. However, unless Short Risk Review is perceived as effective, it is possible that wider coverage could have an inverse deterrent effect.

While this intervention has demonstrated some potential benefits in directing specific questions at taxpayer populations it is heavily dependent on the quality of the risk profiling. If that can be improved then the compliance outcomes will improve. However, the data suggests that Short Risk Review might be better suited to help taxpayers avoid errors as part of risk campaigns or projects using bulk data information.

**Table SRR 1 – Overview of Results by Risk Group**

Short Risk Review (SRR)	Cases Opened	Cases Closed	Outcome								Yield (£)	Cost (£) Excluding head office & formal training	Yield Cost	Average Yield Per Closed Case (£)	Average Yield Per Participant (£)
			No Adjustment Required	Adjustment Required	Escalation Required	More Info Required	Letter Undelivered	Partial Participation	Non-Participation	Non-Response					
Total	2508	2473	1383 (56%)	51 (2%)	30 (1%)	11 (0%)	14 (1%)	10 (0%)	236 (10%)	738 (30%)	42,983	151,500	0.3	17	29
SRR 1 - Jewellers	250	250	175 (70%)	1 (0%)	4 (2%)	nil	2 (1%)	nil	11 (4%)	57 (23%)	900	19,900	0.0	4	5
SRR 2 - Dentists	250	246	109 (44%)	36 (15%)	12 (5%)	7 (3%)	1 (0%)	2 (1%)	18 (7%)	61 (25%)	29,973	24,700	1.2	122	179
SRR 3 - Staff Agencies	250	247	132 (53%)	nil	nil	nil	1 (0%)	nil	0 (0%)	114 (46%)	0	9,200	0.0	0	0
SRR 4 - Builders	250	235	119 (51%)	nil	nil	nil	2 (1%)	nil	1 (0%)	113 (48%)	0	14,400	0.0	0	0
SRR 5 - Hairdressers	250	249	185 (74%)	3 (1%)	1 (0%)	nil	2 (1%)	nil	5 (2%)	53 (21%)	315	18,400	0.0	1	2
SRR 6 - Contract Cleaners	249	248	165 (67%)	4 (2%)	7 (3%)	3 (1%)	1 (0%)	6 (2%)	16 (6%)	46 (19%)	4,760	22,500	0.2	19	26
SRR 7 - Purchase of Vehicles	250	250	91 (36%)	4 (2%)	3 (1%)	nil	2 (1%)	nil	41 (16%)	109 (44%)	3,363	6,500	0.5	13	34
SRR 8 - IT Consultants	250	250	143 (57%)	2 (1%)	nil	nil	nil	1 (0%)	36 (14%)	68 (27%)	3,006	5,800	0.5	12	21
SRR 9 - Directors with Low Means	255	248	81 (33%)	nil	2 (1%)	1 (0%)	2 (1%)	1 (0%)	73 (29%)	88 (35%)	0	16,300	0.0	0	0
SRR 10 - Rent-a-Room Claims	254	250	183 (73%)	1 (0%)	1 (0%)	nil	1 (0%)	nil	35 (14%)	29 (12%)	666	13,800	0.0	3	4

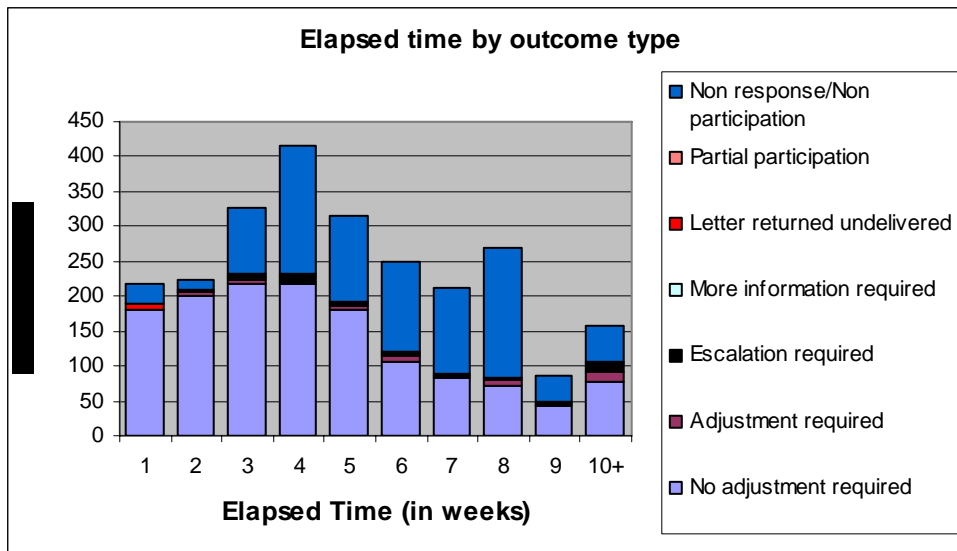
\*Yield anticipated from escalated cases is a further £47,100

**Table SRR 2.1 – Elapsed Time Analysis**

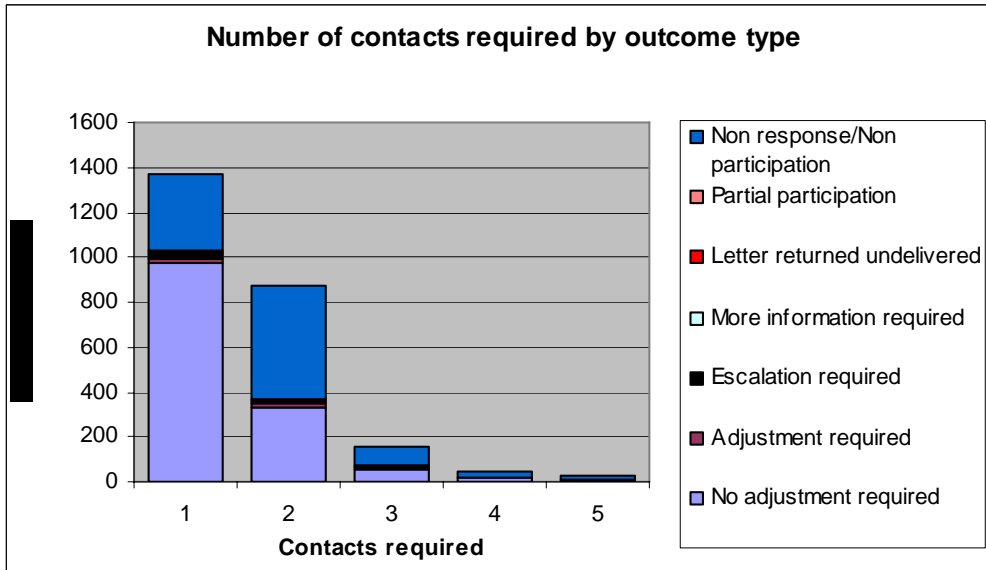
Weeks to completion	Percentage of cases	Cumulative Percentage
1	9%	9%
2	9%	18%
3	13%	31%
4	17%	48%
5	13%	61%
6	10%	71%
7	9%	80%
8	11%	91%
9	3%	94%
10+	6%	100%

NB – Average time taken for a case to reach conclusion was almost 4 weeks.

**Table SRR 2.2 – Elapsed Time by Outcome**



**Table SRR 3 – Number of Contacts Required by Outcome Type**



**Table SRR 4.1 – Agent Involvement by Outcome**

Outcome	Agent Involved		Not involved	
No Adjustment Req'd	455	64%	928	53%
Adjustment Required	37	5%	14	1%
Escalation Required	12	2%	18	1%
More Info Required	1	0%	10	1%
Letter Undelivered	0	0%	14	1%
Partial Participation	3	0%	7	0%
Non-Response/Part'n	199	28%	775	44%
Total cases closed	707 (29%)		1766 (71%)	
Yield £	£36,231		£6,752	

**Table SRR 4.2 – Agent Involvement by Outcome (Participants Only)**

Outcome	Agent Involved		Not involved	
No Adjustment Req'd	455	90%	928	94%
Adjustment Required	37	7%	14	1%
Escalation Required	12	2%	18	2%
More Info Required	1	0%	10	1%
Letter Undelivered	0	0%	14	1%
Partial Participation	3	0%	7	1%
Total cases closed	508 (34%)		991 (66%)	
Yield £	£36,231		£6,752	

**Table SRR 5 – Yield by Tax Regime**

Profile	Regime	Head of Duty			
		VAT	IT/CT	NIC/EC	PAYE
SRR 1 - Jewellers	ITSA	£0	£900	£0	£0
SRR 2 - Dentists	ITSA	£0	£29,293	£362	£318
SRR 3 - Staff Agencies	VAT	£0	£0	£0	£0
SRR 4 - Builders	VAT	£0	£0	£0	£0
SRR 5 - Hairdressers	EC	£0	£0	£0	£315
SRR 6 - Contract Cleaners	EC	£0	£0	£143	£4,617
SRR 7 - Purchase of Vehicles	ITSA / CTSA / VAT	£3,187	£175	£0	£0
SRR 8 - IT Consultants	ITSA / CTSA / VAT	£3,006	£0	£0	£0
SRR 9 - Directors with Low Means	ITSA	£0	£0	£0	£0
SRR 10 - Rent-a-Room Claims	ITSA	£0	£666	£0	£0

(Targeted Regime)

# Real Time Health Check

## Introduction

Real Time Health Check invites taxpayers to review generic risks areas present on their returns and correct the position where their checks reveal errors. A letter is sent to the taxpayer and their agent, if one is acting, which includes a reply stencil for them to confirm that they are correctly dealing with the risk or indicate that they would like help because they think they may have made an error. It is expected that most issues can be resolved by letter or telephone, but the taxpayer can ask for a visit from an officer if they think this would be a more suitable option. For the purposes of the pilot, if no response was received after 15 days, HMRC made a further attempt at contact. If the taxpayer had not responded after a further 15 days, the case was closed.

There are no statutory powers underpinning ITSA and CTSA which allow HMRC to inspect taxpayers' records before the submission of the relevant tax return, which means Real Time Health Check can only be carried out with the taxpayer's agreement. Although such inspection powers exist for VAT and PAYE they were not used in the pilot. The pilot was used to test an integrated approach across ITSA/CTSA, VAT and EC where appropriate risks were identified.

The risks addressed in the pilot are summarised in the table below.

Risk	Relevant regime	Taxpayer group	No of interventions	No of interventions closed	Non-participation rate
RTHC1 Operation of PAYE (Property Developers)	PAYE	Business (Property Developers)	245	241	10%
RTHC2 VAT Rates Applying (Painters & Glaziers)	VAT	Business (Painters, Glaziers & Similar Trades)	242	237	13%
RTHC3 VAT Treatment of Costs Incurred (IT Consultants)	VAT	Business (IT Consultants)	250	249	16%
RTHC4 Incidental Income (Estate Agents)	VAT ITSA CTSA	Business (Estate Agents)	253	247	27%
RTHC5 Operation of PAYE (Confectioners & Newsagents)	PAYE	Business (Confectioners & Newsagents)	268	256	17%
RTHC6 Operation of PAYE (Arable & Fruit Farmers)	PAYE	Business (Arable & Fruit Farmers)	270	258	19%
RTHC7 Stock Valuation (Second Hand Car Dealers)	ITSA CTSA	Business (Second Hand Car Dealers)	260	256	23%
RTHC8 Treatment of Common Expenses (PR, Advertising & Marketing)	ITSA	Business (PR, Advertising & Marketing)	251	246	25%
TOTAL			2039	1990	19%

## Key findings

### Participation

Real Time Health Check had the highest level of participation in the pilots with 81% of taxpayers contacted choosing to participate<sup>26</sup>. Of the remainder 2% actively exercised their right not to take part and the balance chose not to respond<sup>27</sup>. The levels of correction and yield from errors were very low with only 2 adjustments and £1,747 yield identified from a total of 1990 closed cases<sup>28</sup>. These errors arose from one of 8 risk profiles used. Given that these are national risk profiles, much higher error rates were expected.

These results show that Real Time Health Check clearly failed to engage with the taxpayer by communicating the risk and action required. The intervention succeeded in getting the taxpayer to review their tax returns, but the letters did not give sufficient information or guidance on the risk and issues to be examined. This is borne out by the low number who asked for help (25) and the fact that there were no requests for visits<sup>29</sup>. One respondent to the customer experience research said that the initial letter should, “explain specifically what it was regarding concerning our business. That would make it a lot easier. They should actually explain it in the letter”<sup>30</sup>. Help sheets were introduced with the letters later in the pilot to provide better guidance.

The customer experience research gives further insight into taxpayers’ perceptions. Some of the responses from the participants interviewed inferred that Real Time Health Check was felt to be less invasive than their perception of traditional interventions, putting the taxpayer in control of checking the return and asking for help<sup>31</sup>. It was viewed as “odd”<sup>32</sup> by some taxpayers who were unsure about HMRC’s motives and felt that admitting to errors would invite further investigation, tax bills and penalties. While Real Time Health Check succeeded in encouraging taxpayers to review their returns, the results show that without some means of challenging the response or seeking evidence to support its accuracy the effectiveness of the response may be limited.

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<sup>26</sup> Appendix 2, Quantitative Monitoring Report Section 4 Table 2

<sup>27</sup> This section, Table RTHC 1

<sup>28</sup> Appendix 2, Quantitative Monitoring Report Section 4 Table 2

<sup>29</sup> Management data recorded by pilot teams

<sup>30</sup> Customer experience research Section 5.6

<sup>31</sup> Customer experience research Section 5.6

<sup>32</sup> Customer experience research Section 5.6

## Cost-effectiveness

The pilot results show Real Time Health Check can be a quick intervention for both HMRC and the taxpayer and achieved good coverage. The average length of time for completing a case was less than 4 weeks and 74% reached conclusion within 4 weeks<sup>33</sup>. This is due in part to the misunderstandings caused by the letters. As a result fewer in-depth checks were carried out by taxpayers and fewer errors and issues found, which would have taken more time and resource to resolve. The pilot has not measured the cost of escalated cases and pursuing non-respondents.

The cost of the pilot for HMRC was £163,400<sup>34</sup>, which is exaggerated by deselection carried out by the teams and the fact that a pilot is an artificial scenario. Given the very low yield these costs could not be justified in normal compliance business activity.

Identifying errors and yield from past years is an important indicator of success for any compliance intervention and Real Time Health Check has clearly failed in this respect. A major factor is likely to be the voluntary nature of the Real Time Health Check which meant that only those taxpayers willing to participate did so. Potentially non-compliant taxpayers who did not participate were not addressed. Real Time Health Check could find past errors, but its main focus is on putting things right in current and future years. Given the high levels of voluntary participation it may be that future revenue benefit has been secured in the pilot by taxpayers who are now better educated and able to make accurate returns. There is, however, no measure in place to provide a longer-term evaluation of these cases.

## Reduced burdens

Some of the responses from participants interviewed in the customer experience research indicate that Real Time Health Check has had a favourable response from taxpayers, was not considered “particularly time consuming” and businesses’ time cost was considered “minimal”<sup>35</sup>. 21% of taxpayers engaged their agents in the intervention<sup>36</sup>, but their involvement and cost was likely to be minor. In the case of one participant, “my accountant didn’t charge me for the five minute chat on the phone, and I wrote the letter at work”<sup>37</sup>.

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<sup>33</sup> Appendix 2, Quantitative Monitoring Report Section 4.6

<sup>34</sup> Appendix 2, Quantitative Monitoring Report Section 4 Table 5

<sup>35</sup> Customer experience research Section 4.3

<sup>36</sup> Appendix 2, Quantitative Monitoring Report Section 4.4

<sup>37</sup> Customer experience research Section 5.6

## **Conclusions**

The pilot results show Real Time Health Check is not a suitable or cost-effective intervention for tackling non-compliance generally. Given the lack of clarity on risks and actions required, it has failed to encourage taxpayers to critically examine their tax declarations, or seek help from HMRC. This latter failure is particularly important given that Real Time Health Check aims to educate the taxpayer and put things right for the future.

Some of the results around taxpayer perceptions and participation are very positive and show that aspects of Real Time Health Check could be adapted and used in voluntary, low-cost enabling interventions aimed at particular low-risk trades and taxpayer populations, such as new businesses.

**Table RTHC 1 – Overview of Results by Risk Group**

Real Time Health Check (RTHC)	Cases Opened	Cases Closed	Outcome						*Yield (£)	Cost (£) Excluding head office & formal training	Yield Cost	Average Yield Per Closed Case (£)	Average Yield Per Participant (£)
			No Adjustment Required	Adjustment Required	Escalation Required	More Info Required	Non-Participation	Non-Response					
Total	2039	1990	1614 (81%)	2 (0%)	2 (0%)	1 (0%)	30 (2%)	341 (17%)	1,747	163,400	0.0	1	1
RTHC 1 - Property Developers	245	241	217 (90%)	nil	1 (0%)	nil	2 (1%)	21 (9%)	0	23,300	0.0	0	0
RTHC 2 - Painters & Glaziers	242	237	206 (87%)	nil	nil	nil	1 (0%)	30 (13%)	0	23,200	0.0	0	0
RTHC 3 - IT Consultants	250	249	207 (83%)	1 (0%)	nil	1 (0%)	2 (1%)	38 (15%)	0	15,000	0.0	0	0
RTHC 4 - Estate Agents	253	247	181 (73%)	nil	nil	nil	9 (4%)	57 (23%)	0	18,700	0.0	0	0
RTHC 5 - CTNs	268	256	212 (83%)	nil	1 (0%)	nil	2 (1%)	41 (16%)	0	23,200	0.0	0	0
RTHC 6 - Farming	270	258	209 (81%)	nil	nil	nil	1 (0%)	48 (19%)	0	23,200	0.0	0	0
RTHC 7 - Car Dealers	260	256	198 (77%)	nil	nil	nil	5 (2%)	53 (21%)	0	23,200	0.0	0	0
RTHC 8 - Advertising	251	246	184 (75%)	1 (0%)	nil	nil	8 (3%)	53 (22%)	1,747	13,800	0.1	7	9

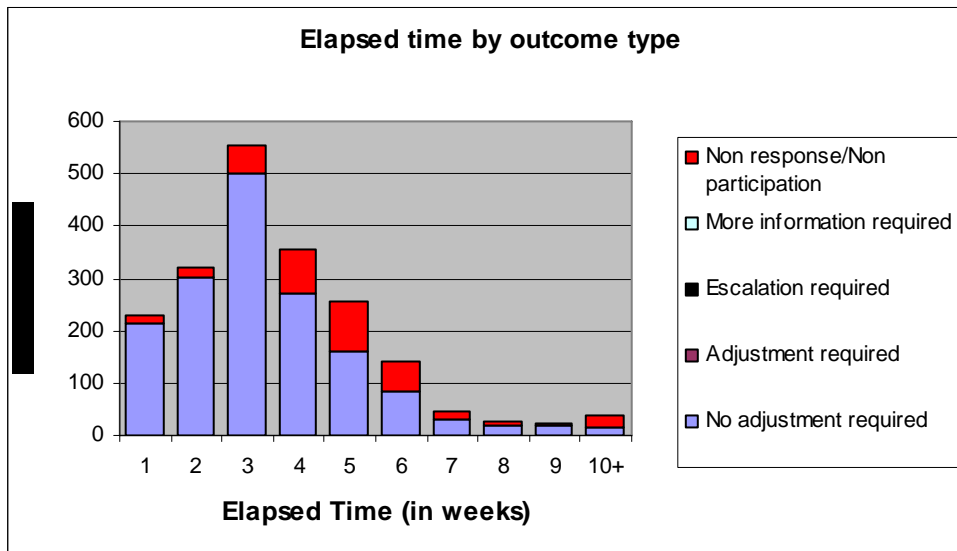
\*No yield anticipated from escalated cases

**Table RTHC 2.1 – Elapsed Time Analysis**

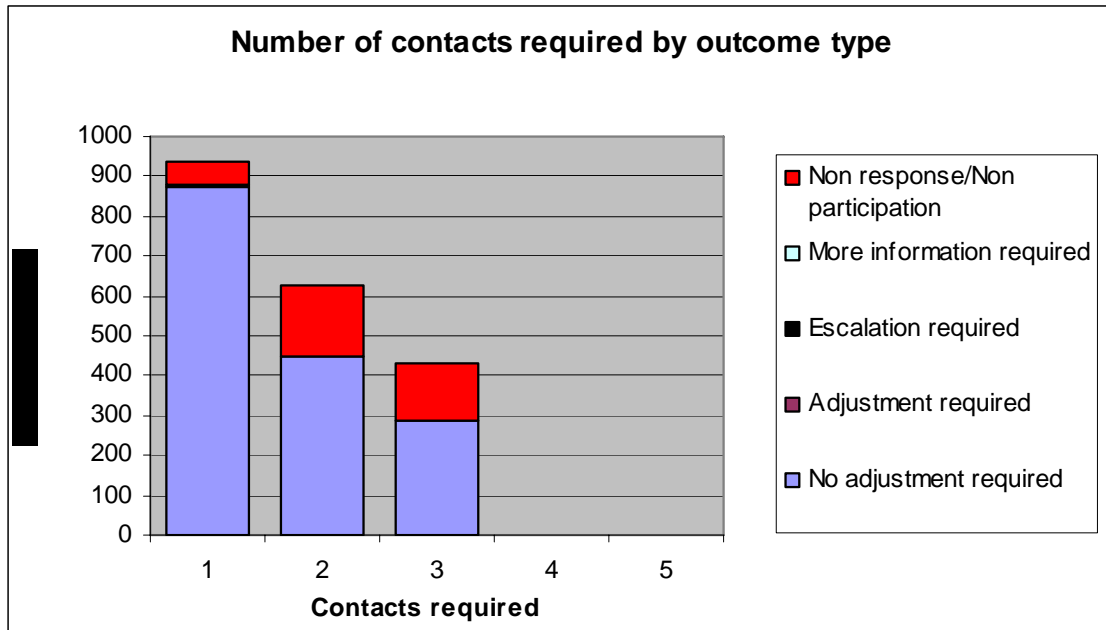
Weeks to completion	Percentage of cases	Cumulative Percentage
1	12%	12%
2	16%	28%
3	28%	56%
4	18%	74%
5	13%	87%
6	7%	94%
7	2%	96%
8	1%	97%
9	1%	98%
10+	2%	100%

NB – Average time taken for a case to reach conclusion was almost 4 weeks.

**Table RTHC 2.2 – Elapsed Time by Outcome**



**Table RTHC 3 – Number of Contacts Required by Outcome Type**



**Table RTHC 4.1 – Agent Involvement by Outcome**

Outcome	Agent Involved		Not involved	
	Count	Percentage	Count	Percentage
No Adjustment Required	336	82%	1,278	81%
Adjustment Required	1	0%	1	0%
Escalation Required	1	0%	1	0%
More Info Required	0	0%	1	0%
Non-Response/Part'n	71	17%	300	19%
Total cases closed	409 (21%)		1581 (79%)	
Yield £	£1,713		£34	

**Table RTHC 4.2 – Agent Involvement by Outcome (Participants Only)**

Outcome	Agent Involved		Not involved	
	Count	Percentage	Count	Percentage
No Adjustment Required	336	99%	1,278	99.8%
Adjustment Required	1	0%	1	0%
Escalation Required	1	0%	1	0%
More Info Required	0	0%	1	0%
Total cases closed	338 (21%)		1281 (79%)	
Yield £	£1,713		£34	

# Real Time Records Review

## Introduction

Real Time Records Review checks business records before the relevant tax return is submitted. It provides an opportunity for HMRC to discuss record keeping with the taxpayer and examine the completeness and adequacy of records in order to form a view on the taxpayer's ability to make accurate tax declarations. Any errors found during the examination are corrected and the taxpayer given guidance to help prevent future errors occurring.

There are no statutory powers underpinning ITSA and CTSA which allow HMRC to inspect taxpayers' records before the submission of the relevant tax return, which means Real Time Record Review can only be carried out with the taxpayer's agreement. Although such inspection powers exist for VAT and PAYE they were not used in the pilots. The pilots were used to test an integrated approach across ITSA/CTSA, VAT and EC where appropriate risks were identified.

Taxpayers, or their agents, were contacted by telephone or letter to arrange a visit to the business. The visiting officer would consider the specific risks identified for the Real Time Record Review and:

- ask questions to establish what systems were in place to ensure the taxpayer could complete their returns accurately;
- examine a selection of records to confirm that the systems and controls operate in the manner described by the taxpayer;
- reach a conclusion about whether the systems in place gave reasonable assurance that the returns will be accurate and complete; and
- discuss those conclusions with the taxpayer.

Following the visit, where no errors were identified which required an assessment, based on their opinion of the adequacy of the records, the officer recorded their view on the adequacy of the records as either:

1. The Real Time Records Review demonstrates that, from the records reviewed and information given, the taxpayer is keeping adequate books and records to give reasonable assurance that returns will be accurate and complete;
2. The Real Time Records Review demonstrates that, from the records reviewed and information given, the records kept may not be wholly adequate to ensure that returns will be accurate and complete;
3. There is strong evidence that books and records retained are inadequate and would be incapable of ensuring that returns will be accurate and complete; or
4. Books and records are not maintained.

A follow up letter was sent to the taxpayer confirming matters discussed e.g.:

- what improvements could be made to the systems; and

- how any errors discovered during the review could be corrected.

Those taxpayers who did not respond to the telephone call were sent a letter suggesting a provisional date and time of appointment. If there was again no response the officer visited the premises at the suggested time, although the taxpayer could still exercise their right not to participate.

Risk	Relevant regime	Taxpayer group	No of interventions	No of interventions closed	Non-participation rate
RTRR 1 – cash handling procedures	VAT EC ITSA CTSA	Restaurants	231	218	70%
RTRR 2 – record keeping arrangements may not keep pace with rapid growth	VAT EC ITSA CTSA	Rapid Growth – not trade specific	112	110	76%
RTRR 3 – subsidiary records (e.g. membership, day user cash receipts) may not be retained	VAT ITSA CTSA	Sporting Activities	244	235	60%
RTRR 4 – cash handling and retention of subsidiary records (e.g. booking sheets, staff records)	VAT ITSA CTSA	Hotels	248	241	54%
RTRR 5 – cash handling procedures and recording of subsidiary income such as commissions	EC ITSA CTSA	CTNs	246	238	77%
RTRR 6 – casual labour; completion and retention of subsidiary records	EC ITSA CTSA	Garages	243	239	67%
RTRR 7 – cash handling procedures	ITSA CTSA	Restaurant & Takeaways	243	224	63%
Total			1567	1505	66%

## Key findings

### Participation

The more active nature of Real Time Record Review had a big impact on taxpayer participation in the pilot and resulted in a 34% participation rate<sup>38</sup>, the lowest of the 6 new interventions. Of the 993 who did not participate 44% were declined by agents<sup>39</sup> who cited a number of reasons:

- concerns over the lack of legal safeguards;
- the lack of professional indemnity insurance cover for liabilities arising outside traditional interventions;
- encroachment on the agent's role to advise the client on record keeping; and
- the summer holiday period.

### Cost-effectiveness

The focus of Real Time Record Review is to identify non-compliance at an early stage and put things right now and for the future. Nonetheless, the pilot identified current errors valuing £229,204 yield and £209,700 potential yield<sup>40</sup>. Overall the cost of the intervention exceeded the value of the additional yield identified. Within that there were wide variations, for example one risk profile produced a return of £5.30 yield for every £1 cost<sup>41</sup> (these statistics exclude amounts escalated to Local Compliance teams). A number of factors contributed to this:

- The voluntary nature of the Real Time Record Review meant that only those taxpayers willing to participate did so. Potentially non-compliant taxpayers who did not participate were not addressed; and
- The pilot was artificial in that staff did not have access to alternative work during periods of non-activity. If this work were to be carried out in future, other work would be available and staff would be deployed more flexibly.

The Real Time Record Reviews revealed a significant number of cases where visiting HMRC officers believed record-keeping needed to be improved, with 36% having 'inadequate' or 'not wholly adequate' records (would not ensure that returns will be accurate and complete) and 14% resulting in errors<sup>42</sup>. Although by no means conclusive, this suggests compliance problems in the risks targeted and the value of an early intervention to prevent errors and deter non-compliance. By identifying these levels of poor record-keeping Real Time Record Review has played a role in educating taxpayers who need support.

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<sup>38</sup> Appendix 2, Quantitative Monitoring Report Section 5 Table 2

<sup>39</sup> This section, Table RTRR 4.1

<sup>40</sup> Appendix 2, Quantitative Monitoring Report Section 5 Table 2 & Section 5.8

<sup>41</sup> Appendix 2, Quantitative Monitoring Report Section 5 Table 7

<sup>42</sup> This section, Table RTRR 1.2

Yield arising from past mistakes is an important measure for any compliance intervention, but for Real Time Record Review the key success indicator must be the impact on future compliance behaviour. There is currently no such agreed measure of future revenue benefit in place. This would have to be developed and more evidence gathered for longer term evaluation.

## **Reduced burdens**

Some of the responses from participants interviewed in the customer experience research showed a favourable response to Real Time Record Review, although some individual respondents complained about the time taken to resolve outstanding issues. There was also criticism at the lack of commercial awareness and understanding by some officers.<sup>43</sup> Both aspects reflected some officers' limited experience of this type of work which would need to be addressed by more extensive training than that provided for the pilot.

Some respondents to the customer experience research felt that this was a good opportunity to correct mistakes or confirm that their record-keeping was adequate. Others, however, did not feel that the additional costs were justified. Agents were often present at the visit, some at the taxpayers request and others because they had requested to be present themselves.<sup>44</sup>

## **Conclusions**

The standard of businesses' record keeping is variable and often influenced by the nature of the business, its size and maturity. Even though the pilot was voluntary, the level of record keeping among those willing participants demonstrated a sizeable potential problem around the adequacy of records kept. It is reasonable to assume that the position would be no better, and could be worse for those who are unwilling to engage with HMRC voluntarily. Earlier identification of such problems could limit errors and problems in the future.

While a voluntary intervention of this nature can assist as part of an educative programme of support, it is unlikely to target those taxpayers who would most benefit from the intervention. That is to say taxpayers whose approach to their tax affairs lacks sufficient care and those who are deliberately non-compliant are the least likely to respond to a voluntary approach.

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<sup>43</sup> Customer experience research Section 5.1

<sup>44</sup> Customer experience research Section 5.1

**Table RTRR 1.1 – Overview of Results by Risk Group**

Real Time Record Review (RTRR)	Cases Opened	Cases Closed	Outcome							Yield (£)	#Cost (£) Excluding head office & formal training	Yield Cost	Average Yield Per Closed Case (£)	Average Yield Per Participant (£)
			Adequate records	Not wholly adequate	Totally inadequate	Errors for escalation	Errors discovered	Records not being kept	Non-Participation					
Total	1567	1505	327 (22%)	106 (7%)	4 (0%)	45 (3%)	27 (2%)	3 (0%)	993 (66%)	£229,204	£263,000	0.9	152	448
RTRR 1 - Restaurants	231	218	32 (15%)	10 (5%)	nil	9 (4%)	15 (7%)	nil	152 (70%)	£20,915	£54,200	0.4	96	317
RTRR 2 - Rapid Growth	112	110	16 (15%)	3 (3%)	nil	2 (2%)	5 (5%)	nil	84 (76%)	£6,366	£39,900	0.2	58	245
RTRR 3 - Sporting Activities	244	235	67 (29%)	23 (10%)	nil	2 (1%)	1 (0%)	nil	142 (60%)	£16,888	£35,800	0.5	72	182
RTRR 4 - Hotels	248	241	79 (33%)	25 (10%)	3 (1%)	3 (1%)	1 (0%)	nil	130 (54%)	£75,873	£63,800	1.2	315	684
RTRR 5 - CTNs	246	238	25 (11%)	19 (8%)	nil	9 (4%)	1 (0%)	nil	184 (77%)	£13,992	£7,200	1.9	59	259
RTRR 6 - Garages	243	239	55 (23%)	16 (7%)	nil	8 (3%)	nil	nil	160 (67%)	£55,997	£10,500	5.3	234	709
RTRR 7 - Rest. & Take-aways	243	224	53 (24%)	10 (4%)	1 (0%)	12 (5%)	4 (2%)	3 (1%)	141 (63%)	£39,173	£51,700	0.8	175	472

\*Yield anticipated from escalated cases is a further £209,700

#Figures for RTRR 5, 6 & 7 known to be understated.

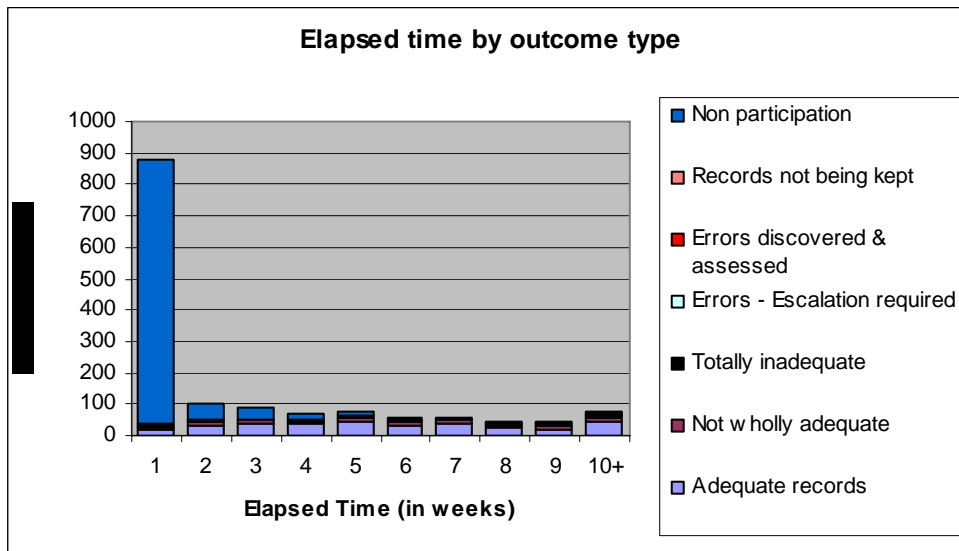
**Table RTRR 1.2 – Summary of Outcomes for Participants**

Adequate records	Not wholly adequate	Totally inadequate	Errors for escalation	Errors discovered	Records not being kept
327 (64%)	106 (21%)	4 (1%)	45 (9%)	27 (5%)	3 (1%)

**Table RTRR 2.1 – Elapsed Time Analysis**

Weeks to completion	Percentage of cases	Cumulative Percentage
1	59%	59%
2	7%	66%
3	6%	72%
4	5%	77%
5	5%	82%
6	4%	86%
7	4%	90%
8	3%	93%
9	3%	96%
10+	5%	100%

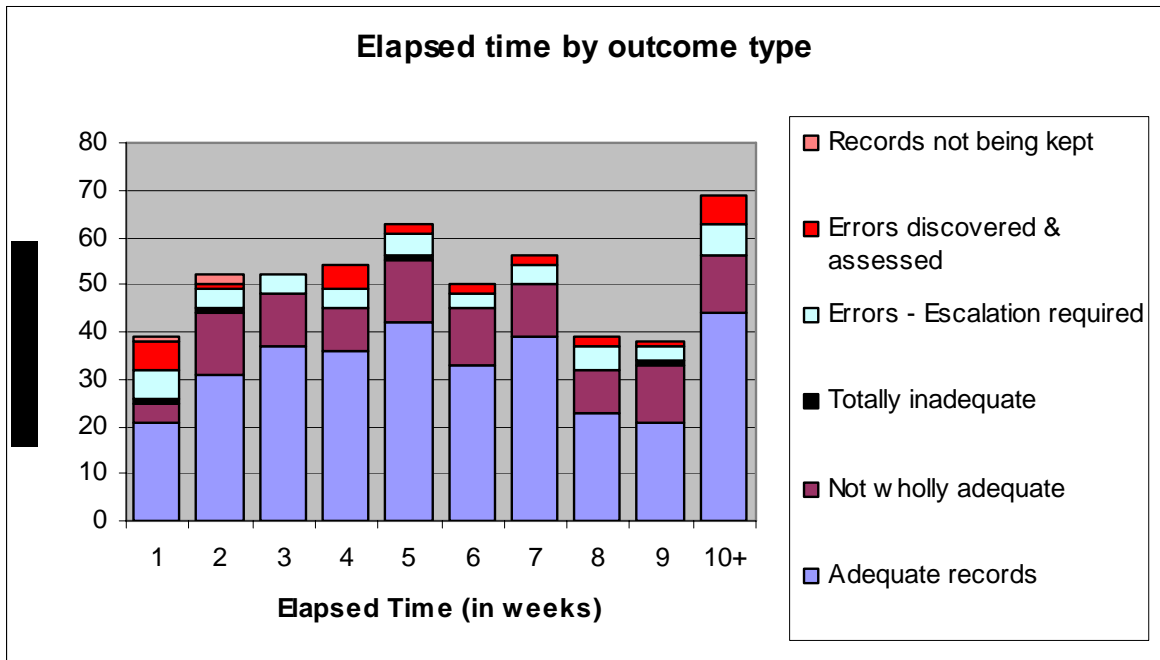
**Table RTRR 2.2 – Elapsed Time by Outcome**



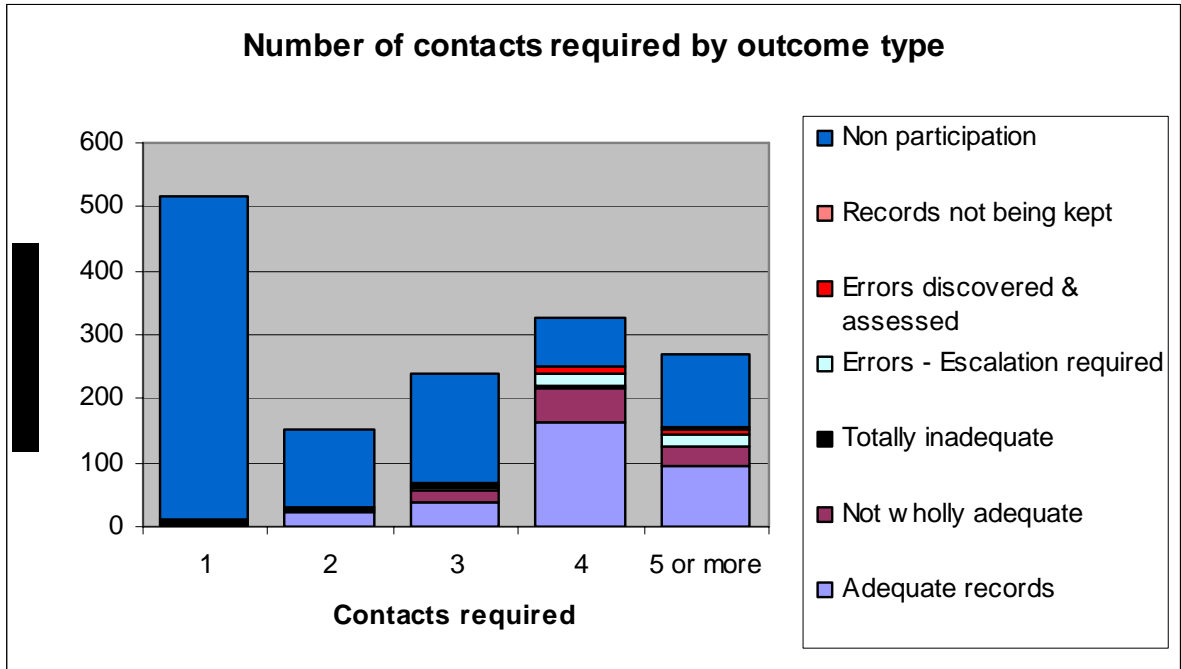
**Table RTRR 2.3 – Elapsed Time Analysis (Participants only)**

Weeks to completion	Percentage of cases	Cumulative Percentage
1	8%	8%
2	10%	18%
3	10%	28%
4	11%	39%
5	12%	51%
6	10%	61%
7	11%	72%
8	8%	80%
9	7%	87%
10+	13%	100%

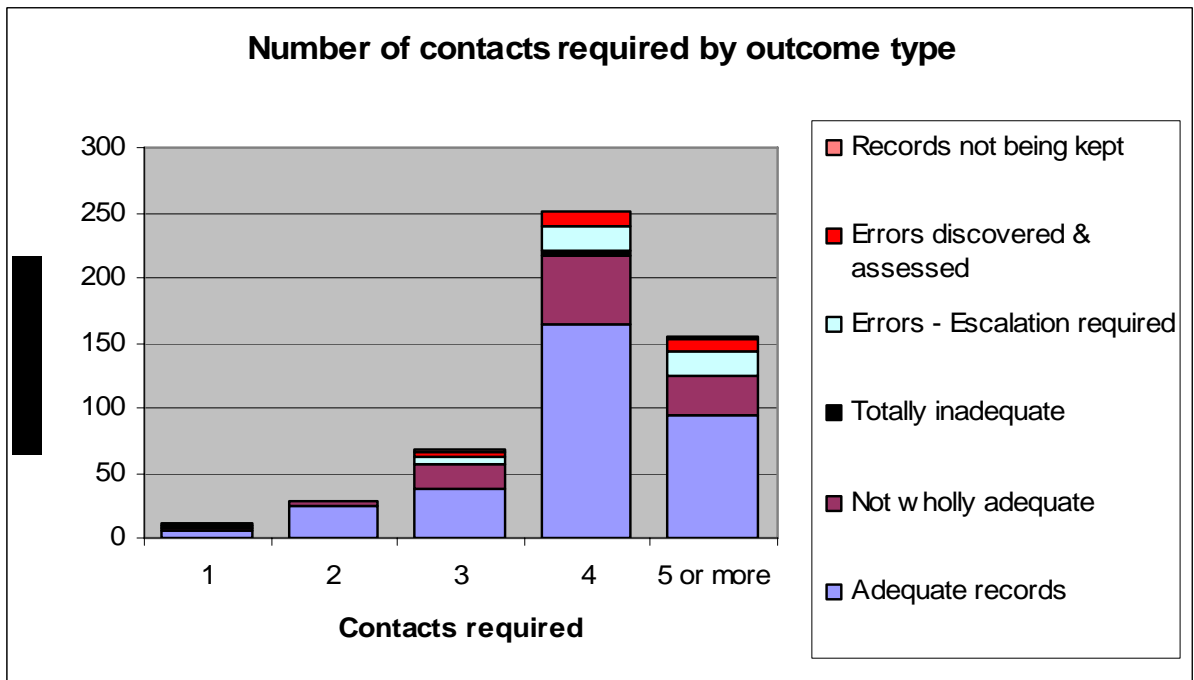
**Table RTRR 2.4 – Elapsed Time by Outcome (Participants only)**



**Table RTRR 3.1 – Number of Contacts Required by Outcome Type**



**Table RTRR 3.2 – Number of Contacts Required by Outcome Type (Participants only)**



NB – For participants, an average of four contacts were required to complete the intervention.

**Table RTRR 4.1 – Agent Involvement by Outcome**

Outcome	Agent Involved		Not involved	
Adequate records	108	58%	219	17%
Not wholly adequate	42	22%	64	5%
Totally inadequate	3	2%	1	0%
Errors for escalation	13	7%	32	2%
Errors discovered	7	4%	20	2%
Records not being kept	0	0%	3	0%
Non-Participation	14	7%	979*	74%
Total cases closed	187 (12%)		1318 (88%)	
Yield £	£53,287		£175,917	

\*427 of these cases were directly refused by the taxpayer's agent and a further 366 had registered agents with HMRC but made the refusal themselves. See Table 4.3

**Table RTRR 4.2 – Agent Involvement by Outcome (Participants Only)**

Outcome	Agent Involved		Not involved	
Adequate records	108	62%	219	65%
Not wholly adequate	42	24%	64	19%
Totally inadequate	3	2%	1	0%
Errors for escalation	13	8%	32	9%
Errors discovered	7	4%	20	6%
Records not being kept	0	0%	3	1%
Total cases closed	173 (34%)		339 (66%)	

**Table RTRR 4.3 – Agent Involvement for Non-Participants**

	Non-Participants
Agent Actively Involved	441 (44%)
Agent Acting but not Actively Involved	366 (37%)
No Agent Acting	186 (19%)
Total	993

**Table RTRR 5 – Yield by Tax Regime**

Profile	Regime Targeted	Yield		
		VAT	IT/CT	NIC/EC
RTRR 1 - Restaurants	ITSA/CTSA/EC/VAT	5,759	14,796	361
RTRR 2 - Rapid Growth	ITSA/CTSA/EC/VAT	4,945	1,421	0
RTRR 3 - Sporting Activities	ITSA/CTSA/VAT	16,888	0	0
RTRR 4 - Hotels	ITSA/CTSA/VAT	68,830	6,143	900
RTRR 5 - CTNs	ITSA/CTSA/EC	0	0	4,492
RTRR 6 - Garages	ITSA/CTSA/EC/VAT	44,633	3,960	404
RTRR 7 - Rest. & Take-aways	ITSA/CTSA	18,638	5,710	1,045

(Targeted Regime)

## Telephone Contact

### Introduction

The Telephone Contact intervention uses dedicated teams to contact taxpayers at a pre-arranged time to address compliance issues identified by project-based risk assessment. A pre-contact letter is issued to the agent where one is acting or the taxpayer informing them that HMRC would like to telephone them at a certain time to discuss the relevant issue. The letter gives the option to arrange an alternative time for the call to be made if the appointment given in the letter is inconvenient. When the caller telephones the agent or taxpayer, using prepared scripts and support material, they explain why it is considered that an error may have been made, establish whether or not that is the case, and explain how any outstanding liabilities can be brought to account.

Telephone Contact addressed a single risk, profiled on third party information held relating to income from property. It should therefore be noted that the observed results may not be representative of Telephone Contacts in general, but could be related solely to the specific risk tested. The different taxpayer groups approached in the course of the pilot are set out in the following table.

Risk Group	Relevant Regime	Taxpayer Type	No of Interventions	No of Interventions closed	Non-participation rate
Group 1 - ITSA taxpayers who had not completed Land and Property pages on their tax returns	ITSA	Individual	1664	1522	13%
Group 2 - ITSA taxpayers who had shown some income on the Land and Property pages, but less than that indicated by third party information	ITSA	Individual	1354	1295	6%
Group 3 - Non-ITSA taxpayers with no adjustment to their tax code to reflect income from property	Income Tax	Individual	821	751	4%
TOTAL			3839	3568	8%

## Key findings

### Participation

Of the 3,839 interventions commenced, 3,568 had been completed by the close of the pilot<sup>45</sup>.

Participation in this intervention was reasonably high at 65%, although as “No Contact” was the outcome in 27% of cases due to the absence of a telephone number this may be an understatement of the taxpayers’ willingness to participate<sup>46</sup> – 89% of those contacted participated in the intervention. Some of the responses from participants interviewed in the customer experience research suggest that the telephone was often taxpayers’ preferred method of contact with HMRC, particularly where they initiated the call<sup>47</sup>. Several aspects of the approach, including the lack of detail provided in the letter about the issue to be discussed, left some of those taxpayers interviewed feeling anxious in advance of and during the telephone call<sup>48</sup>. It should be noted that the level of “No Contact” outcomes was significantly higher in Risk Group 3, which was composed of Non-ITSA Taxpayers<sup>49</sup>. The lack of telephone numbers for these cases, coupled with the fact that the pilot was operated within normal working hours may suggest that Telephone Contact as piloted is currently unsuitable for this taxpayer group.

The customer experience research suggested that, for those taxpayers interviewed, the involvement of agents was an indicator of taxpayer confidence<sup>50</sup>. The results showed that taxpayers were no more likely to refuse to participate when agents were involved. In cases where agents were involved, there were higher proportions of “Satisfactory Explanation” and “Additional Income Agreed” outcomes<sup>51</sup>.

### Cost-effectiveness

Telephone Contact is designed to be much quicker than a traditional intervention and the results confirm that cases were typically closed within two weeks<sup>52</sup>. Cases where errors were identified generally took longer to complete<sup>53</sup>. This does not reflect the time taken to deal with escalated cases, but the average time for action and completion of Telephone Contact was significantly less than traditional direct tax enquiries.

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<sup>45</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 2

<sup>46</sup> Appendix 2, Quantitative Monitoring Report Section 6.2

<sup>47</sup> Customer experience research Section 5.3

<sup>48</sup> Customer experience research Section 5.3

<sup>49</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 2

<sup>50</sup> Customer experience research Section 2.1

<sup>51</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 3

<sup>52</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 8

<sup>53</sup> Appendix 2, Quantitative Monitoring Report Section 6.7

During the pilot, HMRC staff would make up to four attempts to contact the agent or taxpayer by telephone, but the results showed that in 96% of cases where contact was established it was done within two attempts<sup>54</sup>. The results also showed that 66% of cases where contact was established were completed within the first call, with 21% requiring only one further contact<sup>55</sup>.

Overall the cost of the intervention exceeded the value of additional yield identified<sup>56</sup>. This does not, however, reflect the estimated yield from the escalated cases which amounts to £389,600<sup>57</sup>. Only 7% of cases were closed with agreed errors and a further 7% required escalation<sup>58</sup>, indicating that a high proportion of compliant taxpayers were subjected to the intervention; although several factors may have influenced this result:

- risk profiles aimed at low value errors to avoid the impact of penalties;
- Risk Group 2 profile was found to be flawed and eventually withdrawn from use (this response was possible because the short amount of time taken to complete the Telephone Contact assures prompt feedback on the performance of the risk profile);
- overall, and particularly in Risk Group 3, the pilot teams failed to establish telephone contact with a large number of taxpayers; and
- the pilot relied on voluntary participation and non-participation (whether active or non-contact) will very likely have included the non-compliant.

Risk profiling needs to be more effective as even the best performing profile had 47% of cases where satisfactory explanations were given by taxpayers<sup>59</sup>. However this needs to be interpreted in the context of instructions in the pilots not to question the veracity of any but the most implausible explanations.

It was not possible in the pilot to accurately assess any longer term benefits from avoiding errors in the future and there is no evidence of what level of errors may be present in the third of cases where taxpayers could not be contacted or elected not to participate.

The three profiles used produced varying results. The most notable variations were the high level of “No Contact” (68%) for Risk Group 3, the high level of “Satisfactory Explanation” (76%) in Risk Group 2 and the comparatively high levels of “Non-Participation” and “Additional Income Agreed” in Risk Group 1 (both more than

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<sup>54</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 6

<sup>55</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 7

<sup>56</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 12

<sup>57</sup> Appendix 2, Quantitative Monitoring Report Section 6.9

<sup>58</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 2

<sup>59</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 2

double the rate in the other groups)<sup>60</sup>. Risk Group 1 performed the best in yield terms with £114,527 from 11% of the 1,522 closed interventions<sup>61</sup>. Risk Group 2 was withdrawn during the pilot as flaws in the profiling were identified and the results in Risk Group 3 were skewed by the levels of no contact. Considering the number of cases where errors were agreed as a proportion of the number of taxpayers contacted, Risk Group 2 was 4%, Risk Group 3 was 12.5%, and Risk Group 1 was 13.3%<sup>62</sup>.

All risks addressed within the pilot were in direct taxes and only one team, East London, used staff from indirect tax backgrounds. This team had the highest costs and returned the lowest yield of the four pilot teams<sup>63</sup>, and the use of indirect tax staff to address a direct tax risk appears to have been less successful in identifying errors than using staff with a background in direct taxes. Staff working in the pilot teams expressed a neutral response over the suitability of Telephone Contacts for cross-tax working.

### **Reduced burdens**

The customer experience research indicates that all of the pilots with the exception of Real Time Record Review (which involved visiting the taxpayer) were perceived on an individual taxpayer by taxpayer basis as less time consuming and burdensome than those taxpayers' perception of traditional interventions<sup>64</sup>. The burdens increased for those cases where the risk was not satisfactorily explained and this is reflected in the time taken to resolve cases where errors were agreed and where escalation was necessary<sup>65</sup>.

Directly approaching agents for represented taxpayers may have added to the cost for the taxpayer.

### **Conclusions**

Telephone Contact is a relatively cheap intervention and taxpayers generally responded well to the more personal nature of the call and the manner of HMRC staff. Taxpayers did, however, react negatively to the pre-contact letters, feeling anxious and defensive as a result of uncertainty about the questions HMRC were asking. Failure to establish telephone contact with significant numbers of taxpayers also had a material impact on the pilot. Further design and testing would be needed to determine whether changes to the pre-contact letter, escalation and the introduction of an element of challenge to taxpayers' explanations could improve the

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<sup>60</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 2

<sup>61</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 2

<sup>62</sup> This section, Table TC1

<sup>63</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 12

<sup>64</sup> Customer experience research Section 4.3

<sup>65</sup> Appendix 2, Quantitative Monitoring Report Section 6 Table 8

cost-effectiveness of Telephone Contact as a compliance tool. The Telephone Contact pilot has demonstrated some potential benefits in efficiently addressing specific questions to individual taxpayers as a part of risk campaigns using bulk data, and in providing the flexibility to react quickly to the results where profiles are proving unsuccessful.

**Table TC 1 – Overview of Results by Risk Group**

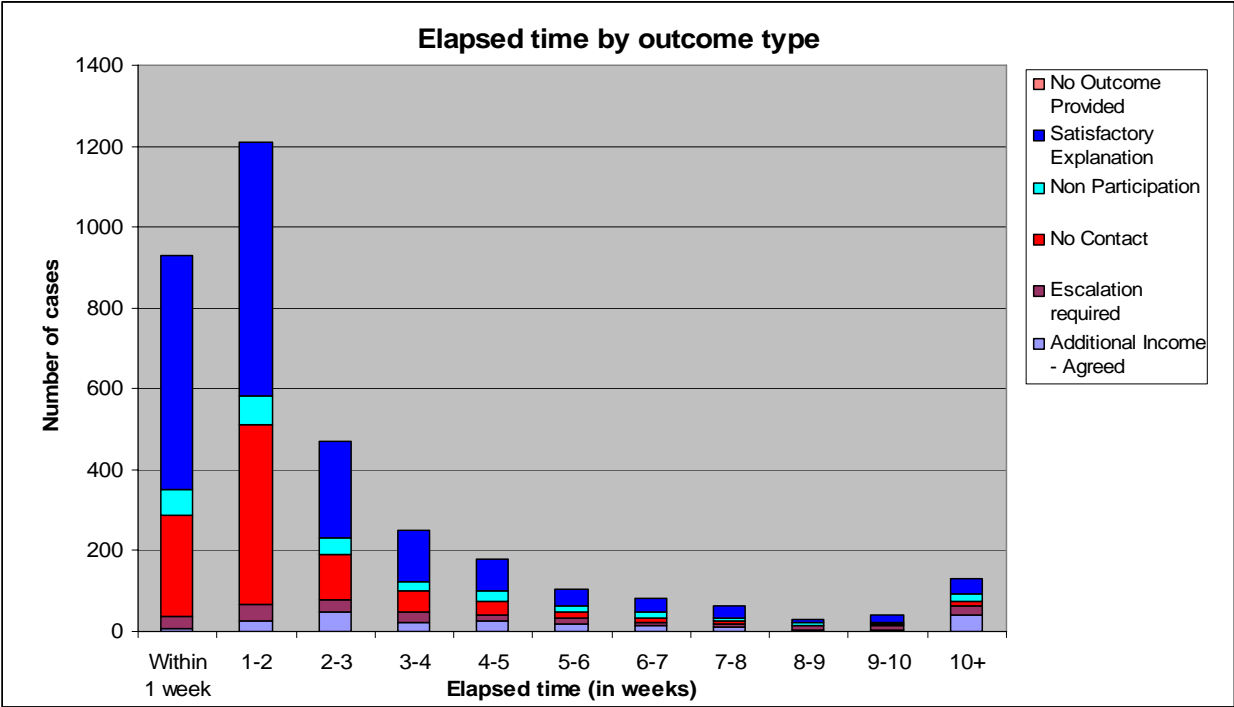
Telephone Contact	Cases Opened	Cases Closed	Outcome					*Yield (£)	Cost (£)	*Yield Cost	*Average Yield Per Closed Case (£)	*Average Yield Per Successful Contact (£)	Errors Agreed as % of Successful Contact
			Satisfactory Explanation	Additional Income Agreed	Escalation Required	No Contact	Non-Participation						
Total	3839	3568	1835 (51%)	238 (7%)	238 (7%)	955 (27%)	302 (8%)	152,232 [541,832]	284,800	0.5 [1.9]	43 [152]	66 [169]	9.1%
Group 1 - ITSA customers declaring no income on property pages	1664	1522	713 (47%)	161 (11%)	143 (9%)	312 (20%)	193 (13%)	114,527	n/a	n/a	75	113	13.3%
Group 2 - ITSA customers declaring some income on property pages but less than indicated by TPI	1354	1295	987 (76%)	47 (4%)	49 (4%)	132 (10%)	80 (6%)	24,515	n/a	n/a	19	23	4.0%
Group 3 - Non-SA Customers with no coding adjustment to reflect additional income	821	751	135 (18%)	30 (4%)	46 (6%)	511 (68%)	29 (4%)	13,189	n/a	n/a	18	63	12.5%

\*Figures in square brackets include estimated yield from escalated cases

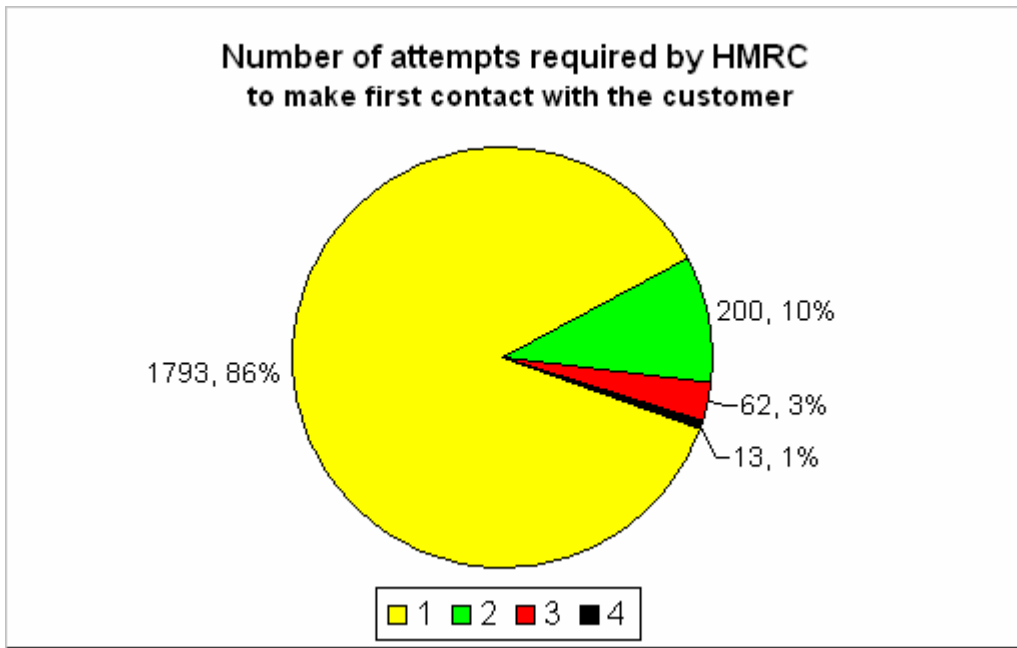
**Table TC 2.1 – Elapsed Time Analysis**

Weeks to completion	Percentage of cases	Cumulative Percentage
1	61%	61%
2	13%	74%
3	7%	81%
4	5%	86%
5	3%	89%
6	2%	91%
7	2%	93%
8	1%	94%
9	1%	95%
10+	4%	100%

**Table TC 2.2 – Elapsed Time by Outcome**

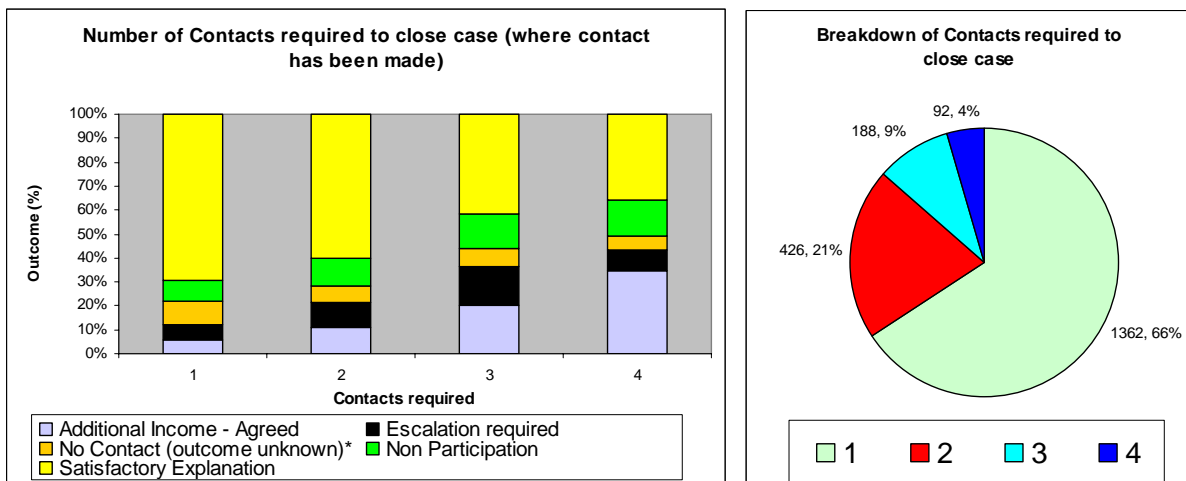


**Table TC 3.1 – Number of Attempts Required to Make Contact**



*Table 6 Number of attempts required by HMRC to make first contact with the taxpayer (where telephone records are held by HMRC or have been subsequently provided after the pre-contact stage)*

**Table TC 3.2 – Number of Contacts Required by Outcome Type (where contact was made)**



*There are 178 cases where the outcome has been recorded as open “no contact”, but the data suggests that contact with the taxpayer has been made.*

**Table TC 4.1 – Agent Involvement by Outcome**

Outcome	Agent Involved		Not involved	
Satisfactory Explanation	659	72%	1176	44%
Additional Income Agreed	98	11%	140	5%
Escalation Required	67	7%	171	6%
No Contact	15	2%	940	35%
Non-Participation	70	8%	232	9%
Total cases closed	909 (25%)*		2659 (75%)	

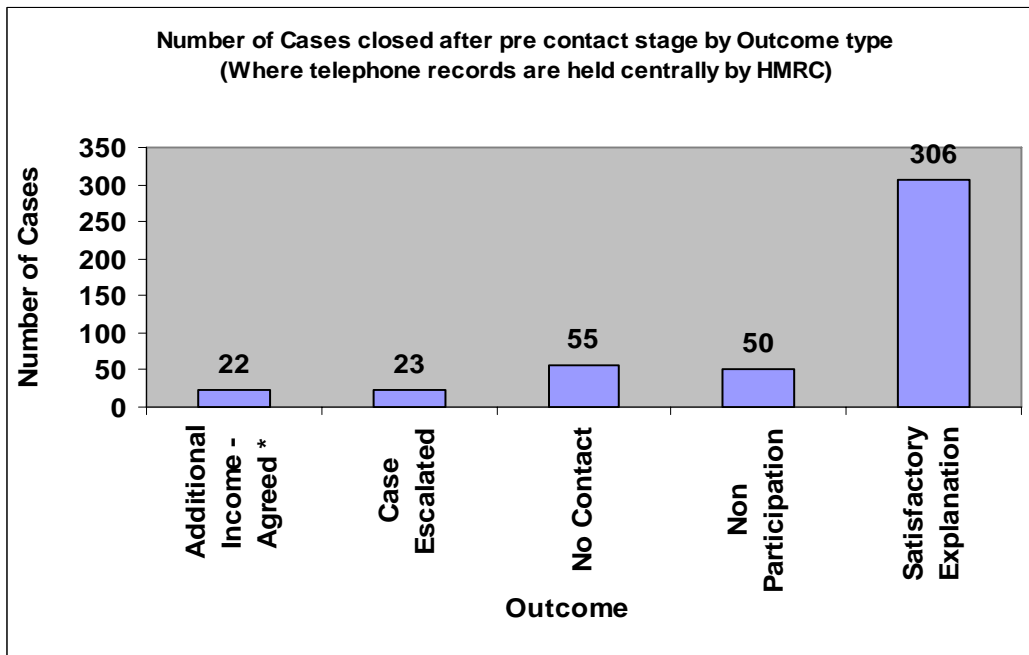
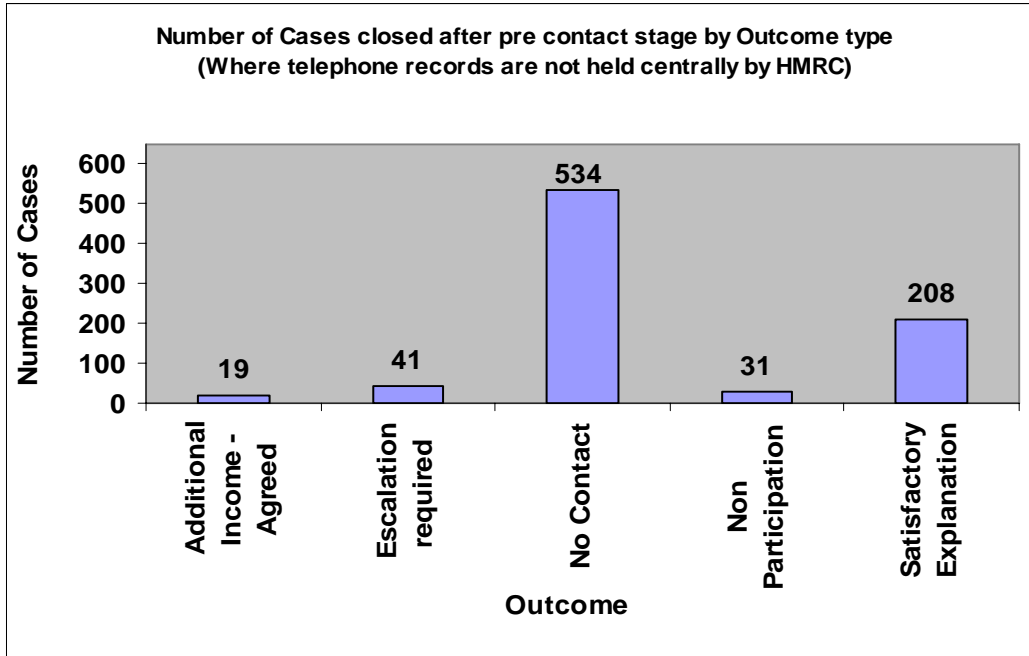
\*This equates to 34% of taxpayers where contact was made.

**Table TC 4.2 – Agent Involvement by Outcome (Participants Only)**

Outcome	Agent Involved		Not involved	
Satisfactory Explanation	659	79%	1176	48%
Additional Income Agreed	98	12%	140	6%
Escalation Required	67	8%	171	7%
No Contact	15	2%	940	39%
Total cases closed	839 (26%)		2427 (74%)	

**Table TC 5 – Cases Closed After Pre-Contact Letter and Prior to HMRC’s Call**

This can be where the taxpayer/agent contacts HMRC prior to the appointed time, and results are separated between those cases for who telephone details were held, and those where they were not.



# Correction Challenge

## Introduction

Correction Challenge is used where HMRC holds third party information and has confidence in its level of accuracy which can be clearly and easily communicated to the taxpayer and efficiently brought to account. One example is where HMRC has reason to believe taxpayers failed to correctly declare all their taxable income.

The pilot used third party information on taxed bank interest and profiled taxpayers who may have owed additional tax at Higher Rate. This intervention involved taxpayers from only one risk group, but piloted three intervention types:

- Option 1 – non-business taxpayers previously removed from ITSA were sent a letter advising the potential error and coding change to be made in thirty days time. If the taxpayer acknowledged the error or did not respond within thirty days a coding notice was issued;
- Option 2 – ITSA taxpayers were sent an assessment without the thirty day notice; and
- Option 3 – ITSA taxpayers were sent a letter advising the potential error and that an assessment would be raised in thirty days. If the taxpayer acknowledged the error or did not respond within thirty days a S29 assessment was issued.

In all three options the taxpayer had the option to challenge HMRC's information and provide a satisfactory explanation.

	Relevant regime	Taxpayer group	No of interventions	No of interventions closed
Option 1: Taxed bank interest, taxpayers who may owe additional tax at HR	Income tax outside of ITSA	Individual	500	492
Option 2: Taxed bank interest, taxpayers who may owe additional tax at HR	ITSA	Individual	341	291
Option 3: Taxed bank interest, taxpayers who may owe additional tax at HR	ITSA	Individual	159	146
Total			1000	929

## Key findings

### Participation

Correction Challenge differs from the other new interventions, because the taxpayer population targeted had to respond to the pilot letters in order to avoid an assessment or PAYE re-coding. Although the pilot was intended to be conducted in the same light-touch approach, the taxpayers' perceptions were different with over half of those contacted apparently choosing not to respond and, therefore, accepting the assessment. This implies that the assessments were mainly correct, but some of the responses from participants interviewed in the customer experience research suggest that taxpayers felt "that they must immediately comply"<sup>66</sup>.

### Cost-effectiveness

Correction Challenge is both quicker and cheaper than traditional interventions with each completed case taking on average 1.2 hours of staff time<sup>67</sup> (excluding processing time) and up to fourteen days of elapsed time where the error was accepted<sup>68</sup>.

61% of cases identified yield totalling £113,074<sup>69</sup>. The risk profile used for the pilot targeted small value errors over a large taxpayer population, so high yield was not expected. Overall the value of additional yield identified exceeded the cost of the intervention, producing a return of £4.40 yield for every £1 cost<sup>70</sup> (these statistics exclude amounts escalated to Local Compliance teams) and this was the only overall positive yield/cost outcome for the new interventions. It was not possible within the pilots to assess any longer term benefits from avoiding errors in the future.

### Reduced burdens

The customer experience research indicates that all of the pilots with the exception of Real Time Record Review (which involved visiting the taxpayer) were perceived on an individual taxpayer by taxpayer basis as less time consuming and less burdensome than those taxpayers' perception of traditional interventions<sup>71</sup>. There were concerns over the lack of specific information in the letters<sup>72</sup>.

Some respondents in the customer experience research also expressed the view that they regarded customer service highly. Being able to talk to someone immediately without being put in a holding queue and feeling believed were seen as the most positive aspects. However, some respondents expected to be challenged further about their explanations<sup>73</sup>.

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<sup>66</sup> Customer experience research Section 5.5

<sup>67</sup> Management data recorded by pilot teams

<sup>68</sup> Appendix 2, Quantitative Monitoring Report Section 7 Table 6

<sup>69</sup> Appendix 2, Quantitative Monitoring Report Section 7 Table 2

<sup>70</sup> Appendix 2, Quantitative Monitoring Report Section 7.8

<sup>71</sup> Customer experience research Section 4.3

<sup>72</sup> Customer experience research Section 5.5

<sup>73</sup> Customer experience research Section 5.5

## **Conclusions**

Correction Challenge is a cost-effective and efficient method of correcting small value errors where high quality data is available that identifies a clear potential error, is taxpayer specific and is easily communicable to the taxpayer. It also operates successfully within current legislation. The intervention could be used to produce yield from wider coverage and targeting of specific taxpayer groups through national campaigns. Although the letters did give rise to some negative perceptions there is sufficient evidence to show that the taxpayer is willing to co-operate in resolving specific errors and does not suffer unreasonable burdens as a result.

**Table CC 1 – Overview of Results by Process**

Correction Challenge (CC)	Cases Opened	Cases Closed	*Responses					Yield (£)	Cost (£)	Yield Cost	Average Yield Per Closed Case (£)	% of cases recording Yield
			Accept - Adjustment Required	Accept - No Adjustment Required	Denial	No Response	Complaint					
Total	1000	929	182 (20%)	56 (6%)	152 (16%)	408 (44%)	6 (1%)	£113,074	£25,901	4.4	122	61% <sup>#</sup>
Process 1 - Coding Adjustment with Pre-Letter	500	492	133 (27%)	46 (9%)	125 (25%)	182 (37%)	5 (1%)	£49,251	n/a	n/a	100	62%
Process 2 - Assessment with no Pre-Letter	341	291	16 (5%)	nil	nil	172 (59%)	nil	£46,070	n/a	n/a	158	64%
Process 3 - Assessment with Pre-Letter	159	146	33 (23%)	10 (7%)	27 (18%)	54 (37%)	1 (1%)	£17,753	n/a	n/a	122	54%

\*Table does not include cases which were classified as closed (rather than deselected), but where a response was not expected.

<sup>#</sup>17 cases (2%) were closed with an adjustment accepted but not yet recorded.

**Table CC 2 – Elapsed Time by Outcome**

Elapsed Time by Outcome	Elapsed Time (in days)	
	Yielding Cases*	Non-Yielding Cases
Total	n/a	n/a
Process 1 - Coding Adjustment with Pre-Letter	14	11
Process 2 - Assessment with no Pre-Letter	0	n/a
Process 3 - Assessment with Pre-Letter	14	11

\* Plus 30 days for taxpayer to appeal before formal closure

**Table CC 3 – Agent Involvement by Outcome**

Outcome	Agent Involved		Not involved	
Yield Recorded	120	72%	450	59%
No Yield Recorded	37	22%	305	40%
Accepted but not yet	9	5%	8	1%
Total	166 (18%)		763 (82%)	

## Customer experience research

Ipsos MORI were commissioned to undertake a qualitative research study to explore taxpayers' reactions to the pilot interventions. The research focused on three key objectives: the drivers and barriers to participation in the pilot interventions; taxpayers' experiences of going through the pilot intervention process; and taxpayers' perceptions of HMRC and HMRC staff, and to what extent these have been shaped by the intervention process.

Seven pilot telephone depth interviews were carried out to develop the discussion guide and to ensure all that all relevant areas were covered. Following this, 78 depth interviews were carried out - 60 interviews with pilot intervention participants and an additional 18 interviews with those choosing not to take part in the interventions. Since agents were being consulted via other methods and the purpose of this research was to understand HMRC customers' experiences, no representatives were interviewed in the research.

The qualitative approach to the study affects the nature of the information produced. One of the key differences between qualitative and quantitative research is that qualitative research does not produce numerical data. Qualitative research is concerned with individuals' own accounts of their attitudes, motivations, experiences and behaviour and was therefore the ideal approach to take to provide HMRC with evidence on taxpayers' experiences of the pilot interventions, including their motivations for participating. However, it does mean that the research does not identify what proportion of respondents hold a particular view.

## Participation in the interventions

There were mixed levels of confidence amongst respondents when dealing with tax issues. This meant that sometimes, even when the case was relatively straightforward, a decision was made to pass the intervention onto an agent. Confidence also affected non-participants: those who were very confident about their tax affairs and were sure they were not doing anything incorrectly saw no reason to participate.

Often respondents' reactions to the intervention were: initial alarm, followed by a degree of worry about the accuracy of their self-assessment form, confusion, then a feeling of concern about the implications of an enquiry, then suspicion as to what was behind the intervention, followed finally by a decision to participate or not.

Generally, respondents did not feel targeted as an individual but rather through random selection. However, there were a few people who believed they had been 'picked on' because of their individual case. Many respondents were also confused about whether the intervention was compulsory or not, due to mixed communications in the letter. Others understood that participation in the intervention was voluntary but believed there would be repercussions if they did not participate.

Respondents often felt that 'showing willing' was important when dealing with HMRC, whatever the request and whatever the situation and so it was important to participate in the intervention. Other reasons for participating included:

- Simplicity of the intervention - the easier and simpler the intervention, the more likely the respondent was to decide to participate;

- Resolution - respondents had a genuine desire to resolve their tax affairs if there was any suspicion that they were not in order;
- 'Peace of mind' - although fairly abstract, peace of mind tended to be a key motivator for initiating the intervention and also for wanting to know the final outcome; and
- Potential benefit by discovering if too much tax had been paid or by learning more about the tax system.

Taking part in the interventions was certainly seen as a better alternative to undergoing a full enquiry. Having interventions rather than full enquiries was viewed as a better way of trying to tackle the problem of mistakes in tax assessments, but not necessarily the problem of people purposefully evading their taxes.

Reasons for non-participation in the intervention process were varied, and for some a combination of factors came into play. However, those who did not participate realised that participation was voluntary and did not think they would be penalised in the future by HMRC for non-participation. Reasons for non-participation included:

- Time pressures of both work and family commitments;
- Having to hire professional help at a perceived substantial cost;
- Following an agent's advice not to take part;
- Being unable to see the benefits of taking part; and
- Previous bad experiences of HMRC.

## Communication channels

Respondents were invited to take part in the interventions by letter. Respondents felt there was a mixed message in the letters: one part of it was friendly and voluntary, and another part intimidating and mandatory. This dual tone was perceived as more unnerving than a wholly strict, firm, compulsory letter would have been. Giving a deadline in the letter also caused conflicting reactions: on the one hand it contradicted the voluntary tone of the previous half of the letter, on the other hand deadlines were seen as a normal part of the process when dealing with HMRC. Some people also felt that the letters implied the addressee was at fault, either by individual case or their occupation.

Despite this, there was approval for the initial point of contact from HMRC to be via written correspondence. Respondents found it useful to have a document that they could read, absorb and understand at their leisure. Although the telephone was not viewed as an appropriate channel for HMRC to use when first making contact with taxpayers, respondents were often keen to phone HMRC themselves to discuss issues about the intervention - a Helpline number would be especially useful here.

Respondents felt that a concluding letter from HMRC once the intervention was complete was extremely important, even if the intervention itself was not seen to have been helpful. Some participants had not received this final communication and this caused some anxiety and resentment.

## Taxpayers' perceptions of HMRC

Taxpayers' perceptions of HMRC prior to the interventions were largely based on the extent and nature of their previous dealings with the Department. Overall respondents tended to be fairly neutral about HMRC prior to the interventions.

The interventions did not considerably alter people's perceptions of HMRC. Only a small number of people admitted to feeling more positive or negative about HMRC as a result of the interventions. However, some people were clear that the interventions marked a change in HMRC's 'brand image', and admitted that this might influence their relationship with the Department in the future. These people also felt that the intervention process had shown HMRC to be more pro-active, pre-emptive and supportive than previously.

Participants' perceptions of HMRC staff throughout the pilots were largely positive, and staff were praised for being polite, friendly and helpful. However, taxpayers who had had a consistently troubled history with HMRC tended to feel victimised or distrustful of the Department and its procedures. At worst the interventions were seen as part of HMRC's 'campaign' against them.

Taxpayers' evaluation of the costs involved in taking part in the interventions was dependent on how they viewed the relationship between time and money and the type of intervention they took part in. However, most interventions were not thought, in reality, to be particularly time-consuming. The business cost in terms of time was therefore considered minimal, and did not even register as such for many. The one exception to this was the Real Time Records Review intervention; this tended to take up to a few hours of participants' time, largely due to the length of the visit.

There were a small number of cases across the sample where the intervention process broke down. For some, this occurred when HMRC did not succeed in making contact with the participant initially, or where the intervention process was felt to have been mismanaged, for example with a long, multi-stage process. These kinds of experiences were deeply frustrating to respondents who had been willing to 'buy into' the process, but who were then felt let down by it.

## Specific interventions

There were some differences by interventions. These were as follows:

- Self Audit was not always easily remembered by respondents, as it often involved fairly minimal input in terms of reading through the letter and then ticking a box if they felt their tax affairs were in order. Participants were therefore sometimes confused about this intervention and were not entirely sure what it had entailed;
- Short Risk Review respondents often perceived the short questionnaire as a random survey and felt confused about what extra information HMRC could be gaining from the simple questions asked in the questionnaire, especially if they were convinced they were going about things correctly;
- Real Time Health Check was considered less invasive than the other interventions. It allowed taxpayers to ask for help, while keeping them in control. Some respondents considered it a 'sensible' approach and were grateful for the chance to 'put things right' at minimal cost. However, there

were participants who described the intervention as 'odd', saying they were confused and unsure of HMRC's motives;

- Accountants were often involved in Real Time Records Review for their support and advice and because they often requested to be present at the visit. For some, there was little criticism over extra costs incurred, as respondents believed instead that the need to solve any problems justified any extra costs. Furthermore, personal reassurance was gained in knowing that the system used by the accountant was agreeable to the 'taxman'. However, not everyone felt this way - some did not feel that it was right to be expected to pay for an additional service that they had not initiated nor felt they needed;
- Participants in Telephone Contact had felt uneasy responding to questions when they had not instigated the phone call themselves. This sometimes provoked reactions of defensiveness and insecurity amongst taxpayers who were less confident in their tax affairs. Participants also expressed concerns about the intervention placing them 'on the spot'. Despite this, respondents generally found the telephone conversation to be fine and were happy with the manner of staff; and
- Respondents' initial reactions when receiving the Correction Challenge letter were that they must immediately comply – as the letter implied a sense of urgency and importance. They were often willing to spend money incurred through extra contact with an agent, as this was not an intervention that they felt comfortable dealing with on their own.

## Conclusions

On the whole, participants' opinions of the interventions tended to be mostly neutral or positive. Despite this, there were a few occasions in which respondents felt their time (or HMRC's) had been wasted.

Most participants felt that the interventions were easy enough to complete without assistance from agents. Those that involved agents tended to be taxpayers who were lacking in confidence in terms of their finances generally, and tax affairs specifically, or those whose tax affairs were especially complex; it was taxpayers' personal attitudes and circumstances therefore rather than the nature of the interventions themselves which prompted them to involve an agent. HMRC could reinforce the self-completion of the interventions by offering more assistance itself: perhaps clearer signposting to the help-line and website, and also by providing a reference number.

The letter caused some 'consternation' amongst both participants and non-participants in terms of its tone, jumping from a soft voluntary style to a threatening compulsory style half way through. Despite this, it was a compelling call to action, but more work could be carried out on developing its content.

Although the interventions did not significantly change taxpayers' perceptions of HMRC, there were respondents who felt that the interventions were another step towards the department becoming more customer-orientated and proactive.

Taking part in the interventions was certainly seen as a better alternative than undergoing a full enquiry. Even those respondents who did not know exactly what an enquiry involved thought that the intervention route would be preferable. Key to this

was the impression that the intervention was seen as being proactive and avoided the necessity to check up on individuals and accuse people directly.

Having interventions rather than full enquiries was viewed as a better way of trying to tackle the problem of *mistakes* in tax assessments, but not necessarily the problem of people *purposefully evading* their taxes. There was a feeling amongst some respondents that the interventions would probably help 'law-abiding people do a better job' on their tax obligations. But these people also thought that the 'criminals and swindlers' would simply avoid taking part in the interventions (due to the fact they were voluntary) and run the risk of not getting caught.

On the whole respondents felt that the interventions were preferable to enquiries and supported the fact that HMRC was anticipating problems rather than reacting to situations.

## Agents' experiences and role

Members of the Working Together forum were, and remain, supportive of the underlying principle of developing “lighter-touch”, more flexible interventions. However agents' concerns arose around some of the practical implications and technical issues arising from the pilots. Specifically, the time given for consultation was considered by external stakeholders to be too short and gave too little time for them to inform and influence the design of the processes, procedures and letters before the pilots began. With more preparatory time to consult many of the resulting issues could have been avoided. The consequences of this were:

- the opportunity to improve the design and delivery of the pilots through the engagement of external bodies was not maximised;
- the impact of the pilots on the role of agents was not fully appreciated or communicated;
- initial buy-in of these key intermediaries was not achieved which impacted on the support for the pilots in terms of participation levels; and
- there was significant damage to the relationship between agents and HMRC.

For direct taxes the pilot process followed the established practice of contacting the taxpayer's agent if an authorisation was held, in some pilots by copying the agent into the letter and in others by making the initial approach solely to the agent. In this context an agent is any representative nominated by the taxpayer, not just professional and accredited accountants.

The new interventions pilots underlined the positive role that agents can play in assisting clients to help resolve issues quickly and positively and highlighted the risk of them being bypassed in the process:

- Agents highlighted that they might not be informed of a client's participation in an intervention. That may result in the agent not being kept fully informed of the facts and any necessary action, and they would therefore find it difficult to provide appropriate and timely advice to their client;
- It had been anticipated that the risks addressed by the pilots would be straightforward, but that proved not always to be the case. Some of the issues that arose became quite technical and needed the agent's involvement to resolve matters on their client's behalf; and
- The opening contact letters were viewed by some external stakeholders as “technically unclear”. This lack of clarity or understanding of technical points could lead to an inaccurate or inappropriate response from the taxpayer if the advice and assistance of an agent is not available.

The escalation of issues that become more technical or complex, and the role of the agent in those circumstances, should be carefully considered in any future work. All of this underlines the need to ensure that the relationship between agents, taxpayers and HMRC is understood and catered for when developing new approaches to compliance.

Agents were also concerned around whether there were adequate taxpayer safeguards in the process. For example the piloted interventions operated outside of the framework governing formal enquiries. Also, the design of the letters was viewed by many taxpayers and agents as confusing, with some taxpayers perceiving that participation in the pilots was compulsory. Though taxpayers who did participate had recourse to established appeals and complaints procedures, there is a need for clear, visible and operable safeguards for taxpayers and agents can assist their clients in ensuring they are aware of those safeguards if needed.

Some agents recommended that their clients should not participate on the grounds that taking part in a voluntary exercise may invalidate insurance cover for professional fees. The issue of insurance cover will need to be addressed in the development of any further work on testing new approaches to compliance.

## Conclusions

Although the results present a complex picture and the quantitative evidence is inconclusive because of the many variable factors, valuable learning can be drawn from the results and reactions to the pilots on both the principles underpinning the design and purpose of interventions, and how the development and testing of new kinds of interventions can be improved.

According to the customer experience research, most respondents preferred the new interventions to traditional enquiries. The fact that HMRC was anticipating difficulties rather than reacting to situations was viewed positively. The pilot interventions were considered to be a better way to address mistakes in tax returns, but not necessarily the best way to tackle those who deliberately understated their tax liability. Key to this was the impression that the intervention was seen as being proactive and avoiding the necessity to check up on individuals and challenge people directly.

Many taxpayers and agents felt that some of the letters used in the pilot interventions were confusing (in some instances technically unclear) and failed to explain the risks and issues sufficiently.

All of the interventions piloted were relatively low cost compared to formal self assessment enquiries and significantly reduced the average elapsed times for completing each check.

There are potential benefits for both HMRC and taxpayers in having a quicker and simpler means of resolving minor issues and errors than the current formal type of enquiry intervention. In particular where the risk is clearly identifiable, current and can be simply articulated. More complex or serious errors require more in-depth consideration for both HMRC and taxpayer or agent than the piloted interventions provide. In addition:

- Results were generally poorer where risks were found to enable an intervention type to be tested, rather than those where an intervention was designed to address a risk;
- Some taxpayers are not able to declare the correct amount of tax because their business records are not adequate. If this is left unaddressed it could subsequently lead to more significant errors; and
- Where possible HMRC needs to ensure the accuracy of third party information.

The opinions of those who chose to participate in the intervention process were mostly neutral or positive. Despite this, there were a few occasions where respondents in the customer experience research felt their time (or HMRC's) had been wasted. Most participants felt that the interventions could be completed without assistance from agents. Those that involved agents tended to be taxpayers who were lacking in confidence in terms of their finances generally, and tax affairs specifically, or those whose tax affairs were especially complex. Many taxpayers and agents felt that some of the letters used in the pilot interventions:

- were confusing (in some instances technically unclear);

- failed to explain the risks and issues sufficiently; and
- left the taxpayer uncertain of what to expect.

Agents were generally supportive of the principle of lighter touch and swifter interventions but there were concerns around some of the practical implications arising from the pilots. In particular, agents felt that they had not been given sufficient time to inform and influence the design of the processes, procedures and letters, before the pilots were run. Also, concerns were expressed about the lack of a legal framework and safeguards and how this affected their client's rights. The lack of clarity caused some agents to advise their clients not to participate in the pilots.

More generally, participants' perceptions of HMRC staff throughout the pilot were generally positive. Staff were praised for being polite, friendly and helpful.

## Next steps

The activity undertaken within the six pilots ended in October 2006. Since then the Compliance Reform Forum has been established bringing together representatives from HMRC, small business, the Low Incomes Tax Reform Group and the agents' community to discuss how to take forward work on developing a more flexible and customer-focused compliance assurance regime for HMRC. The key learning points and conclusions identified in this report have informed the development of that programme of work. A programme of work to take forward development of work on new interventions has been agreed, including:

- helping new business;
- better communication with HMRC through the use of email and telephony;
- sharing information on methods of risk assessment between HMRC and tax advisers to generate better understanding;
- sharing workflow processes to enable HMRC and tax advisers to understand the role of each party in assuring tax return compliance;
- reviewing and improving current intervention processes and exploring alternatives and safeguards;
- communication to interested parties about proposals and possible developments; and
- improved consultation framework and implementation.

Where the above programme involves developing and testing new approaches to improve how HMRC checks and assures compliance the following points of learning from the pilots will be considered:

- Development work on interventions should begin with an identified risk and design the type of intervention and intervention mix which is proportionate and effective to address that risk;
- Where bulk data is the basis of an intervention, to reduce unnecessary burdens on compliant taxpayers HMRC must be careful in checking third party data before the intervention is made;
- Assurance of the quality and technical accuracy of the outcome of an intervention is essential to safeguard the taxpayer's position and to enable appropriate evaluation. Quality assurance programmes should form an integral part of the future testing of new approaches to compliance work;
- The approach and design of the opening contact with taxpayers is important in influencing the likelihood of a positive response. The communication methods used to deliver an intervention should be appropriate to the risk and to the taxpayer. The purpose and expectation of the intervention should be clear and easily communicable. External stakeholders could provide assistance and advice to improve the design of the contacts or approach to meet both HMRC's and taxpayers' needs;

- Full and timely engagement with external stakeholders will improve the design, development and testing of new approaches; and
- Where less formal compliance interventions are to be tested or used, taxpayer safeguards should be established which are clear, adequate, robust and understood by HMRC, taxpayers and agents.

## The legislative framework

HMRC is looking at how it can best work in partnership with taxpayer representatives to design its operational responses to common forms of non-compliance using the powers that are currently available. However, many of the criticisms of HMRC's ways of working stem from the powers themselves and the structures they impose. Importantly, the different powers inherited from the former departments can mean inconsistent taxpayer experience and can increase the compliance burden.

The Review of Powers, Deterrents and Safeguards aims to develop modern, proportionate, efficient and effective powers, with commensurate safeguards for citizens. The framework will support interventions appropriate to the range of risks. Lessons learned from the pilots will inform this work.

## Appendix 1 – Glossary

Agent	Any representative nominated by the taxpayer on form 64-8, not just professional and accredited accountants
CC	Correction Challenge
Closed cases	No further action required for the pilot
Contacts	Communications with the taxpayer, e.g. letter, phone call or visit
Contract settlement	Legal contract which replaces formal proceedings to recover tax, NICs, interest, surcharge and penalties
CTSA	Corporation Tax Self Assessment
EC	Employer Compliance
Elapsed time	Period from beginning to end of an intervention
Enquiry	Traditional intervention which statutorily questions one or more entries on a self-assessment return
Escalation	Referral of a case by the pilot team for further action by another arm of HMRC.
FB	Finance Bill
HMRC	Her Majesty's Revenue and Customs
Intervention	Approaches HMRC makes to taxpayers to assure their compliance
IT	Information Technology
ITSA	Income Tax Self Assessment

Knowledge, Analysis and Intelligence	An HMRC organisational Unit
Local Compliance	An HMRC organisational Unit
PAYE	Pay As You Earn
PBR	Pre-Budget Report
Risk group	Taxpayers falling within a specific risk profile
Risk profile	Specified risk indicators
RTHC	Real Time Health Check
RTRR	Real Time Record Review
SAu	Self Audit
SRR	Short Risk Review
TC	Telephone Contact
TPI	Third Party Information
VAT	Value Added Tax
Working Together	Joint initiative between the former Inland Revenue and accountancy bodies
Yield	Money collected from compliance activity