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**HM Revenue and Customs**  
**Review of Links with Medium-Sized**  
**Businesses**  
**Qualitative Research Report**  
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## **Disclaimer**

The views in this report are the authors' own and do not necessarily reflect those of HM Revenue and Customs.

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## Glossary of terms

<b>Abbreviation</b>	<b>Term / description</b>
Agents	The agents that we interviewed who were responsible for providing third-party expertise on financial administration to medium-sized businesses
CIS	Construction Industry Scheme
CT	Corporation Tax
HMRC	HM Revenue & Customs – formed from Inland Revenue and HM Customs & Excise. For simplicity we have referred to HMRC even though an event in question may have related to a time before the merger
MSBs	Medium-sized businesses
NICs	National Insurance Contributions
PAYE	Pay As You Earn
Respondents	The individuals that we interviewed who were responsible for the financial administration of the medium-sized businesses in the sample
SMP	Statutory Maternity Pay
SSP	Statutory Sick Pay
VAT	Value Added Tax

# Executive Summary

## 1. Introduction

Opinion Leader Research was commissioned by HM Revenue and Customs (HMRC) to undertake research amongst financial managers and teams within medium-sized businesses and agents dealing with medium-sized businesses to feed into the Department's Review of Links with Medium-sized Business. The overall research aim of this study was to discover the experiences of medium-sized businesses when they had been in contact with HMRC.

## 2. Aim and Objectives

The primary aim of this research was to understand how the department could improve the service it provided to medium-sized businesses. In answering this, the objectives were:

- To explore the extent to which medium-sized businesses interacted with HMRC, how the interaction was carried out, the extent to which the businesses considered the interaction a burden and, if a burden was identified, whether this burden might be streamlined or conducted more efficiently as an e-service
- To explore the perceived effectiveness and suitability of HMRC's current communication and administrative processes, and the extent to which HMRC provided a joined-up tax administration service
- To identify areas of duplication in the process
- To understand the administrative effectiveness and suitability of the implementation of the taxation system, including payment of benefits and credits, by medium-sized businesses

### **3. Methodology**

A qualitative approach was adopted for the study. Fieldwork was conducted between 9 and 29 June, 2005. A total of 35 medium-sized businesses were covered by the study. All fell within the definition of 'medium-sized' used in the Review of Links with Medium Businesses, i.e. between 20 and 1000 employees: 15 businesses had 20-49 employees, 10 businesses had 50-249 employees and 10 businesses had 250-1000 employees. Five agents were also interviewed.

### **4. Summary of Main Findings**

#### **4.1 Medium-sized businesses do not perceive the administration of tax as especially burdensome**

4.1.1. First and foremost, finance directors and teams did not perceive the tax system as particularly burdensome

- Finance director and teams needed to know the tax system and ensure the business complied with its tax obligations (and did not encounter large unpredicted tax bills, penalties and interest)
  - They perceived much of the tax system as routine and a predictable
  - Frequent tax processes (monthly calculation and payment of PAYE and NIC) took relatively little time and as such placed little burden on the business
  - Less frequent and more complex tax processes (e.g. CT, Intrastat, import duty, and end-of-year PAYE and NIC filing) could take longer, but were planned into the lifecycle of the business
- They introduced the systems required to reduce any risks, to increase certainty and to plan effectively
  - Relevant (commercial or HMRC) software packages were used to systematise tax processes and minimise the risk of human error
  - Where software was not available, businesses developed their own systems to manage tax processes as effectively as possible

- Where necessary/beneficial, tax liabilities were outsourced to agents to minimise their impact on the business (e.g. CT, payroll, etc)

4.1.2. Finance directors and teams generally liked the predictability of much of the tax system (e.g. the VAT regime, with which they knew they had to comply or risk a penalty) because they had no choice but to plan effectively for it

4.1.3 Interviewers often had to probe extensively to uncover specific tax burdens; therefore, it is important to keep in perspective the often limited impact of the tax burdens identified

#### **4.2 Three types of tax burden were identified (and associated opportunity costs)**

4.2.1 When asked, respondents could identify three (theoretical) types of burden on medium-sized businesses

- A financial burden (i.e. finance directors perceived no tangible benefit to the business paying tax)
- A time or administrative burden (i.e. it took staff time calculating, paying and filing tax returns)
- An emotional burden (i.e. the stress of getting it right, or the fear of getting it wrong)

4.2.2 Opportunity costs were also incurred:

- A financial opportunity cost (i.e. what else the money paid in tax would be used for)
- A time opportunity cost (i.e. what staff would be doing if not ensuring the business complied with its tax obligations)

#### **4.3 Both the financial and administrative tax burden is perceived to be increasing**

4.3.1 Respondents perceived the financial and administrative tax burden to be increasing:

- Several finance directors complained spontaneously that the financial burden of tax was increasing 'by stealth', which could make it difficult to maintain profit margins
- The government self-assessment tax policy was also perceived to increase the time burden and financial risk to businesses (e.g. if they get their tax calculations wrong, especially for a prolonged period)

#### **4.4 The impact of changes in the tax system or tax liabilities is often short-lived**

4.4.1 Change in either the tax system or the tax liabilities of the business could create a short-term increase in administrative and/or financial burden (e.g. as a result of incorporation, merger or acquisition, increased import and export activity, etc):

- Medium-sized businesses usually absorbed this rapidly without experiencing a significant impact on performance or profitability
- A small number of businesses found themselves unable to respond (e.g. changes in the marketplace limited their ability to adapt their business model or adjust their pricing points to incorporate increases in their tax bill)

#### **4.5 HMRC is perceived to do a satisfactory job in terms of enabling compliance**

4.5.1 Finance directors believed that many of the changes in the tax system (e.g. self-administration) and innovations in its administration (e-filing) had benefited HMRC far more than businesses; they thought HMRC could do more to pass on some of the benefits and cost savings to them

4.5.2 Similarly, because HMRC expects finance directors and their teams to calculate their own tax liabilities, finance directors and teams in turn expect HMRC to do all it can to enable them to comply

4.5.3 On the whole, they perceive HMRC to do a satisfactory job in this respect and they noted an increased emphasis on customer service, including:

- Improved query handling (i.e. guidance and support, especially telephone helplines)

- More helpful and friendly, and less suspicious and punitive inspections
- The drive to increase both the range and performance of HMRC e-services (for calculating, filing and paying), which further helped to minimise risk, increase predictability and enable effective financial planning

#### **4.6 Numerous improvements to HMRC customer service were spontaneously cited**

4.6.1 When asked, respondents thought HMRC customer services could be improved further still by:

- Improving HMRC information and advice-giving to increase certainty, to reduce risk, to reduce the administrative and emotional burdens associated with ensuring compliance, e.g.:
  - To ensure more consistent information and advice given by helpline staff (to ensure greater certainty in their dealings with HMRC)
  - To provide more expert staff (to avoid customers being passed from office to office to resolve more complex queries)
  - To improve accessibility of information on HMRC Web site (e.g. in terms of the search engine/navigability of the site)
  - To provide more personalised HMRC guidance and support (e.g. having to read through a lot of irrelevant information throughout the year ensures compliance is considered a major administrative and emotional burden)
- Improving communication post-filing to minimise the emotional burden of dealing with HMRC, e.g. to confirm receipt (those that file online welcome automatic e-mails acknowledging receipt)
- Increasing levels of integration between commercial software packages and HMRC online systems to reduce the time burden of dealing with HMRC
- Reducing the administration burden of mandatory information and statistics (e.g. Intrastat and ONS)

- Introducing a more equitable way of handling disputes to reduce the emotional burden of dealing with the HMRC; finance directors considered the current system inequitable, i.e. if HMRC makes an error, the business has to prove HMRC was at fault and HMRC will be slow to repay any money owed
- Ensuring more joined-up services (e.g. having to repeat the same information to every individual/helpline every time a call was made on the same issue), again to increase certainty

#### **4.7 Suggested HMRC customer service innovations received a positive response**

4.7.1 By their nature, finance directors and teams tended to be risk averse and were often cautious in their response to some proposed HMRC service innovations; however, some of HMRC suggestions were considered beneficial

- A single payment system could enable them to spread the financial burden of tax compliance throughout the year
- Introduction of a single business identifier could help to improve interactions with HMRC staff (e.g. by allowing HMRC staff to see the business's interactions with HMRC and all queries made via a single and integrated electronic account)
- Prospective visits from a tax inspector would be welcomed if designed to help medium-sized businesses meet their obligations effectively, especially when changes in the tax regime occurred, and in doing so increase certainty
- Joint visits for PAYE and VAT could be more efficient and minimise the administrative burden, especially if designed to help them get their systems right rather than aiming to identify and punish errors
- Greater emphasis on HMRC e-services could help to improve business efficiency and reduce the risk of errors (both in terms of calculation, filing and payment)

# Chapter 1 – Links with Medium-Sized Businesses Research

## 1.1 Introduction

Opinion Leader Research was commissioned by HM Revenue and Customs (HMRC) to undertake qualitative research to feed into the Department's Review of Links with Medium-Sized Businesses. Interviews were conducted with staff dealing with tax in medium-sized businesses (including incorporated businesses, sole traders and partnerships). The study also included interviews with agents who were involved in providing advice and support to medium-sized businesses.

The background to the study and the overall study aims are presented below. Chapters 2 to 6 report the main findings. In summary, these explore the following topics:

- Chapter 1: Links with medium-sized businesses research
- Chapter 2: Impact of tax administration on medium-sized businesses
- Chapter 3: Medium-sized business's relationship with HMRC guidance and support
- Chapter 4: Detailed examination of interactions for each key tax strand
- Chapter 5: HMRC suggestions for improving tax administration
- Chapter 6: Conclusions and recommendations

The final chapter presents the research conclusions and recommendations. An outline of the research methodology and the discussion guide used in the interviews are appended at the end of the report.

## **1.2 Research Background**

### **1.2.1 Rationale for the Review of HMRC Links with Medium-Sized Businesses**

Issues concerning small and large business have been well heard and represented but HMRC had concerns as to whether issues facing medium businesses had been addressed. At the Pre-Budget Report 2004 it was announced that the newly merged HMRC department would be conducting a review of links between these businesses and the revenue departments, providing an opportunity for them to make their needs known. The review will look for ways of reducing the administrative burden medium-sized businesses face in their dealings with HMRC and to achieve the type of successful cultural shift in the relationship between medium-sized businesses and the new department that followed the Review of Links with Large Business undertaken in 2001.

The conclusions of the review, which will be reported around the Pre-Budget Report 2005, will feed into the future operational policy-making process and delivery as it affects medium-sized businesses. It is intended that many of the conclusions are also likely to improve the ways in which the new department will work with business more generally.

The review focuses on businesses where day-to-day operations have been devolved from the founder/controlling-director to a management team, and looks at what can be improved within existing legislation and infrastructure

In particular, the review seeks to identify:

- Duplication that can now be removed
- Procedures that are burdensome and can be streamlined or could be conducted more efficiently as an e-service
- Better lines of communication to enable this sector to help improve both the operational and administrative policy process
- Improvements in the enquiry process, through a review of recently settled enquiry cases

### **1.2.2 Definition of a medium-sized business**

For the purposes of this review and the research, a medium-sized business was defined by HMRC as being a business where the founder-managers directed others to run the business, rather than managing it directly themselves. HMRC evidence suggested that on average this transition occurred when companies had between 10 and 20 employees. For that reason the decision was taken to concentrate the review and the research on businesses with between 20 and 1000 employees, and in which the bulk of matters relating to tax were the responsibility of someone other than the founder or owner of the business, e.g. an in-house accountant or financial director.

### **1.3 Aims and Objectives of the Research**

The overall research aim of this study was to discover the experiences of medium-sized businesses when they had been in contact with HMRC. The research was intended to consider:

- The extent to which the medium-sized business interacted with HMRC
- Why the business interacted with HMRC and how the interaction was carried out.
- Whether or not the business considered the interaction a burden
- If a burden was identified, whether this might be streamlined or carried out more efficiently as an e-service
- Awareness of HMRC's current communication and administrative processes
- Perceived effectiveness and suitability of HMRC's current communication and administrative processes
- Identification of areas of duplication in the process
- The administrative effectiveness and suitability of the implementation of the taxation system, including payment of benefits and credits, by medium-sized businesses
- The extent to which HMRC provided a joined-up tax administration service
- How HMRC could improve the service it provided to medium-sized businesses

Medium-sized businesses had a range of contact points with HMRC. Therefore the research needed to consider the administration of the following key taxes:

- Pay as You Earn (PAYE)
- National Insurance Contributions (NICs)
- Corporation Tax
- VAT

The research was also to cover, where relevant:

- Environmental taxes: Landfill Tax, Climate Change Levy, Aggregates Levy, Land Remediation Relief
- Statutory Maternity Pay
- Statutory Sick Pay
- Student Loan Deductions
- Construction Industry Scheme (CIS)
- Research and Development Tax Credits
- Excise duties

## Chapter 2 – Impact of Tax Administration on Medium-Sized Businesses

### Summary

- In this chapter we focus on an overview of how tax administration affects medium-sized businesses, including the extent to which this is perceived to be a burden on the business

### 2.1 Meeting Tax Obligations is a Core Function of Finance Teams

One of the defining characteristics of the medium-sized businesses we interviewed was that they had devolved financial responsibility to an individual or team. The objectives of the financial individual and/or team were synonymous with the medium-sized business's corporate objectives:

- To ensure growth
- To ensure cash flow
- To ensure effective financial management (and stability and predictability for the business), including:
  - Financial planning and budgeting
  - Cost control/managing the bottom line
  - Managing financial risks/liabilities

Ensuring tax compliance, minimising tax liabilities, and avoiding unnecessary penalties were generally perceived as core functions of the finance department. Managing tax processes was generally regarded as merely part of the everyday financial management of the business.

## 2.2 Tax Administration is Not Perceived as Especially Burdensome on Medium-Sized Businesses

When first asked, respondents did not consider tax administration especially burdensome. The business had generally grown up around the tax system. Tax compliance was built into the business model and pricing point. As such, respondents regarded most aspects of tax as routine and predictable. They often liked the more rigid tax regimes (e.g. VAT) because they had no choice but to plan for it and comply (or risk a penalty). As such, tax compliance was perceived as part of the everyday financial processes of the business.

Staff in medium-sized businesses were used to dealing with the distinct tax strands, forms, processes and functions. 'Bigger' medium-sized businesses (with 250-1000 employees) often had different teams to deal with individual tax strands (e.g. the payroll team deals with PAYE and NIC, a different team deals with VAT, etc).

Finance departments generally planned to meet tax obligations. Introducing effective systems to enable the business to meet its tax obligations was perceived as an essential part of managing risks and liabilities.

*"I tend to accept that [dealing with tax is] part and parcel of business life now and as I say, we've been doing these things for so long now that most people have systems set up to cope with it." (MSB 8, wholesale and retail, 50-249 employees)*

*"It's just part of my job. It's not as if I've been dragged away from doing something else. I've got to do it, it's my job, I do it." (MSB 10, business services, 50-249 employees)*

*"It's something that's got to be done, it just becomes incorporated into everything else, all the other procedures that you've got to do, so it's no different to paying your wages every week, it's just something that's got to be done, it's part of the daily procedure and you don't really think about it." (MSB 13, production, 20-49 employees)*

## **2.3 Types of Tax Administration Burden**

With some probing, three types of burdens associated with tax compliance were identified (albeit the scale of their impact on the business was often perceived to be minimal):

- The financial burden (the actual amount spent meeting the tax bill)
- The administrative burden (the amount of time spent calculating, filing and paying tax)
- The emotional burden (the stress of making sure tax calculations and payments are correct, avoiding penalties, etc)

### **2.3.1 The financial burden of meeting the tax bill of the business**

The financial burden on medium-sized businesses was generally defined as the physical amount of money paid out in tax. Medium-sized businesses were generally geared up to meet the financial burden. Tax obligations were built into the business model and pricing point to ensure the business could meet its tax bill.

Other financial costs involved in meeting the tax bill were not generally considered a financial burden:

- Finance team staff would have been employed anyway to meet core accounting functions (e.g. to manage payroll, sales and purchase ledgers, etc)
- Commercial software used for tax administration often met a range of accounting functions
- The use of agents was also perceived as a cost saving rather than a burden

Paying the tax bill was often perceived as an irksome part of businesses life. All were aware that a financial 'opportunity cost' was entailed, i.e. the money paid out in tax does not directly benefit the business and diminishes its profitability. However, respondents often perceived the business to benefit indirectly from the public services paid for via tax. Filing VAT returns was sometimes cited as the exception as it resulted in a repayment.

The financial burden was perceived to have increased over time. Medium-sized businesses appreciated that the government (not HMRC) decided the rates of tax and therefore influenced the financial burden placed on medium-sized businesses. They also believed that businesses' tax bills had increased over time (by stealth) with increases in the rate of NIC, VAT on utility bills, etc. This was perceived to have had an impact on the businesses' bottom lines. Medium-sized businesses were not always able to adjust their business model and pricing point to maintain their margins when an increase in the tax bill was encountered. This was a particular problem for those operating in difficult marketplaces (e.g. those operating in shrinking marketplaces, those with tough competition from overseas suppliers, etc).

### **2.3.2 The administrative burden**

The administrative burden was defined as the amount of time spent determining tax obligations, calculating, filing and paying tax.

*"I think all tax systems have a hindrance factor, because it's non-product work." (MSB 18, construction, 20-49 employees)*

*"There's a lot of form-filling and all that sort of stuff, which obviously is a bit of a bind, but I suppose it's got to be done." (MSB 1, business services, 20-49 employees)*

Maintaining the necessary financial records to meet tax obligations was not generally included, as such processes were perceived as necessary for effective business operations anyway.

Respondents generally knew precisely how long they spent on different tax processes, because they carefully timetabled the time they needed to ensure tax compliance. More frequent and more systematised processes (i.e. those managed via commercial software) were generally considered the least time-consuming.

A number of tax processes were cited as particularly time-consuming, e.g. P11D returns were considered especially cumbersome to complete. Time spent on Intrastat and ONS statistical returns were particularly resented as respondents could see no discernable benefit to either the business or wider society

Like the financial burden of tax compliance, the administrative burden was also perceived as a time 'opportunity cost' for the business, i.e. financial directors and their teams were spending time on ensuring tax compliance that they could have spent focussing on business performance.

Similarly, the administrative burden associated with tax compliance was perceived to have increased over time with the government's drive to self-assessment across all tax regimes, and an increasing range of tax processes encountered (including CIS, Student Loan Deductions, Tax Credits, etc). This shift in policy was attributed directly to HMRC. As a result, staff in medium-sized businesses expected HMRC to do everything it could to enable them to comply.

### **2.3.3 The emotional burden**

The emotional burden was far less tangible and respondents did not identify it specifically as a burden. However, it became clear that where uncertainty existed in a medium-sized business's dealings with HMRC, there could be a degree of emotional burden on those responsible for tax administration within the business. Under the self-assessment regime, if they personally made mistakes then this could have a detrimental financial impact on the business.

## **2.4 Factors Influencing the Burdens Associated with Tax Compliance**

### **2.4.1 Meeting new tax obligations**

Medium-sized businesses encountered new tax obligations:

- *Either* as a result of changes in the tax system (e.g. the introduction of CIS, changes in NIC rates, etc); finance directors, in particular, paid close attention to the government's budget announcements to ensure they had early warning of changes in the system
- *Or* as a result of changes in their scale or operations (e.g. as they took on more staff, they were more likely to encounter SMP, student loan deductions, etc; if levels of imports grew, they could encounter Intrastat returns, etc)

Such occurrences generally increased tax burdens, in terms of:

- An increase in the tax bill
- Extra time spent ensuring compliance with new tax obligations
- The investment needed to implement new processes
- The emotional burden associated with the perceived risk involved in interpreting changes and ensuring compliance

However, increases in tax burdens were generally perceived as short-lived. Such changes were usually quickly assimilated and integrated. Existing systems were swiftly adapted or new ones adopted. However, respondents often complained that they frequently had to read through lengthy guidance to find relevant sections. They felt HMRC could provide guidance that was more easily navigable to enable them to pinpoint relevant sections more swiftly. Many found that they had to telephone helplines to confirm what they had read.

*“I mean it’s actually a really hard job now to keep up with what they want you do. I mean every week you read something different, some new interpretation of the rule or a law and you can think you’re running along doing everything right and then all of a sudden it’s misinterpreted and then, you know, it all changes and they back-date these things” (MSB 6, wholesale and retail, 50-249 employees)*

#### **2.4.1.1 Changes in the tax system**

An increase in the financial burden could cause difficulty for businesses. Staff within most of the medium-sized businesses interviewed said that their business was able to adjust its business model and pricing point to accommodate such changes. However, a few complained that they had had difficulty maintaining their profitability/margins. A small minority reported business shrinkage as a result of such occurrences, although this was generally exacerbated by other market forces (e.g. those operating in marketplaces with increasingly tough competition from overseas could not adjust their pricing point).

#### **2.4.1.2 Changes in scale of the business or its operations**

As a medium-sized business grew, its business model would often encounter new tax strands and processes. For example:

- Mergers or acquisitions which meant that they needed to become familiar with new VAT rates or circumstances
- Incorporation meant that they needed to file and pay corporation tax returns and submit returns and accounts to Companies House

However, medium-sized businesses were generally in control of such change and planned in advance for it.

A small minority found they were unable to grow the business because they encountered a large tax bill (e.g. they found they had to delay taking on staff, or cancel planned mergers or acquisitions, etc). These businesses appeared to have been smaller and in an early stage of their growth cycle. They therefore had fewer reserves on which to call, especially if they encountered a large bad debt at the same time as a large tax bill.

A small number of (generally smaller) medium-sized businesses also reported a number of practices designed to enable them to avoid tax processes. For example:

- Not taking on employees on low incomes to avoid having to deal with Tax Credits
- Not employing graduates to avoid Student Loan Deductions
- Not employing younger employees (e.g. women of child-bearing age or their partners) to avoid Statutory Maternity Pay or Statutory Paternity Pay
- Developing their own employee illness schemes to enable the business to avoid Statutory Sick Pay

*"I'm having to do more and more of what I consider to be the taxman's job. I do all the pay, sick, SSP, maternity pay, working tax credits, the whole sort of gambit is now all on employers. And there's more and more regulations coming into force now...I employ less people. I definitely do and because there's such a burden in doing it, it does put me off taking people on. I shouldn't say it, as a woman, I know I'd get flayed for doing it, but it does put me off employing younger people. Especially now that maternity and paternity issues are coming up. We employ a lot of women and we offer very flexible working hours for people with children and all the rest of it, but it's gone too far the other way now I think. At one point, it was all for the employer, and now I think it's gone a complete 180 degrees." (MSB 4, wholesale and retail, 49-250 employees)*

## **2.4.2 Penalties and miscalculations**

On several occasions some medium-sized businesses found that it was better to encounter a penalty than to pay a tax bill. For example, if they encountered a bad debt that exceeded the amount of the tax bill and the associated penalty incurred, it could be better not to pay to maintain cash flow.

A small number of staff in medium-sized businesses reported that their firm had miscalculated their tax liabilities over time (e.g. they had missed changes in tax regulations, or had failed to adjust their tax processes sufficiently rapidly to keep pace with the growth of the business). In one instance, this had forced the business to cease trading for a time and to reopen under new ownership after a period of six months. The emotional burden experienced in such instances was said to be considerable.

One such business complained that HMRC had been inflexible and refused to agree on terms to allow the business to repay its debt over time. This had forced it out of business for a period. Another said HMRC had agreed on terms that had enabled it to continue trading.

## **2.4.3 Using Information Technology**

Wherever possible, medium-sized businesses used Information Technology (IT) for core financial processes (including tax calculations):

- To reduce the risks of human error
- To minimise the time spent dealing with tax obligations

Both HMRC and commercial software packages were used (including Sage, Pegasus Opera II, Vision XL). Where IT packages did not exist (or where businesses were unaware of them, e.g. Intrastat), staff within medium-sized businesses developed their own IT systems to minimise risk, e.g. using electronic spreadsheets.

Those using commercial software packages generally received updates from the software provider. Installing updates was perceived as relatively straightforward.

However, early outputs were usually checked manually against HMRC tables to make sure there were no programming errors (which were believed to be fairly commonplace).

*“When the K codes came in, the software wasn’t able to cope with it properly. So it’s an additional problem. Once they’re in place and they’re running, they become part of the routine, but the initial implementation is a nightmare.” (MSB 4, wholesale & retail, 50-249 employees)*

#### **2.4.4 Using agents**

Medium-sized businesses in the sample dealt with most of the tax processes in-house. Some outsourced payroll to agents. All outsourced the more complex aspects of tax to agents (invariably accountancy firms), especially Corporation Tax and VAT partial exemptions.

Respondents believed that using agents for complex processes helped them to minimise the risk of miscalculating their tax liabilities or misinterpreting the tax legislation.

Delegating this responsibility meant that respondents did not need to spend so much time on keeping up to date with tax legislation and the more specialist areas of tax law, for example capital allowances. Using agents therefore gave medium-sized businesses greater certainty that they were not going to be challenged by HMRC on their tax returns.

Consequently, using agents was usually considered a cost saving rather than a financial burden on the business. (This is discussed in more detail in Chapter 4 with regards to Corporation Tax processes.)

Agents themselves recognised that they were employed by medium-sized business to reduce the administrative burden of tax. They thought that medium-sized businesses might view them as a financial burden. However, they also believed that medium-sized businesses had no choice but to employ an agent to help them with more complex tax processes.

Agents found it difficult to identify tax burdens specific to medium-sized businesses. They thought smaller businesses (less than 20 employees) might find it more difficult to manage tax administration themselves, because they were less likely to have dedicated financial expertise and systems (including commercial software packages) within the business. The main burdens identified for businesses generally included:

- Keeping up to date with changes to the legislation and rules
- The time spent dealing with an HMRC enquiry
- Increasingly more complex payroll payments and deductions (only a real problem when the payroll was not managed electronically)
- The amount of information that businesses needed to record and keep
- The complexity of Corporation Tax
- The complexity of P11Ds
- Interpreting the complex VAT rules

*“And if anything, what we would have a complaint about is just the sheer processing and the time of doing P11Ds and that’s probably the biggest headache, well, a) for us as accountants, the time factor, and b) the client would have to do it anyway, there must be an easier way.”*  
(Agent 4)

*“Largely I think they accept that there will always be a burden, a financial burden, and it’s more the sheer time that it takes out of their general working year almost to actually deal with these matters.”* (Agent 3)

*“I suppose there’s a huge amount of admin at the moment and with all the new reporting requirements there’s a lot more paperwork that’s required and more deadlines, more penalties. And for the smaller businesses if you haven’t got somebody on the ball, then you’re going to incur financial penalties, and it’s just money down the drain, or money for nothing.”*  
(Agent 5)

## Chapter 3 – Medium-Sized Business’ Relationship with HMRC Guidance and Support

### Summary

- In this chapter we focus on how medium-sized businesses perceive their relationship with HMRC and how they experience interactions with HMRC

### 3.1 Interactions with HMRC Guidance and Support

In summary, staff within medium-sized businesses frequently said that:

- They could generally resolve basic tax queries using HMRC guidance, although they could find it difficult to pinpoint information relevant to their business
- Consequently, contact with HMRC staff was infrequent
- Interactions with HMRC staff were considered increasingly customer-focussed
- However, inequity in the system was perceived to remain
- A number of other criticisms and problems with HMRC guidance and support were also encountered

Finance staff were used to dealing with tax processes and HMRC guidance.

Consequently, they could generally resolve queries by using HMRC guidance. Many said they rarely had a need to contact HMRC with queries.

Medium-sized businesses generally planned to meet their tax obligations. Therefore, staff within medium-sized businesses rarely had to contact HMRC staff to notify them that filing or payment was going to be late.

Most interactions were believed to take place at arm’s length and did not entail any direct contact, e.g. filing returns and making payments. Beyond this, five extraordinary interactions were cited by staff in medium-sized businesses:

- Resolving queries on new or unfamiliar aspects of tax (e.g. on tax strands the business was encountering for the first time, or less familiar aspects of a particular tax strand)
- Responding to HMRC enquiries, e.g. on a VAT or CT return
- HMRC inspections (e.g. VAT inspections were considered more frequent than other HMRC inspections)
- Dispute resolution (e.g. relating to lost returns, miscalculations, etc)
- HMRC seminars and workshops

By definition, such contact with HMRC was infrequent. Except for dispute resolution, such encounters with HMRC were perceived as increasingly friendly, helpful and productive. However, when asked, participants often suggested further improvements to customer service.

A key area for improvement which was identified across the sample was a need for HMRC to improve its communications with medium-sized businesses so that they could feel confident as they complied with the self-assessment regime. To this end, respondents wanted HMRC to provide:

- Greater certainty and transparency in response to end-of-year returns and payments (particularly regarding Corporation Tax), letting medium-sized businesses know more promptly when HMRC had received and processed returns and payments, and whether HMRC agreed with the business's self-assessment
- More consistent advice to enable medium-sized businesses to be confident in their judgements and calculations
- More knowledgeable staff to be the first point of contact to avoid being passed around between helplines and to reduce the time it took to have queries answered
- More relevant and targeted guidance and support at points where changes occurred in tax legislation and processes

- Better signposting of information that was relevant to their business so that it was not 'buried' within newsletters/bulletins and easy to miss
- Better navigability of HMRC Web site to enable medium-sized businesses to get the answers they needed through using a more sophisticated and user-friendly search engine

## 3.2 HMRC Guidance

### 3.2.1 HMRC guidance and updates

Respondents often thought that HMRC guidance had improved in recent years (i.e. that it was written in plain English and presented in more accessible ways). As professionals responsible for dealing with tax issues, they were not daunted by any technical language used in HMRC guidance.

However, HMRC was perceived to produce large quantities of guidance to enable businesses to comply with their tax obligations. Participants were used to dealing with HMRC guidance and updates. However, they complained that they had to read considerable amounts of irrelevant information to find sections relevant to their businesses. They thought this increased the risk of human error (i.e. missing relevant sections) and the corresponding emotional burden (i.e. fear of making mistakes). Blanket mailings about updates and changes were criticised for failing to signpost relevant information adequately.

*"An awful lot of information gets disseminated by Customs & Excise and probably the Inland Revenue as well. You get mountains and mountains of information, most of which is completely irrelevant, so it's very difficult to actually disseminate what is of relevance."  
(MSB 5, transport and motor trade, 20-49 employees)*

VAT communications were a particular area of concern, especially for those with complex VAT arrangements. They perceived that particularly large amounts of information about VAT were sent out. They believed this made it especially difficult to pinpoint relevant sections.

*"The problem I have had with VAT is if you don't see a bulletin or something like that they nail you. And to me you don't always see this information. You might say that's the company's fault for the information not coming down properly, but so much of it doesn't apply to you that you tend to scan things, and you could possibly miss what does apply to*

*you. So, say there's something specific to the motor trade, which is what happened, if it's in amongst a load of other bumf that doesn't apply to you and you miss it, that's the last chance you get, you don't get anything else." (MSB 7, business services, 20-49 employees).*

## **3.2.2 HMRC Web site and CD-ROMs**

### **3.2.2.1 Online guidance**

Against this backdrop, respondents were particularly critical of the HMRC Web site as a source of guidance. Although many used it to find forms and tackle queries, many also complained that it was difficult to navigate. The search engine was considered particularly ineffective. The recent merger between the Inland Revenue and Customs & Excise was thought to have made the Web site even harder to use. The perceived poor performance of the Web site was perceived to increase the administrative burden of tax compliance.

*"I find that certainly in parts of the Web site, you can go round in circles trying to find the right answer and it would just be quite nice to have someone who does have a definitive answer. I know it's very difficult because it's not always black and white." (MSB 2, finance, post and telecommunications, 250-1000 employees)*

Overall, staff in medium-sized businesses thought HMRC could and should improve the navigability of its guidance (especially online guidance):

- To make self-administration easier, especially when encountering a tax strand for the first time
- To minimise the perceived increase in both the administrative and emotional burdens caused by changes in the tax system, e.g. via more personalised updates such as e-mail

### **3.2.2.2 E-filing**

Those who had recently adopted e-filing said that registering, waiting for passwords, and getting used to the new systems had initially incurred an increased administrative burden. However, they expected to encounter time savings in the future. This said, a minority believed that encouraging uptake of e-filing benefited HMRC more than it benefited businesses (e.g. in terms of reducing the number of staff needed to process

returns). Consequently, they thought HMRC should do more to minimise the administrative burden of adopting such systems or compensate/incentivise businesses to adopt them.

### **3.2.2.3 E-payment**

Those who had shifted to e-payment generally paid all their bills electronically. Some medium-sized businesses continued to pay their tax bill by cheque, because they believed it gave them greater control over cash flow.

### **3.2.2.4 CD-ROMs**

HMRC CD-ROMs were welcomed where used to provide access to guidance, forms and electronic systems for calculations, etc.

## **3.3 HMRC Support**

### **3.3.1 Visits and inspections**

Staff within medium-sized businesses considered their interactions with HMRC staff to be increasingly customer-focussed. Many noted that tax inspectors had become less inquisitorial in recent years, as well as friendlier and more helpful (i.e. enabling them to comply rather than try to catch them out). VAT inspectors were generally encountered most frequently. They were widely praised for their expertise and helpfulness (with what was often considered a complex tax regime).

*"I've not had any bad experiences in 10 years with Customs. I know some people have. I'm pretty positive about the Customs... We don't really have very much to do with the Revenue. We just file the returns. You're less likely to get queries arising on that side of things. It's much more codified and straightforward. It's sometimes less of a grey area on PAYE and it's very black and white, whereas VAT is sometimes something which you might get a grey area on so I don't think we actually have any interaction with the Revenue." (MSB 28, retail, 250-1000 employees)*

### **3.3.2 Helpline services**

The most frequent contact with HMRC staff was via helpline services. HMRC helpline staff were also considered friendly and helpful and this in itself was considered a welcome improvement in HMRC query-handling services. HM Customs helpline staff for

VAT were perceived as more knowledgeable and expert. HM Revenue staff were considered good at answering basic queries. However, staff within medium-sized businesses said they rarely had such queries. HM Revenue staff were considered less effective at dealing with more complex tax queries. Staff within medium-sized businesses sometimes complained about being passed from department to department with such queries. They complained about having to repeat the same information each time they were passed on to another staff member. They also complained about receiving different answers to the same question each time they called. Such experiences increased both the administrative burden (in terms of time taken to resolve a query) and emotional burden (in terms of fear of making errors due to lack of clarity or consistency in HMRC's response). Many thought HMRC needed to introduce more effective account-handling systems internally to ensure a more consistent approach.

*"Because a lot seems to depend, if you ring Customs & Excise for a query, it depends who you speak to as to what answer you get. And you can ring on two different days and get two different answers as to how to deal with something." (Agent 1)*

*"Our tax office is probably easier to get through to than the helpline, but I have to say I don't always have faith in what the people on the helpline say because you do get very different answers and also you do quite frequently get people that seem very unsure of themselves and when it's something that you could be breaking the law or that means someone's paying far too much it's not the best assurance." (MSB 25, production, 250-1000 employees)*

*"You go to a central telephone exchange and then they farm you out to whoever they think can answer your query. Whereby in the old days you could ring up the local branch and talk to somebody and you knew damn well they were sat there with a book in front of them, I suppose also to a degree you knew them, within reason at least one of the team would have been on a visit here, and they probably know your circumstances so they'd know what you'd need to know if a question popped up." (MSB 7, business services, 20-49 employees)*

Medium-sized businesses wanted to see greater consistency across departments in the quality of query handling, and swifter access to expert advice.

### **3.3.3 Local tax officers**

A small number of respondents had retained contact with a local tax officer. They greatly enjoyed such personalised support (albeit they were aware that this was not usual HMRC practice).

### **3.3.4 Seminars and workshops**

Many staff within medium-sized business had attended HMRC workshops and seminars (e.g. in relation to online filing). These were widely praised as helpful, although when prompted, participants did suggest some potential to increase customer focus, for example by ensuring information was more personalised and giving delegates more opportunity to follow up on issues perceived as specific to their individual business.

## **3.4 Criticisms of Interactions with HMRC**

Respondents and agents perceived that there were particular areas where HMRC systems made life more difficult with regard to routine tax administration. Common difficulties experienced in their dealings with HMRC were:

- Perceived inequity in the system
- Difficulties in accessing information from HMRC
- HMRC misplacing payments and returns
- HMRC being slow to 'close' returns and confirm that they agreed with the tax liability
- Software incompatibility with HMRC systems

The merger between the Revenue and Customs also caused concern.

### **3.4.1 Perceived inequity in the system**

Respondents perceived that HMRC was comparatively quick to penalise or remind them should they miss a payment, but slow to rectify their own errors or to pay rebates. A

specific example of this included automatic quarterly payment reminders where no payment was due (because of monthly payments made on account).

A minority encountered difficulty paying their tax bill. Almost all of them considered HMRC inflexible in such circumstances and reluctant to take their particular needs and circumstances into account, even where the business's practices were immovable. For example, a veterinary business received its monthly payments from a government client two days after the PAYE payment deadline, but HMRC refused to make any exceptions. As a result, the company received monthly reminders, despite repeatedly explaining their situation to HMRC.

*"The problem with the Inland Revenue is you have to prove that you're right. They can't come along and say, 'Well this is what we think and we're going to prove it'. They come along and say, 'This is what we think. You prove us wrong'. And yet, from our point of view, we know we're right. We've told them frequently that we're right." (MSB 12, public administration, health and education, 50-249 employees)*

### **3.4.2 Difficulties in accessing information from HMRC**

Respondents and agents sometimes experienced difficulties getting information from HMRC:

- Either about their existing tax account(s)
- Or in relation to potential tax liabilities

They complained that different tax departments and offices appeared unable to share information effectively. Consequently, they disliked having to repeat the same information on the same query each time they encountered a new member of HMRC staff. They disliked having to contact different tax offices to establish where relevant information was held.

### **3.4.3 HMRC misplacing payments and returns**

There was widespread criticism of HMRC communications 'black hole', i.e. if paper-based returns were filed, it could take some time before the business received any

acknowledgement of receipt. Some sent information by recorded delivery to ensure they received a rapid acknowledgement of receipt or delivered returns by hand to a local Enquiry Centre. Many complained that HMRC had lost their returns or other information supplied. They found it particularly annoying that HMRC required them to resend the paperwork (all kept copies in case of such occurrences). Such experiences were perceived to increase the emotional burden associated with tax compliance.

*“I’d like to see whether they’ve received things that you’ve sent, that sort of thing would be quite handy because we sent all our P11Ds with the year end and then I had a reminder saying they hadn’t been sent so I phoned up the tax office and said, ‘Oh I had a reminder,’ and she said, ‘Oh we’ve got a whole room full of them,’ she said, ‘We don’t know whether yours is there or not’.” (MSB 21, business services, 50-249 employees)*

*“Having to regurgitate information that you’ve already given them, I mean with the PAYE with the P46s and stuff, they lose a form. We then have to go and find it again for you (HMRC) and send it off for you (HMRC). It’s costing you in postage. It all costs you. I mean they don’t send you free post envelopes to send P45s in or anything like that. It costs you to actually run a payroll just in what is required to do.” (MSB 12, public admin, health and education, 50-249 employees)*

### **3.4.4 HMRC being slow to 'close' returns and confirm they agreed with the tax liability**

Respondents criticised the way in which HMRC expected businesses to comply with its filing dates, but then took considerable time before notifying them whether they agreed with the business's computations, or whether they were going to raise a query.

Respondents disliked the uncertainty that this brought with it, and resented the time that it could then take to solve an issue if a query was raised much later on. The further away from the filing date the query was raised, the more challenging it would be to go back and find the information needed (especially if staff changes had occurred in the intervening period).

*"We send off our Corporation Tax returns, we get an acknowledgement of return and that can be it. They wait for the statutory time for it to elapse, which is a year after we submit the computation, they have a year to ask us questions. Now, they don't have to issue a letter saying, 'We've finished our investigation,' and the whole impression given to the tax payer is that they're shoddy, that they couldn't care less. You could be sending off your tax comps and they disappear in the big black hole in the Revenue and the thing is what you want them to say, is write back a letter saying, 'Yes, thank you, we've got the computation we've looked at it we've examined it. We do not have any questions this year, thank you very much.'" (MSB 25, production, 250-1000 employees)*

*"I had a query on one of my year ends where it was something really simple where they hadn't updated their system with the SMP recovery figure, so I had a notification saying we owed more money because they hadn't taken that into account. I phoned initially to say this is what I think it is just to confirm it and then put it in writing and then it seems like [HMRC] were saying you don't get any closure. It should be quite simple, it's a simple query—you update your system, this is the figure you should have, give them a copy as necessary, write them a letter, you should then get something back saying this is now ended but you don't and then on that particular instance it was passed to another department. I think then we got issued with a fine." (MSB 25, production, 250-1000 employees)*

### **3.4.5 Software incompatibility with HMRC systems**

Respondents complained HMRC e-services were not always compatible with commercial software packages. They found they had to enter outputs from commercial software packages manually onto HMRC online filing systems. They were concerned about the risk of introducing human error as a result. However, respondents did not see this extra step as being a substantial burden, particularly in comparison to former paper-based methods.

### **3.4.6 The merger between the Revenue and Customs**

Respondents had mixed views on the merger of Customs & Excise and Inland Revenue. Those who had a positive perspective believed this was an opportunity for a more joined-up approach across the departments, e.g. HMRC staff could develop a more joined-up understanding, and could have access to information electronically across tax strands.

*“I think anything that can make it more efficient can be a very good thing. I think in the past, when I worked in the accountancy profession in the past, I think the Revenue and the Customs all shared information anyway to a degree. And I guess from a government point of view, it makes sense to bring that together.” (MSB 8, wholesale and retail, 50-249 employees)*

However, others were concerned that customer service might suffer in both the short- and longer-term as the two organisations grew used to one another, integrated their systems, and ultimately encountered reductions in staffing levels as a result of the merger.

*“Customs & Excise, as an organisation, suffers appallingly from a lack of staff as well and considering that each of them can’t manage their affairs properly, the concept of putting the two of them together to create an utter monster just beggars belief. In my opinion one ought to put together two units that are successful, the merger itself will create problems, but at least you would stand a chance of emerging with something decent on the other side. But if you put two lousy organisations together, right, then you’re going to end up with utter nonsense.” (MSB 9, finance, post and telecommunications, 50-249 employees)*

## Chapter 4 – Detailed Examination of Interactions for Each Key Tax Strand

### Summary

- In this chapter we focus on the process of tax administration for each of the key tax strands – PAYE & NICs, VAT and Corporation Tax, and where burdens arise in interactions with HMRC for each strand
- The chapter also considers other tax administration processes encountered in this study, namely: payments and deductions (Tax Credits, Statutory Maternity Pay, Statutory Sick Pay, Student Loan Deductions), P11Ds, Construction Industry Scheme and Intrastat
- The table below provides a summary of the main points raised

Tax strand	PAYE & NICs	VAT	CT
Extent of burden, if any	<ul style="list-style-type: none"> <li>▪ Considered minimal</li> </ul>	<ul style="list-style-type: none"> <li>▪ Minimal except where more complex VAT rules apply</li> </ul>	<ul style="list-style-type: none"> <li>▪ Least burdensome of all tax strands and schemes</li> </ul>
Time burdens	<p>Chasing HMRC for information (although this is infrequent except for those with high staff turnover)</p>	<ul style="list-style-type: none"> <li>▪ Verifying and reconciling by senior staff</li> <li>▪ Learning rules and seeking clarification</li> <li>▪ Manually updating records with variable VAT rules</li> </ul>	<ul style="list-style-type: none"> <li>▪ Supplying information to agents (negligible)</li> <li>▪ Seeking clarification from HMRC (infrequent)</li> </ul>
Financial burdens	<ul style="list-style-type: none"> <li>▪ Updates to systems software (infrequent)</li> <li>▪ Cash flow problems where there is a clash between HMRC deadlines and business's accounting timetables</li> </ul>	<ul style="list-style-type: none"> <li>▪ Systems updates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cost of agent's time (although this is considered minimal as CT is done as part of necessary year-end accounting anyway)</li> </ul>
Emotional burdens		<ul style="list-style-type: none"> <li>▪ Uncertainty of application of rules and fear of severe penalties for errors</li> </ul>	
Factors that help reduce burden	<ul style="list-style-type: none"> <li>▪ Frequency of administration</li> <li>▪ IT and personnel systems in place</li> </ul>	<ul style="list-style-type: none"> <li>▪ Frequency of administration</li> <li>▪ IT and personnel systems in place</li> </ul>	<ul style="list-style-type: none"> <li>▪ Use of agents to do computations and, in some cases, to complete returns</li> </ul>

Tax strand	CIS	Payments &	P11Ds	Intrastat
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		<b>Deductions</b>		
<b>Extent of burden, if any</b>	<ul style="list-style-type: none"> <li>▪ Considered burdensome by all who dealt with it</li> </ul>	<ul style="list-style-type: none"> <li>▪ Burdensome to those who had high staff turnover and inadequate systems</li> </ul>	<ul style="list-style-type: none"> <li>▪ Burdensome to those without expenses dispensation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Considered burdensome by all who dealt with it</li> </ul>
<b>Time burdens</b>	<ul style="list-style-type: none"> <li>▪ Understanding rules and changes</li> <li>▪ Inputting non-employees' details onto IT systems</li> <li>▪ Querying application with HMRC</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understanding the rules</li> <li>▪ Form-filling</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sourcing a year's worth of expenses information for all employees</li> <li>▪ Manually updating information</li> <li>▪ Explaining to employees why 'expenses' appear as a taxable benefit on their P11D</li> </ul>	<ul style="list-style-type: none"> <li>▪ Manually uploading commodity codes</li> <li>▪ Frequency of returns (monthly)</li> </ul>
<b>Financial burdens</b>				
<b>Emotional burdens</b>			<ul style="list-style-type: none"> <li>▪ Perceived as futile exercise – generally employees can claim back tax anyway</li> </ul>	<ul style="list-style-type: none"> <li>▪ Resentment; perceived as of such remote benefit as to be inconsequential</li> </ul>
<b>Factors that help reduce burden</b>	<ul style="list-style-type: none"> <li>▪ Going via sub-contracting agencies so they didn't have to deal with CIS</li> </ul>	<ul style="list-style-type: none"> <li>▪ Systems to help update information</li> <li>▪ Familiarity through frequency of processing payments and deductions</li> <li>▪ Workforce not eligible for payments &amp; deductions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Expenses dispensation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Automated system for completing returns (although no respondents were using one)</li> </ul>

NB: businesses encountered opportunity costs wherever they experienced time and financial costs

## 4.1 Administration of PAYE and NICs

For the most part, medium-sized businesses dealt with PAYE and NICs as one entity and saw them as subject to the same processes and incurring some of the same burdens. We are therefore addressing them together for the purposes of this report, only highlighting differences where they occur.

### 4.1.1 Routine processes

Medium-sized businesses felt that the monthly processing of PAYE and NICs was fairly routine. Dealing with PAYE and NICs was largely automated – all respondents were using payroll software, such as Sage and Opera, both for internal accounting and for the calculation and completion of PAYE and NICs returns. Any upgrades or changes to the PAYE and NICs system were automatically incorporated by software updates from the business's payroll software suppliers.

*“Well, if you have a computerised system, (changes) should be covered more or less automatically when you get your updates of the programme. So, I don't see that as being too much of a problem. If the programme's been accepted by the Revenue as suitable, then you don't have a problem.” (MSB 28, retail, 250-1000 employees)*

For medium-sized businesses paying their staff on a monthly basis, administration of PAYE and NICs was carried out largely as an adjunct to monthly payroll processes. Similarly, yearly returns were seen as part of the year-end accounting procedure. Monthly calculations of PAYE and NICs payments meant that businesses kept up-to-date figures on their systems and, once verified and reconciled, these figures could simply be imported into year-end returns.

Different medium-sized businesses adopted different methods of payment, including sending off cheques and using BACS or CHAPS. Respondents paying by cheque were using the 'yellow book' (monthly payment slip) for making returns, which, although a manual process, was considered relatively quick and painless – simply a case of copying figures from the return printed out by the payroll software. Often businesses had payment dates marked into their work calendars to remind them, although the payment date was also considered to be ingrained in the accounting timetable.

Respondents identified that their main interactions with HMRC on routine PAYE and NICs processes was limited to filing the return and making the payment. For those with

more employees or a higher staff turnover, obtaining new tax codes became part of their routine PAYE and NICs administration processes.

#### **4.1.2 Facilitating efficient administration of PAYE and NICs**

Respondents identified that administration of these tax strands was greatly aided by systematisation and by the regularity of the processes. Systematisation came from both the financial software and the fact that these medium-sized businesses tended to have a member of staff with dedicated payroll responsibilities. As a result, more senior members of staff did not have to spend so much time calculating or verifying the tax liability, or in getting up to speed with changes to the taxes.

Regular monthly returns and payments (and their set deadlines) meant that dealing with PAYE and NICs became ingrained in business practices. As a result, staff dealing with these taxes became familiar with them and financial controllers were able to budget for this regular expenditure.

#### **4.1.3 Burdens encountered in administering PAYE and NICs**

Respondents reported few burdens in relation to the routine administration of PAYE and NICs. The burdens that did exist were:

- Time: spent chasing HMRC for relevant updates to employee tax coding
- Cost: having to pay for updates to payroll software as a result of changes to PAYE and NICs
- Business practices not matching HMRC compliance timetable

Those that did encounter burdens identified that these tended to be in their interaction with HMRC, for example having to spend time and effort chasing HMRC for tax codes for new employees. This was a particular issue for medium-sized businesses that had a high staff turnover, either through scale of employment or through use of casual labour. Respondents in medium-sized businesses employing people from abroad also found obtaining tax codes problematic.

Those with experience of obtaining tax codes online from HMRC found this to be an easier process generally as they could look up the tax codes at their convenience.

However, there was some mention of recent difficulty in accessing the 2005 new tax codes from HMRC Web site in April 2005, as the Web site was unavailable for this function. One respondent in a large medium-sized business resorted to taxing all employees using the previous year's tax codes, and pointed out that this could mean they were all paying the incorrect amount of tax.

Businesses whose internal invoicing processes were at odds with HMRC payment dates mentioned that these timings were a burden for them, for example:

- Having to calculate returns by 19th of the month, but not closing the ledger until the 15th – tight timetable for calculations
- Not collecting invoices/receiving payments from clients until after the set payment date resulted in cash flow problems or in repeated 'late payment' reminders from HMRC

On the other hand, however, there was evidence from respondents that HMRC was prepared to negotiate on payments where the business could prove extraordinary circumstances beyond their control, e.g. the Foot and Mouth crisis affecting a butchery business's cash flow.

#### **4.1.4 Experiences of electronic year-end returns for PAYE and NICs**

Businesses who filed electronic year-end returns in 2005 welcomed the development in principle as they believed that the process would offer them certainty that HMRC had received their returns and payment. However, there were some reports of difficulties with the process, including:

- Obtaining passwords from HMRC – businesses that had lost their original passwords and those who wanted to obtain passwords for the first time found the process time-consuming and complicated as they had to wait over a week for the passwords
- Lack of information to guide businesses through the online filing process for the first time

- HMRC claiming it had not received the return, despite the business having an electronic receipt to prove they had filed on time – the business was asked to print out the return and fax it to prove its existence
- HMRC PAYE information on the Web site being inaccessible for two weeks in April 2005, which meant that a business had to run the first payroll of the financial year using the previous year's tax codes for employees as the new tax codes were inaccessible

*"It was more time-consuming because before we could submit anything to do with the P35s I had to then go in and register, which then took about a week for that all to come through by the time they sent through all the user IDs and your password stuff and all the rest of it. So then once you've got that, and plus you're in the Web site having a look to see how you do it all in the first place, what you've got to do, the processes you've got to go through, so it's time-consuming finding all that out to begin with... There was never a pack sent out... On the notification we got saying that you had to submit online...all it said was for further information see the Web site blah, blah... But then you've got to trawl through it all [the Web site] looking at different things, and some of it's quite ambiguous when you think, 'Now, do I do that or do I do that?' Then you get it all through and it says 'Government Gateway' on it, so you go in via the Government Gateway and find you're not supposed to go in via the Government Gateway you're supposed to go in via the Inland Revenue Web site. And you're in the wrong place, so I think perhaps a pack to guide you through it would help." (MSB2, finance, post and telecommunications, 250-1000 employees)*

In spite of the difficulties experienced, there was still support for online returns amongst respondents and those who had experienced problems put these down to 'teething problems'. Those who had not yet filed their end-of-year return electronically demonstrated a 'wait and see' attitude towards it. They wanted HMRC to prove its capability first before attempting it. With the exception of those who held little confidence in online technology, respondents who had not filed electronically this year expressed an interest in doing so next year. They perceived that electronic filing in the future was inevitable, and that potentially the process offered the benefit of greater certainty regarding when HMRC received and processed documents and payments, once the blips in the system could be ironed out.

*"Because it was the first year [for filing PAYE returns online] I wanted to see how the bureau coped and [how] everybody else did it before we then went online with it... but*

*[online filing] is something that's down as an objective for next year." (MSB 21, business services, 50-249 employees)*

## **4.2 Administration of VAT**

### **4.2.1 Routine processes**

Respondents perceived the quarterly processing of VAT to be a largely routine procedure. Like PAYE and NICs, they considered VAT calculations to be an adjunct to good book-keeping practices, i.e. keeping accurate records of purchases and sales as they were invoiced. Where the finance department was required to produce management reports, they were reporting purchases, sales information and VAT liability on a monthly basis, so the calculation of VAT was embedded in routine financing processes.

Respondents were using software to calculate their VAT liability and print out returns on a quarterly basis. However, senior members of the financing staff perceived that they needed to spend more time on verification and reconciliation of VAT figures than for PAYE and NICs. This was the case particularly where the business practices attracted more complex and variable VAT rules.

Respondents made payments either by cheque or electronic payments. As with PAYE and NICs, payment deadlines were ingrained in the accounting timetable, and the more severe penalties associated with a missed VAT payment meant that respondents perceived it to be imperative to adhere to the payment deadlines.

### **4.2.2 Burdens encountered in administering VAT**

Respondents reported few burdens on the routine administration of basic VAT as, like PAYE and NICs, systems were largely automated. The main burdens that did exist were:

- Time: to establish what the VAT treatment might be for a particular product or service and over partial exemptions
- Risk: to the business of getting the VAT calculations wrong

This was where HMRC guidance and support could be criticised for not assisting respondents sufficiently in their quest to identify the correct VAT treatment. Respondents perceived that it could be time-consuming to get information on VAT liability from HMRC.

This was challenging for them as respondents considered that the risks of unintentional non-compliance were great: Customs & Excise was historically perceived to be unforgiving of mistakes and likely to impose financial penalties regardless of the reasons for non-compliance.

The time and risk burdens were more likely to occur where the characteristics or practices of the business meant the business was subject to more complex or variable VAT rules, for example:

- A group of companies where some were VAT registered and some were not
- Dealing with a mixture of commercial property (which attracted VAT) and residential property (which did not)
- Dealing with goods with variable VAT status, e.g. printed documents, fuel, department store selling children's clothes
- Corporate entertaining and expenses, e.g. the need to prove that these were genuine and that VAT could be claimed back

Where respondents encountered more complex VAT rules, they identified that it was risky to delegate VAT to a more junior member of staff for fear of errors. As a result, the most senior financial employee such as the financial director or controller would have to spend time on calculating VAT payments. This added to the time burden on the business in relation to VAT.

*"If you've got a flyer, that's VAT-free. But if you've got something that's a piece of paper, and more than 25% of it is returnable, then it's VAT-able. And it's really, really complicated... if it's personalised it's VAT-able, if it's non-personalised it's not VAT-able. So, but if you get a pack, an envelope and a letter, depending on the proportion, that if you've more non-VAT-able items than VAT-able, you can non-VAT it all." (MSB 10, business services, 50-249 employees)*

*"VAT's fairly factual, fairly straightforward. Although again, they are prone to changes and you've got weird and wonderful [rules] among those. So rabbit food doesn't have VAT on it, because you can eat a rabbit, but cat food does. Even if it's sold in a pet shop." (MSB 4, wholesale and retail, 50-249 employees)*

Where respondents did not have the necessary systems to deal with a more complex VAT status, it would take them time to manually update records. In some cases they had taken the decision not to try and claim a lower rate if it was too complicated to do in a systematic way. There were respondents who had developed systems to get round this, e.g. by building VAT status into a product's stock code so it appeared automatically in the system, but others were unable to do this.

*"I haven't yet found a way of producing my figures from the computer because of our partially exempt status." (MSB1, business services, 20-49 employees)*

*"We are faced with a standard computer programme which can't deal with [the fact that] if it's such a quantity then charge this amount of VAT, if it's not, charge that amount of VAT and that's basically what their legislation has brought in. Well, you know we could go out and spend 5,000 quid or so getting our computer re-programmed to deal with that. We are not going to pay that when it is easier for us to just switch it over to it all being at 17.5% and not bother with it." (MSB 6, wholesale and retail, 50-249 employees)*

## **4.3 Administration of Corporation Tax (CT)**

### **4.3.1 Routine processes**

Respondents chose to outsource to agents the calculation of CT and completion of the CT return because they perceived it to be a highly specialised area, subject to complex and frequently changing rules, e.g. capital allowances. Those that were more involved in the CT return tended to have a background in dealing with CT (e.g. had been an accountant at a large agency that dealt with CT on behalf of clients before moving to an in-house position), or the medium-sized business was a larger one where there were more staff with the necessary financial expertise.

Respondents perceived administration of CT to be part of the business's yearly accounting processes and preparation for annual auditing. Like PAYE, NICs and VAT, CT procedures were largely an extension of existing financial procedures. Respondents therefore saw their responsibilities as limited to a few straightforward procedures:

- They had to supply agents with necessary accounts
- They had to answer any more detailed queries that agents had on specific transactions

- They were responsible for checking the agent's calculations and signing the return (although there were also businesses who did their own estimated calculations first and then compared these to the agent's figures)
- The agent was responsible for making the calculation and completing the return
- Respondents then made the payment and they or their agent then filed the return

CT was therefore broadly perceived to be remote from the business's day-to-day financial processes, although consideration of the CT liability did influence business decisions, e.g. when to purchase a piece of capital equipment or the way in which transactions were conducted with companies in the same group.

#### **4.3.2 Burdens encountered in administering CT**

Respondents considered that they minimised the administrative burdens on themselves by outsourcing CT to an agent. They perceived that they avoided the following burdens:

- Time: they did not need to spend time getting up to speed on the CT rules, which they perceived to be complex and highly subject to change
- Time: the annual nature of CT meant that they would be unable to build up the necessary familiarity and knowledge that made dealing with PAYE, for example, relatively routine
- Cost: they did not have to employ a permanent tax specialist, but used an agent for their expertise only as and when it was needed
- Cost: they did not need to invest in costly software for a once-yearly procedure

*"The preparation of all the information for tax computations is done in-house. Our auditor, our external people will complete the returns on our behalf. Which I will then check and sign and they'll submit them to the Revenue on our behalf...I would always use them, yes. Because I'm not a tax expert, tax legislation is constantly changing and it's not something, as an accountant, unless you specialise in this area, you keep up to date with. So I take the comfort that they have specialist tax departments and it's obvious we're using their expertise." (MSB 8, wholesale and retail, 50-249 employees)*

*“All the [group] accountants produce draft Corporation Tax computations. I will review them, we then send all the information to our tax specialist so she’s got the stats, the draft tax columns, the draft management accounts. She puts the computations together on the software, they come back to us and I review them and look at any changes really between the final comp and our draft because I’ve got to understand that and then we produce the final ones and they get sent off.” (MSB 25, production, 250-1000 employees)*

Whilst respondents did recognise (and agents admitted) that employing an agent was a financial cost on the business, they viewed this cost to be minimal and necessary in comparison to the time cost and risk of trying to do CT entirely in-house.

Where respondents did perceive that there was a burden in relation to CT was in the subsequent interactions with HMRC after the return had been submitted, which led to uncertainty for the business about their CT liability. Examples included:

- HMRC taking up to 12 months to ask questions about a CT return, thereby delaying the CT return being resolved
- Inconsistencies in responses to CT queries where both the business and their agent asked the same question

Respondents identified that uncertainty over CT could hang over a medium-sized business, creating stress for the financial director/controller. They would have to build in unplanned time and processes to answer HMRC questions, which could be more difficult the more distant they were from the point of sending the return to HMRC, because staff moved on or information was archived. Uncertainty over the final CT figure for a year could potentially restrict future business activity until it had been resolved. A respondent in a large medium-sized business which was publicly listed identified that this could potentially have a negative impact on the share price.

Agents reported feeling irked in circumstances where they felt HMRC was creating uncertainty over the CT return, as they perceived that their clients blamed them for the difficulties.

*“I think time is certainly an issue sometimes. I can give you an example of a client at the moment whereby the inspector of taxes raised a query regarding the Corporation Tax computation and this must be nine months ago. We replied to the query within a*

*reasonable time, the inspector replied about a month later saying, 'Could we have some more information?' which I provided to him. I've now had four letters from him saying, 'My investigations are continuing, I will come back to you if I need any further information.' So, I think, that's a big frustration when we have provided information and the inspector of taxes doesn't meet his normal deadlines." (Agent 5)*

*"I do think that the Corporation Tax side of things is too complex and I believe that that could be simplified. They've got all sorts of complications and adjustments which need to be made for [example] so-called disallowance of a percentage of the rental which you pay on valuable cars and cars being valuable if it's over £12,000, you've got to make calculations to disallow a certain proportion of the rental income that you pay and I think these sort of things are unnecessarily complex and could be straightened out but I don't really have any hassle with the PAYE system. I think the VAT is inordinately complex and you've got to know the ins and outs of the areas that affect you." (MSB 28, wholesale and retail, 250-1000 employees)*

*"We are hearing on certain companies now if he's got a question the inspector will raise queries but I don't think that's good enough, I want Revenue to reply to me every time I send them a [CT) computation, not just acknowledging a receipt. At the end of the year I want them to say we have bothered to look at it because the impression given is they're just stuffing them in a drawer and not even looking at them to see whether they're reasonable. Now as a tax payer I want them to look at it because there'll be a load of people out there that are crooked." (MSB 25, production, 250-1000 employees)*

## **4.4 Administration of Construction Industry Scheme (CIS)**

### **4.4.1 Burdens encountered in administering CIS**

Respondents who encountered CIS to a considerable extent perceived it to be a burden in terms of:

- Time: to understand the complicated rules and procedures according to different levels of CIS certification; respondents were often unsure what procedures they should be completing
- Time: to input non-employees onto the payroll system and treat them as employees when they were not
- Time: to take account of changing rules, which made it difficult to work out liability

- Time: to get answers from HMRC on CIS issues as respondents perceived that HMRC staff could appear just as confused about the rules as they themselves were

These time burdens were increased by the lack of automated systems available, either for processing CIS calculations and returns, or for calculating CIS liability.

Fundamentally, respondents disliked the burden of administering and to an extent 'policing' a scheme on behalf of HMRC, which brought no benefit to them as a business. They disliked the impracticality of having to gather ID from sub-contractors, and the need to check the cards in person for each invoice. Some respondents resented having to deal with CIS due to the implication that all those working in the construction industry were unscrupulous. They perceived that instead of catching the 'cowboys', the onerous nature of administering the CIS actually penalised the medium-sized businesses with integrity.

Some respondents had made business decisions designed to avoid having to administer CIS, by employing subcontractors through an agency, where the agency took on their PAYE liability, or using only a few large sub-contractors.

*"CIS is just very manual, we have lots of vouchers, so what happens is we [owe] you [the subcontractor] £100, you earn £100 and we pay you £82, we take the £18 off your pay, gross pay, and we pay it over to the Inland Revenue. So it's a little bit like PAYE really, but then we have to give you vouchers to say this is what we've taken off you every month and give the Inland Revenue one, say this is what we've paid you... Then I will have to send a copy of that to the Inland Revenue and then hopefully they match the year end. But then there are complications like, I don't know, you've done the work for us, I've paid you £100 and then three months later we decide your work wasn't good enough or you've admitted saying you've messed up and I'm saying right you're going to have to give me some money back. So I want to put a tax credit and Inland Revenue go, 'Oh no, no, no, we can't print negatives.' So the year end becomes very messy." (MSB 24, construction, 250-1000 employees)*

*"We tend to go for the bigger firms, rather than the small one-man bands. We don't want to get into that area much because if they don't pay their tax we'll be copped with it anyway." (MSB 22, public administration, health and education, 50-249 employees)*

*"We're treated, in the construction industry, like total third-class citizens... you turn 'round and say, 'Well I'll tell you what, you produce to me a certifying document that you've paid*

*all the tax and all the national insurance on all those mechanics, otherwise I'm going to have to deduct 30% of the tax of your labour costs and sell them to Inland Revenue.' That's criminal; it was set to get at the cowboys. But the cowboys are still working out there today, just as happily as they ever were." (MSB 18, construction, 20-49 employees)*

## **4.5 Administration of Payments and Deductions (Tax Credits, Statutory Maternity Pay, Statutory Sick Pay, Student Loan Deductions)**

### **4.5.1 Routine processes**

Businesses who were dealing with payments and deductions frequently (e.g. because they had higher staff turnover and/or higher staff numbers) had systems in place and saw the administration of payments and deductions as a further extension of their payroll administration processes.

In these cases, businesses would simply add information from payment/deduction notifications into their payroll IT systems as and when they received them. The IT programme would then calculate the payments and deductions accordingly.

There were also businesses who rarely dealt with payments or deductions (often because they had low staff turnover and/or lower staff numbers). For them, dealing with payments and deductions was not an issue.

*"We've not had any problems with that [SMP], because Sage Payroll works out all the average earnings for you so we don't have any problems with having to manually calculate things like that." (MSB 5, transport and motor trade, 20-49 employees).*

### **4.5.2 Burdens encountered in administering payments and deductions**

Several medium-sized businesses did not have internal systems set up to process any payroll processes above and beyond basic PAYE and NIC deductions (i.e. Tax Credits, SMP, SSP, or SLP). They tended to have only recently grown to a medium-sized business. As such, their finance department was not large enough to be able to have a member of staff dedicated to this role and/or because the number of additional payments/ deductions to be made was insufficient to warrant additional staff resource. Similarly, they had not previously encountered these processes frequently enough to warrant investment in associated IT packages. The resulting burdens were:

- Time: taken to understand how to administer a new payment or deduction
- Time: taken to manually upload the information to their payroll system

Respondents perceived that that these burdens could be compounded by both the irregularity with which notifications arrived and the sense that there were multiple forms for each employee according to whether the payment or deduction was starting, changing status or stopping.

*“In a company our size [141 employees], you could have a dozen or more of those [payment and deduction notifications] coming in that you've got to do. It does go in waves, but seems like all the time... We've got people who leave and they come to the end of their Statutory Sick Pay, so you've got forms that you've got to fill in. Again then you've got maternity, they all come to the end of their six months, you've got to go through the palaver of whether they're coming back and it just seems that there is more and more and more now to do on payroll.” (MSB 4, wholesale and retail, 50-249 employees)*

## **4.6 Administration of P11Ds**

### **4.6.1 Burdens encountered in administering P11Ds**

Respondents identified P11Ds as a particular burden where their employees incurred business expenses, but the business had not been granted dispensation on expenses (or the business had not claimed a dispensation). Key burdens were:

- Time spent sourcing and entering all employees' expenses claims
- Time spent explaining to employees why the expenses appeared as a benefit on their P11D

Respondents resented this process. They perceived it to be a futile exercise, since employees, in the majority of cases, simply reclaimed the cost of the expenses anyway. Agents also identified it as a difficult area for them because of the problems involved in accessing all the information to enable them to compile them correctly. Overall, administering P11Ds was generally perceived to be a tiresome annual task with no obvious benefit to the business, the employee or HMRC.

*“It is still I would say the most onerous of all the tasks to do. Because we have to go through every individual’s expense report for the year and check everything. I suppose you could do it on an ongoing basis but it’s not going to make it that much quicker because at the end of the day you’ve still got to look at what someone’s claimed and if they’ve been on a team meal or something like that then we put them through our PSA. So you’ve still got to look at every single form and then fill in spreadsheets of exactly what’s been claimed by who and all that sort of thing and it just takes no end of time.”*  
(MSB 5, transport and motor trade, 20-49 employees)

*“The difficulty with outsourcing things like P11Ds though is we don’t have the information. And while we can help them complete a P11D, and actually do the mechanics of putting it on, they’ve got to supply the information to us for us to be able to complete it. And I think it is a real burden for people to know what goes on and what doesn’t go on.”* (Agent 1)

## **4.7 Administration of Intrastat**

Those respondents who had to complete Intrastat returns readily identified this as a heavy burden. Intrastat was burdensome because it was time-consuming and labour intensive to complete. (Note: there were no references to the fact that failure to submit Intrastat returns could result in imprisonment.)

This was perceived by these respondents as a key area of duplication in the tax administration system. Respondents resented the effort involved in providing a detailed breakdown of codes for every product imported, e.g. the individual code numbers for ready-made meals or floor tiles (depending on the nature of the business). Respondents pointed out that this was information which HMRC already had to a degree and that it did not provide any benefit to the business by undertaking this process.

No one in the sample had an automated system to complete the procedure, which meant they had to manually attribute a commodity code to every imported and exported item. Respondents perceived that the monthly frequency of the process compounded this burden (unlike more automated tax administration processes, where frequency led to familiarity, which reduced the burden).

Respondents therefore resented the Intrastat process, particularly as they struggled to see the rationale or benefit of such a labour-intensive process. In addition, there was evidence that the amount of time and effort put into Intrastat would increase as the business grew and was trading more items within the EU.

*“We used to import this stuff from Belgium and it was everything from oxtail and chilli con carne and then chicken something and whatever, and the Intrastat people said, ‘Well you’ve really got to split these all into different products.’ Chicken’s different from beef and this that and the other, and we’re getting a lorry-load of this stuff with just 20 or 30 in each box, all different, and you’re thinking, I’m not really going to check every blessed invoice for every lorry-load that comes in and see how many chicken portions there are and how many beef portions there are. We just agreed to differ with the Intrastat, they said, ‘Well, you’ve got to do it,’ and we said, ‘Well, we can’t.’ As I say, I’m sure that we, being British, probably are policing it a lot better than other governments do, so what good are the figures at the end of the day? And why? I really don’t see that it’s any interest to some bloke in Brussels that a piece of cooked chicken’s gone from Brussels to Corby.” (MSB 5, transport and motor trade, 20-49 employees)*

## Chapter 5 – HMRC Suggestions for Improving Tax Administration

### Summary

- In this chapter we focus on how medium-sized businesses feel the process of tax administration can be improved
- We also consider medium-sized businesses' responses to HMRC ideas

Participants were invited to consider a range of proposed innovations in HMRC customer services. Respondents were often cautious in their response. Many appeared to adopt risk averse approach and some resistance to change was encountered. However, associated benefits were identified. Each suggestion was perceived as tackling a key concern about HMRC customer service. Further exploration of their potential was recommended.

### 5.1 A Single-Payment System

Respondents were asked about their reactions to the concept of a single-payment system, which would align the payment system to make it simpler and easier, in recognition of the fact that currently different taxes had different payment dates, were triggered at different thresholds and were governed by different definitions within the legislations.

Many welcomed the opportunity to spread payments throughout the year, especially those that encountered large tax bills at particular times of the year (e.g. car retailers have large VAT bills due to increased sales when a new number plate comes out, but have not always received the payments they need to meet the VAT bill when it arrives). However, the majority of staff within medium-sized businesses said their business model was designed to enable them to meet their tax bills throughout the year regardless.

However, there was some concern at the prospect of having to pay all tax bills at once. This would require businesses to adapt their business model.

### 5.2 A Single Business Identifier

A single business identifier was thought to have the potential to enable a more joined-up approach to account and query handling (e.g. by enabling HMRC staff to look at the complete tax accounts of a business, including contact, responses to queries, etc).

When a medium-sized business needed to make an enquiry, or asked for advice and support, they envisaged that all the information needed to deal with the enquiry would be immediately available to the department's staff, in one place. They thought that this could reduce the amount of information they were required to give each time they called HMRC. They thought it could reduce the frequency with which they were passed around departments to resolve a query. They also thought it could enable HMRC to provide more targeted guidance when new tax strands were encountered or changes in the tax system occurred.

Agents also perceived that there would be a benefit for them potentially in being able to access information about their clients more easily.

Overall, the single business identifier was perceived as having the potential to speed up interactions with HMRC and ensure greater consistency in HMRC responses.

Therefore, it was thought to have the potential to reduce the administrative and emotional burden associated with such interactions.

*"I think there's capacity for it to probably be more user-friendly. I don't find it sometimes the easiest organisation to work your way through the maze, but yeah I'm sure there are or there is scope to make it more seamless or to operate as the one body." (MSB 2, finance, post and telecommunications, 250-1000 employees)*

### **5.3 Prospective HMRC Visits**

Prospective HMRC visits were welcomed if they were intended to enable medium-sized businesses meet their tax obligations. The suggestion was perceived to be in keeping with the perceived shift from a punitive and inquisitorial approach to visits and inspections to a more customer-friendly approach across HMRC. Several respondents thought the benefits would be minimal, as they already had access to tax expertise both internally and externally (e.g. via agents). A small minority did not want to invite what they perceived to be a close and regular inspection of their tax affairs.

## 5.4 Joint Visits and Inspections for PAYE & VAT

Responses to the concept of joint visits for PAYE and VAT were polarised. Reactions appeared to depend on past experiences of receiving a visit, how negatively or positively respondents viewed HMRC and levels of comprehension to the suggestion.

Those who were more positive about HMRC welcomed the prospect of joint inspections. They envisaged that this could reduce the overall time they would need to spend with the inspectors. They thought it could reduce the financial cost of bringing in their agent to assist (where relevant). They also thought it could enable HMRC to develop a more in-depth understanding of their business, and more tailored advice on how to improve their tax-handling processes.

*“I mean I could never see the point in having two separate ones in the first place. I think just put them all together in one and do it that way.” (MSB 22, Public, health and administration, 50-249 employees)*

*“The problem at the moment is that people come in and they just look at one specific area. And probably if they come in and start to look at all the issues, they’ll have a better understanding.” (MSB 30, Finance, post and telecommunications, 50-249 employees)*

Others thought introducing joint visits would increase the administrative burden by doubling the preparation needed for a visit, and by taking more finance staff out of the business at once to respond to inspectors’ queries (which could be detrimental for other financial processes).

*“I think that would be an absolute drain on our resources at the time because then you would need to have enough people really with the information at that time.” (MSB 2, Finance, post and telecommunications, 250-1000 employees)*

## 5.5 Greater use of Electronic Methods

Respondents largely accepted that a greater use of electronic methods would be likely in the future. They also welcomed this as largely beneficial to the business. Greater use of IT (especially e-services) was thought to enable them to manage their internal processes more efficiently. They also thought a move towards greater use of e-services by HMRC could improve its turnaround times for tax returns, and had the potential to remove what they perceived to be HMRC communications ‘black hole’ post-filing (e.g. with e-mail

acknowledgement of receipt of returns, the ability to track progress of a return through HMRC systems online, etc).

Specific HMRC suggested online innovations were welcomed. The prospect of being able to access the details that HMRC held about a medium-sized business online across all tax strands (through online detail log-in) was welcomed by respondents as making life easier for them and providing them with the certainty they required. Respondents considered that being able to change their own business's details online was of minor benefit in that generally the business's details changed infrequently.

However, there were widespread concerns about the effectiveness and reliability of HMRC e-services. Many believed that new HMRC e-services had frequently been dogged by teething troubles immediately after their launch. Several suggested that HMRC needed to improve its piloting processes pre-launch. They also complained that HMRC online services could not always handle throughput at busy times of year (e.g. key filing dates).

*"In theory it sounds fine, but it's just that we've got to go and set it all up, and what's the advantage to us? There isn't anything except that they're saying, 'OK, legislatively you will have to do it sometime and we'll give you this £100... incentive.' Well it's going to cost more than that just to try to set all the information up and get it running right. At the moment it runs well. If we've got one problem and it screws it all up electronically then it could take us days to sort it all out. I haven't got an incentive at the moment to start looking at it." (MSB 15, production, 50-249 employees)*

*"Yeah, I would say that we'll probably do that [file VAT return electronically] in this next financial year coming, we'll make an effort to get onto that. We haven't done it yet, it's just we can't take all the changes at once, but we will do that I'm pretty confident." (Sole trader 2, manufacturing, 20-49 employees)*

As HMRC was perceived to benefit as much as the business (e.g. by being able to reduce staffing levels as more services were automated), respondents thought that HMRC should provide more proactive guidance and support to help them adapt to online filing and to demonstrate the genuine benefits to them of using HMRC online services.

*"I think [they need] to act proactively rather than reactively – to give perhaps a little bit of guidance – particularly if they do change to some of the electronic submissions. [There*

*needs to be] a little bit more assistance and guides available really, without making it too complicated.” (MSB 27, Transport and motor trade, 250-1000 employees)*

## Chapter 6 – Conclusions and Recommendations

### 6.1 Conclusions

Tax compliance is not usually particularly burdensome for medium-sized businesses:

- Finance directors/departments are there to ensure tax compliance and avoid potential risk (e.g. unexpected tax bills)
- They perceive tax as relatively predictable and easy to plan for
- Tax obligations are generally built into their business models and pricing points to ensure the business can meet its tax bill
- Businesses develop or acquire the systems they need (including HMRC commercial software) to minimise risk and ensure tax compliance

In theory, the tax system creates three types of burden for medium-sized businesses:

- A financial burden (i.e. paying the tax bill and paying staff or agents to calculate, file, and pay the tax bill, including queries)
- An administrative burden (i.e. the time it took staff to calculate, file and pay the tax bill, including queries)
- An emotional burden (i.e. the stress of getting it right, or of putting it right if things went wrong)

Such burdens are generally perceived to have only a limited impact on medium-sized businesses, because their business models and pricing points are built around the tax system.

Changes in the tax system usually have only short-term impacts on medium-sized businesses, while they adjust their business model or price point (albeit their ability to do so can be constrained by market forces in some instances).

However, these burdens are perceived to be gradually increasing:

- The financial burden is perceived to be growing by stealth (e.g. with tax on gas, electricity bills, etc)
- The drive to self-assessment is perceived to increase both the administrative and emotional burden for medium-sized businesses

Medium-sized businesses understand that HMRC only administers the tax system (and has a limited influence on national tax policy):

- Improvements in HMRC customer service are noted (e.g. improved helpline services, friendlier inspections, etc)
- However, innovations in tax administration (e.g. self-administration, the development of e-services) are often perceived to benefit HMRC more than medium-sized businesses
- Medium-sized businesses often think HMRC could do more (in terms of customer service, guidance and support)
  - To enable them to comply
  - To reduce the financial, administrative and emotional burden created by the tax system

Medium-sized businesses themselves want a number of measures to reduce risk, to increase certainty, to ensure fairness, and to reduce the administrative and emotional burdens associated with compliance.

More specifically, they want to see ongoing improvements in guidance, support and communication from HMRC, including:

- More consistent information from helpline staff
- Swifter query resolution without being passed from department to department
- A more easily navigable Web site with a better search engine
- More personalised updates throughout the year (e.g. by e-mail) to reduce the amount of reading required to identify relevant sections of new guidance

- Increased integration of HMRC e-services and commercial software packages, and the automation of all processes
- A reduction in mandatory information and statistical returns (e.g. Intrastat, ONS, etc)
- A more equitable and responsive system of dispute resolution
- More joined-up services across HMRC so they don't have to give the same information every time they call
- Greater even-handedness across the different tax regimes and HMRC in the way they administer the system

## 6.2 Recommendations in relation to HMRC suggested actions

In summary, the following actions are recommended in relation to the ideas HMRC consulted on:

- Introduce a single business identifier
  - This could help HMRC adopt a more integrated, consistent and intelligent approach to query handling
  - This could also reduce the amount of information medium-sized businesses are required to give across different returns (albeit marginally)
- Continue to develop HMRC e-services
  - The increased automation of tax calculations (online, via CD-ROM, via commercial products) is valued by medium-sized business, because it enables more rapid and more accurate calculations (i.e. reducing the risk of human error)
  - Medium-sized businesses would welcome greater integration between tax calculation packages (HMRC and software) and HMRC electronic filing methods
- Introduce a single monthly payment
  - This would enable businesses to spread the tax burden more evenly throughout the year
- Introduce prospective HMRC inspections and joint VAT/PAYE and NIC inspections
  - Such inspections are likely to be welcomed if they are designed to aid compliance and reduce the unnecessary duplication of effort

## 6.3 Recommendations in relation to actions suggested by participants

The following actions were suggested by participants involved in the consultation:

- Improve HMRC Web site navigability and search engine
  - Make it is easier for medium-sized businesses to find answers to frequently asked questions, forms, guidance, etc
  - Introduce an electronic tracking process to enable businesses to see how their claim is progressing through HMRC (i.e. to reduce perceptions of HMRC as a communications 'black hole')
- Improve the quality of helpline query handling
  - Improve the consistency of information and advice given
  - Ensure rapid access to expert advice, i.e. to reduce the frequency with which callers are passed between offices/helplines)
- Improve the way disputes are handled and resolved
  - Review, in particular, how HMRC handles errors on its behalf (the burden of proof is perceived to rest with medium-sized businesses, even when HMRC is at fault)
  - Find faster ways of reaching resolution and returning overpayments where HMRC is at fault (to ensure greater even-handedness)

Of course, this is a relatively small qualitative sample:

- Careful exploration of their feasibility, efficacy, cost, and political impact would be required before the introduction of any recommendations
- Piloting would be required before any of these suggestions was rolled out nationally

On balance, efforts to increase predictability of the system would be welcomed. More rigid tax regimes can provide certainty and are easier to plan for.

However, HMRC may wish to review how it deals with businesses in financial difficulty (e.g. those operating in shrinking markets, those with limited price elasticity, those who are only just reaching medium-sized status, who may not always have the reserves to meet tax bills if they encounter a large bad debt or late payment).

- In such instances, rigid tax regimes can restrict business growth and even lead to shrinkage
- Pragmatism on HMRC's behalf in such instances is greatly welcomed

Overall, what medium-sized businesses wanted was a more adult-to-adult or peer-to-peer dialogue with HMRC and its staff; while some acknowledged improvements in recent years, others wanted a faster pace of change in this respect

## Appendix 1 – Research Methodology

Due to the qualitative nature of the research methodology and the relatively small sample size, it is not possible to reflect findings in statistical terms and the findings are not generalisable across the entire medium-sized business population. However, a qualitative methodology does provide an opportunity to understand the depth and breadth of views held by respondents within the sample and the factors influencing these perceptions.

### 1.1 Introduction

A qualitative approach was adopted for the study. A total of 40 interviews took place, including:

- 35 face-to-face depth interviews with individuals with responsibility for tax administration to assess current experiences, interactions with HMRC and ways in which these could be streamlined and improved (30 with incorporated businesses, 5 with sole traders/partnerships)
- 5 interviews with agents to explore their perspective on the relationship between HMRC and medium-sized businesses

Each business or agent was sent a letter which explained about the research. Potential respondents were then telephoned, asked a series of screening questions and if appropriate were recruited for the research.

To encourage respondents to be as candid and forthcoming with their opinions as possible, all the individuals who took part were reassured of the anonymous and confidential nature of the study. Fieldwork was conducted between 9<sup>th</sup> and 29<sup>th</sup> June 2005. Each interview was a face-to-face interview conducted at the respondent's place of business and lasted around 1 hour. All interviews were tape-recorded and transcribed verbatim. A copy of the discussion guides can be found in Appendix 2.

## **1.2 Sample specification**

### **1.2.1 Incorporated medium-sized businesses**

Participants were recruited by telephone by OLR from a list of incorporated medium-sized businesses generated by HMRC.

- To ensure coverage and comparability by size, we conducted 35 interviews across a diverse range of sectors and business types, including:
  - 15 interviews with businesses with 20-49 employees
  - 10 interviews with businesses with 50-249 employees
  - 10 interviews with businesses with 250-1000 employees
- We conducted exploratory interviews with 5 agents who work with medium-sized businesses

The number of sectors to cover and the limited sample size meant that we were not able to report back on differences between the business sectors. Instead, we recruited across these in order to obtain a breadth of experience and to ensure that the research was as inclusive as possible.

The limited timeframe for the research meant that whilst we achieved a spread of businesses across the industry sectors, inevitably we recruited more interviews in some sectors than others as the most important factor was to ensure we recruited sufficient interviews in each of the size categories. Figure 1 shows the spread of the final medium-sized business sample across the recruitment categories:

<b>Business Sector (total businesses) *</b>	<b>20-49 full- time employees</b>	<b>50-249 full-time employees</b>	<b>250-1000 full- time employees</b>	<b>All</b>
Production (22,156)	3	0	2	5
Business services (20,906)	3	3	1	7
Wholesale and retail (13,407)	2	4	1	7
Hotels and catering (8129)	0	0	1	1
Construction (7386)	1	0	1	2
Transport and motor trade (7810)	1	0	1	2
Finance, post and telecommunications (2078)	0	1	2	3
Merged public admin, health and education (9226)	0	2	1	3
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>30</b>

*Figure 1: Final sample spread*

\* *Figures in brackets represent estimates based upon ONS UK Business data, March 2004. See : Office for National Statistics (2004) UK Business: Activity, Size and Location – 2004, [Office for National Statistics](#), London*

Each individual recruited was screened to ensure that they were the most appropriate person to speak to (i.e. they were personally responsible for tax administration) and that the business exhibited the characteristics of a medium-sized business:

- That most of the business's tax affairs were handled internally
- The bulk of matters relating to tax were the responsibility of someone other than the founder or owner of the business e.g. an in-house accountant or financial director.
- That they dealt with at least PAYE, NICS and VAT on behalf of the medium-sized businesses

Interviews were conducted in Glasgow, Belfast, Leeds, London, Birmingham, Port Talbot, Neath, Swansea, Woking, Aldershot, Bristol, Liverpool, Peterborough, High Wycombe, Maidstone, Tunbridge Wells, Rochester and Boston.

### **1.2.2 Sole traders and partners**

The list of sole traders and partners was generated by both OLR and HMRC. Sole traders were defined as a single person owning and being responsible for the business, partnerships were defined as a partnership owning and being responsible for the business. By definition sole traders and partnership businesses were not incorporated.

We conducted 5 interviews with sole traders/partnerships. Each had between 20 and 49 employees. We recruited the following:

- 2 x Catering
- 1 x Production
- 1 x Wholesale and retail

- 1 x Business services

Each was screened using the same criteria for the incorporated medium-sized businesses. Interviews were conducted in Belfast, London and the South East.

### **1.2.3 Agents**

The list of agents was generated by OLR. We conducted 5 interviews with agents who had clients who were medium-sized businesses. Agents were screened to ensure that they were appropriate to include in the research. They needed to:

- Have more than 6 clients
- Personally deal with medium-sized businesses (with between 20 and 1000 employees) occasionally or regularly
- Personally deal with PAYE, NICs, Corporation Tax and VAT on behalf of medium-sized businesses

The agent interviews were conducted in Leeds, Peterborough and Guildford.

### **1.3 Methodological and fieldwork challenges**

The initial research specification required interviewing medium businesses that dealt with Corporation Tax (CT) in-house as well as PAYE, NICS and VAT. However during recruitment it became clear that Corporation Tax (CT) was frequently out-sourced to agents due to the complex nature of the computations and the degree of specialist knowledge involved. As a result, HMRC agreed that it was not necessary for respondents within medium-sized businesses to deal with CT in-house.

## Appendix 2: Discussion Guides

### 2.1 Discussion guide used in interviews with medium-sized businesses, sole traders and partnerships discussion guide

#### 2.1.1. Introduction (5 minutes)

- Outline the overall aims of the research (i.e. to feed into HMRC review of links with medium-sized businesses)
- Emphasise that the research is confidential and anonymous and the researchers are independent
- Explain there are no right or wrong answers – we are interested in their experiences and perceptions of dealing with the tax system
- Emphasise – we are focusing on the tax administration and handling system, not tax policy (which is currently beyond the scope of this review)
- Seek permission to tape and explain that the tapes are only used for research purposes – they will not be passed on to HMRC.

***NB Limit using the term 'medium-sized business' within the interview and close down unfocused debate on what the definition of this term is/should be.***

#### 2.1.2. Context (5 minutes)

- Participant to introduce organisation and self (interviewer to fill in details in self-completion questionnaire):
  - Sector
  - Number of employees
  - Whether the business is incorporated (i.e. a company) or not (sole trader/partnership/else)
  - Use of subcontractors and if so, the average number of people regularly engaged on a sub-contract basis
  - Turnover
  - Length of trading
  - Evolution of the business –
    - How long has business been its current size?
    - If any recent growth, how have business practices had to change or infrastructure expanded and adapt to growth? (or conversely has business

re-trenched recently?) Any growth (or retrenchment) planned in the future? If so, what changes to business practices planned?

- Their position and role
- Who deals with tax in the company (if more than one person, then who deals with what) – size and structure of department or team
- Taxes dealt with in-house vs. by agent (*tick relevant boxes in self-completion questionnaire*)

### **2.1.3. Perceptions of HMRC and of impacts of the tax system (5 minutes)**

- Awareness of merger of IR and C&E into HMRC?
- Perceptions of HMRC and the former IR and C&E in terms of the way they deal with businesses like theirs – adjectives to describe each
  - What do they do well, what do they do less well?
- Where these impressions come from – what are they based on?
- Can you give me a brief overview of the impacts you think dealing with tax has on your business? [NOTE & EXPLORE REFERENCES TO DIFFERENT TAXES & THEIR IMPACT]
- *Some people talk of tax **processes** and **administration** (NOTE FOR INTERVIEWER: rather than the actual tax payment itself) as a burden on business. When we talk about 'burdens' in the context of tax, what does this mean to you? [PROBE ALL MEANINGS]*
- And how well does HMRC do in facilitating efficient administration of tax processes, i.e. to minimise potential burdens?

### **2.1.4. Interactions with HMRC on core tax strands (25 minutes)**

*NB This section is the core of the interview. Focus on practical/ operational specifics in relation to the core taxes dealt with*

#### **Objectives**

- The extent to which the organisation interacts with HMRC on key taxes – PAYE, NICs, CT, VAT, income tax and on other taxes and payments
- Why they interacted with HMRC
- How the interaction was carried out
- Awareness of current HMRC communication and administrative process
- Perceived effectiveness of current HMRC communication and administrative process

**Note to interviewer:**

**For of the key tax strands (in bold) run through the process flow diagram and answer the questions on p.4**

**For other tax strands/ administrative processes, talk through the process over the year [in as much detail as time allows]**

- **PAYE & NICs**
- **VAT**
- **Income tax**
- **Corporation Tax**
- Tax Credits
- Statutory Maternity Pay
- Statutory Sick Pay
- Student Loan Deductions
- Construction Industry Scheme (CIS)
- Excise duties
- Customs duties
- Environmental taxes (Landfill tax, Climate change levy, Aggregates levy, Land remediation relief,)
- Enhanced first year allowances
- Research and Development Tax Credits
- INTRASTAT (NOTE: If business trade in goods within the EC exceeds £221,000 in a calendar year either sales or purchases the business is required to submit monthly Intrastat Supplementary Declarations.)

**NB Need to ensure that with payroll people we are talking about payroll burdens and not general HR burdens of the working time directive/parental leave type- as these people often pick up both payroll and HR.**

- What is the process for each of the key tax strands [ PROBE & SHOW FOLLOWING FLOW DIAGRAM]
  - Internal/ accounting processes
  - Calculating payments
  - Completing returns
  - Making payments (by the due dates)
  - Filing returns (by the due dates)
  - Changes and updates to the tax system
  - Getting information from HMRC to help with calculations (e.g. tax codes, tax deductible elements etc)
  - Informing HMRC of updates to your business details
  - Inspections & enquiries

### KEY QUESTIONS FOR EACH TAX STRAND

- **When** does each stage happen – ongoing or at specific points in the year?
- How does each part of the process for each tax strand **impact on the day-to-day operations of the business?**
- **Who** is involved from your organisation at this stage of the process?
  - PROBE FOR **ALL INVOLVED** – kind of involvement; time involved; seniority of staff involved + how much is delegated
- What **systems** (IT, personnel, other) are in place to deal with these processes?
  - PROBE their systems and HMRC systems (e.g. e-filing, e-payment)
- What **interactions** with HMRC take place, if any? PROBE:
  - What form do these take?
  - What contacts do you have in HMRC and in which areas – CT/ IT/ PAYE/ NICs/ VAT/ Excise/ International Trade?

5.

### **2.1.5 Impacts of dealing with tax on business (10 minutes)**

#### **Objectives**

- Explore whether the interaction was a burden
- What impacts do these processes have on the business? [SPONTANEOUS THEN PROBE NOTE AND EXPLORE DIFFERENCES BETWEEN TAX/ADMIN. STRANDS AS DETAILED ABOVE]
  - Time
  - Cost
  - Training/ retraining of staff
  - Changes to business structure or strategy
  - Opportunity costs - what would employees be doing if they weren't involved in these processes?
- How large are these impacts in the context of the running of the business overall? PROBE:
  - Positive and negative impacts
  - Different types of tax
- What does HMRC do to help and to hinder the process? PROBE:
  - Specific interactions for key tax strands
  - How useful and effective are these forms of interaction:
    - Responsiveness
    - Proactiveness
    - Efficiency
    - Quality of contact – knowing who to speak to; getting through to the right person

### **2.1.6. Overview of tax system in relation to medium-sized businesses (10 minutes)**

#### **Objectives**

- If interactions are a burden, explore how to streamline/ make them more efficient
- To identify areas of duplication in the process
- To gauge the extent to which HMRC provides a joined-up tax administration service

- To explore administrative effectiveness and suitability of the implementation of the taxation system
- Looking at the tax system overall in relation to your business –
  - What are the biggest problems/ negative impacts, if any, encountered by your business? Why are they a problem?
  - What would the board/ senior management recognise as the biggest problems/ impacts encountered by your business? What would front line staff think are the biggest problems/ impacts encountered by your business?
- To what extent, if at all, does the taxes system hinder the growth of your business? If so, how?
- Are there any areas of duplication in the process for each tax, i.e. where you end up supplying data more than once?
  - What difference would removal of this duplication make to you in real terms? [PROBE time, cost, opportunity costs, other ‘burdens’ mentioned]
- Where is the potential for joined-up administration across tax processes for which you are in contact with HMRC?
- Explore responses to HMRC ideas [*NB EMPHASISE that these are simply ideas at this stage and nothing is in development*] [See section 3 of small business consultation document]
  - **Single payment system** (allowing access to payment records, allocating payments and arranging offsets in a single system);
  - **online detail log-in;**
  - **greater use of other electronic methods;**
  - **joint visits for PAYE and VAT** (and maybe CT)
  - **Provision of a single business identifier**
  - **Single notification/provision of information to HMRC**
  - **Real time working**
  - **Shorter filing limits**
  - What difference would each of these ideas make to you in real terms? [PROBE time, cost, opportunity costs, other ‘burdens’ mentioned]
- What more can be done to alleviate problems/negative impacts [SPONTANEOUS & PROBE:]
  - Quick wins vs. long-term goals

- Priorities vs. 'nice-to-haves'
- And finally, what single thing could HMRC do to make the greatest difference to you?

## **2.2 Discussion guide used in interviews with agents**

### **2.2.1 Introduction (5 minutes)**

- Outline the overall aims of the research (i.e. to feed into HMRC review of links with medium-sized businesses)
- Emphasise that the research is confidential and anonymous and the researchers are independent
- Explain there are no right or wrong answers – we are interested in their experiences as agents handling tax affairs for medium-sized businesses
- Emphasise – we are focusing on the tax administration and handling system, not tax policy (which is currently beyond the scope of this review)
- Seek permission to tape and explain that the tapes are only used for research purposes – they will not be passed on to HMRC.

### **2.2.2 Context (5 minutes)**

- Participant to introduce organisation and self (interviewer to fill in details in self-completion questionnaire):
  - Number of clients they have and number of medium-sized (20-1000 employees) businesses they deal with
  - Sectors they mainly deal with
  - Whether business clients tend to be incorporated (i.e. a company) or not (sole trader/partnership/else). *Establish proportions of clients for each business type*
  - Tax strands they mainly handle for medium-sized business clients
- Their own position and role in relation to handling tax on behalf of medium-sized businesses

### **2.2.3 Medium-sized business context (5 minutes)**

- What constitutes a medium-sized business – how would you define it?
- *CLARIFY: For the purpose of this discussion we are thinking of medium sized business as a) having 20-1000 employees and b) where day-to-day operations have been devolved from the founder/controlling-director to a management team.*
- How, in their experience, do businesses evolve from small to medium-sized?
  - Changes in business practices?
  - Changes to structure?
  - Changes to needs regarding external agents like you?
  - Are there any patterns/cycles of business retrenchment?
- What acts to constrict or retrench their growth? [NOTE & EXPLORE ANY REFERENCES TO THE TAX SYSTEM]
- Why do medium-sized businesses use agents/ accountants to deal with their tax affairs? Why do they make that decision?

## 2.2.4 Perceptions of HMRC and of impacts of the tax system (5 minutes)

- Perceptions of HMRC and the former IR and C&E in terms of the way they deal with medium-sized businesses – adjectives to describe each
  - What do they do well, what do they do less well?
- Where these impressions come from – what are they based on?
- Can you give me a brief overview of the impacts you think dealing with tax has on medium-sized businesses? [NOTE & EXPLORE REFERENCES TO DIFFERENT TAXES & THEIR IMPACT]
- Some people talk of tax **processes** and **administration** (NOTE FOR INTERVIEWER: rather than the actual tax payment itself) as a burden on business. When we talk about ‘burdens’ in the context of dealing with tax, what does this mean to you? What does it mean to medium-sized businesses? [PROBE ALL MEANINGS]
- And how well does HMRC do in facilitating efficient administration of tax processes for medium-sized businesses, i.e. to minimise potential burdens?

## 2.2.5 Interactions with HMRC on core tax strands (20 minutes)

*NB This section is the core of the interview. Focus on practical/ operational specifics in relation to the core taxes dealt with*

### Objectives

- The extent to which the agent interacts with HMRC on behalf of medium sized businesses on key taxes – PAYE, NICs, CT, VAT, income tax and on other taxes and payments
- Why they interacted with HMRC on behalf of medium sized businesses
- How the interaction was carried out on behalf of medium sized businesses
- Awareness of current HMRC communication and administrative process on behalf of medium sized businesses
- Perceived effectiveness of current HMRC communication and administrative process on behalf of medium sized businesses

### **Note to interviewer:**

***For of the key tax strands (in bold) run through the process flow diagram and answer the questions on p.4***

***For other tax strands/ administrative processes, talk through the process over the year [in as much detail as time allows]***

- **PAYE & NICs**
  - **VAT**
  - **Income tax**
  - **Corporation tax**
  - Tax credits
  - Statutory Maternity Pay
  - Statutory Sick Pay
  - Student Loan Deductions
  - Construction Industry Scheme (CIS)
  - Excise duties
  - Customs duties
  - Environmental taxes (Landfill tax, Climate change levy, Aggregates levy, Land remediation relief,)
  - Enhanced first year allowances
  - Research and Development Tax Credits
  - INTRASTAT (NOTE: If business trade in goods within the EC exceeds £221,000 in a calendar year either sales or purchases the business is required to submit monthly Intrastat Supplementary Declarations.)
- 
- Which parts of the process do you deal with for each of the key tax strands [ PROBE & SHOW FOLLOWING FLOW DIAGRAM]
    - Internal/ accounting processes
    - Calculating payments
    - Completing returns
    - Making payments (by the due dates)

- Filing returns (by the due dates)
- Changes and updates to the tax system
- Getting information from HMRC to help with calculations (e.g. tax codes, tax deductible elements etc)
- Informing HMRC of updates to your business details
- Inspections & enquiries

#### KEY QUESTIONS FOR EACH TAX STRAND

- **What do you do** for medium-sized businesses at each stage of the process?
  - Which bits do they do and which bits do you do?
- **When** does each stage happen – ongoing or at specific points in the year?
- **Who** is involved at this stage of the process?
  - From the client's organisation
  - From your organisation
  - PROBE FOR **ALL INVOLVED** – kind of involvement; time involved; seniority of staff involved + how much is delegated
- What **systems** (IT, personnel, other) are in place to deal with these processes?
  - PROBE their systems, their clients systems and HMRC systems (e.g. e-filing, e-payment)
- What **interactions** with HMRC take place, if any? PROBE:
  - What form do these take?
  - What contacts do you have in HMRC and in which areas – CT/ IT/ PAYE/ NICs/ VAT/ Excise/ International Trade?
- **Why** is the decision made to involve agents at this point?

#### 2.2.6 Impacts of dealing with tax on business (10 minutes) Objectives

Explore whether the interaction was a burden

- What are the implications for your client of you handling this part of the process? [SPONTANEOUS THEN PROBE. NOTE AND EXPLORE DIFFERENCES BETWEEN TAX/ADMIN. STRANDS AS DETAILED ABOVE]
  - Time

- Cost
- Training/ retraining of staff
- Changes to business structure or strategy
- Opportunity costs - what would clients' employees be doing if you weren't involved in these processes?
- What would be the impacts on their business if you did not handle these processes for them? PROBE FOR
  - Positive and negative impacts
  - Different types of tax
- What does HMRC do to help and to hinder the process? PROBE:
  - Specific interactions for key tax strands
  - For both them as agents and for their clients
- How useful and effective are these forms of interaction:
  - Responsiveness
  - Proactiveness
  - Efficiency
  - Quality of contact – knowing who to speak to; getting through to the right person

## **2.2.7 Overview of tax system in relation to medium-sized businesses (10 minutes)**

### **Objectives**

If interactions are a burden, explore how to streamline/ make them more efficient

To identify areas of duplication in the process

To gauge the extent to which HMRC provides a joined up tax administration service

To explore administrative effectiveness and suitability of the implementation of the taxation system

- Looking at the tax system overall in relation to medium-sized businesses –
  - What are the biggest problems/ negative impacts, if any, encountered by medium-sized businesses? Why are they a problem?
  - What do you think the board/ senior management of medium-sized businesses would recognise as the biggest problems/ impacts? What do you think front line staff would think are the biggest problems/ impacts?
  - PROBE FOR TYPES OF TAX
- To what extent, if at all, does the tax system hinder the growth of medium-sized businesses? If it does, how?

- Are there any areas of duplication in the process for each tax, i.e. where you or your business clients end up supplying data more than once?
  - What difference would removal of this duplication make to you in real terms? [PROBE time, cost, opportunity costs, other 'burdens' mentioned]
  - What difference would it make to your clients? [PROBE time, cost, opportunity costs, other 'burdens' mentioned]
  
- Where is the potential for joined-up administration across tax processes for which you are in contact with HMRC?
  
- Explore responses to HMRC ideas [*NB EMPHASISE that these are simply ideas at this stage and nothing is in development*] [See section 3 of small business consultation document]
  - **Single payment system** (allowing access to payment records, allocating payments and arranging offsets in a single system);
  - **online detail log-in;**
  - **greater use of other electronic methods**
  - **joint visits for PAYE and VAT (and possibly CT)**
  - **Provision of a single business identifier**
  - **Single notification/provision of information to HMRC**
  - **Real time working**
  - **Shorter filing limits**
  
- What impact would these ideas have on you? On your clients?
  
- What more can be done to alleviate problems/negative impacts [SPONTANEOUS & PROBE:]
  - Quick wins vs. long-term goals
  - Priorities vs. 'nice-to-haves'
  
- And finally, what single thing could HMRC do to make the greatest difference to you as someone handling tax affairs of medium-sized businesses? To make the greatest difference to medium-sized businesses?