

Self Assessment Pilots 2003/4

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Executive summary

Introduction

This report contains the findings from a research programme for the Inland Revenue which took place between May 2003 and February 2004. The research was commissioned to evaluate the pilots of two major changes which will be made more widely available to Self Assessment (SA) taxpayers in the future.

Both qualitative and quantitative research techniques were used to evaluate the effect of these changes on SA taxpayers selected to take part in the pilots. In particular, the research was used to assess whether the introduction of the short tax return and refinement simplified Self Assessment for taxpayers. In addition, the research assessed the impact of both the short return and refinement on compliance times (the time taken for taxpayers to prepare and complete their SA tax return). This section summarises the key findings from the main elements of the research programme. More detailed results are contained in Chapters 2-5, and further details on the research methods can be found in Chapter 1 and in a separate Technical Report.

The Short Return Pilot

The first pilot was of a new short Self Assessment tax return which had been developed for the 2002/3 tax year. This short return was sent to 50,000 SA taxpayers with relatively straightforward tax affairs in April 2003. The short return contained just four pages and, unlike the main 16-page return, it could be completed by telephone (tefiled) as well as on paper. This pilot was the main focus of the research programme.

The Refinement Pilot

The second pilot was a change in the requirement for certain groups of SA taxpayers with very simple tax affairs to complete a tax return. Taxpayers in this 'refinement' pilot group (5,000 in total) were not sent a tax return and were notified about the change in March 2003. Just over half were asked to complete a one page (P810) form instead of a tax return, the remainder were not required to complete any forms for the 2002/3 tax year.

Key findings

The following summary provides a brief overview of the key findings from the research programme. It is divided into three sections: the Short Return Pilot; Telefiling; and the Refinement Pilot. The summary draws on findings reported in Chapters 2 to 5, where we consider each aspect of the research in greater detail. Chapter 6 provides overall conclusions from the programme of research.

The Short Return Pilot (Chapter 2)

Initial response to receiving the Short Tax Return

Initial reactions to the short tax return were extremely positive. The fact that the return was much shorter and simpler than the main return was noticed and welcomed by a large majority of those who received it even if they were yet to complete the return. The majority of people recognised that the return was shorter and nearly all recipients regarded the change to the short return as a positive one.

Eligibility for the Short Tax Return

Although the short tax return was sent to 50,000 taxpayers in 2003/4, not all of these taxpayers were definitely eligible to use it (e.g. if their circumstances had changed from the information they provided in their 2001/02 tax return). This was mentioned at various points on the short tax return and in the accompanying guide (but not in the accompanying letter). When we interviewed people in July 2003 (approximately 3 months after receiving their short return package), 30% of those who had been sent the short return had checked to see if they were eligible to use it. However, 44% of taxpayers who had looked at the contents of the short tax return package did not realise that some people sent the return might not be eligible to use it. However, there was scope for other taxpayers to check their eligibility later in the year, before submitting their return. Overall, around 16% of those who had checked their eligibility at the time they were interviewed thought they were ineligible for the short return.

The Inland Revenue has made changes to the accompanying letter (issued in April 2004) which make it clear that taxpayers sent the short return are not automatically eligible to use it.

Completing the short return

Reactions to the guide accompanying the short return – which was much shorter and was

intended to be simpler to use than the guide to the main return - were extremely positive. Nearly all who had used the guide thought it was useful, easy to understand, with clear language, and easy to find the information they needed. Opinions of the short return guide were generally more favourable than those of the guide accompanying the main return, although the differences were not as pronounced as for the return itself.

Qualitative research among users of the short return showed that taxpayers were very positive about the layout and design of the new form. Overall it was seen as a lot more user-friendly and professional in design than the main tax return. This was backed up by the surveys. Taxpayers who had completed the short return were much more likely to say the tax return was 'very easy to use' and 'very easy to understand' than a comparable group of taxpayers who completed a main return. Overall, 94% of users of the short return were satisfied with the whole process of completing their tax return, (including 55% who were 'very satisfied'), compared with 82% of those who completed a main return who were satisfied, (38% who were 'very satisfied').

Filing profile of short return taxpayers

There was little evidence to show that taxpayers who used the short return were more likely to file their tax return by 30 September. Inland Revenue records showed that there were no major differences in the proportions of short tax return and main tax return taxpayers filing by 30 September.

The short return was especially well received among taxpayers who completed their tax return after 30 September - they were as likely as those who filed before 30 September to say the return was easy to use and to understand. In contrast, taxpayers who completed the main return after 30 September were less positive about the return than those who completed it before this date. In particular these later filers were less likely to say the main return was easy to use (67% compared with 80% of 'early filers') and were less likely to say the main return was easy to understand (72% compared with 84%). This may indicate that the short return is less likely to be problematic for taxpayers who leave their tax return until later in the year.

Compliance time

Most crucially the short return reduced the time taken for SA taxpayers to complete their tax return. On average, the actual process of filling in the short tax return took around half the time taken to fill in a main tax return. The median time taken to complete the short return was 30 minutes, indicating that half of all the taxpayers who used the short

return were able to complete the form in 30 minutes or less. The median time for completing the main return in the control group was 60 minutes.

The short return also reduced the total compliance time for its users (i.e. including all aspects of the SA tax return process: gathering documents, consulting advisors, contacting the Inland Revenue etc.) The median total compliance time for those completing the short return was 120 minutes compared with 162 minutes for taxpayers who used the main return. The difference in compliance time mainly arose from a reduction in the time needed to complete the return. All segments of taxpayers completing the short return saved time completing the form, ranging from 50% savings for employees to 25% for self-employed taxpayers.

Agents and the short return

A small percentage of short return taxpayers had chosen not to use an agent (although they had done so the previous year) and completed the tax return themselves, in some cases as a result of the form being shorter and easier to understand. We cannot determine whether the short return contributed to an overall shift away from representation, since we do not know how many taxpayers who had used an agent this year had self-completed the previous year. The agents we interviewed were similarly unsure whether the introduction of the short tax return would lead to some SA taxpayers moving to self-complete, but thought it was unlikely to have any significant effect on their business. It is probably too early to assess the impact of the short return in this respect.

Agents who represent SA taxpayers were generally complimentary about the short return. However, they felt that the short return would make little or no difference to the way they dealt with their clients' tax affairs.

Telefiling the Short Return (Chapter 3)

Awareness and uptake of telefiling

Awareness of telefiling was relatively low among the taxpayers who received a short tax return. Fifteen percent of taxpayers who had used or intended to use the short return were spontaneously aware that they could complete the short return by telephone. This rose to 34% when taxpayers were prompted. Inland Revenue figures show that around 2% of all short tax returns submitted by 31 January 2004 were completed by telephone.

This is a reasonable proportion of those taxpayers who were aware the service was available.

Profile of telefilers

Taxpayers who tried to telefile were most likely to come from the employee segment within SA (i.e. complete the employment pages of the tax return), suggesting that telefiling appealed to short return taxpayers with the most straightforward tax affairs. The age and sex profile of telefilers was consistent with the short return population as a whole.

Reasons for deciding to telefile

Taxpayers were asked what had motivated them to try telefiling. Most commonly it was because they thought it would be more 'convenient' (41%) or 'quicker' (37%) than completing a paper return. Nine out of ten successful telefilers (91%) said they had completed the paper return prior to calling the telefiling number, to guide them through the process.

Stage reached in telefiling

Not all taxpayers who tried to telefile were able to complete the process. Overall 69% of the telefilers we interviewed did complete the process (compared with 65% based on Inland Revenue records). This indicates the survey findings are slightly skewed towards successful telefilers.

However, many taxpayers who tried to telefile were either unable or unwilling to complete the process. These unsuccessful or 'stranded' telefilers (taxpayers who started to use the telefiling application but did not successfully telefile their tax return and ended up completing a paper short return instead) accounted for 31% of those we interviewed. This indicates that many telefilers had experienced difficulties with the system.

Stranded telefilers were unsuccessful mainly because of perceived technical problems with the system. One in three (33%) dropped out because they felt that 'the system was picking up the wrong information' and 31% because of 'problems with the technology'. There were some difference in the profile of successful telefilers and those who were stranded – stranded telefilers tended to be older and were more likely to be pensioners than successful telefilers.

Reaction to the automated system

Before they called to complete their short tax returns by telephone, 65% of telefilers said they had expected to speak to a person instead of the automated system. Over half (56%) of all telefilers said they would have preferred to speak to a real person. Although many taxpayers expressed this preference, a third (32%) of all telefilers were unaware that they could speak to a helpdesk operator during the process if they needed assistance.

Ease of use of telefiling system

The telefiling system received a very mixed reaction from taxpayers who used it. Those who successfully completed their tax returns by telephone were very positive about telefiling: 94% said the system was 'easy to use' compared with 55% of stranded telefilers.

Regardless of whether they were successful or not, all taxpayers who used the telefiling system were asked whether they had experienced any difficulties with it. In total 51% of all telefilers had experienced some difficulty, including 36% of those who went on to complete the process. Over half (57%) of all difficulties experienced by telefilers related to problems with voice recognition.

Most taxpayers who tried to telefile appeared happy with the security of the system. Just 4% of those who used it said they thought the system was either 'not very' or 'not at all' secure.

Time taken to telefile / total compliance time

The perceived time to comply for telefilers was lower than that of taxpayers who used a paper short return. On average, telefilers thought the whole tax return process (including for example, gathering documents, dealing with advisors etc.) had taken 95 minutes, compared with 120 minutes for taxpayers who completed a short return on paper. However, this is probably in part because taxpayers with simpler affairs were the most likely to try telefiling and successfully complete the process. Where we compare compliance time for similar types of taxpayers, the difference is less: on average employees who telefiled their return had taken 90 minutes compared with 96 minutes for employees who completed a short return on paper. Inland Revenue records indicate that the process of actually completing the tax return by telephone took 15 minutes on average.

Overall satisfaction with telefiling and future use

Levels of overall satisfaction with the telefiling system varied according to whether or not taxpayers had successfully completed the process. In total, 87% of those who completed said they were satisfied, compared with 24% of stranded telefilers. Success completion of telefiling also influenced attitudes to future use of the system. 81% of successful telefilers intended to use the system again compared with 30% of stranded telefilers.

The Refinement Pilot (Chapter 4)

Reactions to the letter explaining refinement

As with the short return pilot, taxpayers who were selected for the refinement pilot were extremely positive about the changes to the Self Assessment process. Most taxpayers who read the notification letter said it was easy to understand (94%) and that they knew what would happen as a result of the changes (83%). Perhaps more importantly, 84% of refinement taxpayers said they had no concerns about not having to complete a tax return each year. As refinement leaves taxpayers with very little need to contact the Inland Revenue, it was crucial that taxpayers felt confident about what the changes would mean to them.

Eligibility for refinement

The notification letter included a list of changes of circumstance which taxpayers were asked to check to make sure none of them applied. If any taxpayers had experienced a change of circumstances related to one or more of the listed circumstances, they were potentially ineligible for refinement and were asked to call and inform the Inland Revenue.

We should note that taxpayers who were selected for refinement had a whole year to inform the Inland Revenue if they thought they were ineligible. Therefore if an ineligible taxpayer had not notified the Inland Revenue at the time of interview, there was still scope for them to do so later in the year.

Ten per cent of taxpayers who had read the notification letter did not check to see if any of the changes in circumstance applied while a further 12% didn't know or couldn't remember whether they had checked. Qualitative research also revealed that there was a tendency for taxpayers selected for the refinement pilot simply to assume they must be eligible, because otherwise the Inland Revenue would not have sent the letter. The Inland Revenue has changed the wording in the letter to taxpayers used from 2004. The revised letter emphasises the fact that taxpayers are required to check their eligibility for

refinement and that they need to contact the Inland Revenue if they have experienced one of the changes of circumstance listed in the letter.

The P810 form

Because the P810 is only a one page form, it cannot capture all the information that would normally be recorded on a main tax return. However, the research suggested that the form catered for most types of information that refinement taxpayers needed to record. Only 14% of all those who used the form said there was some additional information they had needed to include that the form did not cover. If taxpayers needed to include any extra information, they generally attached a note with the completed form.

The P810 form (and the notification letter) used in the 2003/4 pilot were specially produced for the pilot exercise. The form used as part of the automated process from April 2005 includes provision for the taxpayer to set out new or additional sources of income.

The P810 form was generally seen as preferable to the main tax return. Of those who completed the form, 94% said they preferred it to the main tax return they had completed the previous year. Comparing views of refinement taxpayers with similar taxpayers who completed a main return (the control group), the P810 form was 'easy to understand' (97%, compared with 84% of the control group); and 'easy to use' (99%, compared with 88%). These findings were echoed by qualitative research which revealed strongly positive views on the format, size and clarity of the form.

Satisfaction with the refinement process

Satisfaction with the experience of the refinement pilot was very high, with nine out of ten taxpayers saying they were satisfied with the changes overall. This was regardless of whether they were required to complete a P810 form or not.

Compliance time for refinement taxpayers

The overall compliance time for taxpayers completing a P810 form was around a quarter of that for comparable taxpayers who completed a main tax return. Including all aspects of the process, the average (median) compliance time for P810 users was 32 minutes. This indicates that at least half of all taxpayers who used a P810 form were able to complete all aspects of the process in 32 minutes or less, compared with 141 minutes for the control group. This time saving is likely to be much greater for taxpayers who were not required to complete a P810 form.

Conclusions

The Short Return Pilot

- Overall, the short return has been exceptionally well received and is likely to be welcomed by taxpayers when it is rolled out to the eligible SA population.
- The research identified no major problems with the existing short return form and did not reveal any obvious ways in which the form could be significantly improved.
- Research shows the short return takes much less time to complete than the main return – something that is widely appreciated by those who completed it.
- It should be made clearer on the letter introducing the short return and in the accompanying guide that some recipients may not be eligible to use it. The Inland Revenue have already made changes to address this.

The Short Return Pilot – Telefiling

- Uptake of telefiling among those aware of the service was reasonable in 2003/4 suggesting that with the correct promotion and development, telefiling could become a credible alternative to filing on paper or online in years to come.
- The Inland Revenue need to address the number of taxpayers who start to telefile but who do not complete the process. Steps are already being put in place to address this.
- The availability of a helpdesk operator should be promoted to encourage greater uptake of telefiling and to ensure telefilers have every opportunity to complete the process.

The Refinement Pilot

- The refinement pilot was welcomed whole-heartedly by taxpayers and is likely to be highly successful when it is rolled out to the eligible SA population.
- The form P810 was well-received by those who used the new form and no major problems were identified with it.

- The time saving offered by refinement is likely to be in excess of 2 million hours in total, across an estimated population of around 1 million taxpayers eligible for refinement.
- In future it should be made clearer to taxpayers who are selected for refinement that they need to check their eligibility. The Inland Revenue have taken steps to do just this with revisions to the notification letter used in 2004/5 and the P810 form sent from April 2005 onwards will include an insert including guidelines around eligibility.

1 Introduction

1.1 Background to the Self Assessment Pilots Research Programme

Self Assessment (SA) was introduced by the Inland Revenue in 1996 and applies to a significant proportion of the 26 million taxpayers in the UK. Just under 9.5 million Self Assessment tax returns were issued for the 2002/03 tax year. Taxpayers required to complete a tax return include the self-employed, company directors, higher-rate taxpayers and any other taxpayers from whom the Inland Revenue requires additional information to ensure that the right amount of tax is collected.

A taxpayer issued with a SA tax return is legally required to complete it and send it back. The underlying principle of Self Assessment is the taxpayer's responsibility for providing all the necessary information. SA is also characterised by the comprehensive and complex nature of the tax return which all SA taxpayers are required to complete by 31 January following the end of the tax year to which the return relates. In addition, SA taxpayers are required to calculate their own tax liability unless they file their tax return by 30 September following the end of the tax year.

1.1.1 The Self Assessment Review

Concerns have been raised over several years about the complexity of the SA system. The research reported in this document is part of a wider programme of research into Self Assessment. A number of studies have been carried out and have identified several areas of Self Assessment that cause difficulties for taxpayers.

Key findings have included:

- negative views among taxpayers about the complex language and jargon used in Self Assessment literature - in particular, the guidance notes accompanying the tax return, and the tax calculation guide;
- the suggestion from SA taxpayers that a shorter tax return should be made available, offering a simplified Self Assessment process;
- some resentment among certain groups of PAYE and pensioner taxpayers at having to complete a tax return each year, when their affairs remained relatively simple and unchanged year on year.

In response to these concerns, the Inland Revenue undertook a wide-ranging Review of Self Assessment. The overall aim of the SA Review was to identify changes to the Self

Assessment process which would make it simpler and easier for taxpayers to deal with, and would improve the Inland Revenue's main outputs, i.e. the tax return, guidance, statements and other operational communications.

As part of the Review, the Inland Revenue also examined the types of taxpayer covered by Self Assessment with a view to removing the obligation to complete a tax return from taxpayers wherever possible.

As a result of the recommendations made by the Review team, the Inland Revenue decided to carry out two pilots of changes to the Self Assessment process: the Short Return Pilot and the Refinement Pilot.

1.1.2 The Short Return Pilot

For the first and larger of the two pilots, a new short tax return was developed. The return was four pages long (compared with the main return which was 16 pages long and required supplementary pages in some cases). In addition, the language in the short return was simpler and the layout easier to follow than in the main return.

The content of the short return was driven by its objective of serving people with straightforward tax affairs. To achieve this, complex boxes and the majority of supplementary pages were excluded, and boxes requiring similar information were aggregated. The short return was accompanied by a guide to completion which was 16 pages long, and thus much shorter than the guide accompanying the main return. Unlike the main return, a guide to tax calculation was not sent out with the short return.

Taxpayers are eligible to complete the short return if they have previously completed the core pages of the main return (which cover interest, dividends, pension contributions, and some allowances and reliefs), or the core main return and one or two employment pages. In addition, some individuals who completed 3-line account self-employment pages (those with a turnover of less than £15,000 per year), or land and property pages are also eligible. Based on these criteria, approximately 1.5 million taxpayers (17% of all SA taxpayers) are likely to be eligible to complete the short return when it is made available across the whole SA taxpayer population.

To pilot the short return, it was issued to 50,000 eligible taxpayers in April 2003 to complete for the 2002/3 tax year. Taxpayers selected for the pilot were drawn from four different tax offices (Glasgow, Belfast, Wey Valley and Coventry/Warwickshire). The pilot was extended to over 400,000 taxpayers with simple tax affairs in April 2004.

A further change to the process which was also piloted for the 2002/3 tax year is the option to submit the short return by telephone (this is known as 'telefiling'). Telefiling is

an additional channel, intended to complement the existing option to file an SA return on-line. One of the main benefits for the Inland Revenue is that it can reduce the number of paper forms which the Department needs to process.

Telefiling is an automated voice system. Once the customer calls the telefiling number they are asked to provide information to authenticate their identity and confirm that they are eligible to complete the short return. Throughout the telephone call, callers are prompted to provide the information required for relevant sections of the short return, with relevant help available. Telefilers can end the call whenever they want, save their work in progress and call back to complete the telefiling process. In addition, telefilers have the option to access support from a real person via a helpline.

Telefiling is felt to be an accessible channel which will be easily understood by the majority of taxpayers. It offers a number of benefits:

- the short return can be telefiled at any time during the day or night;
- the system can validate the information provided– for example, by checking the National Insurance Number;
- interactive support is available to users;
- the system provides an estimate of tax liability at the end of the call.

1.1.3 The Refinement Pilot

The SA Review recommended that certain taxpayers should not be required to complete a tax return each year. Individuals eligible for refinement must have very simple tax affairs with moderate or no liability for additional tax payments under SA. They are not required to complete a tax return on the basis that any additional tax due can be paid during the year through an adjustment to their tax code. Eligible taxpayers must therefore have employment or pension income which is taxed at source and can only have certain types of deductions, income or allowances (e.g. professional subscriptions or expenses) and up to a certain amount in total. If such items are in excess of this amount, they will either be sent a short or a main tax return. Self-employed taxpayers and Directors are not eligible for refinement. In total, it is estimated that around a million SA taxpayers will be eligible.

The primary objectives of ‘refinement’ of the SA tax system are to simplify the process for taxpayers and to reduce the number of unnecessary customer contacts for the Inland Revenue. A further objective is to reduce taxpayers’ compliance time.

The 5,000 taxpayers selected for the refinement pilot (all drawn from the Manchester Chapel Wharf tax office) were sent a letter in March 2003, informing them that they were not required to complete a tax return for the 2002-3 tax year. The letter contained a list of possible changes in personal circumstances which might affect the amount of tax payable and their eligibility and which the Inland Revenue would need to know about – for example, becoming self-employed, starting to receive new kinds of income, making a capital gain of £7,500 or more.

Just over half of this pilot group were sent a one-page P810 form (designed specifically for the pilot). This was a short form requesting details of the amounts and types of income they had received in 2002/03 (based on the information they had provided in their tax return for 2001-2). Taxpayers were required to complete a P810 form if their tax code for the previous year contained details of certain types of deductions, income or allowances between the values of £150 and £2,500.

In the pilot, the P810 forms issued were a mix of manually issued and automatically generated forms, because the automatically generated form available at the time didn't have the facility to request details of particular sources of income for higher rate taxpayers. However, from April 2005 all P810 forms will be automatically generated. The manual and the automatically generated form used in the 2003/4 pilot differed in format and, therefore, the form P810 experienced by the majority of taxpayers in the pilot is not exactly the same as that which taxpayers will receive once refinement is rolled out to all eligible taxpayers. In future, in most instances the P810 form will be issued every three years (and annually in certain cases) to taxpayers not required to complete a tax return. Taxpayers in the pilot were also able to telephone through their P810 information to the Inland Revenue instead of filling in the form.

Taxpayers in the pilot who were not required to complete a P810 form simply received a letter explaining that they did not need to complete any self assessment forms for 2002-3, but were asked to let the Inland Revenue know of any changes in their circumstances.

1.2 Objectives of the research programme

The main objectives of the research programme were as follows:

Short Return Pilot

- to evaluate taxpayers initial reactions to the new short return;
- to estimate the compliance time associated with the short return, compared with the main tax return;

- to identify any potential improvements to the short return and its accompanying literature;
- to identify the types of taxpayer who benefit most from the short return;
- to evaluate the impact of telefiling.

Refinement Pilot

- to evaluate taxpayers' initial reactions to 'refinement' (i.e. not having to complete a tax return);
- to assess how much refinement affected taxpayers' compliance time;
- to understand taxpayers' views on the P810 form;

1.3 Overview of the research programme

In order to fulfil the various objectives, both quantitative and qualitative research was carried out.

Quantitative research typically sets out to measure behaviour or beliefs, producing numerical data from statistically representative samples (i.e. addressing questions such as 'how many?'). Whenever you want to know how many people are in a target group or how many people behave in a certain way or believe a certain thing, then quantitative research is the most suitable methodology.

Qualitative research explores the reasons underlying behaviour or beliefs (i.e. addressing questions such as 'why?'). Whenever you want to explore and understand (as opposed to measure) beliefs, feelings, priorities and motivations for behaviour, qualitative research is usually the most suitable methodology. Qualitative research can give an understanding of a target audience and insight into their behaviour. For example, it can help explain how people are using a particular procedure when dealing with a government agency, and how it could be improved. It can also inform the communication of key messages by exploring how the target group responds to these.

The key elements of the research programme were:

Short Return Initial Reactions Survey

A survey of 1,046 SA taxpayers who had been sent a short return for the 2002/2003 tax year. Interviews with these people took place early in the tax year (in June 2003) to assess

their initial reactions to receiving the short return, regardless of whether or not they had completed it at that stage.

Short Return Evaluation

A survey of 1,309 SA taxpayers who had completed a short return for the 2002/3 tax year. Interviews were conducted between July 2003 and February 2004; they were staggered over the tax year so that they could take place, in each case, within a few weeks of the respondent's completed tax return having been received by the Inland Revenue.

To provide a benchmark for assessing the experiences of the short return taxpayers, we interviewed a comparable 'control' group'. The control group consisted of 964 taxpayers who had similar characteristics to those sent the short return and were served by the same tax offices, but had not been selected for the pilot. These taxpayers had completed a main tax return for the 2002/3 tax year. Interviews were again staggered over the tax year, so they could take place within a few weeks of the completed tax return having been received.

Qualitative research with short return taxpayers:

- *Early filers of the short return.* This study comprised 36 face-to-face depth interviews with taxpayers who had returned the short return by June 2003. There was a mix of individuals in terms of employment status, age (over and under pension age), gender, and the nature of the tax return they had completed in the previous year - for example, taxpayers who had completed the core pages plus additional selected pages such as the employment, self-employment, or land and property pages. This component also included five telephone depth interviews with agents who had seen and dealt with a short return. The aim of this component was to explore initial reactions to the short return.
- *Later filers.* This component comprised 20 telephone depth interviews with taxpayers who had filed their short return after 30 September 2003. Taxpayers were selected to provide a range in terms of gender and employment status. The aim of this component was to explore reasons for later filing.
- *Taxpayers who did not use the short return and opted to file using a main return.* The study comprised 11 telephone depth interviews with taxpayers who had requested the main return before 30 September and five depth interviews with taxpayers who had requested a main return after the 30 September. Taxpayers were again

selected to provide a range in terms of gender and employment status. The aim of this piece of research was to explore reasons for not using the short return.

- *'Switchers'* – taxpayers who had switched from being represented by an agent the previous year to self-completion of the short return. This study comprised 12 face to face depth interviews with taxpayers selected to provide a range in terms of gender and employment status. The aim of the study was to explore the role of the short return in their change in behaviour
- *A telephone study among agents*. Comprising six 20-minute telephone interviews, this study was conducted later in the year after agents had had greater exposure to the short return. It was designed to explore agents' views about the short return, including the likely impact on their business.

Short Return Telefiling Survey

A survey of 503 taxpayers who had used the new telefiling system to complete the short return. This included both taxpayers who had successfully completed their return by telephone and those who had started to telefile but failed to complete the process. Fieldwork took place between August and December 2003.

Refinement Survey

A survey of 484 taxpayers who had completed a SA tax return in 2001/2 but were not required to complete a return for the 2002/3 tax year. These taxpayers were interviewed between August 2003 and February 2004. Taxpayers who were required to complete a P810 form were only interviewed once this form had been received by the Inland Revenue.

As in the Short Return Pilot, a control group was also surveyed for the evaluation of the refinement pilot. We interviewed 200 SA taxpayers with similar characteristics to those selected for the pilot and served by the same tax office, who had completed a main tax return for the 2002/3 tax year. These interviews were again staggered over the tax year, being timed to take place within a few weeks of the completed tax return having been received.

Refinement Qualitative

A qualitative study of taxpayers who had been selected for the refinement pilot. It comprised 38 depth interviews (23 face to face and 15 telephone interviews) with taxpayers who had been informed they would not have to complete a SA tax return. The

study evaluated taxpayers' reactions to refinement and their attitudes towards the P810 form.

1.4 Research methodology

All quantitative research was conducted by telephone using Computer Assisted Telephone Interview technology. Further details of the methods used for each element of the research programme are contained in the separate Technical Report.

Qualitative research was conducted using a mixture of face-to-face and telephone depth interviews with individual taxpayers and agents. Telephone depth interviews tended to be used where the interviews were highly focussed, usually on one or two key issues. They were also used where the interviews were likely to be very short. Further details may be found in the Appendix and a separate Technical Report.

Samples of taxpayers for the quantitative research were drawn from Inland Revenue records. Samples for the qualitative research were either drawn from Inland Revenue records (Short Return studies), or from the taxpayers who had taken part in the quantitative survey (Refinement Pilot study). Agents were recruited using a 'free-find' methodology.

For the quantitative studies, samples were randomly selected from data files provided by the Inland Revenue. These were stratified by pensioner/non-pensioner status, segment within Self Assessment (based on which sections of the SA tax return taxpayers had completed in the previous year) and whether or not they were identified as 'represented' on the Inland Revenue database i.e. had their tax affairs handled by an agent. This involved ordering a list of eligible taxpayers according to these criteria prior to the random selection process.

During the interview process targets were set to ensure that enough interviews were conducted with each sub group of taxpayers. For example, in the main Short Return Survey (chapter 3) we did not expect to achieve enough interviews with self-employed taxpayers who had been represented by an agent in previous years. Setting targets ensured that wherever possible a minimum of 50 interviews were carried out with each of the main sub groups of interest.

The telephone response rates for the research varied between 40% and 65. These represent moderate to respectable response rates for telephone research. As with any research, non-response does mean we have to view survey findings with a degree of caution. However, the survey still represents a robust review of the Self Assessment

Pilots. Further details on response rates and confidence intervals connected to the key survey findings can be found in the separate Technical Report.

The data were also weighted on the variables used for stratification to figures from the whole SA population eligible to receive the short return, to ensure the results were representative of all taxpayers who would receive a short return in future. Similarly, the results from the refinement survey were weighted to ensure that the results were representative of all taxpayers eligible for refinement. Details of this weighting and a more detailed discussion of the sample selection are given in the Technical Report.

1.4.1 Field documents

The questionnaires and topic guides used for the research were developed by BMRB research staff in conjunction with a Steering Group consisting of researchers from the Inland Revenue's Analysis and Research team and colleagues responsible for policy and operational aspects of SA. All survey questionnaires were piloted before use.

The final questionnaires, topic guides and advance letters used for the different elements of the research programme are included in a separate Technical Report.

1.4.2 Note on interpretation

Throughout the report, results from the quantitative research are presented in summary tables and summary charts, with commentary based on these. In some cases, the commentary includes results for sub-groups which are not shown in the tables and charts, but which can be found in the computer tabulations and SPSS data files supplied separately to the Inland Revenue.

In the tables, the following conventions have been used:

- Base sizes shown in tables and charts are unweighted – that is, they show the number of taxpayers who were asked the question
- Percentages under 0.5% are shown as ‘ * ’.

Discussions of the qualitative research sometimes use direct quotes taken from the depth-interviews. Where these are included, the quote itself is given in italics followed by details of the taxpayer who made the particular remark (their sex and type of income). For example:

I was asked to take part in a survey for the Inland Revenue...
(male, self-employed and basic investments)

1.4.3 Self Assessment segments

In the analysis of survey data, and in this report, we have used four broad classifications of Self Assessment taxpayers:

- 1) *Employees* – completed the core return plus employment pages of the SA tax return in the previous year and did not have income from self-employment
- 2) *Self-Employed* – completed the core return and self-employment pages in previous year
- 3) *Pensioners* – anyone aged 60 or over if female, or 65 or over if male with no income from employment or self-employment
- 4) *All Others* – anyone who was not a pensioner and had completed pages for income other than employment or self-employment - for instance, income from savings, land and property, foreign income etc.

Using these definitions, working status took priority – for instance, if a woman aged over 60 had completed employment pages then she would be classified as employed rather than as a pensioner. Pensioners had to fulfil the age and sex criteria and have no income from employment or self-employment. Employees and Self-Employed were mutually exclusive definitions (any income from self-employment took priority).

1.5 Structure of the report

The remainder of the report deals with findings from the research programme.

- Chapter 2 covers taxpayers' initial reactions to being sent a short tax return and a detailed evaluation of the short tax return based on taxpayers who had actually completed their tax return.
- Chapter 3 covers taxpayers who chose to complete the short tax return by telephone (tefilers).
- Chapter 4 deals with findings regarding the Refinement pilot, including reactions to refinement among both taxpayers who had and had not been sent a P810 form.
- Chapter 5 summarises the conclusions from the research.

2 The Short Return Pilot

2.1 Introduction

This chapter evaluates the impact of the Short Return Pilot on the pilot group of 50,000 selected to receive this new form in the 2003/4 tax year. The Chapter covers a number of issues including:

- taxpayers' initial reactions to the short return;
- eligibility to use the short return;
- completion of the short return;
- the effect of the short return on when taxpayers filed their tax return;
- the compliance time associated with the short return;
- the effect of the short return on agents and taxpayers use of agents.

The results in this chapter are drawn mainly the Short Return Evaluation survey supplemented with key findings from the Initial Reactions survey. The chapter also draws on qualitative research studies among users of the short return, taxpayers who decided to use a main tax return, agents and taxpayers who had switched from being represented by an agent to self-completion of the tax return.

Further details of the different strands within the research programme are covered in the Introduction (Chapter 1).

2.2 Initial response to receiving the short return

The Initial Reactions survey took place between May and August 2003 and involved telephone interviews with Self Assessment taxpayers who had been sent a short return in April 2003. Unlike the other surveys in this programme of research, we did not wait for these taxpayers to complete and send back their returns. Instead, the survey focused on taxpayers' initial reactions to receiving the short return including: what differences they had noticed in the return and accompanying guide this year and issues surrounding eligibility for the short return.

This section concentrates on conveying these first impressions rather than on examining taxpayers' experiences of using the short return. The processes and time involved in completing the short return, and overall views of the changes to the Self Assessment

process, are covered in the later sections of this chapter, where the results of the Short Return Evaluation survey are reported.

We interviewed a sample of 1,046 taxpayers from the short return pilot population selected according to segment within Self Assessment, i.e. pensioners, employed, self-employed, and other. The results from the survey were weighted to ensure that they were representative of the SA population eligible for the short return. The Technical Report provides information regarding the profile of taxpayers.

2.2.1 Opening the short return package

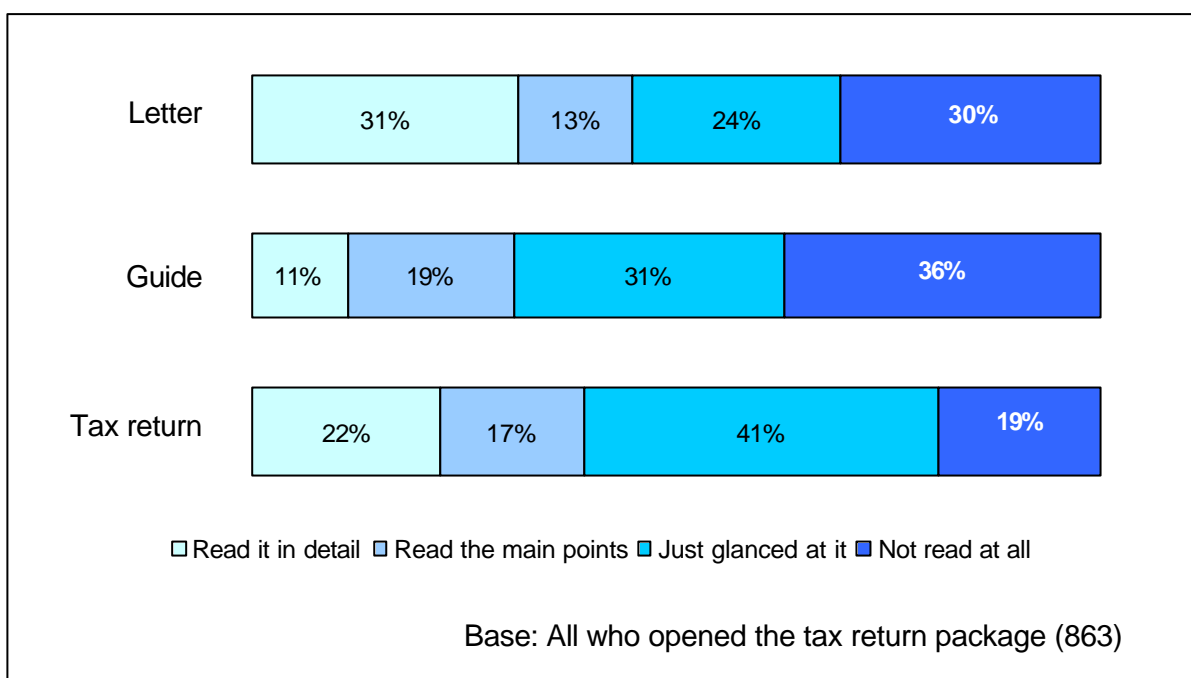
The short return was sent out with two accompanying items: a letter explaining the reason for the new format and a guide to completing it. The package was sent out in a plain white A4 envelope. When prompted, 96% remembered receiving their tax return for the 2002/3 tax year.

Of these, the majority (83%) had at least opened the tax return package. However, 11% had simply passed the package straight to their accountant (or other person who completed their tax return for them). A further 6% had done nothing with the tax return and had put it to one side to deal with later. For the majority of the section on initial reactions (and unless otherwise stated), results exclude taxpayers who did not personally open the short return package. This is because their lack of direct involvement with the short return meant that they were not in a position to answer many of the questions in the survey.

2.2.2 Attention paid to tax return package

Among the taxpayers who had opened the package, 81% had looked at the short tax return itself, 70% had looked at the accompanying letter, and 64% had looked at the guide to completing the short return. Just over half (55%) had looked at all three of these items and 15% had not looked at a single item in the tax return package at the time of interview. Although large proportions of taxpayers had looked at each of the items in the tax return package, most had not looked at them in detail, as shown in Figure 2.2a.

Figure 2.2a Attention paid to the items in the tax return package

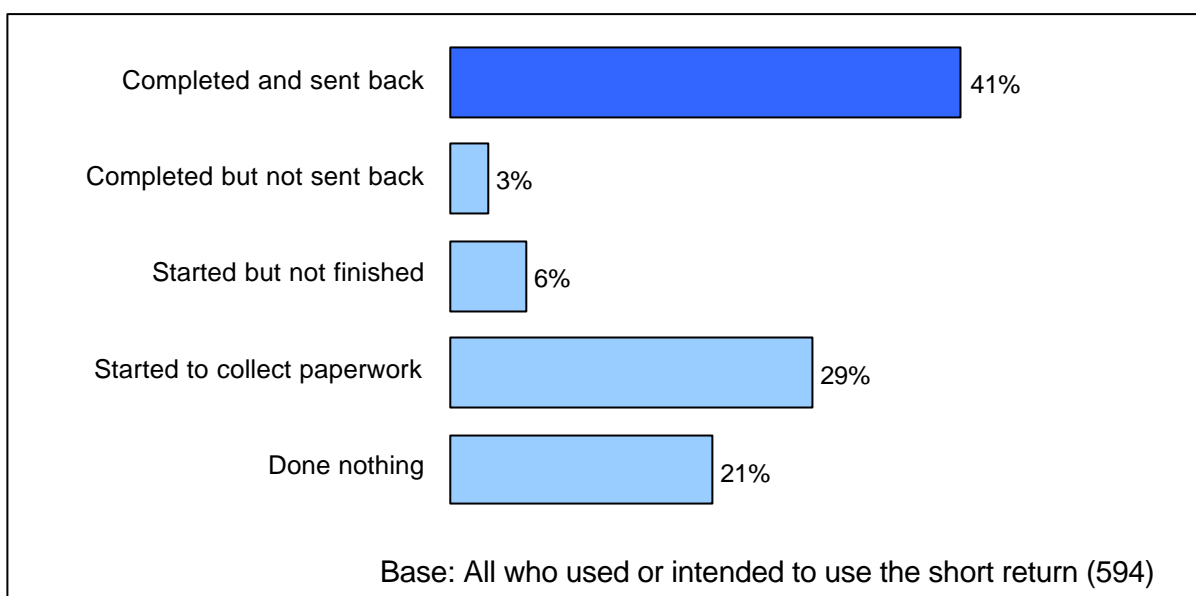


Attention paid to the short tax return itself was generally quite rudimentary, although taxpayers were more likely to look at the return than the letter or guide (81% had paid some attention to it). Just under half of taxpayers (41%) who had opened the short tax return package had 'just glanced at' the short return, with 19% not even looking at it all. It was the accompanying letter that received the most attention; nearly one third (31%) of everyone who had opened the package had read it in detail. Among those who had opened the tax return package, taxpayers who intended to use an agent were just as likely as unrepresented taxpayers to have looked at the tax return, the guide and the letter.

It is clear that large numbers of taxpayers who received a short return in 2003 had paid limited attention to the items in the package. This may indicate they were simply waiting until they were ready to fill in the return, before reading the information in detail. However, this lack of initial attention does have some implications for how and when taxpayers check their eligibility to use the short return

Of those taxpayers interviewed in the Initial Reactions survey who were intending to complete or had completed the short return themselves, 41% had already sent it back by the time of interview. The segment most likely to have done so were pensioners (64%), with self-employed taxpayers being the least likely to have completed (26%). Figure 2.2b below summarises how far taxpayers had progressed with completing the short return at the time of interview.

Figure 2.2b Stage of completion of the short return



While four in ten had actually sent back their short return, 29% had only got as far as collecting their paperwork together and a further 21% had done nothing.

2.3 Eligibility for the short tax return

Although the taxpayers who were sent the short tax return were selected on the basis that they had straightforward tax affairs, according to the information they had submitted on their previous tax return (for the 2001/02 tax year), not all were necessarily eligible to use it - for instance, their circumstances could have changed. Ineligible groups included:

- Company directors
- Self-employed taxpayers with more than one business; or whose turnover was in excess of £15,000
- Taxpayers who had received income from abroad
- Taxpayers who were in partnerships
- Taxpayers with an income from property in excess of £15,000

This information was included in the guide to the short return. Taxpayers who were ineligible for any of these reasons were told to contact the Inland Revenue immediately (so that they could be issued with a main tax return as normal).

The following discussion of eligibility to use the short return is based on the actions of taxpayers within the first 3 months of receipt of the short return; however, there was scope for taxpayers to check their eligibility at any point before submitting their tax return. Taxpayers who had opened the tax return package and looked at any of the items, were asked whether they realised that some people sent the short tax return might not be eligible to use it and, if so, whether they had checked to see if they were personally eligible. Just over half (55%) were aware that not all those who had been sent the short return were eligible to use it, while the remainder (44%) were not. These proportions were similar across all SA segments.

The Inland Revenue has already made changes to the accompanying letter used in the extended pilot from April 2004, which make it clearer that taxpayers sent the short return are not automatically eligible to use it.

It is clear from the qualitative research that some taxpayers assumed that, because the short return had been sent to them, they must fit the criteria.

'You wouldn't really question whether you were eligible for this at all. You'd just assume that this was the form to be filled in.'

(Pensioner, pension and basic investments, male)

Reasons taxpayers in the qualitative research gave for not being eligible to complete the short return included:

- A change in circumstances, such as redundancy
- Additional sources of income that were not captured by the short return
- Having received benefits in kind and being unable to incorporate these into the short return
- A capital gains liability
- And, being ineligible because they were a company director or had earnings above the self-employed threshold.

In some of these cases, taxpayers were eligible to complete the short return; however, their perception was that they were not eligible.

Company directorship did throw up an area of ambiguity. For example, a taxpayer felt that he ought to have been able to complete the short return even though he was a director, as it was for a non-profit-making organisation and therefore did not affect his

level of income. He suggested that the return ought to state more explicitly what to do in these circumstances.

'It could have said something like 'however, if you work for a non-profit-making organisation you can ignore this section that says it does not apply to directors.'

(Male, simple affairs - PAYE and investment income. Director of non-profit-making organisation)

Of those taxpayers in the survey who did realise that some people sent the short tax return might not be eligible to use it, four in five (78%) had checked to see if they were personally eligible. The majority of those taxpayers (83%) who checked their eligibility did so using the guide that accompanied the return. A minority had contacted the Inland Revenue (6%) or checked with a professional advisor (3%) or family member (2%). Similar findings emerged from the qualitative research with taxpayers. Those who had checked their eligibility had usually done so either by reading the guide, or the tax return itself, or by checking with their agent.

The guide appeared to be adequate for checking eligibility; almost all taxpayers (99%) who had used the guide for this purpose said it was easy to check their eligibility using it. Only 7% of taxpayers who had looked at the contents of the short return package (16% of those who had checked their eligibility) thought they were ineligible to use the short return.

These findings suggest that more prominence needs to be given in future, preferably in the letter accompanying the short return, to the fact that not everyone who receives a short return will be eligible to complete it, and that recipients need to check their eligibility as soon as they receive it. This is something the Inland Revenue have already addressed in the accompanying letter used in the extended short return pilot from April 2004.

The main reasons taxpayers believed they were ineligible were as follows (percentages based on all who thought they were ineligible):

- Income too high (30%)
- Tax affairs too complicated (24%)
- Being a company director (12%)

These reasons are consistent with the actual eligibility criteria mentioned at the start of this chapter. 'Income too high' probably relates to taxpayers with a specific source of income that was too high for them to be eligible, as there was no overall upper threshold for total income. For instance, taxpayers with turnover from self-employment in excess

of £15,000 were ineligible, as were those with an income in excess of £15,000 from land or property.

A small number of taxpayers who thought they were definitely ineligible said they had used or intended to use the short tax return (8 out of 51). This is the equivalent of 1% of all taxpayers who had opened and looked at the tax return package. These ineligible users included taxpayers who knew they were ineligible due to their income being too high and taxpayers who thought their tax affairs were too complicated for the short return. We must stress that this is based on a very small number of taxpayers and should only be regarded as very tentative. The majority of taxpayers who thought they were ineligible to use the short return had correctly used or intended to use a main return. Others said that they didn't know which type of return they would use at this stage.

2.4 Completing the short tax return

This section deals with a number of issues including, taxpayers' reactions to the short return once they had used it, preferences for the short return or the main return, an evaluation of the content of the short return and any issues with the short return.

The results are drawn mainly from the quantitative Short Return Evaluation survey, in which we interviewed 1,309 taxpayers who had completed a short tax return and a control group of 964 taxpayers who had completed a main return. These are supplemented where appropriate by relevant strands of qualitative research.

All taxpayers interviewed in this survey had completed a short return according to Inland Revenue records (or a main return in the case of the control group). Their responses are therefore based on more solid experience than taxpayers interviewed in the Initial Reactions survey. As taxpayers could only be interviewed after they had filed a short tax return, interviews were conducted between July 2003 and February 2004.

The results from the Short Return Evaluation survey were weighted to ensure that they were representative of the SA population eligible for the short return. The introduction in Chapter 1 provides more information regarding this aspect of the survey.

2.4.1 Usefulness of guide and instructions

The guide accompanying the short return was itself designed to be much shorter and simpler to use than the guide that was sent with the main return. Taxpayers who completed a short return were asked how much it was used and how useful it was to them.

Four in five taxpayers (80%) who had completed a short tax return did refer to the guide to help them complete the return, and 25% said they had referred to the guide 'a lot'. This is similar to taxpayers who completed a main return.

Taxpayers in the qualitative studies tended to fit into one of four distinct types: those who read the guide thoroughly before they completed the return, those who read the relevant sections prior to completing the return, those who skim-read the guide to see if there had been any changes, and those who did not read it at all unless they came across a problem.

However, qualitative research with non-users of the short return suggested that, having been sent a short return, some taxpayers assumed they were eligible to use it. It was not until they came to complete the return and found that their affairs did not fit the short return that they then read the guide and realised they were not eligible. There was some suggestion that the first page of the guide contained too much 'preamble' which tempted some taxpayers to skip this section and move straight to the guidance pages, thereby missing out the eligibility section.

'...I can see it now... whether I'm eligible or not... but too much preamble and I'm tempted to miss all this lot out and get stuck in to the main part of the form.'

(Male, self-employed, sent a short return but not eligible and requested a main return)

In the quantitative survey, taxpayers who had looked at the guide to the short return were asked about their satisfaction with the guide and its overall usefulness. The same set of questions was asked of main return taxpayers. These were:

- How useful generally did you find the guide, in helping you to complete your tax return?
- And how easy or difficult did you find it to find all the information you needed in the guide to completing the tax return?
- And how easy or difficult was it to understand the guide to completing the tax return that you received this year?
- Thinking just about the guide to completing the tax return you received this year. How clear do you think the language used in this guide was?

The results for these four questions are presented in Table 2.4a below for both groups of taxpayers.

Table 2.4a Views on the guides that accompanied the short and main returns

Base: All who personally completed the tax return and referred to the guide	Short Return (843)	Main return (737)
	%	%
Generally useful in helping to complete the tax return	93	92
Easy to find all information needed	95	84
Easy to understand	94	85
Clear language used	95	86

The results from these questions show that the guide to the short return was viewed very positively by those who used it. Nearly all who had used the short return guide thought it was useful, easy to understand, used clear language and that it was easy to find all the information they needed to complete their return.

The majority of taxpayers who used the guide to the main return also felt generally positive towards it, though slightly fewer were positive about the ease of finding information, ease of understanding and the clarity of the language.

The main difference between the two guides lies in the proportions of taxpayers who were *very* positive about them. For example: 36% of taxpayers who had used the short return guide said it was *very* easy to find the information they needed to complete their tax return compared with just 22% in the control group; and, 36% of taxpayers who had used the short return guide said that the language used in the guide was *very* clear compared with 24% in the control group. If anything, the qualitative research reveals even more positive views about the guide for the short return. Qualitative findings show that where they had been read, the guidance notes were considered to be much more accessible than previous incarnations. They were said to use simpler language, less technical language, be quick to read, very straightforward and generally to provide the answer when required. In addition, the worked examples were considered to be useful and relevant, although there were few in the qualitative study who felt they needed them as they were used to doing these calculations anyway. Similarly, there was little experience of the workings-out sheets being used, although there was some indication that such devices, even if not used, were nevertheless reassuring to have.

'I read the guidance notes part by part as I was completing the form... thought they were well presented.'

(Female, self-employed, savings and pensions)

'A step in the right direction.'

(Male, pensioner, simple affairs)

However, other comments about the guide were not entirely positive. For example, there was some sense that the guidance reflected an overall 'dumbing down':

'They seem to me to be written for the complete idiot.'

(Male, pensioner, simple affairs)

Concern was also expressed that the guide for the short return is four times the length of the return that it supports.

Similarly, some taxpayers were negative towards the illustrations of other documents that appeared on the left-hand side of the guidance notes. These taxpayers commented that there was no guarantee that the illustrations would match the style of document that the taxpayer had received. Although it had not been a source of confusion for the taxpayers we interviewed, some thought that it could be for others.

2.4.2 Contact with the Inland Revenue

The survey looked at how many taxpayers contacted the Inland Revenue about their tax return. We also asked taxpayers, why they had contacted the Inland Revenue and how well their queries had been dealt with.

In total about a quarter (24%) of taxpayers who had completed a short tax return had contacted the Inland Revenue for some reason. This compares with 20% of the control group who completed a main return. Table 2.4b summarises the relative levels of contact for short and main return users, including the number of times taxpayers had to contact the Inland Revenue.

Table 2.4b Contact with the Inland Revenue among the short and main return groups

Base: All who completed the tax return	Short Return (1024)	Main return (737)
	%	%
No contact	76	80
Once	15	10
Twice	5	6
Three or more times	3	4
<i>Any contact</i>	<i>24</i>	<i>20</i>

The differences are small and we can conclude from this that taxpayers using the short return were really no more or less likely to contact the Inland Revenue about the return than those who used the main return. Of those who contacted the Inland Revenue about the short return, 84% said the Department was 'able to resolve all the queries'. This was exactly the same percentage as for taxpayers in the control group who had contacted the Inland Revenue about the main return. Interestingly, employees who contacted the Revenue with a query about the short return were the group least likely to say that the query had been resolved: nearly a quarter (23%) said specifically that their query had *not* been resolved, compared with just 6% of self-employed taxpayers and 10% of pensioners.

We also asked taxpayers to say how satisfied they had been with the way their queries were dealt with by the Inland Revenue. Overall, taxpayers who had contacted the Inland Revenue about their tax return were quite positive about the way their queries had been dealt with: 86% of short return taxpayers said they were satisfied with this (69% very satisfied), compared with 79% of the control group (61% very satisfied).

Taxpayers interviewed as part of the qualitative research were mostly positive about their experiences of contacting the Inland Revenue. Inland Revenue staff were described as having been courteous, helpful and providing useful advice. Their enquiries were usually dealt with to their satisfaction.

'Told me what I needed, what I asked, what I had to do, and friendly, and at end he asked if there were any other issues he could help with.'

(Male, employed part-time, car allowance)

However, there were isolated instances of difficulties in making contact with the Inland Revenue. Typically, these were to do with getting through to the Department:

'You can never get through to them.'

(Male, retired, rented property, investment income)

or being passed from one person to the next until the issue was resolved:

'It takes ages to get through because the line is always busy...and when you get through they can't help you so they pass you on to someone else and then someone else...I haven't the time for all that.'

(Female, PAYE, simple tax affairs)

2.4.3 The layout and design of the short tax return

This section deals with taxpayers' reactions to the physical layout and design of the short tax return. Consequently, all findings discussed here are based on the qualitative research.

Clarity of the short return

Taxpayers thought that the short return was very clear in its presentation, with much simpler and less technical language than the main tax return.

'Better, simpler, lay language. It's a huge improvement and shows lots of imagination.'

(Male, pensioner, retired lorry driver)

'Very clear...much more so than previous forms.'

(Male, in 30s, employed)

'It seemed self-explanatory. It was extremely clear. It's clear to read and the instructions are clear. It's about as simple and straightforward as it could be.'

(Male, over 50, employed)

Praise for the short return was almost universal although there were some minor suggestions as to how clarity could be improved further. For instance, one taxpayer thought the phrase 'The number of employments you had in the year' (for box 5 of the short return) was slightly outdated and 'jobs' might be more user-friendly than 'employments'.

Similarly, it was felt that the UK Interest and Dividend section (boxes 28-32 on the short return) could be further clarified. The issue seemed to be that although the section refers to interest and dividends, the explanation within the section only refers to bank and building society interest, but not dividends. Consequently, there were instances where taxpayers did not know how to enter the details of dividend payments in this section. Although the guidance notes do indicate the correct procedure, the fact that both interest and dividends are included in the same section, but treated differently, was confusing to some of the taxpayers in the qualitative study.

Taxpayers were not always clear about what Gift Aid (box 41) was. As a consequence, there were taxpayers who donated to charity but failed to complete this box, as they did not recognise the term 'Gift Aid'. There were also instances where taxpayers did not complete this box as the amount donated was not considered to be very much (£200 in one instance), coupled with the view that the charity would receive the tax refund anyway.

Layout of the short return

Although there were those who were indifferent to the layout of the return the overwhelming view was that it was very professionally designed.

'Much easier to ensure that nothing is missing compared to previous form; 'It's beautifully laid out, the typeface is a bit clearer than it used to be and the paper feels much nicer. The other one looked as though it was written on recycled brown paper and I like the blue colour; I like the way the boxes are laid out, it's clear, and the biggest point is that it's a lot more friendly than it used to be.'

(Male, under retirement age, self-employed)

One taxpayer indicated that he had found the way in which the two-column format had been numbered was confusing. The return has questions numbered downwards, moving from the bottom of one column (within a section) to the top of the next column. This taxpayer felt that it was more natural to scan from left to right and the numbering should therefore reflect this. No other similar comments were received however. Indeed, the overwhelming view was that the layout of the short return was excellent and logical.

Design of the short return (fonts, boxes and colours)

As indicated earlier, the short return was seen as very professional in design. Taxpayers were very positive in particular about the:

- Sectioning of the short return

- New colour of the form
- Font type used
- Font size used
- Date boxes that contained the 'DD MM YYYY' format
- Pence boxes that contained '.00'.
- The size of boxes - There were no complaints at all about the size of the boxes although they were not always thought to be generous in size.

Taxpayers welcomed that aggregated 'totals' were only required for boxes 28 to 30 (UK interest and dividends) on the short return, although there were taxpayers who continued to write each dividend amount onto the form and then enter the total into the boxes. As one taxpayer put it:

'I do it that way so it shows the tax people all the information and anyway I have always done it that way.'

(Male, retired, investment income)

2.4.4 Other issues with the short return

Aggregation on the short return

The short return contains a greatly reduced number of boxes for taxpayers to write in specific pieces of information about their tax affairs. As a result, short return taxpayers might have to make more calculations and aggregate sources of income in order to fill in boxes on the form than previously.

For instance, on the main return a taxpayer with two different jobs would be able to use two separate pages to record information about these two sources of income. On the short return there is just one set of boxes for employment income and the same taxpayer would have to add together figures relating to the two jobs and record them as combined figures. This process is called 'aggregation'. The Inland Revenue was interested in finding out just how much aggregation taxpayers who received a short return had had to do, and whether this had caused any problems.

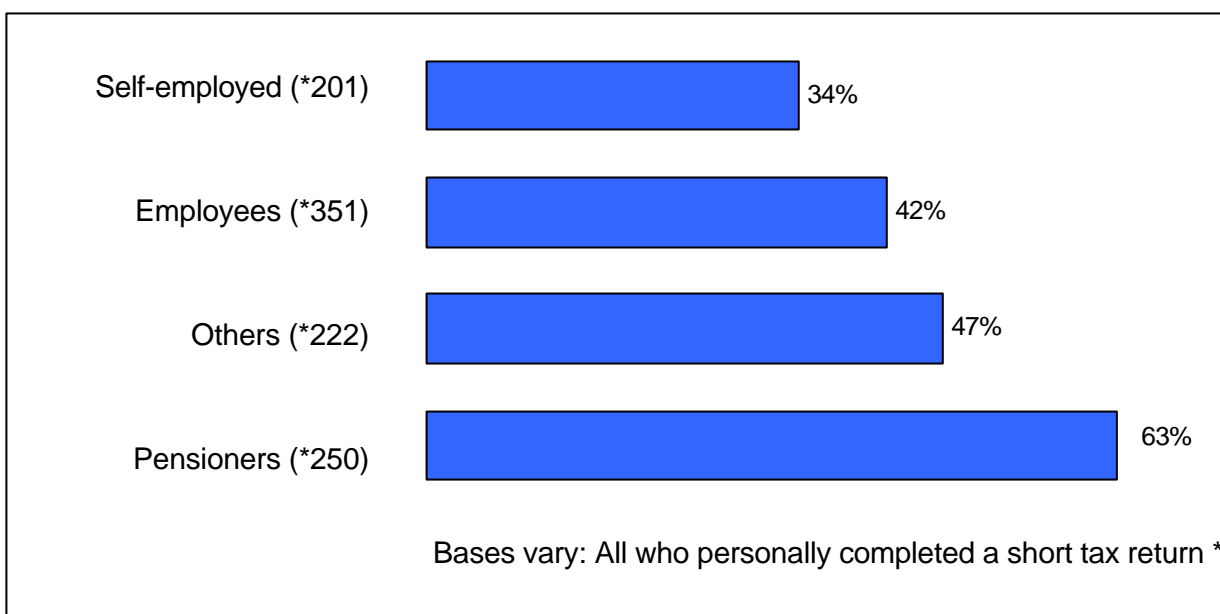
Taxpayers who completed the short return were asked:

- ‘Did you have to add together the income from any different sources to come up with a total for any of the sections on the tax return?’
- ‘And how easy or difficult did you find it to calculate a total for the sections in the tax return that you did this for?’

In total, nearly half (48%) of all taxpayers who completed a short return did have to aggregate different sources of income together. Fortunately, the majority (93%) of taxpayers who had to aggregate their income said that it was easy to do so (48% saying very easy). Across groups of taxpayers who had to aggregate (including the different SA segments) most said that it was easy, with just 7% saying it was difficult. Similarly, there is no evidence to suggest that taxpayers who had to aggregate were less confident that they completed the short return correctly. Several early filers participating in the qualitative research actually welcomed having to provide only total values.

As shown in Figure 2.4a, pensioners were the group most likely to have to aggregate different sources of income: 63% of pensioners who completed a short return aggregated sources of income together. This compares with only 34% of self-employed taxpayers, 42% of employees and 47% of all others. The high level of aggregation among pensioners may result from having different pensions - perhaps from different previous jobs - or income from different savings accounts. Whatever the reason, pensioners were just as likely as other groups of taxpayers to say that aggregating their sources of income was easy to do (94%).

Figure 2.4a Need to aggregate income among short return taxpayers



Including additional information on the short return

As well as containing a smaller number of boxes for taxpayers to use, the short return specifically did not have a blank box (white space) for taxpayers to include any additional information that had not been recorded elsewhere on the form. The main return contained a large blank box near the end of the form for this purpose.

We asked taxpayers who had completed the short return whether they had wanted to include any additional information, for example to clarify an entry on the short return. These taxpayers were reminded that such a box had been available to them on the main return in the previous year. In total, just 9% said that they had wanted to do this. This suggests the short return does cover most of the important details that these taxpayers need to include.

We also asked taxpayers who had wanted to include additional information whether they had in fact passed this on to the Inland Revenue. Encouragingly, just 4% said that they had *not* passed this information on 'as there was no option to do this'. Around half (49%) of short return taxpayers who had wanted to pass on additional information had done so by attaching a note to their tax return. A further 18% had telephoned the Inland Revenue and 11% had written a letter to the Inland Revenue. The remainder had either written this information elsewhere on the form (presumably wherever they could find some blank space) or gone into an enquiry centre.

From the various strands of qualitative research, it was the agents who were the most concerned about the lack of white space on the short return. Some agents said that if they were to file a short return on behalf of a client they would send supporting documentation anyway. The absence of white space was therefore dealt with in other ways.

Calculating tax liability on the short return

The main tax return is sent to taxpayers with a calculation guide, instructing them how to calculate their tax liability from the answers they have given on the return. Taxpayers who choose to do this can write their calculated tax liability on the main return. No such calculation guide was sent with the short return and there was no box on the short return for taxpayers to include their own calculated tax liability.

Of those who had completed a short tax return, around one in ten (11%) said that they would have liked to have a calculation guide. This represents a relatively small yet significant proportion of taxpayers in the short return group.

Although no calculation guide was sent with the short tax return, 40% of taxpayers who completed the short return said they did a liability calculation anyway. Of those who did make a calculation, 89% said it was using their 'own method', with 11% using the calculation guide from the previous year. However, the majority of these taxpayers seem to have made this calculation for their own records. When asked if they had wanted to show their calculation on the short return, 83% said 'no – they didn't mind'.

These results suggest that the need for a calculation guide is not universal but that certain types of taxpayer would like to have one. In particular, taxpayers who have multiple sources of income were most likely to want a calculation guide. As a result of this finding, a two-page rough calculation guide was included in the short return package sent to taxpayers in April 2004.

2.4.5 Overall comparisons between short and main returns

To understand how taxpayers felt about the short return more generally, now they had completed it, we asked a series of questions about the tax return. These questions were asked of both the short return and the main return taxpayers so that comparisons could be made. The three questions were:

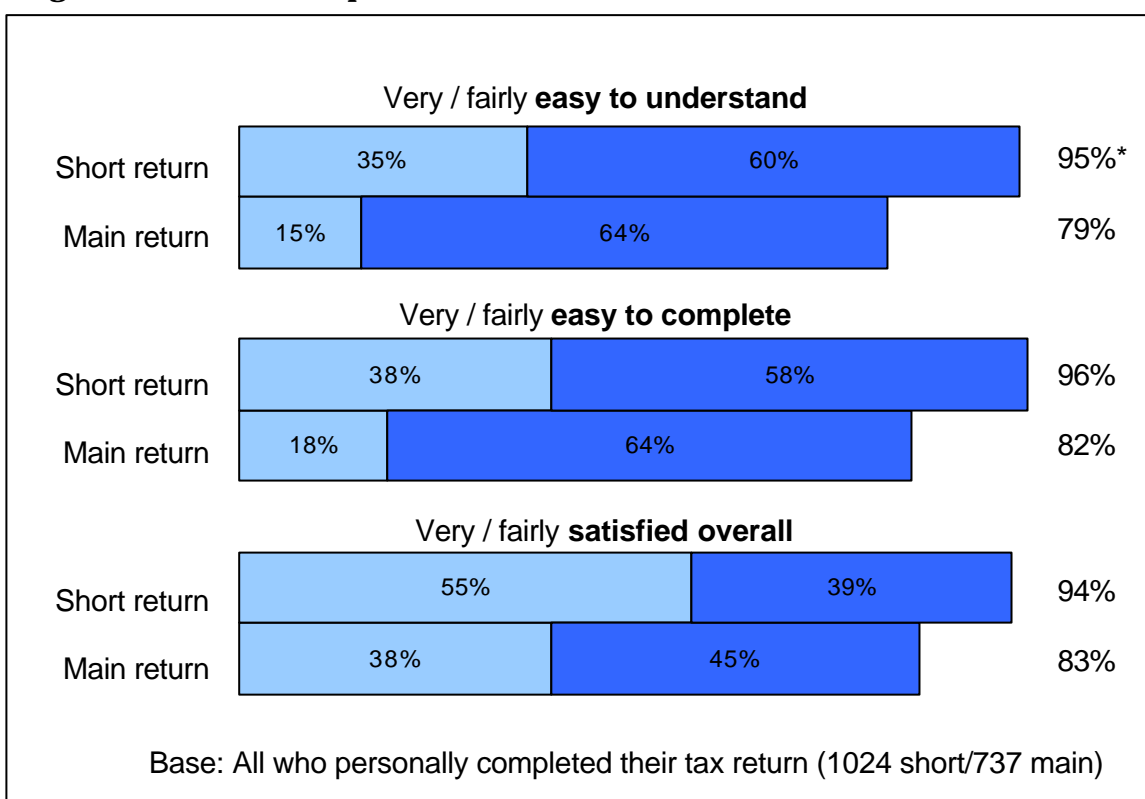
- Thinking about the actual tax return you received this year, how easy or difficult was it to understand?
- Overall, how easy or difficult did you find it to complete your tax return this year?
- Overall, how satisfied have you been with the whole process of completing your tax return this year?

Figure 2.4b below shows the results for these three questions for taxpayers who personally completed their 2002/3 tax return. The results show there are higher ratings for the short tax return on all three measures. Taxpayers who completed a short tax return were more likely to say: it was easy to understand (95% compared with 79% who completed the main return); it was easy to complete (96% compared with 83%); and that they were satisfied with the whole process of completing their tax return (94% compared with 82%).

The figure also shows that the proportions of taxpayers who were *very* positive about the short return were higher than for the main return: 35% of taxpayers who had completed a short return said it was very easy to understand compared with 15% of main return taxpayers; 38% said it was very easy to complete compared with 18% in the main return

group; and 55% said they were very satisfied overall with the whole process of completing the short return compared with 38% of the control group.

Figure 2.4b Overall comparisons between the main and short returns



Note: Percentages marked '' include all taxpayers who said either very or fairly easy / satisfied.*

There are some interesting differences in the answers given by self-assessors in the main return group according to when they filed their tax return. Firstly, taxpayers who completed their main return *after* 30 September (later filers) were generally less positive about the tax return than those who completed it *by* 30 September ('early filers'). Later filers of the short return were equally as positive about the short return as those who completed it by 30 September. Differences in response between early and later filers are illustrated in Table 2.4c for both the short and main returns.

In particular, later filers of the main return were more likely to say: the return was difficult to understand (32% compared with 19% of early filers); and the return was difficult to complete (28% compared with 16%). There were no such differences for taxpayers who completed a short return.

Table 2.4c Attitudes towards the tax returns among early and later filers

Base: All who personally completed the tax return	Short Return (1024)		Main return (737)	
Early = filed by 30 September Later = filer after 30 September	Early (909)	Later (115)	Early (646)	Later (84)
	%	%	%	%
Easy to understand the tax return	95	96	80	67
Easy to complete the tax return	96	96	84	72
Satisfied overall with the tax return	95	93	83	75

Similarly, taxpayers who completed a main return were less positive about the tax return if they had needed to contact the Inland Revenue with a query about it. Notably, 20% of taxpayers who had contacted the Inland Revenue with a query about the main return said they were dissatisfied with the whole process, compared with just 8% of taxpayers who had not had any contact about their return.

There was a much smaller difference among users of the short return (3% of those who had had contact were dissatisfied, compared with 1% of those who had not). While short return taxpayers were slightly more likely to contact the Inland Revenue (24% did so, compared with 20% of the control group), their queries to the Department were generally shorter (10 minutes compared with 20 minutes on average). This is discussed further in Section 3.5.

2.5 The short return filing profile

It was thought that taxpayers receiving a short return in 2003 might have been encouraged to complete their tax return earlier in the year than before. However, from Inland Revenue records we know that while the short return population did complete their returns slightly earlier on average than taxpayers who used a main return as normal, the difference was very small. In particular we were interested in the relative proportions of 'early filers' (those who filed by 30 September 2003). Of the 50,000 taxpayers who received the short return, 73% filed by 30 September 2003. This is slightly higher than the proportion of taxpayers who completed a main return by the same date, suggesting a very small impact on early filing.

Findings from the qualitative research provided some evidence to indicate that the reduction in size of the short return and the reduction of irrelevant sections motivated taxpayers to complete the return earlier than usual.

'In past years I have opened it and thought how much of it I would have to wade through that wasn't relevant to me and tended to put it to one side for a while. I could see this year's was very different – it said so in the accompanying letter – but it just seemed much thinner, much less paper than usual. I had a quick look through the form and thought that I could do that much more easily than before. So, I did it at the weekend...I probably would have left it for six weeks, perhaps a couple of months – I always like to complete it very quickly – but I sent it within about ten days this year'

(Male, retired, with investment income and income from property)

However, there was also a downside to early filing, as the qualitative research suggests that, in their enthusiasm at having such a short form to complete, some taxpayers filed their return before receiving all the statements of interest they needed. This could potentially lead to inaccurate information being included. In all cases this was said to amount to no more than a few pounds and often only pence.

2.5.1 Later Filers - completing the short return after 30 September

A small piece of qualitative research was undertaken with twenty taxpayers who had filed a short tax return after 30 September 2003. The sample comprised taxpayers who were employed, self-employed and unemployed with a range of income sources, including salary, savings income, pensions, and income from stocks, shares and property. With one exception, none of these taxpayers had filed late in previous years.

The one taxpayer who had filed late before indicated that this was because his agent filed late on his behalf. This year he had decided to file his tax return himself. While some taxpayers filed their tax return later than normal, none cited the short return as a reason.

'...Was nothing to do with the complexity of the form or anything else.

(Male, employed full-time, basic salary, shares and allowance.)

The taxpayers interviewed had not submitted their returns by 30 September for 'circumstantial' reasons. These reasons included a family bereavement and having an operation, meaning that the taxpayer's attention was drawn away from household administration. Another taxpayer had waited to complete the return through uncertainty about her employment status as her employer had fallen ill.

Taxpayers had also been delayed because they had been waiting for documents to be sent to them. For example, one taxpayer had received a P60 late from their employer and

could not complete the short return until this had been received. Another taxpayer had had to wait for a form P11D.

Other taxpayers interviewed in the qualitative study were aware of the 30 September filing date but were not especially concerned about meeting it. This was because they felt that they knew how much tax they were likely to owe to the Inland Revenue as their circumstances had not changed from the previous year. For example:

*'I'm not too worried about that as I've never anything extra [to pay]'.
(Male, employed full-time, basic salary and savings)*

*'What would have been the worst case scenario? We'd have been out by a few pounds and we'd have sorted it out next year'
(Male, employed full-time, shares and investments)*

Overall, the short return was not considered to have changed the time of filing at all in 2003/4. Although having now realised how easy the short return was to complete, there was a sense from the qualitative interviews that these later filers would try and file their next return by 30 September 2005.

*'I don't intend to miss that September deadline. I've learnt my lesson. It's much more complicated and risky to do it later.'
(Male, employed full-time, basic salary, shares and allowance)*

2.6 Compliance time

One of the key reasons for developing the short tax return was to reduce the compliance time for taxpayers in terms of the amount of time they needed to spend on the Self Assessment process each year. With the short return being only four pages long compared with 16 pages for the main return, it seems reasonable that this should be the case.

The compliance time for SA taxpayers can be broken down into a number of constituent parts. For this survey we asked a series of questions to find out how much time taxpayers had spent:

- gathering the documents needed to complete the tax return;
- looking at the accompanying guide and finding the information needed to complete the return;
- contacting the Inland Revenue about the tax return;

- actually completing the tax return;
- dealing with their accountant or advisor (if they were represented).

Taxpayers were also asked if there were any other time-consuming aspects of the process that were not included in the above categories. If they said there were, we also asked how long they had spent on these tasks. From these constituent parts an overall compliance time was calculated to the nearest minute. Table 2.6a below summarises the time spent on each aspect of the process and in total.

Table 2.6a Breakdown of compliance times by task

Base: All who spent time on each task		Short Return (pilot group)	Main Return (control group)
	Base	Minutes	Minutes
Gathering documents	1198 / 873	30	60
Looking at the guide	843 / 606	30	30
Contacting Inland Revenue	236 / 737	10	20
Dealing with advisor / accountant	143 / 96	30	30
<i>Filling in the return</i>	<i>1024 / 737</i>	<i>30</i>	<i>60</i>
<i>Total compliance time</i>	<i>1118 / 802</i>	<i>120</i>	<i>162</i>

Note: All values in the table are median values. The sum of the tasks in each row does not add up exactly to the 'total compliance time'. This is because not all taxpayers spent time on each task. In particular, contact with the Inland Revenue and dealing with an advisor only applied to a small number of taxpayers.

It should be noted that the total compliance times reported in this chapter are based on taxpayers whose answers allowed us to make a valid total calculation of time. Taxpayers who said they didn't know how long they had spent on any one of the aspects of the process were excluded from these calculations. Seven per cent of taxpayers were excluded for this reason.

Throughout this chapter, and unless otherwise stated, we refer to **median** times as the main measure of compliance time. A median value is the middle or central answer given by respondents. If the times given by each taxpayer were listed in numerical order the median value would be the time in the middle. In this context it indicates the time in which at least a half of taxpayers managed to complete a task.

Medians have been used because of the variation in the answers given by respondents, with a few taxpayers having spent many hours on a particular task compared with the majority who might have spent less than half an hour. In such cases, the very large amounts of time tended to skew a standard 'mean' average and the median was therefore chosen as a better measure for comparison. In any case, the mean and median times both revealed large differences in compliance time between the short return and main return taxpayers.

The main differences between the short return and main return taxpayers were in the time spent gathering documents and the time spent actually filling in the tax return, as well as some savings in time spent contacting the Inland Revenue. The difference in the time thought to have been spent gathering documents is puzzling, since with short return and main return taxpayer with similar tax affairs, we would not have expected there to be any difference in the time taken to collect documents together. Surprisingly, however, taxpayers completing the main return estimated they had taken twice as long on average to do this as those who completed the short return (a median of 60 minutes compared with 30 minutes). Perhaps the short return made it easier to see at a glance exactly what documents would be needed to complete the return.

Taxpayers who used the short return took on average 30 minutes to fill in their return compared with 60 minutes for those who used the main return. This represents a very large perceived difference in the time spent on the tax return.

Evidence from the qualitative research also indicated that completing the short return was considered to be much quicker than completing the main return, which could be a rather drawn out process.

'The previous form took days, trying to get information together could go over four or five weeks, if not longer.'

(Employed, simple affairs, male)

Interestingly, those who switched from being represented to completing the short return themselves also thought that the preparation time had decreased (for example, one hour as opposed to three or four days). This was, in some cases, because a person's financial circumstances had become less complicated, but more importantly because the short return was felt to require less information. The fact that the short return was considered to refer them more clearly to the information that was needed also speeded up the process. There were no examples in the qualitative research of anyone spending any longer gathering information for the short return than for the main return.

The taxpayers in the qualitative research indicated that completion times could be even faster in future years, once they had got used to navigating around the short return.

I would expect to complete it quicker next time – well you know it took a bit of time just to read through it and check what was required but next year I'll be more familiar with it.'

(Male, retired)

The short return also seems to have had an impact on the total compliance time (incorporating all the elements of completion). For short return taxpayers, the average time to comply was 120 minutes (two hours) compared with 162 minutes in the control group (two hours and 42 minutes).

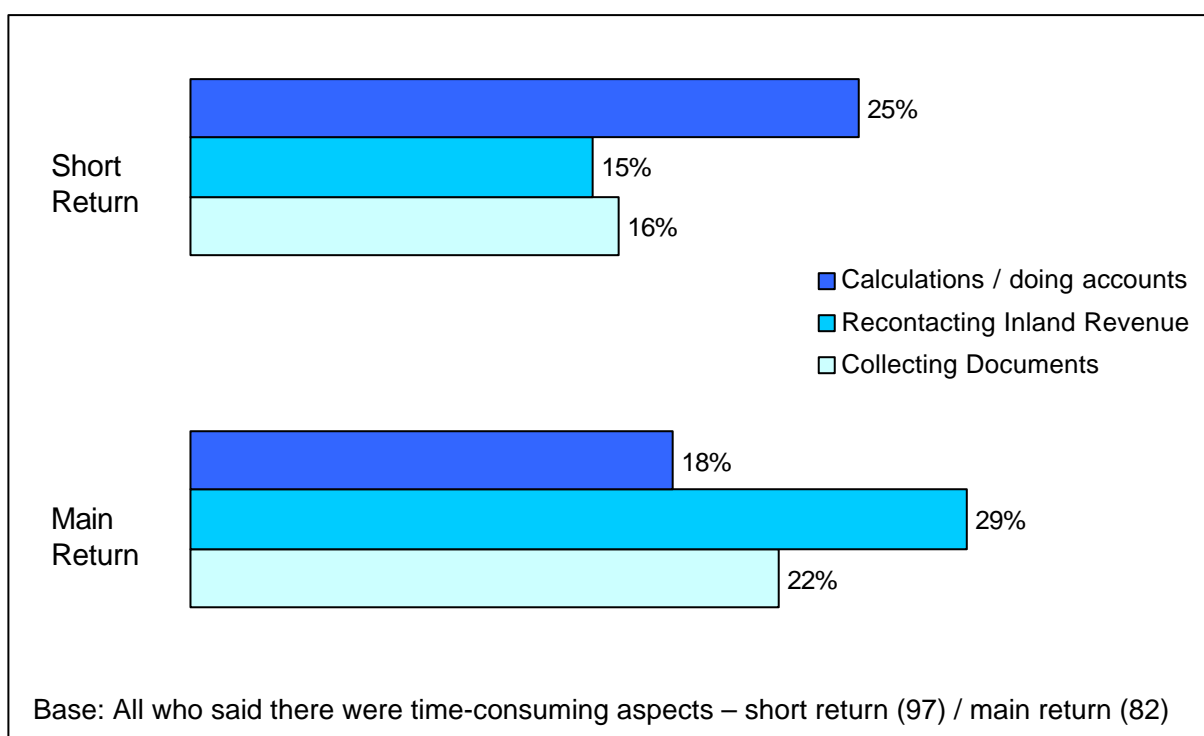
The difference in compliance time between short and main return taxpayers was largely due to differences in time spent completing the form itself and gathering documents.

2.6.1 Other time-consuming aspects of the tax return process

As mentioned at the start of this chapter, taxpayers were asked whether there were any other time-consuming aspects of the tax return process that had not been covered by the question we asked. Just 9% of short return taxpayers said there were other aspects that were time-consuming, compared with 12% of the control group.

Figure 2.6a shows the additional aspects that taxpayers thought were time-consuming. The additional aspects of total compliance time were similar for both the short and main returns. Similar proportions of both groups said they had spent time: 'making calculations' or 'doing their accounts' (25% short return: 18% main return); and 'collecting their documents together' (16% short return: 22% main return). Taxpayers had already been asked to estimate the time taken to gather documents together but the time spent collecting documents shown in figure 2.6a also included time spent waiting for documents to arrive and time spent photocopying documents.

Figure 2.6a Other time-consuming aspects of tax return process



For both groups there were a significant number of responses to this question that did not fit into any obvious themes. These included time spent: buying stamps to send off the tax return, trying to file online, photocopying documents, etc. On a positive note there were no additional aspects that were specific to the short return, which suggests the new form doesn't create any 'hidden' compliance burdens. If anything, the short return seems to reduce any hidden burdens.

The time spent on 'other' tasks was not included in the breakdown of total compliance time (section 2.6 above) because less than 100 taxpayers had spent time on these tasks in both the short return and control groups.

2.6.2 Compliance time for different groups of taxpayers

Although the introduction of the short return has clearly cut the compliance time for SA taxpayers generally, it is important to evaluate variation in how different groups of taxpayers have benefited. Table 2.6b gives a breakdown of the two main measures of compliance time (total compliance time and time spent completing the return) broken down by types of self-assessor.

The values given are median averages. For the purposes of this section, pensioners and the 'other' category are merged to allow better comparisons between short return users and main return taxpayers. We also looked at pensioners as a separate group within the

population but their compliance times were very similar to the 'other' taxpayer category anyway.

Table 2.6b Comparison of compliance times by segment

Base: All who personally completed the short tax return	Employees (351)	Self-employed (201)	All others (472)
	Minutes	Minutes	Minutes
Filling in the return	30	45	30
Total compliance time	96	130	120

Base: All who personally completed the main tax return	Employees (304)	Self-employed (122)	All others (311)
	Minutes	Minutes	Minutes
Filling in the return	60	60	60
Total compliance time	130	150	180

All of the different groups within SA showed significant time savings from the short return. Employed taxpayers benefited the most from the introduction of the short return in terms of compliance time. Employed short return taxpayers took on average 30 minutes to complete the return compared to 60 minutes for employed users of the main return (representing a reduction of 50% in the average time to complete a return). Similarly, taxpayers in the 'other group' experienced a 50% reduction in the time taken to complete a return. Self-employed taxpayers seem to have benefited slightly less from the introduction of the short return. Self-employed short return taxpayers took on average 45 minutes to complete the return compared with 60 minutes for self-employed users of the main return.

The same difference is also apparent in the measure of total compliance time. The difference is greatest for other types of taxpayers (60 minutes on average) and employed taxpayers (34 minutes). Again there is still a substantial reduction in compliance time for self-employed taxpayers. Self-employed taxpayers who used the short return took on average 20 minutes less than self-employed users of the main return (i.e. 130 minutes compared with 150 minutes).

It is also possible to look at how the short return affected taxpayers who completed the tax return themselves against those who were represented by an agent in 2003/4. As might be expected the short return seems to have had a slightly greater effect on taxpayers who self-complete. Table 2.6c shows these differences (all times shown are median values):

Table 2.6c Comparison of total compliance time according to representation

Base: All with a valid total compliance time	Short return (1118)	Main return (802)
	Minutes	Minutes
Self-completed	120	181
Represented	90	114

The short return seems to have reduced the total compliance time by 61 minutes for taxpayers who self-complete, compared with 24 minutes for represented taxpayers. This is perhaps to be expected, as represented taxpayers do not personally have to complete a tax return and therefore their benefit from a shorter return is limited. However, it does highlight just how beneficial the short return could be to taxpayers who have to complete the form themselves.

2.7 Agents and the short tax return

2.7.1 Using a paid advisor

Instead of completing their tax return themselves, some taxpayers choose to send their tax return to an accountant or other advisor to complete on their behalf. It was thought that one possible consequence of the introduction of the simpler short return was that it might encourage some of these taxpayers to stop using someone else and start completing the return themselves.

There is evidence suggesting that some taxpayers who had previously used someone else to complete their tax return were now self-completing. In total, 8% of taxpayers who had completed the short return themselves in 2003/4 said that someone else had completed it for them in 2002/3. It is impossible to assess whether there was an overall move away from being represented, because we do not have information as to whether some represented short return taxpayers had switched from self completing to using an agent for the first time in 2002/03.

Those who had chosen to make this switch to completing the tax return themselves in 2003/4 were asked why this was. Based on this small sub-group (50 taxpayers), it is impossible to draw robust conclusions. However, there is evidence that the shorter / simpler return was a factor for some taxpayers who decided to complete their tax return personally.

The reasons for switching to self complete the short return can be split into two broad categories, each relevant to about half of switchers: switching because of the short return; and switching because of other unrelated factors.

A number of qualitative interviews were conducted with taxpayers who had switched from being represented to self-completion, to explore their reasons for doing so. By way of context, some of these taxpayers had used an accountant to complete their Self Assessment tax return in the past for a number of years. There were a number of motives for using an accountant in the past which were as follows:

- Taxpayers considered the main form too complicated or intimidating for them to complete personally. This was largely due to perceptions about its length and complex language and was often based on experience of trying to complete it in the past.

'The forms were too complicated for me to do on my own.'

(Male, employed, simple affairs)

- Time-saving (especially for people running businesses).
- Peace of mind. Taxpayers placed trust in the professionalism and superior knowledge of their accountant and were concerned that by completing the form themselves they might miss an opportunity to claim back the tax on their allowable expenses.

'I knew it was being done professionally and it was ensuring that whatever I was entitled to he was claiming for on my behalf.'

(Male, pensioner, pension and savings)

Taxpayers in the qualitative study had a range of reasons for choosing to complete the short return themselves this year. In part their decision was driven by the changes to the form as it was felt to be shorter and simpler and therefore was presumed to be easier to complete.

'A lot less daunting than the old full length ones.'

(Male, pensioner, simple affairs and savings, switched from being represented to self completion)

'Keep them coming. Please don't give me one of those horrible big forms .Can I have this again next time?'

(Female, employed, simple affairs, switched from being represented to self completion)

Decisions to complete the short return themselves were also driven by circumstance:

- A desire to save money because of a change in circumstances such as becoming self-employed or a bad year's business, and
- A perception that their affairs had become simpler in the last year through a change in circumstances, such as becoming a pensioner or stopping work.

Some accountants had advised their client that they would be able to complete the short return easily themselves. This had reassured the taxpayer and underpinned the decision in some cases to switch to self-completion. Their experience of completing the short return was very positive with the short return considered to be straightforward to complete by all of the 'switchers'.

'All went very smoothly and I did it very quickly.'

(Male, pensioner, simple affairs)

The process was felt to be eased by the:

- Clarity of supporting information, such as the letter and guide;
- Straightforward examples provided in the guide;
- Ease of language - 'direct' questions;
- Clear layout;
- 'Streamlined' nature of the new form compared with the main tax return; and
- Space for calculation in the guide.

Taxpayers who switched to completing themselves commented that each section generally took just a few minutes to complete. Some sections took slightly longer where there was more information to fill in (such as the Employment and Self-employment sections). Pensioners considered it straightforward to transfer the necessary information from their P60 into the relevant sections.

Overall, switchers expressed confidence that they had completed the return correctly.

'I felt confident that I'd done it appropriately and accurately.'

(Female, employed, PAYE and savings)

Where there was any uncertainty, this stemmed from the insecurity of completing a new and unfamiliar return rather than difficulties with the return itself. Their experience suggested that they would continue to self-complete in the future.

2.7.2 The effect of the short return on agents

As well as assessing the impact of the short return on SA taxpayers it was also important to consider the views of agents. Consequently, a small qualitative study of agents was conducted to gauge their views about the likely impact of the short return. Some interviews were carried out in June 2003, but most took place in October 2003. Agents had received very few short returns from their clients and could, therefore, only comment on what they thought the likely impact might be.

Overall, agents were generally complimentary about the short return. They saw it as being ideal for taxpayers with simple affairs because the return was shorter and more relevant. Comments from agents included:

'I think the form is a good idea because it tends to concentrate on the areas that are going to affect a lot of these people like housewives and pensioners, rather than going through a ten page form and subsequent sheets.'

(General Accountant, mainly Self Assessment, 50 clients)

'It's a step in the right direction because it doesn't ask for volumes of stuff that don't apply.'

(General Accountant, Self Assessment and payroll, 200+ clients)

'There is a lot of stuff in the other return that is time consuming and of no relevance.'

(General Accountant, all taxation processes, 300+ clients)

From the agents' perspective, although the short return had reduced the amount of paper sent to the taxpayer, it was their view that they still had to follow the same process. Consequently, the amount of time taken to gather the information and calculate the tax liability was the same as with the main SA return:

'The actual process of writing out the return doesn't really take that long and represents a relatively small part of the time spent on the job.'

(General Accountant, primarily Self Assessment, 100+ clients)

'What everyone needs to realise is that it is a simplification of the paperwork, not a simplification of the whole tax procedure.'

(General Accountant, mainly Self Assessment, 50 clients)

'We still have to go through the same procedures so the only thing is that the form is slightly shorter but not significantly.'

(General Accountant, approximately 300 clients)

If agents were to remain representing their clients, the short return held little advantage for them. This was partly because the preparation time remained the same and partly because they would use the same software to provide a return to the Inland Revenue, software that produced only a main tax return. There was also a feeling that the main return had some advantages, as it reduced the scope for error and meant that it was easier to defend because of the greater detail that it demanded:

'Prefer the longer one - we would rather take time to break it down as you never know when somebody is going to pick it up and ask a question.'

(General Accountant, all taxation processes, 300+ clients)

Agents generally felt that it was too early to make a judgement about the short tax return's impact on their business. Some thought that the brevity and simplicity of the short return might encourage people to tackle the return themselves:

'It's less of an intimidating return than the long one so that could be encouraging'

(General Accountant, all taxation processes, 300+ clients)

'For people who use an accountant it won't make any difference at all but somebody who has to complete their own return - a single folded sheet is a lot less daunting than something that is at least 10 pages long'

(General Accountant, mainly Self Assessment, 100+ clients)

However, agents generally thought the short return would have a very small impact on their business overall. This was partly because agents perceived the number of clients who were likely to be eligible was low (a maximum of 20% of clients for some practices and nil for others), and partly the view that taxpayers who use the services of an agent do so for specific reasons concerned with tax complexity, or because they want a professional to complete their tax return. The impact was thought only to be at the margins, and as one tax agent said: 'Even if we do lose a few simple tax affair clients it won't be the end of the world as there is plenty of business out there.'

While agents were generally complimentary about the short return there was some feeling that the brevity of the form meant that an individual's tax position might not be completely captured.

'To somebody who is not an accountant I wonder if the form is so simple that it would actually lead to incorrect information being entered e.g. the capital allowances - there is just one box without any break downs between the capital allowances and balancing charges.'

(General Accountant, mainly Self Assessment, 100+ clients)

'It's just things like capital allowances are a totally separate area and they may even decide not to claim it just because it's hard to do.'

(General Accountant, Self Assessment and payroll, 200+ clients)

The agents that we interviewed said they would like to see the following changes to address this problem:

- An ability to be able to specify tax credits
- An ability to show P11D's.
- A separate figures box for 'total benefits and taxable expenditure received'
- The ability to show foreign income.
- Capital gains needs to reflect the amounts that are both taxable and non taxable
- There is no facility to show any calculations - agents require this.
- A facility for the taxpayer to self-calculate the tax payable.

'I think there should be somewhere for the tax payer to have the option to calculate his own tax and put the figures on the form.'

(General Accountant, all taxation processes, 250 clients)

Agents also commented on the following aspects of the short return and the accompanying guide:

- There needed to be an area on the short tax return to show whether a taxpayer was represented by an agent, or to show the agent's details for future contact,
- The helpline number should appear on the front cover of the guide instead of part way through, and

The instructions regarding errors were not thought to be helpful. Specifically: taxpayers were told not to use 'tipex', but if an error is made there is insufficient space in the boxes to re-write the information; and secondly, agents do not have their own supply of short returns so they cannot re-do a form.

However, if the short return form were extended to include items specified by these agents, taxpayers would lose the benefit of having a straightforward 4-page form.

2.8 Key findings on 2003/4 Short Return Pilot

Overall this research demonstrated extremely positive views of the short return among taxpayers who used it in 2003/4.

- The short return was perceived as being shorter and simpler, and taxpayers were more satisfied overall with the short return than with the main return.
- Around half of taxpayers who used the short return had to aggregate some sources of income but this was not generally seen as a problem.
- Around one in ten taxpayers who used the short return said they would have liked a calculation guide to help them calculate their own liability. Taxpayers with multiple sources of income were particularly keen on this idea.
- The short return took significantly less time to complete than the main return. Time spent actually filling in the short return was around half that for the main return.
- The overall compliance time (including preparation) was on average around 40 minutes less for users of the short return.
- Agents were generally positive about the short return, although there was some feeling that the short return did not cover all the types of income that it perhaps should.

3 Telefiling the Short Tax Return

With the introduction of the short return, Self Assessment taxpayers were given the option to submit the new return by telephone. Taxpayers were alerted to this new system by the letter that was sent with the short return. The system, which we refer to as 'telefiling' throughout, allowed taxpayers to complete the new short return by ringing a local rate number and using a combination of voice recognition and keypad technology to enter their tax details. Telefiling was not available to people using the main return.

This Chapter provides information on:

- awareness and uptake of the telefiling system;
- profile of telefilers;
- reasons for telefiling;
- stage reached in the telefiling process;
- reactions to the automated system;
- ease of use of telefiling;
- time taken to telefile;
- satisfaction with telefiling;
- and, future intentions to telefile.

A separate telephone survey was conducted with taxpayers who used the telefiling system between April and December 2003. These taxpayers ('telefilers') fell into two broad categories:

- *Completers* – Those who successfully completed their return over the phone
- *Stranded filers* – Taxpayers who started the telefiling process but were unable or unwilling to finish and subsequently completed their return on paper.

Between August and December 2003, we interviewed 503 taxpayers who, according to Inland Revenue records, had used the telefiling system. This represents an attempted census of all taxpayers who used the telefiling system in 2003. Inland Revenue records indicate that 822 taxpayers attempted to telefile in 2003. Of these, 65% successfully completed the process and 35% failed and were counted as stranded. In the current survey, 69% of taxpayers we interviewed completed the process meaning that 'completers' were slightly over-represented in the results. However, this difference is relatively small.

Within this chapter we also briefly draw on results from the Initial Reactions survey to demonstrate overall awareness and attitudes towards telefiling among short return taxpayers as a whole.

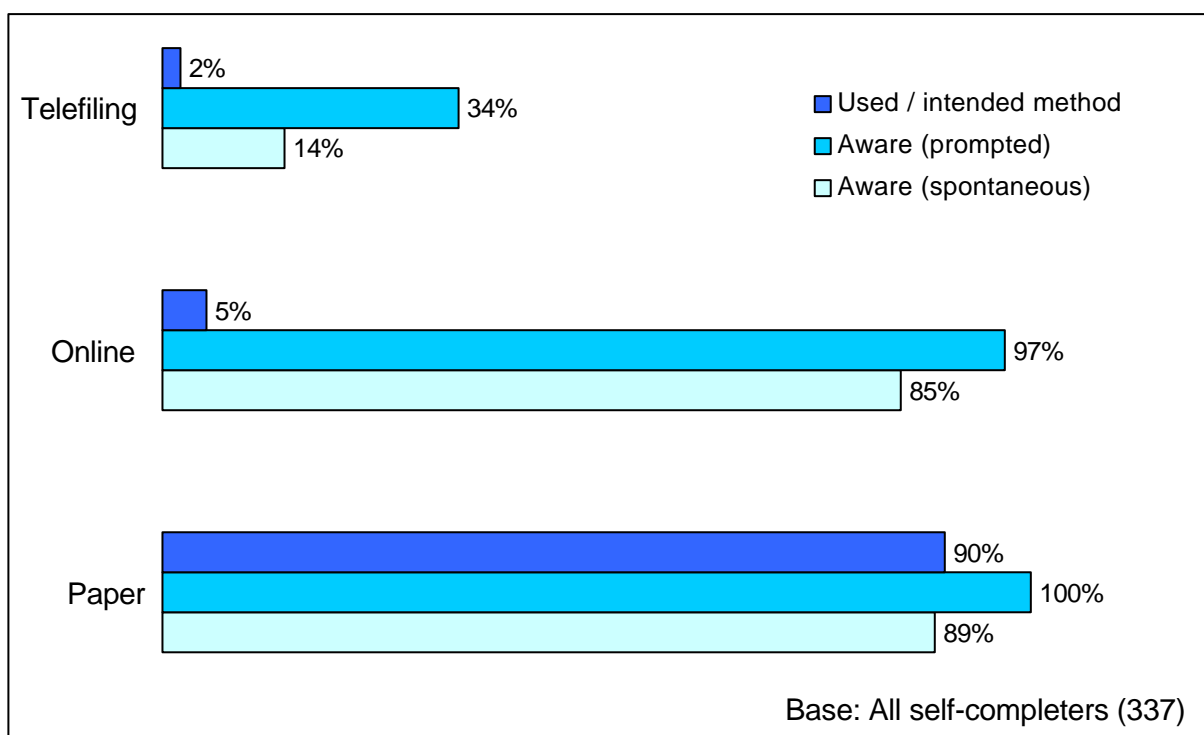
3.1 Awareness and uptake of Telefiling

As with online filing, there are obvious advantages to the Inland Revenue if taxpayers choose to use the automated telefiling system. However, awareness of telefiling and uptake of the system in 2003/4 were not widespread. Telefiling was not widely publicised in 2003/4 and the taxpayers we interviewed could only have known about the new method if they had read the literature that came in the short return package. As part of the Initial Reactions survey (Chapter 2) taxpayers were asked whether they were aware of each filing method and their preferred method.

As Figure 3.1 shows, awareness and use of telefiling were much lower than both paper and online filing. The vast majority of all self-completers had either filed or intended to file on paper (90%) with just over 5% choosing the online method. While 34% were aware of telefiling when prompted, spontaneous awareness of the service was 14%. Levels of awareness, while relatively low, were reasonable considering this was the first year telefiling was available and the limited availability of information on the service. In total, 2% of short return taxpayers interviewed said they had used or intended to use the telefiling system, suggesting a low uptake of the service over the year. Whilst the take-up is low in absolute terms, this is a reasonable proportion of all those spontaneously aware of telefiling.

This survey based estimate was confirmed by Inland Revenue records which indicate that around 2% of all short returns that were completed in 2003/4 were telefiled (822 in total). Efforts have subsequently been made in 2004/5 to raise taxpayers' awareness of telefiling. A separate flyer was sent to taxpayers eligible to telefile alerting them to the fact that they can telefile.

Figure 3.1 Awareness and use of filing methods for the short return



In the Initial Reactions survey, most taxpayers who intended to use the paper short return said this was because it was the 'easiest / quickest/most convenient method' to use (34%), or because they were 'used to the paper copy / it was the method previously used' (21%).

Two thirds (67%) of taxpayers interviewed in the Initial Reactions survey said they would not consider telefiling. There was evidence that concerns over the security and confidentiality of the telefiling system had influenced some taxpayers' decisions not to use this method. Around one in ten (9%) of those who would not consider telefiling said this was because they were 'worried about security or privacy'. Similarly, 10% of those who intended to use the paper short return said this was because it was the 'most secure method'.

However, the main reasons why taxpayers would not consider telefiling were more practical: 28% said it was because they would have 'no record of what was on the return' if they telefiled, 17% said they did not want to feel 'rushed' or 'under pressure' and 13% said they thought telefiling would simply 'take too long'. These are the main negative perceptions which will need to be addressed in order to promote the use of telefiling in the future.

These results suggest that many taxpayers chose not to adopt the new telefiling system because they were happy with the pen and paper method they were used to. This is

backed up by comments from qualitative research. Although none of the taxpayers in the qualitative studies had used telefiling, they nevertheless had some concerns about the concept of the system including:

- a dislike of giving personal and financial information over the telephone;
- the additional cost of telefiling (even though it is local rate there is no indication of the likely cost);
- a dislike of menu-driven telephone systems;
- the need to ‘think before answering’ – an opportunity the telephone does not allow;
- concerns over having to stop the filing process mid-session and whether it would be possible to re-start the process from where they left off.

The problem most frequently mentioned by taxpayers in the qualitative research was that they would have to fill out a paper tax return prior to telefiling so they had all the information immediately to hand. What therefore, was the point in telephoning the information through when all they had to do was put the completed form into an envelope provided by the Inland Revenue and post it?

3.2 Profile of telefilers

Although the sample for the telefiling survey was based on Inland Revenue records, not all the people we interviewed agreed that they had tried to telefile, and some even said they were unaware that telefiling existed as an option. Table 3.2a gives a breakdown of interviews.

Table 3.2a Breakdown of telefiler interviews

Base: All respondents (503)	No	%
Not received a tax return	1	*
Not completed tax return / pass it to someone else to complete	2	*
Not aware of / did not use telefiling	49	10
Completers	312	62
Stranded Telefilers	139	28

Throughout this chapter, unless otherwise stated, most percentages quoted are against a base of 451. This represents the total who confirmed they had either tried to telefile (139 – ‘Stranded’) or had completed the telefiling process (312 – ‘Completers’). The 312 completers we interviewed represent just under two fifths of all the successful telefilers for the 2002-3 tax year (822 in total). The 139 stranded telefilers we interviews represent 31% of the stranded telefilers for the 2002-3 tax year (442 in total).

The profile of all the telefilers interviewed (including both ‘completers’ and ‘stranded’) was surprisingly consistent with the total population of taxpayers who had completed a short tax return in 2003/4 in terms of their demographics (such as age/sex etc). There were however some major differences in terms of SA segment. Telefilers were much more likely to be employees (45% of telefilers were employees whereas only 15% of the short return population were employees), and less likely to be self-employed (16% compared with 25% of the short return population overall), or from ‘other’ groups (13% compared with 36%). Pensioners telefiled in line with their numbers in the short return population (26% telefiled compared with 24% in the short return population). As employees are likely to have simpler tax affairs than those in the other groups, this may be one reason why they were more likely to attempt to telefile.

There were also major differences between the profiles of completers and stranded telefilers. The profiles of these two groups according to sex, age and segment within SA are shown in Table 3.2b below and compared with the profile of taxpayers who filed a paper short return.

Table 3.2b Profile of Telefilers (Completers and Stranded)

	SHORT RETURN (1309)	Completers (312)	Stranded (139)
	%	%	%
Male	60	66	65
Female	40	34	35
Under 60	59	66	41
Over 60	41	34	59
Employed	15	49	35
Self-employed	25	14	22
Pensioners	24	22	34
Other	36	15	10

The first point of interest is that, although the majority of taxpayers (69%) who started to telefile completed the process, around a third (31%) did not. This was a large drop out rate, and it is therefore important to find out why so many people did not telefile successfully.

The differences in age and SA segment between completers and stranded cases give some indication of the types of taxpayer who were least likely to complete the process. Two thirds (66%) of completers were under 60, compared with just two out of five (41%) of stranded cases. This suggests that older taxpayers were more likely to experience difficulties with telefiling or simply decide to stop half way through the process. Although men appeared to have been more drawn initially to telefiling than women, there were no differences in the proportion of men and women who telefiled successfully. The table also shows that stranded telefilers were more likely to come from the pensioner and self-employed groups. In the case of pensioners, this difference may reflect the age difference discussed above, while self-employed taxpayers were perhaps more likely to experience difficulties as a result of the relative complexity of their tax affairs compared with other segments.

3.3 Reasons for deciding to telefile

We were obviously interested to find out what had motivated people to try telefiling for the first time. This section briefly explores these motivating factors and reveals some inconsistencies in taxpayers' expectations of the telefiling system. The main reasons taxpayers decided to try telefiling were because they expected it to be more convenient (41%), or thought it would be quicker (37%) than using the paper return. Others were just attracted by the novelty of the new system. For instance, 15% tried it because they 'thought they would give it a go' and 10% said it was because it was a 'new system they hadn't tried before'.

However, although 'convenience' was cited as a major factor, very few telefilers realised the system was available 24 hours a day. Just 19% knew that telefiling was a 24-hour service, and nearly two thirds (65%) of all telefilers admitted that they didn't know what times of day it was possible to telefile. There may of course have been other benefits to certain groups of taxpayers. For example, taxpayers with mobility problems might have thought it was convenient because they did not have to leave the house to post their return.

Also, of those who successfully telefiled, 80% said they had completed a paper tax return before calling to file their return by telephone. This suggests that the majority of taxpayers who telefiled did the equivalent work required to file both on paper and by telephone - a process which may not have been quicker than filing on paper.

3.4 Stage reached in Telefiling

It is important to understand what prevented taxpayers from completing telefiling once they had tried the new system. One of the ways to do this is to look at where in the process telefilers had dropped out, and all stranded telefilers were therefore asked which stage they had reached in the process. Table 3.4 below summarises the results for this question.

Table 3.4 Stage Reached in Telefiling

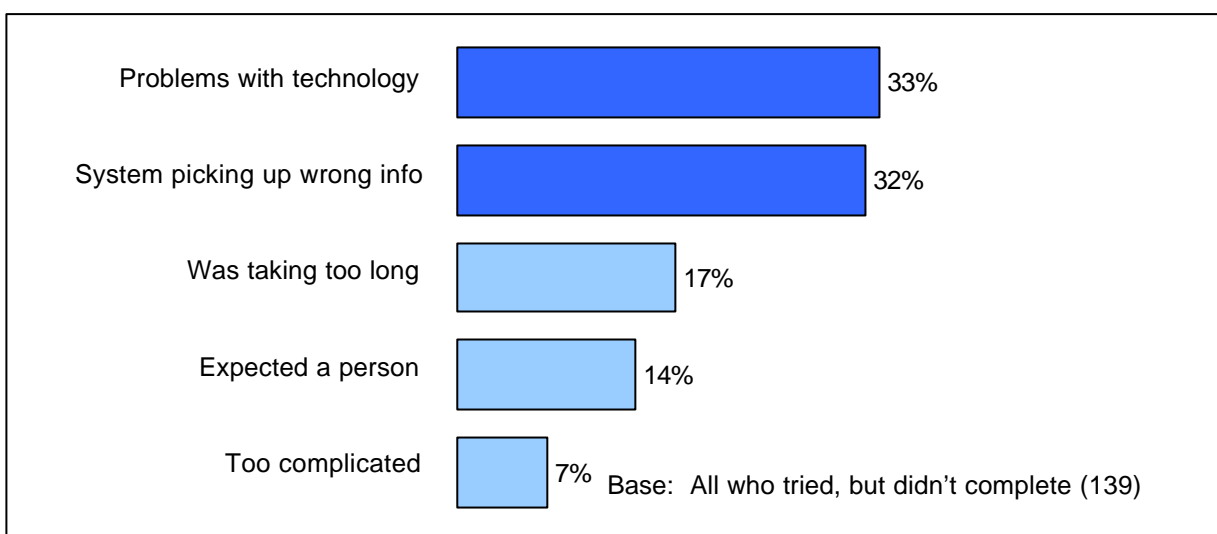
¹ Base: All telefilers	¹ All Telefilers (451)	² Stranded (139)
² Base: All stranded telefilers		
	%	%
Completer or Stranded		
Completers (Completed telefiling)	69	*
Stranded (Failed to complete)	31	100
Where stopped telefiling		
Just gave personal details at start	8	27
Started to give financial information	18	57
Finished telefiling but didn't / couldn't submit	2	6
Don't know where stopped	3	9

A small proportion of stranded telefilers (6%) had actually finished telefiling but then were either unable to submit their return or for some reason decided not to. The majority (57%) had got as far as giving financial information (the main section of the filing process). These taxpayers at least gave the system a try and experienced how telefiling works. However, over a quarter of stranded telefilers only got as far as giving their personal details before stopping (27%).

3.4.1 Reasons for stopping telefiling

We asked stranded telefilers why they had not completed telefiling. The main reasons given are summarised in Figure 3.4.

Figure 3.4 Reason for non-completion of telefiling



Reasons for not completing can be divided into two distinct categories: 1) Technological problems (the top two bars in Figure 4.6) and 2) Personal objections to the system (the bottom three bars). These two types could also be described as 1) When the telefiling did not function as expected by the user and; 2) When telefiling functioned as planned but the taxpayer did not like it.

In total nearly two thirds (62%) of stranded telefilers mentioned technological problems as a reason for not completing the process. This commonly involved the telefiling system not picking up the correct information (32%). A typical response from one respondent was:

'It made a mistake and it took me back to the beginning again and I didn't want to do it all again'
(Male, aged over 65 with income from pension)

Technical problems were not just limited to unsuccessful 'stranded' telefilers. Some successful telefilers also cited difficulties with the system.

3.5 Reactions to the automated system

One of the issues in understanding why people may not have completed telefiling is the expectation of how the system would operate. Awareness that telefiling operated using an automated voice recognition and keypad system was quite low. When asked what they had expected before calling the telefiling number, two thirds of telefilers (63%) said they had expected to speak to a person. Only a quarter (28%) had expected the automated system.

Telefilers who did expect an automated system before they called were asked why this was. Over half (54%) said they had just 'assumed' it would be, and 33% said it was

because they had used or experienced similar systems before. A minority (17%) thought they had seen or read information in the tax return package suggesting it was automated, although there was nothing explicit in the package about this.

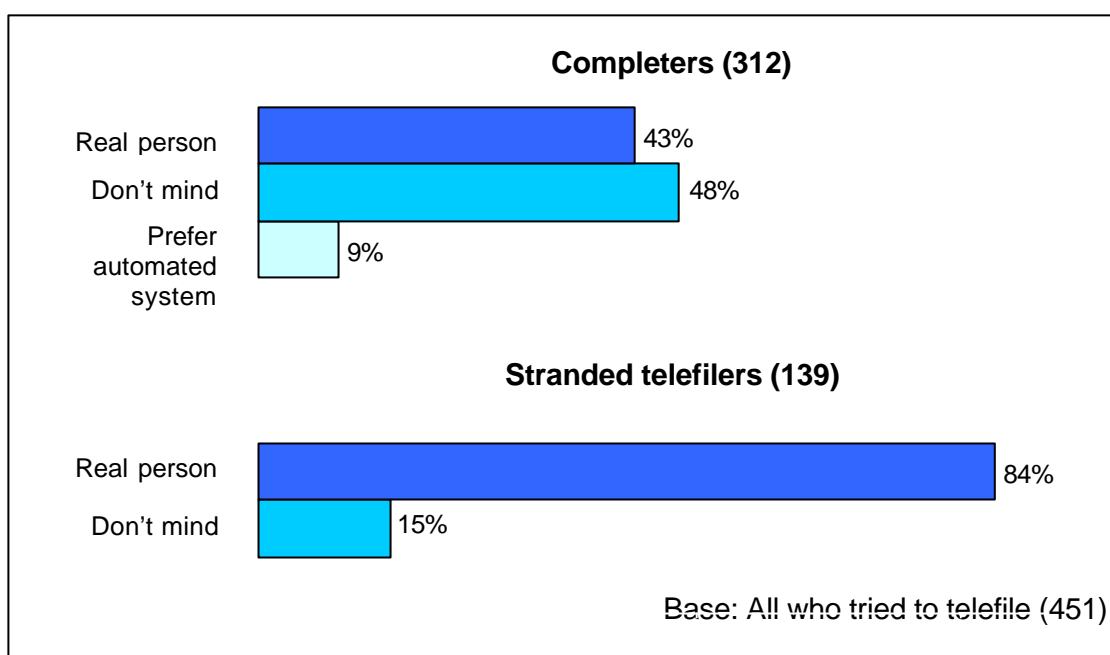
A substantial proportion (42%) of taxpayers who had expected to speak to a person said they would not have tried to telefile if they had realised the system was automated. This rose to 63% among stranded telefilers.

3.5.1 Preference to speak to a person

Among telefilers as a whole, opinion was fairly evenly split between those who expressed a preference for having a real person at the end of the telephone (56%), and those who either didn't mind (38%), or, in some cases actually preferred an automated system (6%).

As Figure 3.5 below shows, there was, however, a marked difference in preference between completers and stranded telefilers. Less than half (43%) of those who completed telefiling said they would have preferred to speak to a person, compared with a large majority (84%) of stranded telefilers.

Figure 3.5 Preference for a real person or an automated system



Similarly, those telefilers who expressed a preference to speak to a real person were least satisfied with telefiling overall. Of those who would have preferred to speak to a person only 51% said they were satisfied, compared with 88% of those who preferred the automated system or expressed no preference. Willingness to use an automated system therefore clearly played a large part in taxpayers' feelings towards the process of telefiling.

Preference for the type of system also affected intended future use of the telefiling process. Less than half (48%) of all telefilers who said they would have preferred to speak to a real person said they would use telefiling again in the future, compared with 87% of those who said they preferred the automated system or expressed no preference.

When asked whether there were any other changes they would like to see to the telefiling system, the most common spontaneous answer was 'add the option to speak to someone'. More than one in three stranded telefilers (35%) spontaneously mentioned this as a change they would like to see, as against only one in ten (10%) of those who had completed telefiling, indicating once again that the technology employed in telefiling was an important factor in determining attitudes towards it, particularly among those who were unable to complete the process. Telefilers who wanted this option were more likely than average to say they would not use telefiling in future and much more likely to be dissatisfied with the process.

These findings are supported by the answers when telefilers were asked how they thought the system could be improved. The most common answer (19% of all telefilers) was that they would have liked to have been able to speak to someone.

3.5.2 Awareness of Helpdesk for Telefilers

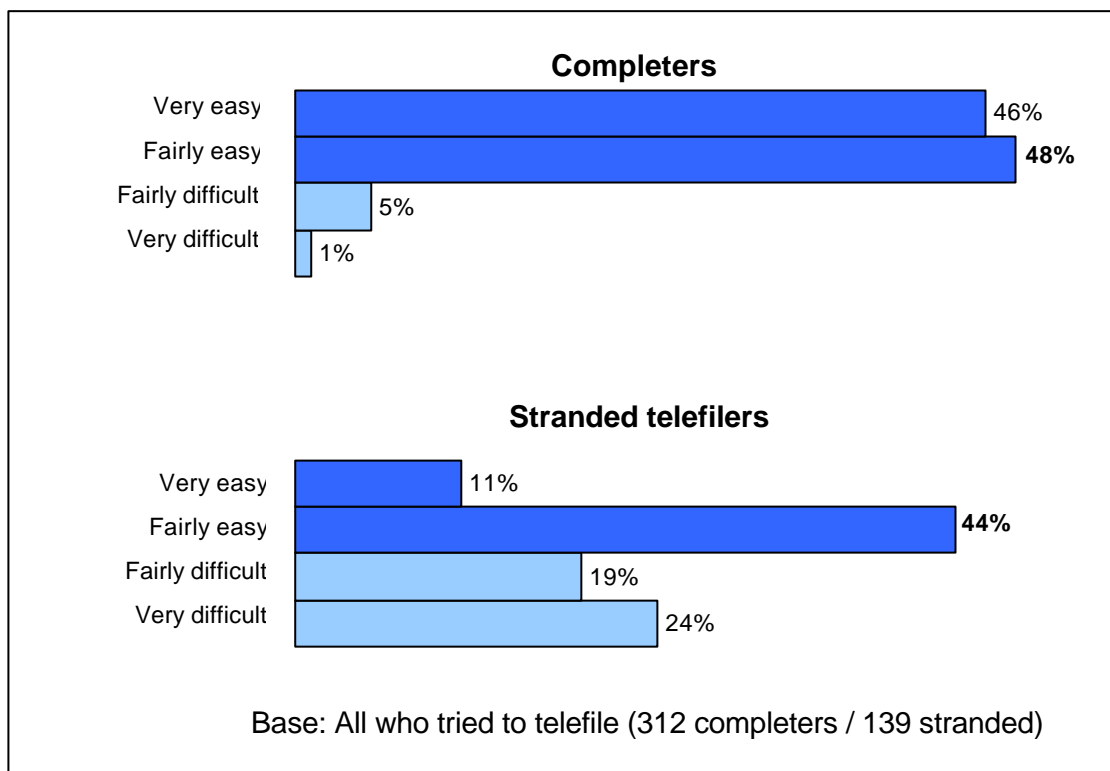
Because telefiling was an automated system, taxpayers were given the option at any point during the call to be transferred to a helpdesk operator for advice. However, awareness of this option was not universal. When asked if they were aware that the system could transfer them to a live person at an Inland Revenue helpdesk, 68% of telefilers said they knew about this option, but around a third (32%) were unaware of it.

Telefilers who were aware of the helpdesk option were seemingly reassured by this knowledge. Of those who were aware of the helpdesk option, only 51% said they would rather speak to a person than use the automated system, whereas two thirds (67%) of those who were unaware of this option said they would have preferred to speak to a person. Taxpayers who had completed telefiling were more likely to be aware of the helpdesk option (73%) than those who were stranded (57%). This raises the possibility that some stranded telefilers might have been able to complete telefiling had they known that assistance was available. It is possible that if awareness of this option were raised, the rate of successful telefiling could be increased. Actions have already been taken in respect of this finding; in the current tax year Inland Revenue Contact Centre staff are contacting stranded telefilers to offer assistance.

3.6 Ease of use of the telefiling system

Telefilers were asked to say how easy telefiling was to use overall. Results are given below in Figure 3.6a for successful telefilers (completers) and for stranded telefilers.

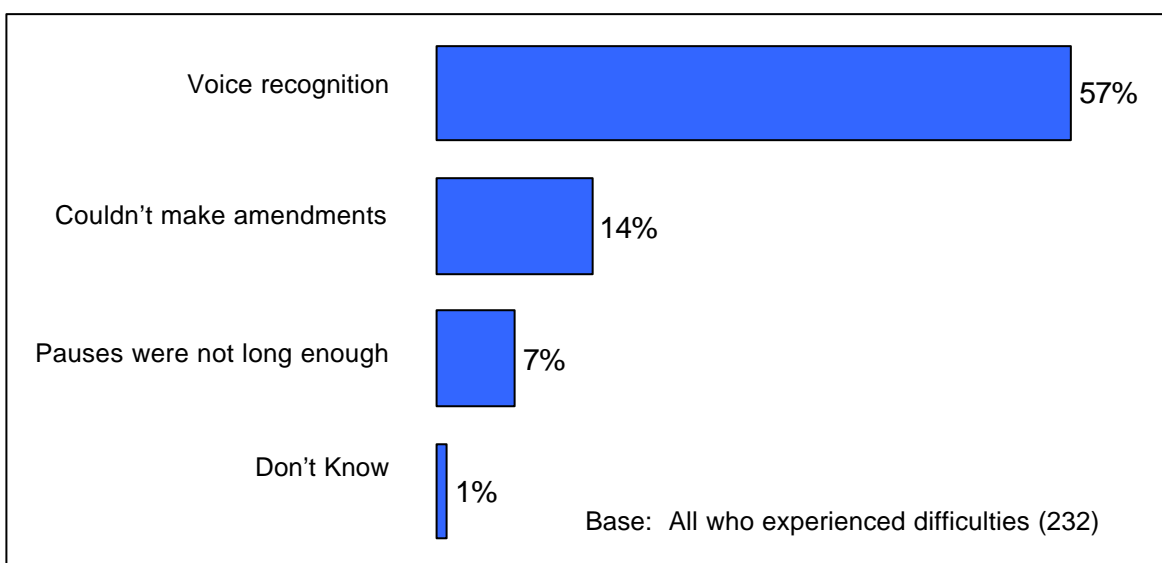
Figure 3.6a How easy telefiling was to use overall



Encouragingly, the majority of taxpayers who tried the system said they had found it easy to use (82%). As would be expected, those who successfully completed telefiling were the most likely to say it was easy (94%), with 46% thinking it was 'very easy' and only 6% thinking it was difficult. It is perhaps more surprising that 55% of 'stranded' telefilers also said the system was easy to use, although only 11% thought it was 'very easy'. A much higher proportion of stranded telefilers (43%) had found it difficult. This suggests that many stranded taxpayers failed to complete the process because they simply found it too difficult to use.

In spite of the generally positive views expressed about the overall ease of use of the system, approximately half of all telefilers (51%) said they had experienced some difficulties ranging from less than four in ten (36%) of those who successfully completed telefiling to nearly nine out of ten (87%) of stranded telefilers. All telefilers who had experienced problems were asked to describe what these were. Figure 3.6b below summarises the main difficulties experienced.

Figure 3.6b Difficulties experienced with telefiling process



The most frequently mentioned problem by a large margin was voice recognition, with 57% of those who had experienced problems mentioning this, against 14% who said they had not been able to review their details and make amendments, and 7% who felt they were not given enough time to speak their answers.

Typical responses from taxpayers who reported difficulties included:

'It didn't recognise the numbers I was using, it didn't recognise the accent very well so anyone who wasn't English would not have been able to do it at all. I got all the way to the end and then the system failed at the point of calculating the tax. It said ring back again but I wasn't going to go through the whole thing again, once bitten twice shy'

(Female, aged over 50 with 'other' sources of income)

'It was really not possible to explain to a computer because the computer kept repeating that a figure had not been recognised, but gave no explanation. If we had been speaking to a person we could have got a correct explanation as to why the figure was not recognised. Later, having posted the tax return and received the reply we discovered that the figure that had not been recognised differed by only a fraction of a pound...'

(Female, aged over 60 with 'other' sources of income)

3.6.1 Prompts and explanations used in telefiling

The telefiling system prompts users to read out or key in their details using a series of spoken prompts. For example:

'Please speak your date of birth'...

In order to make telefiling as easy to use as possible, it was important to make sure these prompts were clear and helpful. To evaluate the prompts, we asked all taxpayers who had at least attempted to telefile a series of questions about the spoken prompts and the explanations that were given with each of these. These questions were asked of all taxpayers who had at least tried to telefile. Although, as already indicated, some people had found the pace too rushed, the majority of all telefilers appeared happy with the pace of the prompts, the length of time left to enter answers, and the usefulness of the accompanying explanations. The results for these questions are shown in table 3.6a below.

Table 3.6a Respondent feedback on automated system prompts

Base: All who tried to telefile	Total (451)	Completers (312)	Stranded (139)
	%	%	%
Pace of prompts			
Too quickly	7	4	12
About right	86	91	74
Too slowly	5	5	4
Don't Know	3	*	9
Whether enough time to speak answers after prompts			
Too much time	4	4	4
About right length of time	82	89	65
Not enough time	11	6	21
Don't Know	4	1	10

Base: All who tried to telefile	Total	Completers	Stranded
	(451)	(312)	(139)
	%	%	%
Whether there was enough explanation with prompts			
Not enough	8	3	20
About right	82	90	64
Too much	5	5	4
Don't Know	4	1	10
Usefulness of the explanations that came with the prompts			
USEFUL	84	96	60
NOT USEFUL	10	3	24
Don't Know	6	1	17

The majority of telefilers felt the system worked well in all of these areas: 86% thought the pace of the prompts was 'about right'; 82% said there was 'about the right amount of time' to give their answers; 82% thought there was 'about the right amount' of explanation with each prompt; and 84% thought the explanations were 'useful'.

Stranded telefilers (who failed to complete telefiling) were less positive than completers about the prompts and explanations in all of these areas. Notably, stranded telefilers were less likely to say the explanations given with the prompts were useful (60% compared with 96% of completers) and less likely to say there was enough explanation given with each prompt (64% compared with 90%). They were also more likely to feel that the pace was too fast and that there was insufficient time to give their answers.

Although stranded telefilers were less happy with the prompts, at least six out of ten still felt that the prompts were at the right pace, that there was enough time to speak their answers, and that the explanations were sufficient and useful.

As stranded telefilers tended to be older than completers, it is perhaps unsurprising that they were less positive about the prompts and explanations. Speech recognition technology is a relatively recent invention, and we might hypothesise that older users

would have greater difficulties using it. This was supported by the survey findings which showed female taxpayers aged 60 or over who were least positive about these aspects of the telefiling system.

3.6.2 Confidence that information was recorded correctly

Taxpayers were also asked how confident they were that the information they had entered using the telephone system was recorded correctly. As table 3.6b shows, eight out of ten people (80%) were confident that the information was recorded correctly. However, this differs between completers and stranded telefilers with 95% of completers saying they were confident (72% very confident), compared with less than half (47%) of stranded telefilers. Again this indicates that most taxpayers who managed to complete telefiling were happy with the way it worked.

Table 3.6b Confidence in the accuracy of the information recorded

Bases: All telefilers	Total (451)	Completers (312)	Stranded (139)
	%	%	%
Very confident	54	72	14
Fairly confident	26	23	33
Not very confident	7	2	19
Not at all confident	9	3	22
Don't Know	4	1	11
<i>CONFIDENT</i>	<i>80</i>	<i>95</i>	<i>47</i>
<i>NOT CONFIDENT</i>	<i>16</i>	<i>4</i>	<i>42</i>

Of those who said that they didn't have confidence in the accuracy of information recorded, nine out of ten (89%) had experienced difficulties with the telefiling process. Not surprisingly, experiencing problems with the system appears to have had a negative effect on telefilers' confidence in the system's ability to record information correctly. Bearing in mind that perceived technical problems such as voice recognition were the most widely cited difficulties, this is to be expected.

Only a minority (17%) of telefilers who completed their return by telephone had used the 'Review my work' option on the system. This option allowed telefilers to go back and

listen to a summary of the information they had already given and make amendments to this where necessary. Nine out of ten (87%) of those who used the option said the information that they reviewed was correct (and so they didn't have to make a correction).

As so few of these telefilers had to correct any information in this way it is not possible to comment on how taxpayers found this aspect of the system.

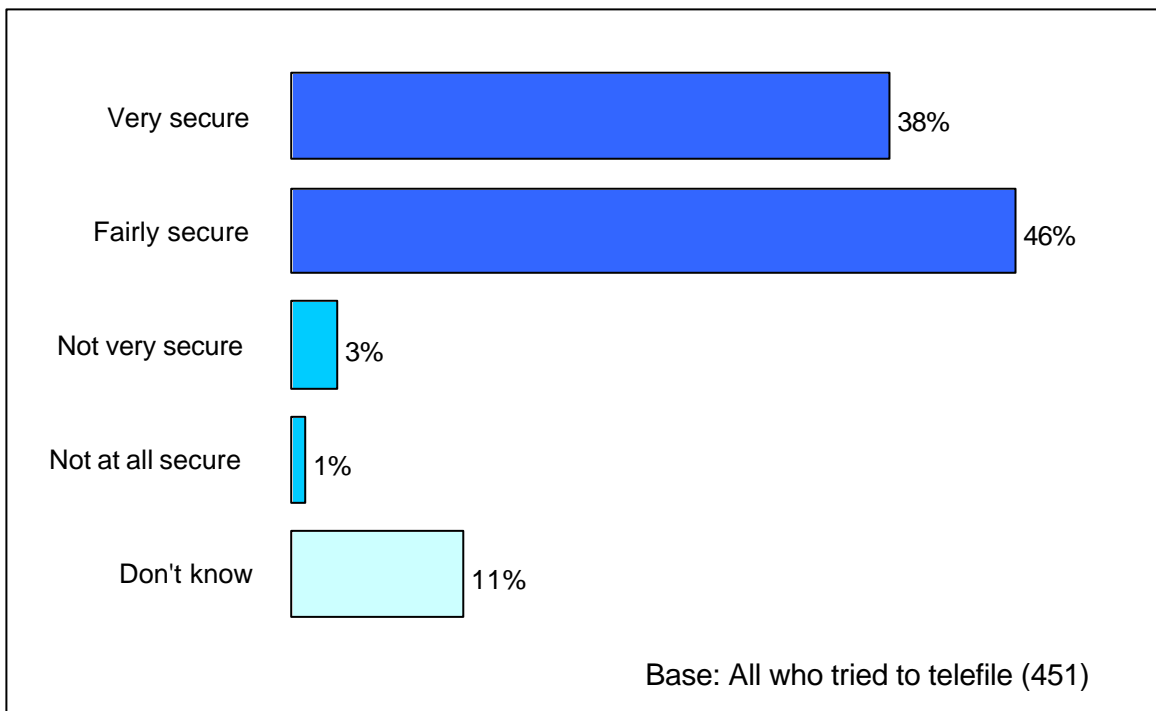
3.6.3 Perceived security of the system

Taxpayers were also asked to say how secure they felt the telefiling system was for completing their tax return. The majority (85%) felt the system was very or fairly secure, and only 4% thought it was not secure. The people who were concerned about security and confidentiality were almost exclusively male.

Among stranded telefilers, 8% thought the system was not secure, compared with 3% of completers. Security issues do not seem to be a major concern for either group. However, perceived lack of security may of course act as a barrier to some people considering the use of telefiling in the first place.

Approximately one in ten taxpayers (11%) said they did not know whether the system was secure or not. Overall perceived security is summarised in figure 3.6c below.

Figure 3.6c Perceived security of the telefiling system



3.7 Time taken to telefile

Total compliance time for telefilers was calculated using the same series of questions as were used in the Short Return Pilot evaluation survey (Chapter 2). These questions broke the total compliance time down into the various tasks that a telefiler had to complete. Here we only report on the total compliance time and the time taken to complete the return over the telephone (the actual process of telefiling). The total compliance time for telefilers is shown in Table 3.7a.

It should be noted that the base for each group is less than the total number of taxpayers using each method. Figures are only reported for taxpayers who were able to estimate the time taken for each element of the compliance task.

Table 3.7a Total compliance time for telefiling compared with filing the main and short returns on paper

Base: All with a valid calculated total compliance time	Short return (telefiled) (295)	Short return (paper) (1118)	Main return (paper) (802)
	%	%	%
30 minutes or less	13	21	14
1 hour or less	21	13	10
2 hours or less	30	17	17
3 hours or less	13	15	13
4 hours or less	8	8	6
5 hours or more	15	25	40
<i>Average (median) time</i>	<i>95 mins</i>	<i>120 mins</i>	<i>162 mins</i>

Nearly two thirds (64%) of telefilers said it had taken two hours or less to comply, with a median compliance time of 95 minutes.

We must of course be careful about drawing conclusions from comparisons of these times against the short and main tax return groups as the telefiler sample was self-selected, and not matched to the short return pilot or control groups. As we showed at the start of this chapter, telefilers are more likely to come from the 'employee' segment than the short return population as a whole. The median total compliance time for employees who telefiled was 90 minutes, very similar to the median for employees who completed a paper short return (96 minutes).

The time taken just to complete and submit the return by telephone was also calculated. Nearly half (46%) estimated that the telephone call had taken 15 minutes or less, with a median length of 20 minutes. This is consistent with Inland Revenue estimates that suggest the telefiling process takes approximately 15 minutes. A breakdown of estimates of time spent on the telephone is given in Table 3.7b.

Table 3.7b Time taken to complete the short return by telephone

Base: All who finished telefiling (295)	%
15 mins or less	46
16 - 30 mins	38
Over 30 mins - 1 hour	9
Over 1 hour - 2 hours	3
More than 2 hours	1
<i>Median time</i>	<i>20 minutes</i>

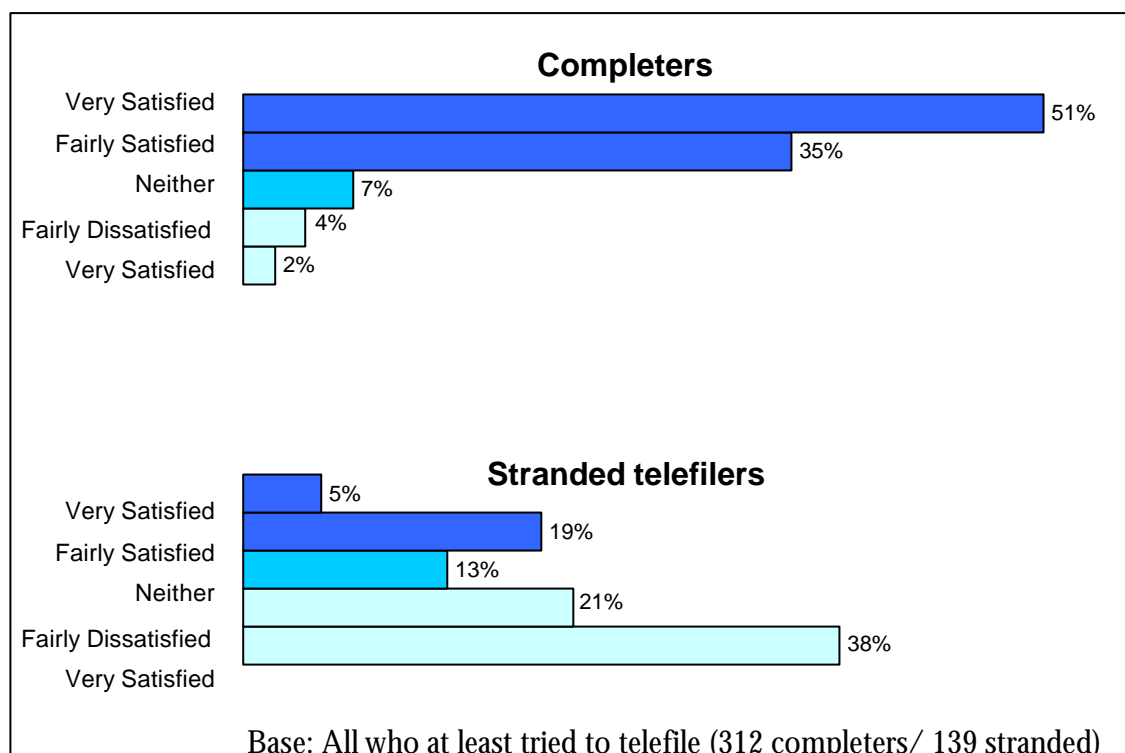
3.8 Overall satisfaction with the telefiling process

Regardless of whether they completed the telefiling process all telefilers were asked:

‘And overall, how satisfied were you with the telephone system for completing your tax return?’

Figure 3.8 below summarises the levels of satisfaction among successful and stranded telefilers. Unsurprisingly, those who completed telefiling were far more satisfied with the system than those who did not. In total, 87% of completers said they were satisfied (51% very satisfied) compared with just 24% of stranded telefilers (5% very satisfied). This shows that successful telefilers have very positive feelings towards the system.

Figure 3.8 Overall satisfaction with the telefiling system



Levels of satisfaction were consistent across all types of successful telefilers including groups based on age, sex and segment within SA. It appears that the key driver for satisfaction with the telefiling system is the level of success: taxpayers who manage to complete telefiling are very positive about it; those who fail are very negative about it.

3.9 Views on telefiling in the future

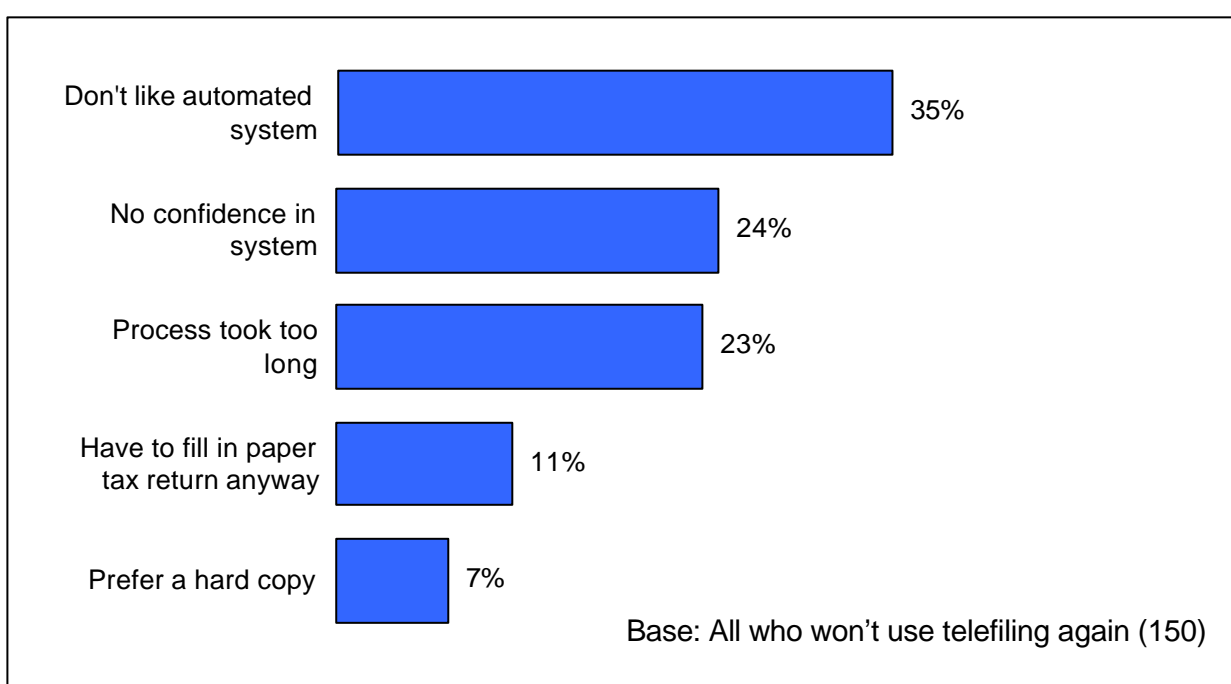
Making sure people who tried telefiling in 2003 use it again in future years is important in terms of the long-term success of the system. As Table 3.9 shows, two thirds of all telefilers do intend to use the system again. However, it is mainly those who were successful this year (completers) who plan to use it: 81% indicated that they would, compared with just 30% of stranded telefilers. This emphasises the importance of making sure that people who decide to try telefiling are successful.

Table 3.9 Whether will use telefiling in future

Base: All telefilers	Total (451)	Completers (312)	Stranded (319)
	%	%	%
Will use again	66	81	30
Will not use again	33	18	68
Don't Know	1	1	1

Taxpayers who said they would not telefile again were asked why. These reasons are summarised in Figure 3.9. The most common reason for not using the system again was dislike of the automated system (35%), followed by having 'no confidence in the system' (24%) and because the 'process took too long' (23%). Interestingly, given that around eight out of ten had actually done so, only 11% spontaneously said they would not telefile again because they had filled in a paper copy anyway.

Figure 3.9 Reasons given for not using telefiling in future



3.9.1 Potential improvements to Telefiling in future

Telefilers were presented with four potential changes to the system and asked to choose which one they thought would be the biggest improvement. The four options were:

- Making the telefiling number freephone
- Giving quicker repayments to telefilers
- Offering a later deadline for telefilers
- Having the system calculate tax liability immediately and read this back at the end of the call. The extended pilot, from April 2004, gives taxpayers the option of having a tax liability calculated at the end of the call.

The two most popular options were 'making it a freephone number' (42%) and having 'automatic calculation of liability' (33%). In many ways these could be the easiest of the four changes to implement and could increase the appeal of telefiling to a wider group of taxpayers.

The following changes have been introduced to the telefiling system for 2004/05 in order to make more short return taxpayers aware of the telefiling option and to further adapt the system to taxpayers needs:

- A separate flyer has been sent to taxpayers to alert them to the fact that they are able to telefile
- Additional usability testing has resulted in changes to the timing of prompts
- Inland Revenue Contact Centre staff are calling stranded telefilers to offer assistance

3.10 Key findings from Telefilers survey

Views of telefiling were positive among the majority of taxpayers who successfully completed the process, and the majority of those who were successful intend to telefile again in future. This means that if the Inland Revenue can increase the uptake of the system and the success rate among those who try the system there is potential to retain large numbers of telefilers. However:

- 14% of short return taxpayers were spontaneously aware of the telefiling option whilst 2% of all short returns were filed by telephone. This indicates that raising awareness of telefiling is essential to increase the scope for future take-up.
- Employees were the most likely group in the short return population to have telefiled in 2003/4. This suggests that taxpayers with simpler affairs are most likely to be drawn to telefiling.

- Increased convenience and saving time were the most common reasons that taxpayers gave for trying telefiling. However, 80% of telefilers completed the short return on paper before telefiling.
- One in three telefilers had not completed the process and few of these 'stranded' telefilers are likely to try the system again in future.
- The most common reasons for non-completion of telefiling were associated with technical problems. A small number of telefilers actually completed the whole process but were unable to submit the tax return by telephone.
- The majority of telefilers would have preferred to speak to a person rather than an automated system and awareness that telefiling would be automated was quite low.
- Awareness of the helpdesk option was also relatively low – a third of all telefilers did not know they could speak to an operator if they needed to.
- The majority of all telefilers were happy with the pace of prompts, the length of time left to answer questions, and the usefulness of the accompanying explanations.
- Nearly two thirds of telefilers said it had taken two hours or less to comply, with a median total compliance time of 95 minutes.
- 87% of completers said they were satisfied with the telefiling process while only 24% of stranded telefilers were satisfied.

4 The Refinement Pilot

4.1 Introduction

This chapter evaluates the impact of the Refinement Pilot on the pilot group of 5,000 selected for refinement in March 2003. The Chapter covers a number of issues including:

- profile of taxpayers' selected for the refinement pilot;
- reactions to the letter explaining refinement;
- eligibility for refinement;
- contact with Inland Revenue;
- reactions to the P810 form;
- awareness of the option to request a tax return;
- satisfaction with refinement;
- and, compliance time associated with refinement.

The results in this chapter are drawn mainly from the Refinement survey. The chapter also draws on qualitative research among taxpayers who had experienced refinement. Further details of the different strands within the research programme are covered in the Introduction (Chapter 1).

4.2 Profile of taxpayers in the refinement pilot

It must be noted that the taxpayers selected for the refinement pilot (and therefore the subset selected for the evaluation) were not completely representative of the wider population of taxpayers who would be eligible for refinement in the country as a whole. The pilot group all came from the Chapel Wharf tax office. This office deals with taxpayers who have more complicated tax affairs than the average refinement case. In particular, taxpayers whose tax affairs are dealt with by Chapel Wharf are more likely to be 'higher rate' taxpayers. In addition, a larger proportion of Chapel Wharf taxpayers were issued with a form P810 than is likely to be the case for the refinement population overall. For this reason, care should be taken when applying the research findings to the population of taxpayers eligible for refinement once refinement is fully rolled out.

Because refinement taxpayers were not required to complete a tax return they are not classified in the same way as the sample used in the short return pilot. Refinement taxpayers are classified simply according to the types of income that they have and they fall into four main segments:

- *Pensioners* – taxpayers whose principle income was from State or private pension (this takes priority over other criteria)
- *Expenses only* – Employed taxpayers whose only need to use the P810 form was to provide information on business expenses (including business mileage)
- *Higher Rate* – taxpayers paying the 40% rate of tax on some of their income
- *Others* - Any taxpayers who should not have been in SA at all, even according to the current criteria

The results in this chapter are mainly based on the quantitative interviews carried out with 484 refinement taxpayers (a random subset of those selected for the refinement pilot). A further 200 interviews were carried out with a control group, also from Chapel Wharf, who shared the same characteristics as the pilot group but had not been selected for refinement and were therefore sent a main return as usual. Comparisons have been made where relevant between the pilot and the control groups. Interviews with both groups were staggered across the tax year, as in the short return pilot, so that they took place as soon as possible after the P810 form (for about half of the pilot group) or the main return (the control group) had been received by the Inland Revenue.

In addition to the survey, 38 in-depth qualitative interviews (23 face to face and 15 telephone) were conducted with a range of taxpayers who had experienced refinement. The sample was selected from the quantitative survey of refinement pilot taxpayers to reflect a broad spread of individuals in terms of employment status, gender and type of taxpayer. The sample also included taxpayers who had received and returned a P810 form. Further details of the sample structure are provided in the Technical Report.

4.3 Reactions to the letter explaining refinement

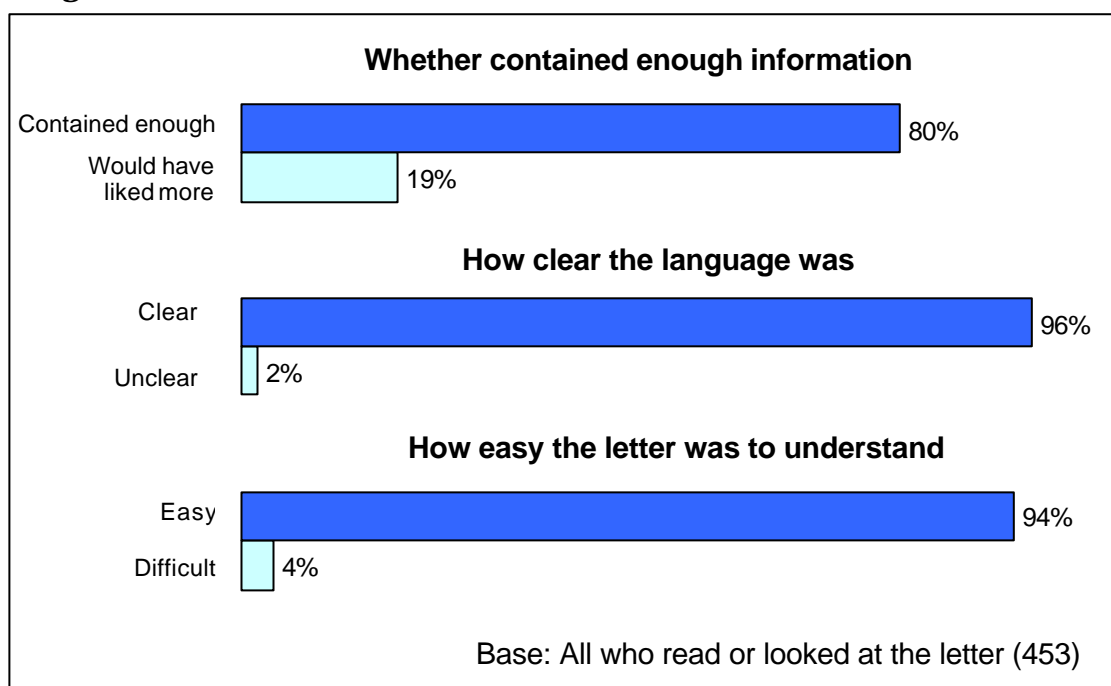
Nearly all refinement taxpayers (98%) who recalled receiving the letter explaining the refinement process in March 2003 said they had read the letter. Nearly two thirds (60%) had read it 'in detail'.

Taxpayers in the qualitative research were split between those who had read the notification letter thoroughly (and in its entirety) and those who either skim-read or

partly read the letter. The main reason for reading the document fully was to 'make sure there weren't any catches' or to ensure that 'it was relevant to me'.

In general those who had read it thought that the letter was easy to understand (94%) and that the language used in the letter was clear (96%). However, it is less clear-cut whether the letter gave enough information for taxpayers to know what would happen next. While eight in ten (80%) felt the letter did contain enough information, 19% said they would have liked more information. Taxpayers' reactions to the notification letter are summarised in Figure 4.3.

Figure 4.3 Reactions to the notification letter about refinement



The majority of taxpayers (83%) who had read the letter said they knew what would happen next (as a consequence of refinement). Of course, this does mean nearly one in five (17%) did not know what to expect next. Exploring this in more detail in the qualitative study, it was clear that despite reading the notification in its entirety some taxpayers remained unclear about why they had not been required to complete an SA return. In one instance a taxpayer had considered telephoning the IR to find out more about this 'but never got round to it in the end'. It was more likely for higher rate taxpayers to question their inclusion in refinement than people with a lower income.

More generally taxpayers in the qualitative study thought the notification letter was simple, clear and easy to read. The key message that taxpayers took from the letter was that they were not required to complete an SA return this year. Once this message had been received there was a tendency for taxpayers not to read the document further. Consequently, not all taxpayers fully understood the reasons why they were not required

to complete an SA return but assumed it was because their tax affairs were stable and uncomplicated and it was a means of 'reducing Inland Revenue bureaucracy'.

'I wasn't sure if it was because I had actually told them I was retired or it was I was just being reviewed and there wasn't enough interest in me anyway.'

(Male, Retired, Higher rate taxpayer, completed P810)

4.4 Eligibility for refinement

One of the functions of the letter was to alert taxpayers to the fact that they might not be eligible for refinement. Specifically, the letter contained a list of changes in circumstances that needed to be notified to the Inland Revenue including:

- Becoming a director of a company, or a minister of religion, or a Lloyd's underwriter
- Becoming self-employed or in partnership
- Starting to receive income from new sources – e.g. from abroad, from employee share schemes
- Starting to receive income which is untaxed at source, or from a source which deducts tax at a basic rate when some tax is paid at a higher rate
- Starting to receive income above £10,000 from savings or above £100,000 from all sources
- Making a capital gain of £7,500 or more.

If any of these changes occurred, the letter instructed taxpayers to contact the Inland Revenue. The way the letter was worded could have been interpreted as meaning that only changes which took place in the future would need to be notified, rather than those which had taken place since the 2001-2 tax return had been completed. We should highlight that most of these changes did not mean that a taxpayer was *definitely* ineligible, just that there was a possibility that they were.

At the time they were interviewed most taxpayers had checked their eligibility. While 79% of those who had read the letter said they had checked the list of circumstances to see if any applied to them, 10% said they had not, and a further 12% either didn't know or couldn't remember. Regardless of their reply, all were asked if any of the circumstances listed did apply to them.

Overall, 5% of taxpayers who were selected for refinement in the 2003/4 pilot were ineligible due to a change in circumstances. company directors (3%) and self-employed taxpayers (2%).

The qualitative study of refinement taxpayers echoes these results. Not all taxpayers checked that they matched the eligibility criteria. There was no pattern as to who did and who did not make this check. None of those who checked their eligibility found that they were ineligible. Those who did not check their eligibility for refinement assumed that the Inland Revenue would not have written to them if they were ineligible:

'I assumed that the Inland Revenue had made the selection correctly.'
(Male, Employed, Standard rate taxpayer, did not complete P810)

'Skimmed through it and got the gist of it.'
(Female, retired, did not complete P810)

One in four taxpayers who were not sent a P810 form did not check their eligibility (or could not remember doing it), compared with 18% of P810 cases. Taxpayers who did not complete a form P810 may pose a greater risk in terms of underpayment of tax as the Inland Revenue does not have this additional source of information for these taxpayers. However, the research was carried out before the full year had elapsed for these taxpayers, some will consider their position again at the time they would have been due to complete their next tax return. Additionally the Inland Revenue will be sending various prompts to remind these taxpayers of their responsibilities. The Inland Revenue's continuing monitoring of taxpayers involved in the 2003/4 refinement pilot has shown that by early in 2004/5 14% of them had (since refinement) contacted IR and been sent a tax return for completion.

These results suggest that the notification letter sent to refinement cases could be clearer than the 2003/4 pilot letter about the need for taxpayers to check their current circumstances against the list provided, as well as notifying any future changes of this type. Changes have already been made to the refinement process for 2004/5; the letter informing taxpayers that they are not required to complete an SA tax return for the year is more explicit about the fact that not all selected taxpayers are eligible. Similarly, the form P810 is clearer about the taxpayers' obligation to inform the Inland Revenue of any changes.

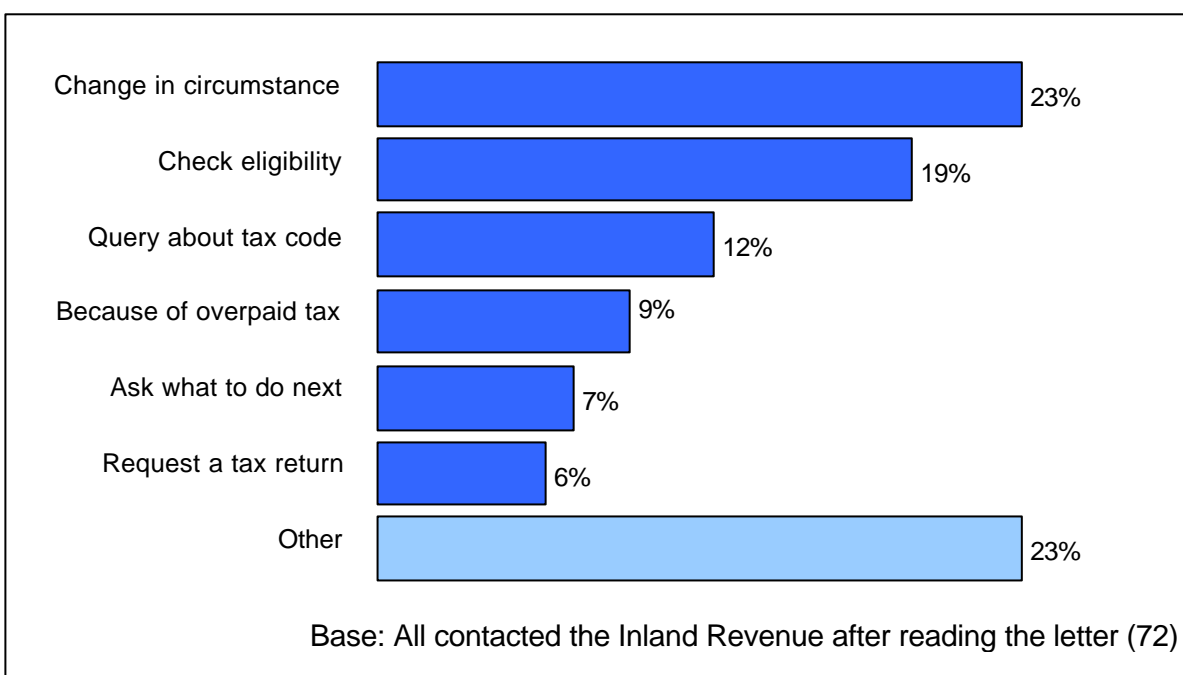
4.5 Contact with the Inland Revenue

The Inland Revenue thought that taxpayers in the refinement pilot who received a notification of the change would be likely to make contact with questions or concerns

about the process. It was important to understand the likely workload implications of this for Inland Revenue helpdesks and Enquiry Centres, should refinement be rolled out to a much wider population.

Fifteen per cent of taxpayers who had read the letter the letter about refinement said that they had contacted the Inland Revenue with a query about an issue that it had raised (a slightly lower level of contact than from self assessors who receive a main tax return). Taxpayers who had contacted the Inland Revenue had most commonly done so to inform them of a change in circumstance (23%) or to check their eligibility for refinement (19%). Other reasons for contacting the Inland Revenue were if they had a query about their tax code (12%), because they thought they had overpaid tax (9%), to ask what to do next as a result of refinement (7%) or to request a tax return (6%). These reasons for contacting the Inland Revenue are summarised in Figure 4.5.

Figure 4.5 Reasons contacted Inland Revenue after reading refinement letter



Note: The 'other' category accounts for 23% of all enquiries following the refinement letter. This mainly includes queries that have no relation to refinement per se, for instance, one respondent said it was to 'inquire into child tax credit'.

In total then, around half of all taxpayers who had contacted the Inland Revenue – or 7% of all taxpayers interviewed in the refinement survey - had done so with a query about their eligibility for refinement. These figures include taxpayers who were checking their eligibility, informing the Inland Revenue of a change in circumstance or requesting a tax return, all of which were linked to eligibility for refinement. As discussed in section 4.4 above, this may not represent everyone who should have got in touch with the Inland Revenue if the instructions in the letter had been followed.

Less than 2% of refinement taxpayers surveyed had actually requested and completed a main tax return. However considering that interviews were conducted from as early as August 2003, there was scope for some taxpayers to request a tax return later in the tax year (as discussed previously, by early 2004/5 14% of refinement taxpayers had contacted Inland Revenue and been sent a tax return).

4.6 The P810 form

According to Inland Revenue records, over half (59%) of taxpayers in the survey had been sent a P810 form. However, only two thirds (65%) of those who had supposedly been sent the form recalled receiving it – a much lower percentage than the 95% who remembered receiving the notification letter.

Of those who recalled receiving a P810 (which included a handful of people who had supposedly not been sent one), 92% said they had completed it by the time of interview, and the majority had, again according to Inland Revenue records, returned the form by 30 September 2003 (83%).

4.6.1 Evaluation of the P810 form

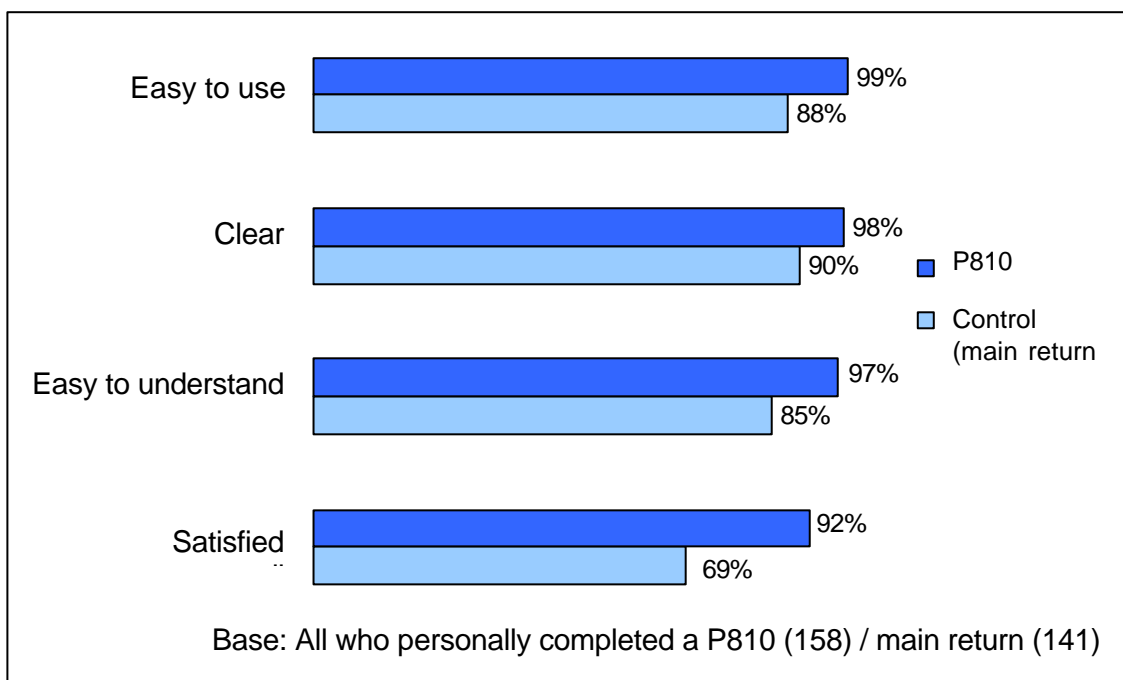
Of those taxpayers who had already completed their P810 form by the time of interview, 99% completed it themselves. These taxpayers were asked what they thought of the content and quality of the new form. Overall, responses were extremely positive. The vast majority of taxpayers who had used the form thought it was easy to understand (97%); easy to use (99%) and that the language used on the form was clear (98%). This compares with 84%, 88% and 90% respectively of the control group who were asked equivalent questions about the main return.

The results for these overall perception questions are summarised in Figure 4.6 below. When asked to rate the P810 form, it is also worth noting that around half of taxpayers selected the most positive option (very easy to understand / very easy to use / very clear language), while only around a fifth to a quarter of taxpayers in the control group gave such positive ratings to the main return.

In terms of overall satisfaction, 92% of P810 users said they were satisfied with the form (55% very satisfied), compared with 69% of main return users in the control group. It is worth noting that levels of satisfaction amongst this control group may be low because they have very simple tax affairs. A main return may cover a lot of irrelevant details for this group.

The findings from the qualitative research show a similar picture. Those taxpayers who had received a P810 form were generally very positive about the size, format, language and clarity of the form. The form was welcomed as a major improvement on the SA return, with fewer 'irrelevant' questions and text which was 'more straightforward and to the point'. The instructions accompanying the form were also considered to be clear and easy to understand.

Figure 4.6 Overall evaluations of the P810 compared with the main tax return



As well as being viewed positively in its own right, the P810 form also attracted very favourable ratings when the refinement taxpayers compared it directly with the main tax return which most had completed for the previous (2001-2) tax year. Nearly nine in ten taxpayers (87%) said it was easier to understand than last year's return (78% a lot easier); and 95% said that overall it was generally better (87% a lot better.) It is clear then that the P810 form is viewed as an extremely favourable alternative to the main tax return.

4.6.2 Preference for the P810 form and concerns about its use

Given that taxpayers who had completed a P810 form were so positive about it, it is not surprising that the vast majority (94%) said they preferred it to the main return. Only 2% said they preferred the main return, either because they 'had more confidence in it' or because it was 'more thorough than the P810'. A further 2% had no preference.

As with the short tax return, the Inland Revenue were concerned that the changes arising from refinement might possibly leave some taxpayers unable to pass on all the details relevant to their tax affairs. Taxpayers who had completed the P810 form were therefore

asked whether there was any additional information they had wanted to include but had not been able to. Only 14% said they had wanted to include extra information. There were no obvious recurrent themes in the types of information they had wanted to include, but some of the items mentioned were:

- business mileage
- spouse's income
- and, medical insurance

However, this is clearly not a major problem, as nearly all these taxpayers had in fact found a way of passing on extra details to the Inland Revenue (most commonly attaching a note with the completed form or writing a letter). Two issues did arise from the qualitative research into refinement. Firstly, one taxpayer commented that it was not easy to break down their tax affairs on the P810 form so that the calculations were immediately transparent.

'The form is more straight forward but understanding where you are from a tax point of view, what you've paid versus what you should have paid, it's harder to tell.'
(Male, employed, higher rate taxpayer, completed P810)

Secondly, it was suggested that an additional section could be included on the form allowing taxpayers to indicate if their tax affairs were likely to change in the next 12 months. This could allow taxpayers to pre-empt a change of circumstances for the following year and potentially help the Inland Revenue. This is being introduced by Inland Revenue in the P810 form used from April 2005.

None of the taxpayers in the qualitative study thought that filing the form by telephone was a preferable option to filing on paper. There was concern that a telephone method would leave the taxpayer without any evidence of having filed the information on the form. As one taxpayer put it:

'Just in case they lost the information, I think a written record that you sign is a bit better.'
(Male, employed, higher rate taxpayer, completed P810)

There was additional anxiety about the security of telephone lines and an unwillingness to disclose sensitive financial information over the telephone.

4.6.3 Confidence in completing the P810 form correctly

Although taxpayers were extremely positive about the P810 form, it was also important that they completed it correctly and felt confident that they had done so. While the form is shorter and less demanding than the main return, lack of familiarity could potentially have caused problems. This does not appear to have been the case.

Taxpayers who had completed a P810 form were asked how confident they were that they had completed the form correctly. In Table 4.6 the results from this question are compared with those for taxpayers in the control group who completed a main return.

The results show that refinement taxpayers were as confident about completing the P810 form correctly as main tax return taxpayers were. In total 95% of taxpayers who completed the form were confident that they had completed it correctly, compared with 97% of the control group who had completed a main tax return.

Table 4.6 Confidence in correct completion

Base: All who personally completed the P810 or main return	Pilot P810 users (158)	Control Main return (141)
	%	%
Very confident	58	58
Fairly confident	37	39
Not very confident	4	3
Not at all confident	*	1

Taxpayers in the qualitative study also felt confident about completing the P810 form, primarily because it was seen to be a simple and straightforward document to complete.

4.7 Awareness of option to request a tax return as usual

As with the short return pilot, the Inland Revenue did not want taxpayers to feel pressured into a change they were not happy about. Consequently, although taxpayers in the refinement pilot were told they probably did not *need* to complete a tax return for the 2002/3 tax year, they were also told in the letter that, if they wanted to, they could request a SA tax return and complete this in the normal way.

Of those who could remember receiving the notification letter about refinement, nearly two thirds (64%) said they knew they could request a tax return if they wished. However, at the time they were interviewed just 3% of those who realised this had actually requested a tax return (though ongoing monitoring showed that by early in 2004/5 14% of the 2003/4 refinement pilot taxpayers had contacted Inland Revenue and been sent a tax return) and less than 2% of refinement taxpayers had completed one. Those who had requested a tax return included both taxpayers who were sent a P810 form and those who were not.

In the qualitative study, taxpayers were not always aware that they could request a main tax return, although they assumed that this was possible should they wish to or if their circumstances changed. Some taxpayers suggested that the option to request a tax return was not made sufficiently clearly in the notification letter.

Overall, the taxpayers in this study had no desire to complete a main tax return. The following comment was typical of taxpayers in the qualitative study:

'...also, not having to fill out a tax form means that there are no more threats when you fill out a tax return. There are all these words that say if you get this wrong there could be a penalty and if you miss this date you will be fined £100. Quite stressful really, so I'm pleased not to have to go through it anymore.'

(Male, employed, makes expenses claims, completed P810)

Potential reasons for requesting a main tax return included:

- A general resistance to change, and
- A desire to ensure that the tax paid would be absolutely correct.

4.8 Satisfaction with refinement

As well as being asked about the P810 form, refinement taxpayers were also asked how satisfied they were with the changes to Self Assessment more generally and whether they had any concerns about the fact that they were no longer completing a tax return. These questions were asked of all those who had looked at the notification letter, even if they were not required to complete a P810 form.

Table 4.8 Satisfaction with refinement changes to SA tax process

Base: All who read / looked at letter	P810 (244)	No P810 (201)
	%	%
Very satisfied	69	63
Fairly satisfied	24	27
Neither	5	7
Fairly dissatisfied	1	1
Very dissatisfied	1	-

Table 4.8 shows that satisfaction with the changes to the tax process was exceptionally high, regardless of whether or not a taxpayer was required to fill in a P810 form. Around nine in ten of both groups said they were satisfied with the changes, and two thirds were very satisfied. This positive reaction from people who were not required to complete a tax return was to some extent expected.

Of the taxpayers who had looked at the notification letter, 85% had no concerns at all about not completing a tax return each year. For the 14% who did have concerns, those most commonly mentioned were:

- Tax calculations / repayments being wrong (5%)
- Having to notify the Inland Revenue of changes in circumstance in future (4%)
- Not knowing whether you had complied (2%)

Perhaps surprisingly, taxpayers who were sent a P810 form were just as likely as those who were not sent the form to have some concerns as a result of refinement.

The qualitative research reflects a similar set of issues. While there was a positive reaction to being included in the refinement pilot, there were also some concerns expressed. Typical reactions to refinement among taxpayers were: 'brilliant' and 'very sensible'. There was often a view that 'this has been a long time coming' and the change seemed to be wholly appropriate for taxpayers with relatively static and simple financial affairs:

'My circumstances never change from year to year... I thought for the last few years that it was a bit daft to fill out the tax return each year and all I was doing was copying numbers off the P60.'

(Male, employed, makes expense claims, did not complete P810)

'Although it [SA] wasn't complicated it was always a hassle and I was always putting it off and putting it off and so it's a relief not to have to fill it out any more.'

(Male, employed, standard rate taxpayer, did not complete P810)

'Great idea.'

(Male, employed, makes expense claims, completed P810)

However, there were some taxpayers who, although approving of the changes, expressed a desire to receive some sort of annual communication from the Inland Revenue. These taxpayers said this would reassure them that their tax affairs were in order. Taxpayers in the qualitative study were concerned that refinement meant they might not have any communication from the Inland Revenue for several years. The primary concern was that they might unexpectedly find out they had tax owing. For instance:

'If it went on for several years and someone then said 'oh you owe us for this tax' I don't think I'd be very happy with that so I think I'd like to do some sort of annual assessment.'

(Male, employed, makes expense claims, completed P810)

Changes in circumstances were a further area of concern, with mixed understanding about what to do regarding changes in financial circumstances. While some taxpayers in the qualitative study knew that they should contact the Inland Revenue and probably complete an SA return if their circumstances changed, others were unsure what to do. The latter group indicated that should any change in circumstances arise then they would have to think about what to do. In addition, one individual in the sample indicated that should their circumstances change, they would do nothing.

Those who had read the letter carefully recalled examples of circumstances in which it might be appropriate to contact the Inland Revenue, such as ceasing to work or an increase in their income. It was suggested that the Inland Revenue might remind taxpayers every few years of the need to contact them should their circumstances change.

In fact, the Inland Revenue will be including an insert with the P810 sent to refinement taxpayers from April 2005 emphasising the eligibility criteria and the need to get in touch following changes in circumstance. The Inland Revenue will also be introducing an annual letter which will be sent to all higher rate employees not sent an SA return or a form P810.

4.9 Compliance time due to refinement

We cannot compare the total time to comply for taxpayers who completed the P810 form in the refinement pilot with that of taxpayers who completed the short return or those who completed the main return in the SA population as a whole. This is because

the taxpayers who were selected for the refinement pilot were chosen on the basis of having very simple tax affairs. However, we can compare the relative compliance times (in terms of time taken) of taxpayers in the refinement pilot group who completed the P810 form with those taxpayers with similar affairs in the control group who completed the main return.

We can only make this comparison between taxpayers in each group who provided all the relevant information and for whom a total compliance time could therefore be calculated. The total calculated time was made up of time spent on different tasks, including: gathering the necessary documents together, contacting the Inland Revenue, dealing with accountants or advisors and filling in the form. As shown in Table 4.9, there was a very substantial difference between the total time taken to complete the P810 form and the total time taken to complete the main return, with a difference in the median time taken of almost two hours.

Table 4.9 Total compliance times for refinement taxpayers and the control group

¹ Base: All who personally used a P810 with a valid total compliance time	¹ Refinement (P810) (155)	² Control (main return) (137)
² Base: All control group who personally used a main return with a valid total compliance time		
	%	%
15 minutes or less	29	5
30 minutes or less	22	7
1 hour or less	13	14
2 hours or less	13	17
3 hours or more	24	56
<i>Average time (median)</i>	<i>32 minutes</i>	<i>141 minutes</i>

While these timings are based on relatively small samples of taxpayers, the difference in compliance times between the two groups is very stark. The compliance time was around four times as great for the control group as it was for taxpayers in the pilot group who completed a P810 form (well over 2 hours compared with 32 minutes on average respectively).

Taxpayers in the qualitative survey who had used the form said that it had taken between five minutes and half an hour to complete. The process was considered to be much quicker than it had been for the main tax return in previous year

4.10 Key findings from the refinement pilot

Reactions to the notification letter were generally very positive. The majority of taxpayers were pleased that they would not have to complete a tax return:

- Most taxpayers who read the notification letter said it was easy to understand (94%) and that they knew what would happen as a result of the change (83%).
- At the time they were interviewed most, but not all, refinement taxpayers had checked their eligibility. Overall, 79% of those who had read the letter had checked the list of changes in circumstances to see if any applied to them, 10% had not, and the remainder didn't know or couldn't remember.
- Reactions to the form P810 were extremely positive. Over 95% of taxpayers who used the form said it was: easy to use, used clear language and was easy to understand. 78% said it was a lot easier to understand than their previous tax return.
- The P810 form caters for most types of income that refined taxpayers need to record. If taxpayers needed to include extra information which the form did not cover, they generally attached a note with the completed form.
- The compliance time for taxpayers using the form was around a quarter of that for the control group who completed a main tax return.

5 Overall conclusions and recommendations

This final Chapter summarises the key findings highlighted in the report, draws conclusions about each of the changes to Self Assessment piloted in 2003/4 and offers recommendations based on these.

For more detail on key research findings the reader can refer to the Executive Summary at the start of the report.

5.1 The short return pilot

Taxpayers' initial reactions to the notification of the short return issue

Reactions to the new short tax return were extremely positive, with the short return seen as a preferable alternative to the main return by the vast majority of taxpayers who used it. Among taxpayers who had personally completed a short tax return, 95% said they preferred it to the main return they had completed for the previous tax year. Agents (e.g. accountants and professional tax advisors) who represent SA taxpayers were also generally complimentary about the short return. Generally, taxpayers were very positive about the layout and design of the new form. The form was seen as a lot more user-friendly and professional in design than the main tax return.

In this sense, the research identified no major problems with the existing short return form and did not reveal any obvious ways in which the form could be significantly improved.

Usefulness of guidance notes

The accompanying guide was also thought to be useful and easy to understand. Taxpayers receiving the short return guide were more positive towards it than those receiving the main return guide.

Compliance time

Perhaps most crucially the short return reduced the compliance time for taxpayers. On average, the total compliance time was around 40 minutes less for taxpayers using the short tax return than comparable taxpayers who completed a main tax return. This benefit can be used to promote the use of the short return in future and will surely encourage taxpayers who are offered the new form to go ahead and use it.

Agents views on the impact of the Short Tax Return

Agents who represented SA taxpayers did not anticipate major problems as a result of its introduction. It was too early to assess any impact on their business at the time of the survey.

Potential improvements to the short return and its accompanying literature

Taxpayers who were sent a short tax return in April 2003 were not all definitely eligible to use it. Interviewing taxpayers early in the tax year, we found that 44% of those who had looked at the short tax return package did not realise they might be ineligible and had not checked to see if they were eligible. However, it should be noted that this particular finding was from a survey undertaken well before the deadline for submitting returns and taxpayers may have subsequently checked their eligibility. Similarly, some taxpayers may have realised that they were not eligible when they found that the short return did not adequately capture their tax affairs and, therefore, requested a main tax return.

The need to check eligibility should be made more prominent in the letter that goes out with the short return, and in the accompanying guide. While the section on eligibility was towards the front of the guide and is easy to find, there was no mention of checking eligibility in the pilot letter sent in April 2003. As the letter is the single item taxpayers are most likely to read when they open the tax return package, it would be advisable to mention the need to check eligibility in this.

The Inland Revenue has made changes to the accompanying letter (issued in the extended pilot in April 2004) which make it clear that taxpayers sent the short return are not automatically eligible to use it.

5.2 Telefiling

Awareness and uptake of telefiling

Telefiling needs to be more widely publicised and promoted if it is to become a credible alternative to filing the tax return on paper or on-line. However, as 81% of all successful telefilers said they would use telefiling again, there is probably a useful future for the service if uptake can be improved.

Reason for deciding to telefile

Taxpayers were generally motivated to telefile because they thought it would be more 'convenient' (41% of all telefilers) or because it would be 'quicker' (37%). However,

most taxpayers using the service actually completed the short return on paper before calling to telefile, and had similar compliance times to similar taxpayers filing a short return on paper. However, convenience and perceived time savings are clearly motivating factors and need to be taken into account to encourage more taxpayers to use the service in future – for example, by emphasising the availability of the service 24 hours a day.

It is important to overcome perceived barriers to telefiling. A number of taxpayers mentioned that they decided not to telefile because they would have no record of what was on the tax return and no record that their tax return had been received. Raising awareness that the telefiling system generates a receipt number at the end of the telephone call could therefore encourage more taxpayers to telefile.

Preference for speaking to a real person

Many taxpayers dislike automated systems. Over half of all the telefilers interviewed said they would have preferred to speak to a real person than deal with an automated system. Therefore, Inland Revenue should probably accept that telefiling will appeal to a particular audience who are happy using automated systems. Currently, employees and younger taxpayers appear to be most likely to telefile successfully.

The facility to speak to a helpdesk operator at any point during telefiling should be promoted and made clearer on literature about the system. Knowing there is a helpdesk facility may provide reassurance to those who are more opposed to automated systems in general. Evidence from the survey shows that telefilers who were aware of the helpdesk facility were more likely to have completed the process successfully.

In 2004/05 Inland Revenue Contact Centre staff are contacting stranded telefilers to offer assistance.

Difficulties with the system

It is crucial that the technology supporting the telefiling system is closely monitored and improvements made where necessary. One in three telefilers had failed to complete the process and the most common reasons for failure were related to problems with the technology. Even among taxpayers who had successfully completed telefiling, 36% said they had had difficulties with the system. Particular concerns were raised about the voice recognition interface and the facility to go back and correct information. Further usability testing of the systems is being carried out by the Inland Revenue to address these issues.

Positive experiences

The telefiling system was well received by successful users. The prompts and explanations the system offers to users were thought to be useful, delivered at the right pace and accompanied by the right level of explanation. This is one aspect of the service that probably does not need altering. Similarly, 95% of telefilers who managed to complete the process said they were confident that the system had recorded the information correctly and four out of five said they would use the telefiling system again. This suggests that if the telefiling system could be made to run more smoothly, greater numbers of taxpayers would complete the process and potentially go on to become repeat users of the system.

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Time taken to telefile/total compliance time

Compliance times for telefilers were similar to the compliance times of similar taxpayers filing a short return on paper.

Potential improvements to telefiling

The perceived cost of telefiling was a barrier to some, and offering a freephone number could encourage take-up. This was the most popular of four potential improvements to the service that were offered to taxpayers - two out of five telefilers selected this option above all others.

The next most popular (33%) improvement to the telefiling system was the option to have an 'automatic calculation of tax liability' at the end of the call. If this were available, telefiling would in some sense be more convenient and quicker (in that telefilers would not have to wait for the tax calculation to come back in the post). The extended telefiling pilot, from April 2004, does provide taxpayers with the option of an 'automatic calculation of tax liability' at the end of the call.

5.3 The refinement pilot

Taxpayers' initial reactions to refinement and the P810 form

The research findings show that the refinement pilot was welcomed whole-heartedly by taxpayers. Almost all taxpayers who were selected for refinement were satisfied with the change (91% overall) and those who were required to complete a P810 form were extremely positive about the form as an alternative to a tax return. The research found no major flaws in the form and also showed that the notification letter about refinement was easy to understand and left taxpayers feeling confident about what would happen as a result of refinement.

Compliance time for refinement taxpayers

The compliance time for refinement taxpayers was greatly reduced. Half of all taxpayers who completed a P810 form managed to deal with all aspects of the process in 32 minutes or less. This compares with 141 minutes in the control group who completed a main return. The time saving offered by refinement is therefore even greater in total than that offered by the short return (in excess of 2 million hours in total, across the whole population of around 1 million taxpayers eligible for refinement).

Potential improvements to the refinement and its associated literature

Our research on the pilot shows that there is scope to improve the levels of taxpayer awareness about the need to check eligibility for refinement. At the time they were interviewed, 79% of those who had read the letter had checked the list of changes in circumstances to see if any applied to them, 10% had not, and the remainder either didn't know or couldn't remember whether they had checked.

In future the Inland Revenue needs to ensure that refinement taxpayers are fully aware of the need to check their eligibility and notify the Inland Revenue of any changes. The Inland Revenue may therefore wish to consider sending an annual reminder of the continuing obligation to check current circumstances against those which would render

someone ineligible for refinement. Some of the definitions used to describe the relevant circumstances could also be made more explicit and unambiguous.

Inland Revenue has responded to these findings and the experience of operating the pilot by making changes to the refinement process for 2004/5. The letter informing taxpayers that they are not required to complete an SA tax return for the year has been revised to be more explicit about the fact that not all selected taxpayers are eligible. Similarly, the form P810 being used from April 2005 is clearer about the taxpayers' obligation to inform the Inland Revenue of any changes. In addition, the Inland Revenue has introduced a letter which will be sent annually to higher rate taxpayers in refinement who aren't required to complete a P810 (who form a substantial proportion of the refinement population).