

**HM REVENUE & CUSTOMS RESEARCH REPORT
NO.27**

**SURVEY TO ESTABLISH THE AWARENESS AND
TAKE UP OF THE VAT CASH ACCOUNTING SCHEME
(CAS)**

TECHNICAL REPORT

PREPARED FOR:	PREPARED BY:
HM Revenue & Customs 100 Parliament Street London SW1A 2BQ	FDS International Ltd Hill House Highgate Hill London N19 5NA November 2006

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1 INTRODUCTION

HM Revenue & Customs (HMRC) wishes to establish the awareness and take up of the VAT Cash Accounting Scheme (CAS). This is required to inform and support small business VAT scheme policy development and maintenance.

The VAT Cash Accounting Scheme (CAS) was introduced in October 1987 as an alternative method of accounting for VAT for small businesses.

The scheme has the potential to improve the cash flow of small companies. Rather than accounting for VAT when invoices are issued or received, businesses using CAS account for their VAT when payments are received or made. This provides a cash flow benefit where payment is received some time after an invoice is issued.

It also provides automatic bad debt relief. If a payment is never received, there is no VAT to account for. The scheme is therefore especially helpful if businesses give customers extended credit or suffer a lot of bad debts.

The scheme is open to any business with an annual turnover (excluding VAT) up to £660K. However, for certain types of business there is no advantage to Cash Accounting – for example, businesses claiming a net repayment of VAT from HMRC – and certain industries that tend not to issue invoices or are better served by other schemes.

Businesses do not need to apply to use the scheme and can change to it at the beginning of any tax period. However, if a company is already VAT registered, any supplies made or received previous to joining should not be accounted by CAS.

OBJECTIVES

As there is no requirement to register for CAS, there is no true figure for take-up of the scheme. The primary aim of this research project therefore is to collect and

analyse data that provides HMRC with the following:-

- level of awareness among the eligible population
- take-up of the scheme.

PROJECT OVERVIEW

1,500 interviews were conducted from the FDS London Telecentre using Computer Assisted Telephone Interviewing (CATI).

A list of all VAT registered businesses eligible for CAS was supplied to FDS by HMRC. This list did not contain telephone contact numbers for businesses and thus these were obtained via a third party, Energetic Enterprises.

Letters were sent to the Financial Director of all businesses that we had telephone numbers for and that might be contacted as part of this study. The letter also gave the potential respondents the opportunity to opt out of the study.

Respondents were all screened to ensure they were at least part of the decision-making team for the business regarding VAT.

As HMRC wished to link survey results back to data already held on individual business, we asked all respondents if they were prepared to have their responses attributed to themselves and their company. This is necessary under the Market Research Society Code of Conduct.

In this study, 85% of respondents gave their permission, allowing HMRC to match their results to their VAT registration number for further analysis.

Interviews were conducted between 22 September and 18 October 2006.

The following pages document the methodology employed and also provide a detailed breakdown of sample usage.

2 SAMPLE PREPARATION

The list of businesses registered with HMRC to pay VAT, according to their 2005/6 tax return were eligible for CAS, totalled approximately 760,000.

However, clusters of 'composite companies', where one central office manages more than one operational base, were subsequently excluded, leaving 705,008 contact records. This was done because otherwise findings from different operational bases would have duplicated results. It also ensures each business has the same chance of being selected for interview.

Only the names and addresses of businesses were supplied in HMRC's list. Thus, before interviewing commenced, we sent company details away for telephone number look-up. The company handling the look-up process was Energetic Enterprises.

Working backwards from the target number of interviews required in each cell, six times as many details were sent away for telephone number look-up. This was based on an assumption of 50% success overall for telephone look up and assuming a 33% interview success rate.

Sample for each quota cell was drawn randomly from the universe.

Table 2.1 below gives details of sample drawn from the CAS universe (VAT register) for telephone number look-up.

Table 2.1: Overview of the sample

Business sector	Turnover	Records received	Sent for tel. no. look-up	Sampling fraction	Target interviews
Real estate, renting & business activities	<100k	206,607	1,494	1 in 6	247
	100k-300k	90,409	1,494	1 in 6	247
	300k-660k	33,406	1,494	1 in 6	247
Manufacturing	<100k	34,302	315	1 in 6	53
	100k-300k	26,383	315	1 in 6	53
	300k-660k	15,732	315	1 in 6	53
Wholesale retail & repairs	<100k	31,591	297	1 in 6	50
	100k-300k	27,323	297	1 in 6	50
	300k-660k	15,708	297	1 in 6	50
Construction	<100k	73,825	576	1 in 6	96
	100k-300k	50,035	576	1 in 6	96
	300k-660k	19,847	576	1 in 6	96
Others	<100k	48,232	324	1 in 6	54
	100k-300k	21,656	324	1 in 6	54
	300k-660k	9,952	324	1 in 6	54
Total		705,008	9,000	1 in 6	1,500

Telephone number look-up was maximised by employing both electronic and manual look-up.

Manual look-up is more thorough than the electronic method, and usually returns a greater amount of matching. However, manual searches are more intensive, both in terms of time and physical labour. Therefore, the most cost-effective approach is to employ both automated and manual searches.

Look-up success rates varied by business sector and turnover, ranging from 70% among the largest Manufacturing sector to only 34% for the smallest Real estate, renting and business activities sector.

Table 2.2: Telephone look-up success rates

Business sector	Turnover	Records Sent	Matched electronically	Matched manually	Total matched	% Matched
Real estate, renting & business activities	<100k	1,494	91	415	506	34
	100k-300k	1,494	202	484	686	46
	300k-660k	1,494	313	562	875	59
Manufacturing	<100k	315	42	97	139	44
	100k-300k	315	83	118	201	64
	300k-660k	315	110	112	222	70
Wholesale retail & repairs	<100k	297	25	83	108	36
	100k-300k	297	60	87	147	49
	300k-660k	297	77	106	183	62
Construction	<100k	576	22	298	320	56
	100k-300k	576	63	206	269	47
	300k-660k	576	114	208	322	56
Others	<100k	324	22	122	144	44
	100k-300k	324	40	107	147	45
	300k-660k	324	71	123	194	60
Total		9,000	1,335	3,128	4,463	50

3 ADVISORY LETTER AND OPTOUT

Advisory letters were sent to the 'Financial Director' of all 4,463 businesses which were successfully matched with a telephone number.

A total of 3% or 155 of those sent advisory letters, opted out of the survey. 144 of these came via the dedicated email address and 11 directly via HM Revenue & Customs.

It is important to send letters before conducting research of this nature. Firstly, it is a matter of courtesy to inform businesses that a study is being conducted, and that it is authorised by HMRC. Secondly, it gives the opportunity to opt out of the survey if a respondent feels they are unable or unwilling to be interviewed. And thirdly, it gives a point of contact if a respondent needs further information regarding the study.

201 letters were sent on 14 September 2006 to generate sufficient leads for piloting of the study. The remaining 4,262 were dispatched on 26 September.

The letter, which can be found in Appendix B, was designed to promote the survey, and encourage potential respondents to take part. However, care was taken to ensure the letter did not draw attention to CAS, as doing so would bias awareness results.

In line with all HM Revenue & Customs surveys, the letter detailed how potential respondents may optout, thus ensuring they would not be contacted by our interviewers.

FDS set up an alias email address which businesses could use to communicate their preference to opt out. Respondents simply had to send a blank email with their unique serial number as the subject to this address to be removed from the sample. However, some businesses called or emailed HMRC direct.

4 INTERVIEWING AND QUESTIONNAIRE VERSIONS

A personal briefing of interviewers at FDS International's London Telecentre took place on 22 September 2006. Computer Assisted Telephone Interviewing (CATI) was conducted on weekdays between 09.00 and 17.00 hours from that date until 18 October.

The first 32 interviews (conducted by 4 interviewers on Friday 22 September) constituted a pilot of the questionnaire, after which interviewers were debriefed for their views of question wording and flow.

Additionally, the CATI diagnostics of interview length, sample used and response counts of answers were examined.

It was decided that no changes were needed to the questionnaire, and interviewing re-commenced on 27 September following the main stage mail-out.

A copy of the final question list is given in Appendix A.

5 SAMPLE REPRESENTATION

Table 5.1 shows the distribution of business in the universe by turnover among different trade sectors – column two, ‘universe’.

Column three, ‘un-weighted sample’ shows the interview quotas and the corresponding proportion to the total sample size. Column four ‘weighted sample’ indicates effective numbers, correcting each cell so that it matches the true universe proportions.

Table 5.1: Trade sector profile – universe versus achieved sample

Business sector	Turnover	Universe	Un-weighted sample	Weighted sample
Real estate, renting & business activities	<100k	206,607 (29%)	247 (16%)	440 (29%)
	100k-300k	90,409 (13%)	247 (16%)	192 (13%)
	300k-660k	33,406 (5%)	247 (16%)	71 (5%)
Manufacturing	<100k	34,302 (5%)	53 (4%)	73 (5%)
	100k-300k	26,383 (4%)	53 (4%)	56 (4%)
	300k-660k	15,732 (2%)	53 (4%)	34 (2%)
Wholesale retail & repairs	<100k	31,591 (4%)	50 (3%)	67 (4%)
	100k-300k	27,323 (4%)	50 (3%)	58 (4%)
	300k-660k	15,708 (2%)	50 (3%)	33 (2%)
Construction	<100k	73,825 (10%)	96 (6%)	157 (10%)
	100k-300k	50,035 (7%)	96 (6%)	107 (7%)
	300k-660k	19,847 (3%)	96 (6%)	42 (3%)
Others	<100k	48,232 (7%)	54 (4%)	103 (7%)
	100k-300k	21,656 (3%)	54 (4%)	46 (3%)
	300k-660k	9,952 (1%)	54 (4%)	21 (1%)
Total		705,008 (100%)	1,500(100%)	1,500 (100%)

6 SAMPLE ANALYSIS

In total 2,378 businesses were contacted by telephone to achieve 1,500 successful interviews. This gives an overall 'hit rate' (i.e. completed interviews by amount of sample contacted) of 63%.

Beyond outright refusals, there are a number of other reasons that interviews cannot be conducted. A small number of matched numbers may not work. For example, they may be out of date, or a fax or modem line. Other respondents may simply not be available during the interviewing period, due to illness or holiday.

Table 6.1 below shows sample analysis by each sector.

Table 6.1: Interview sample analysis by business sector

	Sector					
	Total	Real estate, renting & business activities	Manufacturing	Wholesale retail & repairs	Construction	Others
Total sample mailed to	4,463 (100%)	2,067 (100%)	562 (100%)	438 (100%)	911 (100%)	485 (100%)
Complete interviews	1,500 (34%)	741 (36%)	159 (28%)	150 (34%)	288 (32%)	162 (33%)
Refused to be interviewed when called	178 (4%)	79 (4%)	21 (4%)	15 (3%)	35 (4%)	28 (6%)
Number unobtainable	113 (3%)	49 (2%)	11 (2%)	7 (2%)	32 (4%)	14 (3%)
Fax/modem line when called	83 (2%)	39 (2%)	7 (1%)	7 (2%)	21 (2%)	9 (2%)
Not available during interview period	173 (4%)	77 (4%)	7 (1%)	15 (3%)	50 (5%)	24 (5%)
Opted out via email/HMRC	155 (3%)	84 (4%)	22 (4%)	15 (3%)	19 (2%)	15 (3%)
Tried number too many times	100 (2%)	43 (2%)	4 (1%)	0 (0%)	33 (4%)	20 (4%)
Other	76 (2%)	39 (2%)	7 (1%)	5 (1%)	17 (2%)	8 (2%)
Unused sample	2,085 (47%)	916 (44%)	324 (58%)	224 (51%)	416 (46%)	205 (42%)

CASH ACCOUNTING SCHEME RESEARCH

SAMPLE ANALYSIS

Table 6.2: Interview sample analysis by turnover

	Turnover			
	Total	<100k	100k-300k	300k-660k
Total sample mailed to	4,463 (100%)	1,217 (100%)	1,450 (100%)	1,796 (100%)
Complete interviews	1,500 (34%)	500 (41%)	500 (34%)	500 (28%)
Refused to be interviewed when called	178 (4%)	60 (5%)	58 (4%)	60 (3%)
Number unobtainable	113 (3%)	52 (4%)	39 (3%)	22 (1%)
Fax/modem line when called	83 (2%)	27 (2%)	35 (2%)	21 (1%)
Not available during interview period	173 (4%)	78 (6%)	50 (3%)	45 (3%)
Opted out via email/HMRC	155 (3%)	35 (3%)	34 (2%)	86 (5%)
Tried number too many times	100 (2%)	76 (6%)	13 (1%)	11 (1%)
Other	76 (2%)	38 (3%)	22 (2%)	16 (1%)
Unused sample	2,085 (47%)	351 (29%)	699 (48%)	1,035 (58%)

7 TABLES

Standard breaks for the main set of tables were defined as follows:-

- Turnover (QSMP1)
 - <£100k (code 1)
 - £100k - £300k (2)
 - £300k - £660k (3)
- Sector (QSMP2)
 - Manufacturing (code 1)
 - Construction (2)
 - Wholesale, retail & repairs (3)
 - Real estate, renting & business activities (4)
 - Others (5)
- Manufacturing (QSMP3)
 - Total (code 1, 2 or 3)
 - <£100k (1)
 - £100k - £300k (2)
 - £300k - £660k (3)
- Construction (QSMP3)
 - Total (code 4, 5 or 6)
 - <£100k (4)
 - £100k - £300k (5)
 - £300k - £660k (6)
- Wholesale, retail & repairs (QSMP3)
 - Total (code 7, 8 or 9)
 - <£100k (7)
 - £100k - £300k (8)
 - £300k - £660k (9)
- Real estate, renting & business activities (QSMP3)
 - Total (code 10, 11 or 12)
 - <£100k (10)
 - £100k - £300k (11)
 - £300k - £660k (12)
- Others (QSMP3)
 - Total (code 13, 14 or 15)
 - <£100k (13)
 - £100k - £300k (14)
 - £300k - £660k (15)
- Pay for outside assistance with VAT work (QC)
 - Yes, currently (code 1)
 - Yes, ever (2)
 - No, all in-house (3)
- Accountant/book keeper... (QD)
 - Completes or checks your VAT returns on your behalf (code 1)
 - Does all the accounting work for you (2)
 - Just provides advice on how to set up accounts (3)
- Years dealing with VAT or VAT accounting (Q6)
 - <10
 - 10 - 19
 - 20+
- Responses to be attributed (Q9)
 - Yes (code 1)
 - No (2)

8 CONCLUSION

The project proved very successful and straightforward, as demonstrated by our hit rate of 63%, which means we interviewed almost two in three of those businesses we called.

Response rates are always higher when a letter is sent out before interviewing and, through their nature of business, projects conducted by HMRC usually return higher responses.

Piloting the questionnaire did not suggest that any changes to the questioning or introduction were needed.

Through previous experience, we assumed a 50% success rate in telephone number look-up. Our assumptions were confirmed, as we returned exactly 50% of all contacts matched. Proportions matched decreased for companies with smaller turnover, which would be expected for reasons such as the fact that they are more likely to be newer companies, and are therefore less likely to be included on commercial registers.

9 REPORTING AND ENQUIRIES

A presentation of results was given on 31 October 2006 to HMRC at 100 Parliament Street, London.

This presentation is available as a standalone PowerPoint document.

For further details regarding the approach taken to complete this study, or technical details, please contact:-

Andrew Powell
CAS Project Analyst
FDS International
Hill House
Highgate Hill
London N19 5NA

t: 0207281 3365
e: andrew.powell@fds.co.uk

APPENDICES

CASH ACCOUNTING SCHEME RESEARCH

APPENDIX A THE QUESTION LIST

CASH ACCOUNTING SCHEME RESEARCH



FDS International Ltd
Hill House, Highgate Hill
London N19 5NA
Tel: 020 7272 7766 Fax: 020 7272 4468

C1	C2	C3	C4	C5	C6	C7
2	5	2				2

HMRC VAT CASH ACCOUNTING SCHEME

QUESTIONNAIRE FINAL

7268/AP/WU

SAMPLE TYPE: TURNOVER

<£100k	1
£100k - £300k	2
£300k - £660k	3

SAMPLE TYPE: SECTOR

Manufacturing	1
Construction	2
Wholesale, retail & repairs	3
Real estate, renting & business activities	4
Others	5

INTRO 1

Good morning/afternoon. My name isfrom FDS Market Research. I'm calling on behalf of HM Revenue & Customs. Can I please speak to the person responsible for the decisions your company makes regarding tax issues, specifically VAT?

Yes	1	INTRO 2
No	2	GET CONNECTED TO CORRECT & REPEAT INTRO 1

INTRO 2

Good morning/afternoon, I'm..... from FDS Market Research, an independent research company working on behalf of HM Revenue & Customs. You should have received a letter from HMRC recently advising you that this survey is taking place.

IF NECESSARY:

We are making contact with companies in a number of business sectors so we collect a wide mix of views. Everything you tell us will be treated in strict confidence (under the Market Research Society Code of Conduct) and no information that could identify you or your company will be passed on to HM Revenue & Customs without your permission.

QA The survey will take about 3 minutes, is it convenient to talk now?

- | | | |
|---------|---|------------------|
| Yes | 1 | Q1 |
| No | 2 | MAKE APPOINTMENT |
| Refused | 3 | THANK & CLOSE |

QB Can I check, regarding decisions on VAT accounting are you...READ OUT

- | | | |
|---|---|--------------------------|
| the final decision maker | 1 | QB |
| or a member of the decision making team | 2 | QB |
| DO NOT READ OUT | | |
| not involved in the decision | 3 | FIND APPROPRIATE CONTACT |

QC Have you ever or do you currently pay for outside assistance with your VAT work? (eg from an external accountant or book keeper)

- | | | |
|-----------------------|---|----|
| Yes, currently | 1 | QD |
| Yes, ever | 2 | QD |
| No, all done in-house | 3 | Q1 |

QD And does / did your accountant / book keeper... READ OUT. CODE ALL THAT APPLY

- | | |
|---|---|
| complete or check your VAT returns on your behalf | 1 |
| do all the accounting work for you | 2 |
| or just provide advice on how to set up accounts? | 3 |

Q1 Are you aware of a VAT accounting method called the ‘Cash Accounting Scheme’? It is a method where you account for VAT on the basis of when you receive and make payments, rather than when you issue or receive invoices.

IF NECESSARY:

The Cash Accounting Scheme should not be confused with the Annual Accounting Scheme, the Flat Rate Scheme, Retail schemes or non accrual accounting (see interviewer notes for details).

Yes, aware	1	Q2
No, not aware	2	Q4

Q2 And are you *currently* using the Cash Accounting Scheme?

Yes	1	Q5
No	2	Q3
Don’t know	3	Q3

Q3 Have you *ever* used the Cash Accounting Scheme?

Yes	1	Q5
No	2	Q5
Don’t know	3	Q5

Q4 Which VAT Schemes do you use to manage your VAT account? **CODE ALL THAT APPLY CONSULT INTERVIEWER NOTES. IF IN DOUBT PUT IN OTHER**

Annual Accounting Scheme	1
Flat Rate Scheme	2
Cash Accounting Scheme	3
Flat Rate Scheme cash based method	4
I leave it to my accountant	5
Other (SPECIFY)	6
None	7

ASK ALL

Q5 Can I check your position in the company/your job title? **KEY IN**

Q6 For how many years have you personally been dealing with VAT or VAT accounting?
KEY IN NUMBER

Q7 And how many years have you been at your present company? **KEY IN NUMBER**

Q8 What was the approximate turnover of your company last year (to tax year end March 2006)? **PROMPT IF NECESSARY**

Up to £61,000	1
£62,000-£99,000	2
£100,000-£299,000	3
£300,000-£659,000	4
More than £660,000	5
Refused	6

Q9 Are you happy for your responses to be attributed back to you? This is solely for statistical purposes so HM Revenue & Customs may profile the type of companies that are aware of, and use, the VAT Cash Accounting Scheme. Information you have provided will in no way be used for VAT inspection purposes, nor will it be used for any marketing.

Yes	1
No	2

Q10 Thank you very much, your answers have been extremely helpful. We may be conducting a follow-up survey in the future, if we do, may we recontact you?

Yes	1
No	2

THANK AND CLOSE

Thank you very much for taking part. You have been interviewed by FDS International on behalf of HM Revenue & Customs. If you have any queries, I can give you the number of the executive in charge. Do you have any queries?

Yes	1
No	2

IF Yes: The number to call is 020 7272 7766. Please ask for Sheila Carey.

IF RESPONDENT UNAWARE OF CAS (Q1 = code 2) OR REQUESTS INFORMATION ON CAS OR OTHER ACCOUNTING SCHEME GIVE DETAILS:

-

Would you like me to give you a telephone number or website address with further information about the Cash Accounting Scheme?

Telephone: Revenue and Customs National Advice Service - 0845 010 9000

Internet: www.hmrc.gov.uk From the home page, go to 'Businesses & Corporations'. Under the 'Tell me about...' heading click on 'Special VAT Schemes and options' and scroll down for CAS..

CODE:

Gender	Male	1
	Female	2

APPEND SAMPLE DETAILS

CASH ACCOUNTING SCHEME RESEARCH

APPENDIX B LETTER

CASH ACCOUNTING SCHEME RESEARCH



**HM Revenue
& Customs**

**HM Revenue & Customs
KAI Analysis**

[Address]

Financial Director
Company
Add 1
Add 2
Add 3
Add 4
Postcode

Tel [Telephone number]

Fax [Fax number]

Email [Email address]

Date

www.hmrc.gov.uk

Your ref. 7268/XXX

HMRC ref.

Dear Sir / Madam

VAT Research

I am writing to ask for your assistance. HM Revenue & Customs is currently conducting research into the way small and medium sized businesses manage their VAT liability. To achieve this we have commissioned FDS International, an independent market research agency, to undertake a study on our behalf.

From 19 September you may be contacted by an FDS interviewer on the telephone. The interview is very short, lasting approximately three minutes, and will include general questions about your company. It will not explore any personal or sensitive accounting issues and you need not prepare anything in advance of taking part in the survey.

As with all HMRC research, interviews will be conducted in strict accordance with the Market Research Code of Conduct, ensuring your responses are kept anonymous unless you give your express permission for your answers to be attributed to you and your company.

If you do not want to be contacted in relation to this study please send an email, quoting your reference number 7268/XXX as the subject line, to [Email address] by 18 September to register your wish.

HMRC work is heavily dependent on research such as this to ensure we deliver high quality services that are relevant to your business. If you are invited to participate, I very much hope you will be able to spare the time to take part.

Yours sincerely

A handwritten signature in black ink that reads "Ellen Springall".

Ellen Springall
Principal Research Officer