



**HM Revenue and Customs
First time experiences
of business growth points**

Qualitative Research

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HM Revenue & Customs*

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EXECUTIVE SUMMARY

The purpose of *First time experiences of business growth points* was to understand how business owners interact with HMRC when undertaking a business task for the first time. The research was divided into four mini research projects: New Business, New Employer, Business Status and VAT. A total of 60 qualitative depth interviews were conducted, 15 in each segment, with an additional 16 conducted to cover areas not covered thoroughly in each mini segment. The fieldwork was conducted 11th March – 1st May 2008.

New Business

Overall, new businesses had an 'ad hoc' approach to planning and undertaking new tasks. Typically, respondents addressed HMRC requirements as they arose, with their day-to-day activities firmly focussed on business generation. For example, business generating tasks tended to be prioritised ahead of registering with HMRC.

Amongst this newest group of new business owners, a widespread fear of long, complicated tax-related processes emerged. This assumption, as well as a lack of confidence and knowledge about tax prompted business owners to turn to accountants early on in the life of their businesses. In reality, experience of HMRC processes typically proved straightforward with good support available from HMRC. For example, the registration task and the Self Assessment process were not at all problematic, with respondents assisted by excellent online and telephone support. For these reasons, registration was perceived as a positive experience.

Business customers indicated a need for reassurance that undertaking business tasks would not be as daunting as they first imagined and that they could manage – if they used the support available from HMRC.

In particular, respondents reported seeking guidance on the first steps new business owners need to take in setting up a business as well as on the purpose of registration and what registering would mean for the business. Although new businesses were aware that they needed to register with HMRC, there was a much lower understanding of why they were registering and what ongoing tasks would follow.

Respondents also reported needing to know when they should register in terms of the life of their business (when they have set up or when they have generated some turnover?). There was also some confusion about the implications of businesses exceeding the £15,000 turnover limit for the first time.

New Employer

Of the growth points researched, becoming an employer was perceived as the most positive development and genuine 'growth point' for small business owners. Business owners felt that becoming an employer was more than a tax obligation, but also a way of *'looking after our people'*. As a result, becoming an employer instilled in employers a sense of responsibility about their ongoing employer obligations.

Experiences of this growth point were positive – and support and advice from HMRC was playing a key part in this success. The key time for support and advice was during the period when new business owners were considering becoming employers. Unlike others, it was a well-researched growth point, with

new employers using the HMRC resources available to assist their decision-making.

It emerged that those undertaking registration and ongoing tasks themselves, without the assistance of their accountant, had followed a learning curve. The more they sought support and advice from HMRC the more they knew about their obligations. The more confident they became in taking on more obligations (hopefully) the less they sought support and advice from HMRC via telephone and more via the website. As well as benefiting small business, effective interaction was changing preconceptions of HMRC.

The new employer research demonstrates that dedicated advice, support and resources can make customers feel confident in HMRC services. Whilst small businesses cannot have the single point-of-contact they desire (i.e. the type of individual account management enjoyed by big businesses), they can be provided with services which they feel are tailored to their needs. There were examples of customers who had graduated away from telephone help towards website based advice and were now able to use web based information with confidence.

There was more evidence of customers using the help and support available from HMRC when undertaking this growth point compared to other growth points. Although business owners failed to perceive any benefit to becoming more involved in day-to-day PAYE processes (with business owners still relying on their accountants to complete registration and ongoing tasks) there was a greater sense that respondents had engaged with the decision to become an employer.

For new business owners, HMRC was perceived as the main source of support and information about becoming a new employer.

Business Status

Incorporation was perceived as a positive growth point, a sign of success and a business moving forward. Business owners were largely motivated to incorporate for legal reasons (limiting personal liability) rather than for financial or tax reasons. Business owners rarely considered the implications of becoming Limited, largely because they had decided to incorporate on the basis of advice from their accountants.

As a result, respondents rarely considered the longer-term obligations of incorporation. Knowledge of Corporation Tax was typically sketchy. The extent to which business owners understood the full implications of becoming a Limited company is questionable, given that respondents were relying on one source of information – their accountants.

Completion by respondents of both Companies House and HMRC tasks (supported by the respective organisations' websites) was rare. Respondents were more willing to contact Companies House than HMRC, put off by a general fear of tax issues and being daunted by the CT41G. Business owners were more than happy to rely on their accountants to contact Companies House and HMRC.

The respondents who directly interacted with HMRC services (for example, completing the CT41G and paying Corporation Tax online) had positive experiences. Those with experience of interacting with HMRC about Corporation Tax were more knowledgeable. Business owners had gained their knowledge from HMRC – the website, telephone help line and booklets downloaded from the website.

VAT

A climate of fear still surrounds VAT. Although there are many benefits to registering for VAT (image, customer requirement, claiming VAT back) ongoing obligations were still perceived as worrying and treated with caution. The lack of knowledge and understanding of VAT and – more importantly - a fear of ‘getting it wrong’ meant that there was little flexibility in terms of changing business owners’ ideas about how they manage VAT in future.

Over time, business owners do become more confident about VAT. At this early stage of growth, new business owners were willing to undertake the ‘one-off’ registration task, but seldom had proceeded to complete their own returns. For this group, the longer-term business benefits and opportunities offered by being VAT registered were eclipsed by anxiety about VAT administration. Business owners tended to feel that they were completing VAT returns on behalf of HMRC, rather than themselves (with the exception of those claiming back large amounts of VAT).

Throughout the research process, there has only been one task where HMRC was perceived to be holding back business growth: providing VAT numbers. Those who had completed the task had waited 3-4 months and those currently in the process had already waited 6 weeks. The website informs customers that there are delays. Improving this part of the process would make a significant difference to small businesses who tend to register during early, vulnerable months of trading.

1. INTRODUCTION

HM Revenue & Customs (HMRC) wished to undertake research to assess and understand the experiences of new businesses and employers as they made decisions that involved contact with HMRC. A range of decision-making points where businesses came in contact with HMRC were identified. These were referred to as 'lifecycle journey points' and were the focus of this research project.

1.1 BACKGROUND

The range of journey points identified were varied and were believed to include a mix of routine/functional contacts as well as more complex and potentially daunting interaction points. HMRC wanted to understand how businesses find their contact experience at six identified journey points, as follows:

1. New business:

- Prospective new businesses.
- Registering as a business with HMRC.

2. New employer:

- Prospective new employer.
- New employer registering for the first time.

3. Business status:

- Incorporation: registering as a limited company.

4. VAT registration:

- Trading constantly below VAT threshold (£61k pa).
- Registering for VAT (below threshold).

- Registering for VAT (over threshold).
- 5. Undertaking obligations for the first time:**
- Making first payment (Self Assessment, PAYE, VAT, Corporation Tax, Excise).
 - Filing first return (Self Assessment, P35, VAT, Corporation Tax Excise).
 - Filing first Expenses and Benefits return (P11D and P11Db).
 - Making first Class 1A NICs payment in respect of Expenses and Benefits.
- 6. Organisational development:**
- Hiring an accountant/agent or payroll bureau for the first time.
 - Setting up automated accounts system or purchasing accounting/payroll software (PAYE, NICs etc).
 - Passing £15,000 sole trader turnover limit for the first time.
 - Beginning in International Trade.
 - Engaging an import/export agent.
 - Administering Statutory Payments for the first time - Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP), Statutory Paternity Pay (SPP), Statutory Adoption Pay (SAP).
 - Administering deductions from payroll for the first time - Student Loan Deduction (SLD), Child Support Agency (CSA), court order payments.
 - Keeping records for the first time.

1.2 RESEARCH OBJECTIVES

The aim of the research was to explore customer behaviour at the six identified journey points as they were first encountered by new businesses and new employers. The aim was to identify ways that HMRC could improve its service.

Ultimately, HMRC wishes to improve the experience of those undertaking journey points and encourage more businesses to undertake journey points by raising confidence levels.

Research requirements fell into two categories: *broad experiences and motivations* and *specific motivations and behaviour*. These are outlined below.

1.2.1 Broad experiences and motivations

Firstly, the research aimed to reveal why businesses or employers undertake journey points and, conversely, whether there are potential barriers to undertaking particular journey points.

For *those undertaking particular journey points*, the following areas were explored:

- Incentives to undertake the journey point.
- The perceived benefits or risks with undertaking the journey point.
- Businesses' preconceptions of the journey point.
- Whether preconceptions were justified.
- What guidance was accessed.
- Identifiable tasks associated with completing the journey point.
- How these tasks were identified.
- Whether businesses were aware that these tasks would involve contact or interaction with HMRC.

Of *those not undertaking a journey point*, the following areas were explored:

- Why a business has not undertaken a journey point.
- Preconceptions of the journey point.

- What would encourage or reassure the organisation to undertake the journey point.
- The extent to which obligations imposed by HMRC or other government departments discourage businesses from undertaking the journey point.
- How the obligations of HMRC compare with other tasks (including those of other government departments) identified as necessary for the business/employer to undertake.

Both those *undertaking and not undertaking journey points* were asked whether their perception of journey points influenced their perception of HMRC service delivery.

1.2.2 Specific motivations and behaviours

Secondly, the research aimed to explore the experiences of businesses/employers who had very recently undertaken a journey point. The research considered in detail:

- What task(s) the business/employer carried out during the journey point.
- Whether the tasks undertaken differed from those expected to be undertaken.
- When tasks were carried out for each journey point and the relationship between tasks.
- How long each task took to complete.
- How each task directly or indirectly related to each HMRC obligation.
- Whether the task was necessary and why.
- Whether contact was made with HMRC for any tasks related to the journey point and, if so, how often and by what method (e.g. phone, website, letter, email).
- Whether HMRC was proactive in establishing contact.

- What each contact related to.
- The preferred/instinctive communication channel for each contact.
- Effectiveness, timeliness and completeness of HMRC contact according to communication channel.
- Whether the type of contact was appropriate/ accessible/ sufficient to ensure that the task was completed quickly and efficiently.
- How each task was perceived in terms of ease of understanding/ complexity/ resources required to complete.

2. METHOD AND SAMPLE

2.1 Method

The research was conducted via a series of extended face-to-face depth interviews. This process comprised a depth interview of 1-hour duration, followed by a telephone depth interview, which was employed to address any issues arising from the interview.

Prior to the face-to-face depth interview, a number of respondents were pre-tasked to complete a diary of their experiences when undertaking a journey point. The use of the diary was restricted to those currently undertaking a journey point, therefore focussing on those likely to be most accurate and realistic about their experiences. Respondents were asked to record any thoughts and actions they took regarding the journey point over a two-week period. The diary was then used as a prompt for discussion during the interview.

2.2 Sample

A total sample of 75 extended depth interviews was agreed. 60 extended depth interviews were allocated across each of the journey points 1-4 below, 15 to each point. 20 respondents were asked to complete diaries (5 for each of the journey points 1-4).

It should be noted that qualitative findings are indicative of the range of business owners' views, but are not representative or statistically valid.

1. NEW BUSINESS – 15 depth interviews:

- Prospective new businesses.
- Registering as a business with HMRC.

- Filing first return (SA).
- Making first payment (SA).
- Keeping records for the first time.
- Passing £15,000 sole trader turnover.
- Hiring an accountant for the first time.
- Setting up automated accounts system.

2. NEW EMPLOYER – 15 depth interviews:

- Prospective new employer.
- New employer registering first time.
- Filing first return (P35).
- Making first payment (PAYE).
- Filing first Expenses and Benefits return (P11D and P11Db).
- Making first Class 1A NICs payment in respect of Expenses and Benefits.
- Administering Statutory Payments for the first time (Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP), Statutory Paternity Pay (SPP), Statutory Adoption Pay (SAP)).
- Administering deductions from payroll for the first time (e.g. Student Loan Deduction (SLD), Child Support Agency (CSA), court order payments).
- Hiring a payroll bureau for the first time.
- Purchasing accounting/payroll software (PAYE, NICs etc).

3. BUSINESS STATUS – 15 depth interviews:

- Incorporation: registering as a limited company.
- Making first payment (CT)

4. VAT REGISTRATION – 15 depth interviews:

- Trading constantly below VAT threshold (£61k pa).
- Registering for VAT (below threshold).
- Registering for VAT (over threshold).

- Filing first return (VAT).
- Making first payment (VAT).

The remaining 15 additional depth interviews were allocated to other journey points with greater complexity and/or variability during fieldwork, as follows:

4 x filing first Self Assessment return and making first Self Assessment payment

4 x passing £15,000 as a sole trader

4 x Filing first expense/benefit (P11D/P11Db) and administering payroll deductions

3 x Engaging an import/export agent and filing first excise return

A key area of concern for HMRC was the need for the research to cover all the individual journey points listed above. To this end, the research was conducted as mini projects, focussing on each of the four journey points listed above. The aim of this approach was to manage both recruitment and feedback as closely as possible.

2.3 Recruitment

The criteria for recruitment were confirmed as follows:

- All had undertaken the relevant journey point within the past six months.
- A mix of business size was achieved (but no quotas on size were set since businesses new to journey points were likely to be micro or small).
- A mix of industry types was achieved.
- A mix of geographical locations was achieved.
- A mix of age of businesses was achieved (but no quotas on age since businesses new to journey points were likely to be new).
- A mix of turnovers was achieved.

- Ethnic minority businesses were included within the sample.
- Prospective businesses were defined as those who have made enquiries about setting up e.g. contacting Business Link or their bank.
- All respondents were responsible for fulfilling HMRC obligations on behalf of their business.

All respondents were 'free found' using a mix of opportunity and snowball sampling, following a recruitment questionnaire constructed in consultation with the project team at HMRC. The sample is appropriately purposive and is therefore not representative or statistically valid.

The reporting requirement was to indicate the spectrum of opinions captured across the purposive sample. This report does not, therefore, make reference to how common or frequently-expressed any particular views might have been (unlike the conventions of quantitative research).

The fieldwork dates were as follows:

- New Business interviews took place in St. Albans and London on the 11th-13th March 2008.
- Employer Obligation interviews took place in Birmingham and Sutton Coldfield on the 26th -27th March 2008.
- Business Status interviews took place in Leeds and Glasgow on the 14th - 15th April 2008.
- VAT interviews took place in St. Albans and London on the 30th April and 1st May 2008.

3. MAIN FINDINGS

3.1 New Business

'New Business' was the first part of this project which focused on registering as a business and undertaking Self Assessment for the first time, with a particular focus on:

- What motivates people to register as a business.
- Their expectations and experiences of the registration process.
- How they interact with HMRC regarding their new obligations and filing their Self Assessment tax return.
- Their experiences of passing the £15,000 turnover limit.

3.1.1 Registration

Registration as a new business is for the purpose of paying Class II National Insurance Contributions (NICs). Respondents registered or intended to register once set up and trading:

"When I start getting some phone calls, then I'll register because then it will be a business. To register before then seems pointless because it mightn't work out."

"It would be a little too early to call them now, I don't have the cabs yet so when I'll get them then I'll call."

For example, one respondent was currently in the process of buying a business and was intending to register when the business was 'up and running'. Although

he was aware that he needed to contact HMRC, he was unaware of what would be involved – and indeed what he was registering for.

The main reason given for registering as a business with HMRC was that it was considered a necessity to running a legitimate business:

“At some point you have to [register], so I think the sooner the better.”

Customers intending to start up or take over an existing business were usually made aware that registration was necessary by their accountant, Business Link or friends and family. Respondents felt that by registering they were avoiding issues such as fines, legal issues or other ‘trouble’ from HMRC:

“If there was no legal side to having a business I probably might have left it, but because everything is so tightly controlled (especially when it comes to money) it’s something you have to do by the book.”

3.1.2 Expectations

Surprisingly, there was very little expectation of risk when registering. The only risks mentioned were having to fill out forms and ‘boring paperwork’:

“I had this image of mountains of paper and being stuck on the phone for hours wanting to rip my hair out.”

There seemed to be a lack of urgency about registering, which was not necessarily top of respondents’ list of priorities:

“The business is going to be lots of work and very stressful, so I’ll leave HMRC until the end.”

It was perceived that there were other steps to be taken before registering, such as:

- Acquiring the business or premises/equipment.
- Setting up other elements of the business, such as the website, contacts, marketing etc.
- Some respondents even thought they would wait until they started to make a profit.

Even some who had already registered had been decidedly 'laid back' about it:

"I didn't know the specifics but I suppose as a small business I thought they wouldn't really notice if I was a little late."

Interestingly, two respondents who had not prioritised registering had been prompted into action by television adverts (albeit adverts that did not actually apply to their situation!):

- One was reminded by a DWP benefit fraud advert.
- Another was confused by the Self Assessment January reminder and thought it was aimed at him!

3.1.3 Knowledge

Knowledge levels about business taxes or why businesses are required to register were low. For example, one respondent insisted on referring to HMRC as HMDC or HMBC! Another remarked:

"I don't know what the department for tax and national insurance is called so I just put down 'payroll'."

Although there was an appetite to know more, respondents tended to want to learn about their new obligations in their own time, as and when they arose:

"I know I have three months to contact them, and that's all I know about it for now."

Although business owners knew there was a necessity to register, they were unsure of exactly what the registration was for: *"Is it just to tax us?"*

"If it's just for tax then I register once I start making money. Right now I'm setting things up, so do I still count as a business to them?"

"I know I have to register but I'm not sure exactly why."

Business owners knew that they needed to register with HMRC within three months, but the exact time to register in the life stage of the business was unclear. For example, if the business has not made any money yet, is it technically a business? Part of the confusion stemmed from varying interpretations of the term *'business'*:

"If I'm registered as self-employed then am I covered? Is my little one man band a business?"

"I know sole traders have to be self employed and do returns, but I'll be a business so do I have to do the same type as they do?"

"Businesses have employees and premises. I wouldn't say I have a business until it looks more like that."

"I haven't bought the business yet so until it's in my name there's no point contacting them (HMRC)."

Respondents required a clear definition – from HMRC's point of view – as to what constitutes a 'business' to address their confusion.

3.1.4 Registration

Fears about embarking on a closer relationship with HMRC led to a dependence upon accountants. Although accountants were more commonly used to complete business tasks other than registration some prospective new businesses also felt that they would be asking their accountants to complete registration on their behalf:

"You don't know where to go, so you go to an accountant."

"I've never had to deal with HMRC in this way before so I'll use my accountant to make sure I do things right."

Moving from a 'passive' relationship with HMRC via PAYE to a relationship with HMRC as a self-employed customer caused this group stress and anxiety, mainly due to awareness that there would be an increase in demands and obligations. Commonly customers feared 'getting it wrong' and 'looking stupid':

"You just think they know everything and I know nothing. They don't, but I still think that way."

The process of registering as a business was outlined by respondents as follows:

- Call HMRC who take information about the business over the phone. A form is sent out with the details discussed on the phone, which the customer signs and returns.
- Alternatively, some respondents filled out the form online – this was quick and straightforward:
 - *“Yeah, everything was straight forward, the information they wanted was what I expected.”*
- Confirmation is sent along with information about being self-employed – although this was appreciated it was rarely read:
 - *“It went on my list of things to do and is still there. Other things were more important at the time.”*

Those who decided not to undertake the task themselves had done so because they had assumed that it would be a long, involved process that would be difficult for them to manage, given their lack of experience.

Customers who undertook the registration process themselves also expected the process to be long and full of paperwork, but business owners were surprised that, in practice, it took relatively little time and involved little effort. They felt that it had been a positive experience:

“They took most of the information over the phone, so I just had to confirm the details on a form, sign it and post it back.”

“Honestly, it was 10-15 minutes on the phone, I was actually quite surprised how quick it was!”

3.1.5 Advice

During the early stages of setting up a business, advice was key. Organised respondents consulted Business Link:

"Business Link are really good, they give you a stepping stone".

"Business Link sent me a pack about how to set up a business...very helpful."

This group had used the Business Link website, which was very helpful and provided general information about setting up a new business. They had also used Business Link for other services, including training days and information packs. The least organised respondents relied on advice from friends, family and accountants.

A phone call to HMRC was often a way of seeking reassurance and respondents were pleased with the HMRC phone service:

"They were very helpful and open about letting me know if I had any questions to call back, they're just friendly."

As a support tool, the HMRC website received a mixed response. Although all the information required was available, some found the information hard to find. The sheer volume of information provided posed respondents difficulties, and others were concerned that they may misinterpret the information provided. There was also found to be a lack of information for new businesses about the basics of setting up:

"It goes on to all this tax information and I get confused with all the different types of companies and tax and everything. I just want to know the basic stuff."

"I read this whole thing about Capital Gains Tax...I got myself into a panic...I just want the website to tell me what I need to know now about tax."

Certain search terms, such as 'Starting a business', 'starting in business', and 'setting up new business' brought up a recommendation to go to the HMRC 'Starting in Business' page, which links to Business Link. Although there is a link to Business Link, this was not branded strongly and it was not immediately clear that customers would be taken to another site. Terms like 'new business', 'setting up business' and 'entrepreneur' brought up pages with much more process-orientated information which may be why some respondents found the HMRC website hard to navigate and understand.

3.1.6 Record Keeping

Attitudes towards business infrastructure planning varied. There were those intending to operate without accountants or record-keeping software. Some kept paper records either in boxes or folders with no guidance as to what they needed to keep or how to file effectively:

"I think I'll keep everything initially but then will learn what I have to keep and what I don't."

"If you keep everything then at least you know you're covered."

"I'll put them in a box for now until I know what to do with them."

Some intended to keep records themselves, but get an accountant to help them with returns. Others were very confident and intended to do everything themselves:

"I just kind of took my own initiative, I didn't really think about talking to anyone about it."

Equally, there were those who were heavily reliant on taking advice from their accountants. Some were reliant on accountants because they were intimidated by HMRC tasks:

"We basically had to hand things over to the accountant because we struggled, really struggled to find out information and speak to HMRC."

"You don't want to get on the wrong side of HMRC so I use an accountant to make sure everything's right."

"Obviously things change year to year with HMRC so you need an accountant."

Others were keen to cover every aspect of record keeping and tax tasks, often on the advice of accountants:

- Excel was popular.
- Respondents who had not yet decided on software were keen to take advice on the best packages to use.
- Those who had received advice about record keeping were aware of what needed to be kept – such as income, outgoings, invoices, profits.

There was not a coherent understanding of the requirements of record keeping or how businesses should go about doing it. It was clear that, for some, becoming more responsible for statutory obligations was going to require a conscious effort:

"I'm going to have to be more disciplined with myself now to keep things filed and make sure I file my returns when I need to."

There was also evidence that some were rather underestimating the scale and importance of the record-keeping task:

"I've got everything in a folder. I might use a spreadsheet for invoices, but I don't think it'll be too hard to keep records because it's just good common sense."

3.1.7 Passing £15,000 as a sole trader

Respondents were largely aware that their obligations would change when they passed £15,000 as a sole trader. However, accurate knowledge of these new obligations (completing the Standard Accounts Information part of the self-assessment return) was minimal and, in some cases, completely inaccurate. For example, one respondent thought he had to submit accounts because his dad advised him to. He was not alone; other respondents were under the impression that submitting accounts was a legal requirement once the £15,000 threshold was reached.

A lack of knowledge about business owners' HMRC obligations led business owners to contact HMRC with incorrect information. Business owners made reference to Self-assessment fines and ID numbers, which caused them to

receive advice from HMRC telephone staff on becoming self-employed rather than information on passing £15,000 as a sole trader.

Business owners called HMRC to make enquiries about how to submit accounts. Some also believed they could submit on line and requested an ID number to do so. This led business owners to receive information about self-assessment. There was no awareness of the 'Standard Accounts Information' part of the Self-Assessment form and business owners were not informed of this by the HMRC helpline due to confusion with registering as self-employed. This confusion led to frustration by the business owners who believed they could not receive adequate help and advice from HMRC. Business owners continued to believe that submitting accounts was their main new obligation once they passed £15,000 as a sole trader.

"I got the impression they didn't really know what was going on."

"I didn't really get a satisfactory answer."

Respondents expected to be prompted by HMRC to submit accounts, as they were for their Self-Assessment returns. The continued belief in submitting accounts and the difficulty business owners are experiencing in finding out information created a negative customer experience and impression of HMRC.

3.1.8 Self Assessment

Respondents were aware that they would need to fill out a Self Assessment tax return. Awareness of the obligation to complete a Self Assessment tax return had been raised in various ways by HMRC, including:

- Notifications through the post.
- Television and radio adverts.

- An online timetable.
- Forms through the post.

Respondents were also motivated to complete a Self Assessment tax return through fear of 'upsetting HMRC'. One in particular had seen companies 'disappear' after not paying tax or National Insurance. Others were prompted by the risk of a fine.

Respondents tended to be anxious about filling in their Self Assessment tax return for the first time, particularly those with no experience of tax in the past:

"I think it's to do with my pre-conceived ideas about tax, I just thought it would take days and days."

"Self Assessment does scare me, I've never done it before and what if I work it out wrong?"

However, those who were anxious were always pleasantly surprised:

"I had a few trepidations to start with, but I've been proved entirely wrong on that. They've been absolutely fine every time I've spoken to them, people have been very helpful."

"They got me through quite painlessly. I found the whole process quite kind."

Experienced respondents had more realistic expectations of the process, expecting it to take a reasonable amount of time to complete and being less intimidated by it. However, even this group was also pleasantly surprised:

"It was quick, as long as you have all the information you require nearby."

One respondent had done his end-of-year PAYE return online (inspired by the financial incentive) and his preconceptions of online filing were based on this experience:

"You literally press a couple of buttons and it sends it off to the right section. I thought if that is how easy it is, it must be that easy to complete Self Assessment too".

Respondents found the process of filing Self Assessment straightforward and were comfortable to undertake it - as long as they had support. Support was essential because there was a general fear of the process, especially following previous errors.

Often respondents required reassurance that the return had been done correctly (often provided by accountants but sometimes a call to HMRC):

"I just wanted to make sure I needed to do a return based on the business I was doing at the time, I just needed to make sure."

"For peace of mind they should tell people that it's right."

Those who filed their return online tended to look for advice on the internet or on help buttons, whereas those who sent paper forms were more likely to call HMRC. Respondents were again pleased with the process and surprised at how straightforward it was. Online registration took no more than a week, and respondents liked the amount of 'hand-holding' they received:

"I received an email that said the activation code would be with me a week later and it was... the process was very good."

"It was easy, it was simple and the main information was there for a normal Joe Public like me to understand."

Once up and running, respondents took their time to do their returns over a few days:

"Overall I found the whole process very smooth. I completed it over various evenings in the week and there were no problems at all."

Respondents who completed their Self-Assessment online outlined the process as follows:

- Put tax reference number into online Self Assessment site.
- A week later activation code is received (at home – secure).
- A password is set up and then the form can be accessed immediately.
- Completing the forms online was seen to be the same as completing the forms on paper *"except some things are worked out for you which made it a bit easier."*
- The website was seen as informative and the help buttons were sometimes used, which also made online returns easier to complete than paper returns. Some respondents admitted that they got their accountant to *"sanity check"* their return before sending it, for reassurance.

Respondents who used paper forms tended to be less confident and less business savvy in general. That process was outlined by respondents as follows:

- Forms arrive through the post.
- Reminders also come through the post.
- Some worked out their accounts only when they were faced with the Self Assessment tax return.

Support was sought by calling HMRC for advice and to resolve issues – *none* of this group had accountants. The primary source of advice for Self Assessment was HMRC. Respondents tended to call HMRC for clarification and to put their minds at rest as well as to resolve issues. Respondents were very pleased with the telephone service:

“My key worry when I took over the company was the tax, because I’m not accounts-wise at all. Every time I’ve phoned them and asked them a question they have always been really good.”

Others preferred to use the website because they were put off by long queue times on the telephone:

“There is always a message saying they are very busy at this moment and then they cut you off. You just give up. It’s easier to do everything online.”

“I’ve had them hang up on me after being on hold for a while...now I don’t call because it’s just a waste of my time.”

Respondents regularly noted that HMRC was very proactive in contacting them, which appeared to make them more comfortable contacting HMRC. One example of this was a local tax office calling a respondent to invite her on a training course to help her filing returns: *“I was very impressed”*. Other examples of proactive contact from HMRC were about regular contact, updates and reminders from HMRC, for example:

- Letter of notification that Self Assessment would have to be completed.
- Paper forms being sent out.
- Sending pin codes for online registration.

- Letters reminding respondents to submit Self Assessment.
- Television and radio adverts.

Other sources of advice included friends who worked in accountancy or who had their own businesses and accountants.

3.1.9 Making first Self Assessment payment

The process was outlined by respondents as follows:

- When online, respondents were given a figure of what is owed.
- If working on paper respondents worked this out themselves.
- Online respondents had the option of registering their bank details and paying online, but some preferred to send a cheque anyway.
- An acknowledgement letter was normally sent out, and customers could also track their payments online: *“It shows what you have paid, what is remaining and when you have to pay the next instalment.”*

3.2 New Employer

This stage of the project focused upon employers' experiences of:

- Registering as an employer.
- Setting up payroll.
- Administering PAYE, including deductions, statutory payments and expenses.

Respondents had started out as self employed, expanded their business and taken on employees when they needed help. Business size was relatively small and business owners had struggled during the initial stages of trading. Over

time, each business owner had found that they needed more help and decided that they could afford to employ a small number of staff. There were a variety of different – but all positive - reasons for taking on more staff:

- To generate more income.
- To allow the business owners to adopt different roles or 'step back'.
- To spread responsibilities between more members of staff.

One respondent started out as an employer, having taken over an existing business. This business owner took over a tool-making business from a retiring relative, joining the company when it was already up and running as a registered employer. As she started to employ people as the new owner, she had to register herself as the employer of the new staff.

One estate agency owner believed that only when his company became a Limited company would he have to become an employer as currently all his staff were self-employed¹.

Another respondent operating a renovation business initially paid his employees cash-in-hand (which he considered 'simpler and easier' before switching to the CIS scheme). Unfortunately, he found the CIS scheme too difficult to maintain by himself – and had been investigated. His accountant advised him to register as an employer and set up PAYE. The key motivation for changing from CIS to PAYE was the desire to complete tasks for HMRC correctly:

“Dealing with HMRC leaves an impression on you and I swear I never want to get on the wrong side of them again. I can go out and enjoy an

¹ This assumption was in fact incorrect as the status of the business would not impact upon the employment status of the estate agency's staff, all of whom should have been employed rather than self-employed.

Indian meal without asking the chef how he made it. That's how I see my accountant and all this HMRC stuff."

3.2.1 Motivation

Generally, a key motivation for registering as an employer was a hope that it would be beneficial for the longer-term success of the business. Of all the different 'growth points' (new business, registering as a Limited company and VAT), becoming an employer was perceived positively. It was seen as a sign that the business was moving forward.

For example, one respondent said he was *"over the moon"* to be employing two members of staff. Another described employing two members of staff as *"a huge step forward for the business"*. Some respondents felt a sense of pride at becoming an employer, as they felt this added 'status':

"Paying even a small amount of tax makes me really proud of this business!"

"It's a sign you're moving up and that all the hard work is paying off."

3.2.2 Registration

Broadly speaking, respondents did not feel that there were any particular 'risks' attached to becoming an employer. However, business owners were concerned that taking on employees would involve more paperwork and responsibility. One employer who had taken on an employee two months ago explained:

"I was worried that I would not know what to do as an employer, that I'd get it all wrong, but the help I got from HMRC really changed my mind."

Respondents were motivated to register as an employer because they understood it was a legal requirement. Whilst respondents were implicitly motivated by a desire to 'do the right thing', some were motivated to register in order to avoid investigation. For example, one respondent was chiefly motivated to register as an employer since being fined £2.5 million by HMRC in 1983 after an investigation into their insufficient import/export record keeping.

A number of respondents in the building and hairdressing trades had been non-compliant for a short time (allegedly!) by paying employees cash-in-hand. This was a practice associated with the early days of setting up in business, before owners were able to 'get everything up and running properly':

"I needed the extra help but also needed to be certain that if I took on the responsibility of a full time employee I would have the work and the money to pay a wage so I paid them in cash for a while."

3.2.3 Concerns about becoming an employer

The decision to become an employer was not undertaken lightly. Although respondents were consulting their accountants about becoming an employer, consulting HMRC was more likely. Becoming an employer invoked a sense of responsibility unlike other journey points. Concern for employees' peace of mind and security was high. For example, one new employer said that:

"We just wanted to make sure that everybody was being looked after properly."

Business owners still wanted to be informed about what was going to happen when they became employers. Typically, the HMRC website was the starting

point. Respondents researched the site in order to understand what their obligations would be. A number of others had also rung the HMRC telephone help line, again, making general enquiries about becoming an employer. Some respondents' preconceptions of registering as an employer were that it would involve:

- More paperwork that would be complex and ongoing;
- Lots of extra work;
- 'Hassle';
- Opening the business up to more scrutiny from HMRC.

However, other respondents expected the process to be straightforward and efficient because it simply involved giving HMRC business and employee details – essentially, 'nothing controversial':

"It was not about money or tax that I personally owed so there was no reason to expect that it would be that complicated."

3.2.4 Use of accountants

Numerous business owners relied on or intended to rely on their accountants to complete employer registration on their behalf. This was because business owners felt generally intimidated at the prospect of interacting with HMRC. Moreover, using accountants was perceived to be more efficient and less hassle for themselves. Business owners were often influenced by friends and family members who advised them to use accountants. For example, one respondent used an accountant because her father, who also owns a small business, used an accountant:

"My dad used his accountant for tax and payroll so it was automatic for me to do the same thing."

Accountants inspired confidence. New employers wanted to be reassured that their registration – and ongoing obligations - would be fulfilled accurately.

As well as taking on tasks on employers' behalf, accountants were also an important source of advice regarding employer obligations. Accountants often prompted respondents to seek further information or advice from HMRC.

Despite the strong level of guidance from accountants, respondents were still aware that they were ultimately responsible for fulfilling their obligations with HMRC, although business owners were content to rely on their accountants. Few concerns were expressed about their dependence on their accountants:

"I do rely quite heavily on him and it does concern me that I don't understand my tax or the business of tax because in the end it is my neck on the line."

For example, one respondent was now rethinking her relationship with her accountant. She wanted to 'take back some control', feeling that too many business owners 'succumbed' to this type of relationship with their accountants.

Some respondents did not use an accountant to complete the task of registering as an employer or did not intend to use an accountant to complete the task of registering. This group was motivated to undertake the task themselves for three main reasons:

- The wish to 'stay in control' of their business.

- To understand what was involved with each different aspect of their business.
- To minimise accountancy costs.

The group who had either not used an accountant or were not intending to use an accountant included owners with a range of different types of businesses:

- White collar (for example, estate agency, HR consultancy).
- Blue collar (for example, cleaning, double glazing, electrician, hairdressing).

However, there were points of commonality:

- They all shared a similar 'can do' attitude.
- They all had good experiences of dealing directly with HMRC in the past.

3.2.5 Registration

The registration process was perceived to be smooth and efficient. Employers completing registration themselves found that they were supported through the process by HMRC. They simply needed to provide all the necessary details by following the advice from the website and help line advisers. The help line advisers were described as 'specialist', which gave respondents confidence in the service. For example, one respondent felt "*very looked after*" by the HMRC representative as she was advised about what steps to take next after registration.

Unsurprisingly, those who had undertaken the task of registering as an employer themselves had a good understanding of their ongoing obligations. They had

found out about their ongoing obligations by contacting HMRC directly – either via the website, Employer Pack or Employer help line.

Respondents found out about the ongoing tasks they would need to undertake via their accountants. However, it emerged that business owners did not have a good understanding of the specific tasks involved (such as monthly payroll, end-of-year payroll, deductions, statutory payments, expenses returns) and were not worried by their lack of awareness.

Key benefits for employers who used the Employer help line was that it was a quick and flexible way to find out the information they required. The Employer help line was used for more specific advice and support about how to carry out the following tasks:

- How to set up payroll.
- How to submit PAYE returns.
- How to make statutory payments and deductions.

For example, one respondent explained how he had received considerable support from HMRC, having no prior knowledge or experience of PAYE processes and having undertaken the task of registering by himself:

“They really did show me the way, a lot of the fear comes from not knowing but when you know what you have to do it’s less scary.”

The New Employer Pack was considered an excellent resource by those who had undertaken or were going to undertake registration themselves. For this group, the Employer Pack was an essential tool, equipping them with knowledge about what they needed to do. Business owners rarely ordered the pack online *prior to registration*. More specifically, the Employer Pack had been used to find out:

- How much tax needs to be paid.
- What information HMRC requires from employers.
- What forms employers need to give to their employees – e.g. P45s, P11Ds.

3.2.6 Setting up payroll software

Only one respondent had experience of setting up payroll software by himself. This business owner had set up an account on the HMRC Gateway and purchased SAGE payroll software. He had contacted HMRC for assistance via the telephone help line and online support, which he had found to be a *'helpful and efficient resource'*. The remainder let their accountants organise the system for them or did not have automated payroll systems.

3.2.7 Submitting monthly PAYE returns

Again, some businesses relied on their accountants to submit monthly PAYE returns. Of those managing their own monthly PAYE payments, some had poor experiences. For example, one respondent had used the CIS scheme to pay his employees. After making numerous mistakes in his paperwork leading to a HMRC investigation he was motivated to hand his employer responsibilities to his accountant:

"I tried and I failed so it was time to pass to the professionals."

His accountant switched from CIS to PAYE and consequently completed all his paperwork, informing him when payments were due.

Others had found that the process was more efficient when undertaken online. For example, one respondent was directed online and was set up with passwords as a result of calling the help line. This respondent found the process of submitting monthly PAYE returns very easy:

“It is easy once you get going. It’s just building up the knowledge and routine to manage everything and that takes time.”

Business owners had their accountants submit their year-end PAYE returns on their behalf. Amongst this group, some were more aware of the significance of the year end PAYE return than others – some outsourced the task and did not attempt to understand what it involved. Others knew what the process entailed, even if not undertaking it themselves.

Those completing their tasks without the assistance of an accountant were submitting their year-end PAYE returns online. This was felt to be a more efficient process, reducing paperwork and taking less time:

“It’s quicker and less stressful to complete it online.”

3.2.8 Additional Obligations

Preconceptions of the range of new obligations (expenses returns, statutory payments and deductions) were consistent. Respondents expected the tasks to be complicated and confusing. The perception that the tasks would be complex was driven by:

- A lack of understanding about what the tasks involved.
- Anxiety about undertaking the tasks for the first time.

Business owners felt the key to being able to fulfil new obligations was to increase their understanding and reduce their anxiety about specific tasks:

"Once I understood what I was supposed to be doing it was pretty straightforward."

"The key is to increase my understanding of things."

Initially, P11Ds were a daunting prospect:

"The P11D was totally new for me, totally alien. The biggest problem I had was nerves – am I doing the right thing?"

Respondents often admitted that they were confused by the task:

"I was confused about what I was allowed to claim and what I wasn't allowed to claim."

"It's different for every employee, so it's not easy."

However, with telephone support, respondents had managed to resolve their difficulties, and were more than happy with the service they had received:

"I can't see that any improvements need to be made because they dealt with it in a perfectly adequate way and very efficiently and painlessly."

Statutory payments were worrying for smaller employers who were clearly unsure of their responsibilities:

"I do worry what happens if one gets pregnant. I can't afford to pay someone who is not working for six or nine months, but am I legally supposed to?"

Employers became aware that their inexperience (and their reliance on their accountants) meant that they knew little about what to do next. Once again, support from HMRC enabled employers to fulfil their obligations. For example, one employer found out from the HMRC website that she needed to get a MATB1 from her employee and pass this information to her accountant, as well as how much she would pay and that the rates were changing for the 2008-2009 tax year:

"The page on maternity leave was easy to read, told me what I needed from my employee and left me knowing what I needed to do."

Deductions from payroll were also perceived as an area of complexity:

"That side of things is overly complicated. If she works a certain amount of hours she gets this, under a certain amount of hours she gets that..."
(Student Loan Deduction)

However, both the HMRC telephone help line and website had provided solutions:

"They are fine – they will give you an answer, point you to a place on the website. If you ask them for greater detail they try and give you greater detail."

Experiences of HMRC help and support channels were consistently positive, and proved that negative perceptions were misplaced:

"Every time I wanted to do something I thought, 'oh no, this is going to be difficult' – and it wasn't."

"I was impressed. I didn't expect it to be so painless."

"It is one of those preconceptions ... that government departments will be antiquated. I rang them with a sense of dread. I thought it would be much more of a hassle than it was."

"I can honestly say they have been very helpful – which surprised me."

Calling HMRC by telephone was a way of receiving tailored support for respondents' specific points of confusion or perceived complexity:

"They had to explain everything to me in words of less than one syllable. They talked me through the whole form."

For example, one respondent had a business in which two vans were shared between three employees, who take it in turns to take the vehicles home at weekends:

"They said they would deal with it and call back. When they called they explained that there is a formula that you apply, and they gave us the formula. I was quite impressed."

Not only did contacting HMRC assist respondents with their immediate task, it also gave them more confidence to undertake the next new set of tasks:

"Having done it once I wouldn't be nervous again."

One respondent had successfully contacted HMRC regarding his own expenses return and as a result realised that one of his employees would need to submit a return too:

"I just needed to check it all out, ask 'what do I do now?' I went straight to the horse's mouth to find out what to do."

3.3 Business Status

This stage of the project focused upon registering as a limited company:

- Why businesses register with Companies House, their expectations of Limited company status.
- How they interact with HMRC regarding their new obligations and making first Corporation Tax payment.

3.3.1 Motivation

The main motivation to become a Limited company was owners wanting to limit their own personal liability. Respondents were concerned about long-term financial security – both for their businesses and their families. Some respondents were particularly keen to avoid personal liability based on personal experience:

- A few knew businesses that had gone bankrupt.
- Another had been involved in a business that had gone bankrupt.

One business in particular felt that the current 'credit crunch' had very much encouraged them to commit to becoming a Limited company. In addition, being

a Limited company was perceived as 'prestigious' and presented a positive image of the company to potential customers. Business owners seldom registered as a Limited Company when first setting up their business:

- One considered it a necessity to limit personal liability, given the nature of the business.
- The other admitted that he had done so 'in a panic' (which he later regretted).

For more mature businesses, incorporation was a change after a period of stability when other obligations (for example VAT, PAYE and self assessment) had become routine. For this group, change was not particularly welcomed:

"It's daunting and I don't want to get involved in it."

"It's territory I'm not used to."

3.3.2 Registration

Changing the nature of the company was considered a big step. By comparison, registering a new business with HMRC for the first time was considered 'safer'. As a result, businesses relied on their accountants to complete the Companies House/HMRC processes on their behalf – or if not the whole task, at least the HMRC processes. Formation agents were not used during the process of becoming a Limited Company. Although their existence was known business owners had concerns about their legitimacy:

"You don't know enough about the process to go through a company...it's safer just to go directly to Companies House."

Business owners relied or would be relying on their accountants to complete the registration process (both with Companies House and HMRC). Business owners had a strong suspicion that the process would be *“legal and involved”* and therefore preferred to rely on a third party:

“I can't afford to do it personally because I'm too busy. My accountant will do it and it will probably take a lot of time and effort.”

As a result, business owners simply 'kept in touch' with their accountants to make sure they were aware of what was happening, but did not become closely involved in the paperwork:

“I just make sure I'm happy and I know what I'm signing.”

A few business owners undertook the process of registering as a Limited company (both with Companies House and HMRC) themselves. This group were typically business owners with more established businesses, greater experience of dealing with HMRC and a positive perception of HMRC services.

For those who undertook the registration process themselves, the process went as follows:

- Made aware through accountant that registering was necessary or decided to register for personal or prestigious reasons.
- Researched online using Google, HMRC website and Business Link.
- Printed documents and information to read over, including CT41G form.
- Complete hard copy CT41G form and use as a reference during online registration.

Business owners who registered for Corporation Tax online were very positive about the online services provided by HMRC:

"Their website is so comprehensive."

"I thought it would take much longer but doing it online was quite quick."

3.3.3 Companies House

Respondents were more likely to contact Companies House about registration themselves than were willing to complete the CT41G. There was minimal recognition of the CT41G because of high dependence upon accountants to complete the forms. Three reasons were stated for business owners' use of accountants to complete a CT41G form:

- Considered part of an accountant's responsibilities to the business:
 - *"I would not even contemplate filling this in myself, it's for my accountant."*
- Limited experience and low confidence completing tax forms.
- Simple unwillingness to engage with any tax forms.

Nevertheless, the form was a priority as business owners were aware that paying Corporation Tax is an obligation once registered with Companies House:

"When forms are about money and payments you don't wait around."

3.3.4 CT41G

Those business owners who completed the form without assistance expected a *"long difficult form"* and were *"pleasantly surprised"*. This positive experience

encouraged those business owners to attempt more business forms and responsibilities. Business owners who had not seen or completed a CT41G, once shown one, admitted the form was not as complicated as they had thought:

"It's shorter than I thought."

"It's not as terrifying as I thought it would be but I still think I'd just expect my accountant to handle this."

A company's 'accounting period' (Q1) caused confusion:

"Is that April to April?"

"Is this different to the tax year? It must be otherwise they'd just say that but then again maybe I'm wrong."

"I'm not really sure what that is, I'd need to ask someone to clarify that"

Due to the reliance upon accountants, business owners were unfamiliar with the 'Authorising Your Agent' form, although those who had completed registration admitted they probably had signed one for their accountant. Similarly, the 'Dormant Company' form also received little response:

"This is why I use an accountant, how do I know if that's the right form or even relevant to me? My accountant handles these things and I gladly pay him to."

Business owners who had completed their own CT41G did not recognise either form but were more aware of their purpose (once given a closer look) than those who had used an accountant:

"I would have signed something like this [Authorising your Agent] for my accountant I assume and the Dormant one is for companies no longer trading who are Limited, I think."

3.3.5 What is Corporation Tax?

The level of awareness and knowledge about Corporation Tax varied:

"It's a tax for the liability cover we get by being a Limited company."

"It's a form of insurance really so if the business go down I don't lose my house."

How Corporation Tax was calculated also raised questions from business owners:

"Is it based on the size of the company?"

"I'm pretty sure it's to do with how much profit our company makes in a year."

"I'm sure it's obvious but I'm not actually sure what criteria they use to calculate it."

Business owners who had completed registration and paid their first Corporation Tax payment were generally more knowledgeable than those intending to do so. Some were, however, entirely reliant upon their accountant to inform and instruct them about Corporation Tax, regardless of how old the company was:

"I've been in business for 20 years and I let him sort it out because I simply don't want to know about it...just tell me how much I owe."

Due to lack of clarity regarding a company's 'Accounting Period' those intending to make a return were unsure about when it would be required. They were confident their accountant would complete the return when required. The information believed to be required to complete a Corporation Tax return was:

- Business information (names of Directors etc).
- Sales and profits.
- Out-goings.

The ability to file returns online was welcomed by business owners completing Corporation Tax returns themselves:

"It's quick and I do as much as I can online."

Accountants were also believed to submit Corporation Tax online.

The process of completing a Corporation Tax payment was described by respondents as follows:

- HMRC receive the company's return and calculate a bill.
- A letter is sent to the company informing them that the Corporation bill will be sent soon and advising about online payment options.
- The bill arrives.
- The payment is made electronically within a certain time period (estimated to be 5-6 months after the bill is received).

Those who had made their own first Corporation Tax payment were initially anxious about the process but felt that the HMRC website provided clear guidance and instruction: *"It was easier than I thought."*

3.3.6 Corporation Tax payment

One business owner had trouble making his first Corporation Tax payment. His accountant received his bill and informed him to pay. He was surprised at the amount, which he stated was five times what he expected:

"I know what Corporation Tax I was going to have to pay within a couple of pounds and when I received this from them it was five times the amount."

After his accountant refused to investigate, he wrote to HMRC who investigated and admitted responsibility for the fault. They recalculated his bill, which he then paid. He felt that the inquiry could have been handled more efficiently:

"The employee in charge of my case went on leave for a month and no one else would handle my case so I had to wait for them to return. That's out of line."

3.4 VAT

This stage of the project focused upon registering for VAT:

- Why businesses register for VAT.
- How they interact with HMRC regarding their new obligations.
- Making their first VAT return and payment.

3.4.1 Motivations

A group of respondents considered being VAT registered 'prestigious'. For example, one respondent felt that his interior design business would be separated from 'mere decorators' by being VAT registered. Presenting a professional image was also important.

- Some businesses registered as they wanted to attract more corporate business.
- One business that worked for charities registered to appear legitimate and publicly accountable.
- Another respondent was setting up a literary editing company and felt that image was so important within this field that if he did not register and did not present himself as a serious business he would fail:
 - *"Sad to say but we're a vain industry....doesn't matter how good you are people expect a professional business and if you don't present yourself that way they'll go to somebody else."*

Overall, there was a strong belief that being VAT registered presented a business as serious, professional and *"here to stay"*.

Some respondents were encouraged to become VAT registered by their accountants since they were likely to exceed the VAT threshold. For example, one company built yachts and was informed when the company was set up that they would automatically exceed the VAT threshold when they made their first sale. Another business owner was advised to become VAT registered before her handbag business reached the VAT threshold in case delays in obtaining the VAT number affected her business.

Not all recommendations from accountants were accepted. For example a home valeting company whose turnover had decreased was now unsure whether to register or not:

"I don't know if it's worth it now, we were only going to do it because our accountant said we were nearing the threshold."

Another group of respondents were required to be VAT registered by their customers. A common explanation for this demand was the continuation of the 'VAT chain':

"They want to be able to claim back their VAT and if you're not registered they mightn't work with you."

The second reason for this demand was procedural:

"I work with banks and they require you to be VAT registered. If you want their work you have to register."

Although businesses accepted that VAT registration was necessary for their business to flourish, this group expressed some annoyance at being 'forced' to register, feeling that their customers were setting the pace of business development, rather than deciding for themselves.

A last group of businesses were registering even though they were trading below the threshold in order to claim back VAT on purchases. For example, a baby gift business purchased vast amounts of products to create hampers.

"We spend so much money on products that have VAT attached so it makes sense to claim what I can back."

"Everything we buy has VAT on it so claiming back anything is good news."

An interior design company was also registering below the threshold to claim back VAT on services (painters, carpenters) and material (furniture, kitchen/bathroom suites). Claiming back VAT on purchases was considered highly beneficial for these small businesses.

3.4.2 Researching VAT

Information about VAT registration was primarily supplied by accountants. Some had previous VAT knowledge and/or used the HMRC website for information. This group researched what VAT was, what the implications of VAT registration would be for their business and what extra responsibilities it would involve. Business owners intending to complete their own VAT return also researched this task. Although the information required was available, navigation of the website was difficult and time consuming:

"The website's pretty good, but it's not a quick read. I printed off a load of information."

"It's a website you don't scan over, there's just so much on it but if you take your time you'll find what you're looking for."

3.4.3 VAT registration

Business owners felt capable of registering for VAT as it was considered a 'one-off' process. Unfortunately, this level of confidence was only associated with the registration process.

One group of business owners who completed registration also proceeded to complete their first VAT return themselves. After registration, others simply 'kept in touch' with their accountants to make sure they were aware of what was happening, but did not become closely involved in the paperwork:

"I'll keep my receipts but I won't be touching that return!"

Another group of business owners had used or intended to use accountants to complete VAT registration. The reasons for this decision were:

- Time constraints.
- Tradition of using accountants for HMRC tasks.
- Lack of confidence in own ability to complete the registration.
- Fear of the unfamiliar.

"I won't do this myself, I'm used to him doing stuff and I set up this company to be creative - not to do tax stuff."

Those who completed the VAT registration process themselves found that it was 'manageable'. It was a one-off transaction based on providing HMRC with details that were already 'to hand':

"Registering for VAT was fine. The form is what you'd expect from HMRC."

The type of information that businesses were required to provide were:

- Business details.
- Managing Director details.
- Invoices to prove they were an existing business.

- Bank statements.

Respondents had completed VAT registration online. Others registered on paper due to a preference for hard copy forms. They had found out about online registration via their accountant or through their own research.

The online registration experience was positive. For example, one respondent decided to file online for convenience. The application asked for corporate bank account details, which she was not able to supply. However, the FAQs explained she could still register without this information. She later received an email receipt saying that HMRC may ask her for further information and that she should receive her VAT number in 2-3 weeks:

“The FAQs were so helpful, having them there made it able to finish the form online. If I had done it on paper I would have had to stop and go call them and that would have taken ages...”

Complaints about the registration process focused on the length of time it took HMRC to process the application and supply a VAT number. In some cases, respondents reported that this process had taken up to five months. Waiting had a significant effect on small businesses. For one, delays in the process delayed the start of trading:

“Our client demanded a VAT number and waiting ten weeks meant we had to turn down business. We thought we'd have the number weeks before then.”

For another business owner, the long wait for his VAT number made him 'anxious and concerned' that he had been rejected:

"I was a bit of a nervous wreck thinking that my business was over because I wouldn't have the number. I didn't need those extra weeks of stress and worry."

A number of business owners had called the HMRC help line to 'check up' on their application. Respondents felt that they had received good customer service, but were disappointed to hear they could still be waiting a few weeks more for their VAT number:

"They were lovely on the phone but I found it frustrating that I had to call up to check where my number was."

Business owners suggested a number of ways to alleviate this problem:

- Use preliminary VAT numbers during the waiting period.
- Improve internal processes to guarantee that VAT numbers are supplied within 6 weeks.

3.4.4 What is VAT?

The level of awareness and knowledge about VAT varied. The least aware group was completely dependent on their accountants and were unsure what effect being VAT registered would have on their business. This type of business owner was typically younger, with little or no experience of interacting with HMRC - they tended to be afraid of HMRC:

"I was told to do it so that's what I'm doing."

Some business owners automatically placed VAT firmly in the hands of accountants, and were not motivated to research VAT any further than the registration stage.

A more informed group had previous experience interacting with HMRC, were confident in their abilities and not as fearful of HMRC:

"I've seen my dad do VAT returns for years, I've done them for other people before so this doesn't really worry me."

The last group were informed, had completed their own registration and return and understood the impact VAT had on the running of their business. They had previous experience of HMRC, were not afraid of forms or tasks and, overall, were determined to complete HMRC tasks independently:

"I've taken the tutorial from my accountant and done my first return and it's made me confident that I can do this again....better."

Respondents (both those who were registered and those who had yet to register) had a number of questions about VAT:

- What does the threshold signify? What is the importance of £67k?
- What happens if you don't register?
- What happens if someone backdates an invoice and that invoice should have gone into the last quarter?
- Can you challenge HMRC's quarterly bill?
- Can you de-register for VAT?
- What exactly can I claim VAT back on?

3.4.5 Filing first VAT return

There was a strong sense of fear surrounding VAT. Of those who had submitted their first return, filling it in themselves was uncommon. The unwillingness to attempt a VAT return stemmed from:

- A lack of understanding of VAT and how it is calculated as well as a perception of complexity:
 - *"I don't see how anyone could do a VAT return without proper instruction from an accountant."*
- A fear of 'getting it wrong' and being fined by HMRC, particularly worrying because the business owner is 'holding government money'.
- Being too busy.

The preference for using an accountant was further influenced by the perception that it would be less stressful, less time-consuming and a reasonable fee (for example, with a fixed annual accountant fee). Although respondents were aware of their dependence on their accountants, satisfaction with this relationship was high. Business owners trusted their accountants and had done so for many years. It was not just business owners with limited experience who had decided to delegate VAT returns to their accountants. Experienced business owners also subcontracted the task:

"I understand the VAT return but what I don't understand is me keeping it just to give it back. It's a huge paperwork joke."

There were two main reasons respondents feared VAT returns:

- Quarterly returns mean more chances to make a mistake.

- VAT is the 'government's money' and business owners do not want to be responsible for making mistakes.

One director who completed her first VAT return had a 'tutorial' with her accountant who showed her how to complete a VAT return. It took her a weekend to do the return in addition to the time it took to photocopy her receipts and invoices for her accountant. She estimated that she would need an entire week every quarter to complete her VAT return. Although confident in her ability to complete her VAT return, she had her accountant check her return before sending it to HMRC:

"I'm quite proud that I did the return, it was hard and long but it saves me thousands of pounds each year in accountancy bills."

She completed her first return on paper in order to *"spend time on it"* but had heard good reports of the online service and hoped to file online soon.

Another director who completed his own VAT return had a longstanding knowledge of VAT (having watched his father and brother complete their own VAT returns). He completed his VAT return on paper within a few hours and described the process as *"easy and straightforward"*:

"It's one sheet of paper, one side what you paid out and the other what VAT you got and at the end who owes who what."

Although he used an accountant for his end-of-year accounts he would not use him for VAT as he felt he was capable of the task.

The extra seven days to file online was unpersuasive. Those who relied on their accountants to file VAT on their behalf were not interested in how the return was

filed. Their primary concern was that their VAT was filed within the correct time period. For the one business owner who was considering filing online in the future, it was the perceived ease of the process rather than the extra time, which was persuasive:

"I'll try filing online because it's most likely easier than paper. Those extra days won't make a difference."

Respondents felt that the main beneficiaries of the extra time allowance would be accountants who were likely to have numerous VAT returns to submit simultaneously.

3.4.6 VAT Payment

The process of making a VAT payment was perceived to be a relatively painless experience. Business owners expected to receive a bill once their VAT return was processed, although there was confusion about how long this would take. Business owners expected to be informed by their accountant how much VAT they owed HMRC. Separate bank accounts were used to store VAT for payment. This was to ensure that the money was not mistakenly spent, causing financial strain on the business (which had happened to one business owner):

"I learned quickly after that to keep it separate because it's not my money."

"I assume they just send back a bill and I pay it..."

Those who had recently sent their first payment had paid by cheque. Business owners preferred cheques to online payments because the money stayed in their business accounts for longer and cheques were considered a good way to record

payments. The incentive to pay online was unpersuasive. Business owners did not like the fact that their money was removed immediately:

“Sometimes I might need to pay early or later depending on the cash flow of the business so direct debit wouldn’t work for me.”

Automated payments were also perceived to remove an element of control from directors:

“I want to control as much of the company’s outgoings as possible and direct debit takes away control.”

3.5 Importing and Exporting

Importing/exporting was the basis of some businesses and was therefore viewed as a necessity. For example, one respondent’s business was exporting sport memorabilia from the UK. Another respondent imported bikinis from America.

Knowledge levels varied depending upon involvement in the process. For example, the bikini business owner established a deferred VAT payment to allow his stock to be available immediately. Another found export ‘difficult’ and relied upon his accountant to manage all aspects on his behalf. Due to the immediate nature of importing and exporting, less confident business owners had no time to become accustomed to HMRC tasks.

Those engaging with import and export agents were less confident in their own abilities and were also more inclined to be dependent on their accountants. Businesses not using an agent were aware of their existence but did not feel their business required an accountant and an agent. The reasons expressed for using an agent were identical to those given for using an accountant:

- A perception that tasks required specialised training.
- Potential fines from HMRC if something went wrong.
- Less stressful allowing an agent to organise importing/exporting.

Business owners contacted HMRC via website, help line and post. Import/export customers reported variable experiences. For example, the bikini business owner was pleasantly surprised by the help line:

“They are very good, they are very knowledgeable.”

Another business owner felt he was *“being passed from pillar to post”* trying to persuade HMRC to investigate whether they owed him money:

“They just pass you around and you never get a straight answer.”

Overall, HMRC was felt to provide a good service for information and guidance, but was considered ‘difficult to deal with’ when problems arise:

“It really got to me how hard it was to get my point across.”

Involvement in excise returns varied between wholly relying on an accountant, having an accountant finish and check the return, and completing the return without any assistance. Business owners were aware that returns are due every quarter. The information required to complete an excise return was considered straightforward – what the company has imported and exported, which establishes their liabilities. Only one respondent expressed dissatisfaction with the process due to his difficulty in obtaining money back from HMRC from his previous excise return:

“When they have to pay you money, they don't like doing it.”

Experience of filing excise returns varied. For example, one respondent had attended a start-up course held by his local council who advised him to hire an accountant and solicitor to handle all HMRC tasks. Even after his accountant submitted incorrect figures, HMRC still *“terrified”* him more than his dependence on his accountant.

Another respondent researched excise returns before setting up his business. He used the HMRC website and help line extensively to help him organise his tax obligations and felt confident in his ability to handle tasks himself. He only used accountants for his end of year accounts. Similar to many other tasks, it emerged that business owners were able to complete Excise returns themselves, if they used the support available from HMRC.

3.6 Why journey points were not undertaken

The reason that some businesses did not register promptly was confusion about when businesses should register (what constitutes a business?) as well as competing priorities. Registration was not off-putting in itself and although respondents tended to lack awareness of the obligations which would ensue, the requirement to complete a Self Assessment tax return was not actively off-putting either.

Businesses who were not employers simply had no motivation to employ staff at the present time. Amongst this group there were some businesses that were working with self-employed colleagues rather than becoming employers and working with employees on a PAYE basis. They felt that their current structure was likely to result in less paperwork and less accountancy fees. These

respondents were avoiding statutory obligations imposed by employment law (for example maternity pay) rather than interaction with HMRC.

Those who had not incorporated did not know enough about incorporation to understand whether it would be beneficial to the business. Those who had incorporated had been advised to do so by their accountants. Unless similarly prompted to consider the option, non-Limited businesses were unlikely to consider incorporation. The journey point itself and interaction with HMRC was not a barrier.

The non-VAT registered sample lacked any reason to become involved in VAT. This group did not feel VAT registration would be beneficial, whether in terms of prestige or claiming VAT back.

4. OVERVIEW OF FINDINGS

4.1 Preconceptions vs experience of interacting with HMRC

There was little evidence to suggest that new business owners were being put off undertaking journey points because doing so would necessitate interaction with HMRC. There were few examples where respondents were avoiding what they expected would be the increased paperwork generated by registration and new obligations.

What was very clear, however, was that new business respondents were intimidated by any interaction with HMRC. Because the tone and pace of the relationship was felt to be dictated by HMRC, respondents often felt powerless and lacking control. A fear of what HMRC *could do* was often more influential than what HMRC actually had done or was intending to do.

There was a consistent belief across the sample and across different growth points that interaction with HMRC would be arduous and difficult. This belief contrasted with customer experiences where new business owners routinely reported that their preconceptions had been erroneous and that interaction with HMRC had been straightforward. Despite regular positive experiences of HMRC services, negative preconceptions of new interaction with HMRC persisted. It seemed that anxiety about dealing with tax rather than actual contact with services was dominating perceptions of HMRC.

The way in which new businesses continued to undertake new growth points and all the associated tasks but avoided interacting with HMRC was to employ accountants. Typically new business owners reported that they were 'too busy' to engage with HMRC and that their time would be better spent building their business. For businesses, employing an accountant was justified as a sound business decision.

In reality, business owners were reluctant to engage with HMRC because they felt out of their depth due to a lack of knowledge and awareness of tax obligations. Typically they were unwilling to devote the time to engaging with HMRC in order to become more knowledgeable and more aware of their tax obligations. There were many examples where respondents freely admitted that they were simply frightened to engage with HMRC (particularly regarding VAT).

Reliance on accountants was rarely thought a problem by business owners. Business owners implicitly trusted the advice they were given and had never considered changing their accountancy arrangements. Respondents were rarely attitudinally pre-disposed to taking on more tasks themselves and saving on accountancy fees. As a result, respondents were relying on their accountants to complete their tax obligations.

4.2 Engaging new business owners

The research revealed that there were business owners who were motivated and capable of taking on their tax obligations for Self Assessment, PAYE, incorporation and VAT. This group proved that those running small businesses could manage their tax obligations - if they accessed the support provided by HMRC. This group was much more likely to be capable of and comfortable with using web-based guidance as they grew in confidence and experience.

The remainder was unmotivated to engage with their tax obligations for Self Assessment, PAYE, incorporation and VAT. For this group, support was likely to be sought from HMRC telephone help lines (which may increase the burden on telephone support services) since they preferred the personal response and reassurance the help line operators provided. The web was a much less useful resource for this group who lacked confidence in finding and interpreting written information. This group would require a considerable amount of hand holding to encourage them to engage directly with HMRC.

It emerged that business owners who were interacting with HMRC tended to have a greater understanding of the tasks associated with each growth point as well as their ongoing obligations. It was clear that those not interacting directly with HMRC had much less understanding of the implications of each growth point, both in terms of immediate tasks and ongoing obligations. This lack of awareness was particularly striking amongst the sample who had decided to incorporate on the basis of advice from their accountant, but who had very little understanding about what this decision would involve.

The wealth of positive customer experiences of HMRC services suggests that HMRC has many relationship building opportunities with new business owners. Registration processes were generally well regarded – whether registration as a

new business, a new employer, or as a VAT registered company. For example, HMRC has established itself as the home for information and support regarding new employer obligations.

There was more evidence of customers using the help and support available to new employers than any of the other growth points, a service which they rated very highly. Broadly speaking, business owners who had positive experience of support and information via HMRC services became more comfortable to contact HMRC in the future, more knowledgeable about their obligations and generally more confident to take on more obligations in future.

There was less of evidence of businesses directly engaging with HMRC for the other growth points (new business, incorporation and VAT) despite the help and support services which are readily available and tailored to businesses' needs. Business owners needed to be actively alerted to the support and information services on offer. Only by providing a consistently accessible service across growth points would HMRC be able to address new business owners' preconceptions that interacting with HMRC will be difficult and intimidating.

For each of the growth points (for example, VAT registration), business owners needed to understand what they were registering for and what their ongoing obligations would be. There was particular confusion about the purpose of new business registration and a lack of understanding about the obligations associated with Limited status. Businesses required clear information on the tasks, obligations and opportunities of each growth point to help them make genuinely informed decisions.