

Channel Shift Case Study

Guidance Area #5:	Rewarding Digital Users
Provided By:	Her Majesty's Revenue and Customs
Sector:	Central Government
Service:	Cross Tax Strategy for SME Business Taxes

The HMRC Cross Tax Strategy, is aimed at encouraging Small to Medium sized Enterprises (SME) or their agents (usually accountants) to do online filing for three business related taxes: Corporation Tax (2.4m customers), PAYE For Employers (1.8m customers) and VAT (1.7m customers). Although it is not a business tax, Self Assessment (10m customers) was included in the strategy to encourage online filing of personal and business taxes.

To different extents the customer base for each of these taxes overlap with each other. The volume of transactions varies between each tax and also on how the term 'transaction' is defined. Online tax services have existed since 2003 but take-up varied between services – so the Cross Tax Strategy was launched in 2006 to encourage more SME and their agents to file returns online.

What They Did:

Between 2004/05 and 2008/09, HMRC offered financial incentives¹ to small businesses (those with less than 50 employees) if they filed their PAYE End Of Year returns using an online service. Certain conditions had to be met including completely filing the return online without any paperwork, completing the filing on time, and making full payment of the amount of tax due on time. The financial incentive was offered on a sliding scale from £250 in 2004/05 reducing to £75 in 2008/09 the payment being offset against the following year's tax payment thereby *charging less for using online filing*.

HMRC planned to mandate both online filing for PAYE End Of Year returns from 2009/10 (returns due in May 2010) and VAT returns from April 2010 where the VAT trader's turnover exceeds £100k per annum. In March 2009, to prepare the way, HMRC commissioned IFF Research to undertake a quantitative study (previous research had explored the qualitative aspects) to test reactions to some communication concepts developed to provide support for small businesses during the introduction of mandated services.

Using the available qualitative research, HMRC segmented small businesses or traders into five customer types² – based on their attitude to the internet:

- Super Capable / Simplicity Seekers – not done online filing because of a lack of time
- Traditionalist – little experience of, or no access to, the internet
- Insecure Sceptics – did not think online filing was secure
- Nervous Enthusiast – lack of experience in using the internet

¹ <http://www.hmrc.gov.uk/manuals/pommanual/payee44020.htm>

² The quantitative research showed that the first two segments merged in attitude and practice

For each of these customer segments, HMRC had developed different communication concepts that aimed to explain the non-fiscal benefits and *additional features* offered to businesses or their agents from using online filing. IFF were asked to undertake quantitative research to test these concepts on the target audiences and to determine to what extent small businesses or their agents were receptive to these benefits or *additional features* such as:

- Online filing is quicker
- *Instant acknowledgement of safe receipt of returns*
- *Built in safeguards to ensure that data is correctly entered*
- *Checks that PAYE correctly calculated*
- *Security features protecting online transactions*
- Online and offline forms are the same – so no differences or extra hassle
- Step by step guidance to guide businesses through the online process
- *Guidance automatically relates to the section of the form being used*
- *Guidance uses illustrations and simple jargon free everyday language*
- *Guidance provides answers to common questions*
- Offline support – face-to-face, telephony, written guidance, exhibitions, events, etc
- *Ability to save part way through the process and come back later*
- *Refunds are paid quicker*
- *Sign up for reminders/notices about their tax return by e-mail or text*
- *Online statements showing what is due and how much paid at any time*

The IFF research provided HMRC with the evidence base to show that the target audience valued non-fiscal incentives as highly as the refunds offered. IFF also provided updated data on awareness of online services and the benefits of online filing within the target audience. The research also helped HMRC to refine the communication concepts making them more receptive to the target audience.

HMRC stopped using fiscal incentives, in favour of stressing the non-fiscal benefits. They also abandoned plans to mandate online services whilst awaiting to see what impact the planned communication concepts had on the attitude and practices of the target audience. Throughout the communication campaign HMRC research continued to track both the awareness of the benefits of online filing, and actual usage of online services by the target audiences. The success of the communications campaign is demonstrated by the fact that in March 2009, when IFF Research did their study, awareness of online PAYE amongst offline small employers was 77% - the most recent figures now have 98% of employers doing their PAYE returns online.

Key Lessons Learnt:

Financial incentives are likely to be very popular but can be expensive, so need to budget for the costs or loss of revenue involved.

Non-fiscal benefits (convenience, ease of use, audit trails, etc) are equally highly valued by customers, but make sure that you identify the non-fiscal benefits that are of the most value to your customers.

Make sure that your communication strategies address the needs and concerns of your relevant customer groups.

Identify the barriers preventing use of your online services; make sure address these issues in your service delivery and then in your communications.

HMRC recognise that high levels of digital take up is possible if they offer a high quality service that meets user needs and if they engage with customers using a range of methods to encourage use of digital services. There are no longer any plans to mandate online services but – whilst not expecting to achieve 100% take up – they aiming for as high a take up rate as possible.