

**Exploring the feasibility of
measuring awareness and
the wider impacts of
Taskforce activity**

Final report



DATABUILD
Research & Solutions

Disclaimer

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



DATABUILD

Research & Solutions

**Exploring the feasibility of
measuring awareness and
the wider impacts of
Taskforce activity**

Final report

Project Director: Charles Michaelis

Report Authors: Karl King
Kate Slater
Zakia Bassou

Project Team: **Personal Finance
Research Centre**
Sharon Collard

Databuild
Alison Radevsky
Laura Balla
Kathryn Smith

Date: May 2013



Contents

1	EXECUTIVE SUMMARY	1
1.1	INTRODUCTION	1
1.2	METHODOLOGY	2
1.3	FEASIBILITY	2
1.4	KEY RESULTS FROM THE FIELDWORK UNDERTAKEN IN THIS STUDY.....	3
1.5	CONSIDERATIONS.....	4
2	INTRODUCTION	6
2.1	POLICY CONTEXT	6
2.2	TASKFORCE ACTIVITY	6
2.3	CONTEXT FOR THIS RESEARCH.....	7
2.4	AIMS AND OBJECTIVES	7
2.5	RESEARCH QUESTIONS	8
2.6	FEASIBILITY	9
3	METHODOLOGY	10
3.1	OVERVIEW	10
3.2	FIELDWORK SUMMARY.....	11
3.2.1	Screening survey	11
3.2.2	Follow-up qualitative survey.....	12
4	FEASIBILITY OF ASSESSING AWARENESS AND IMPACT OF TASKFORCE ACTIVITY	14
4.1	INTRODUCTION	14
4.2	HOW CAN HMRC BEST ENGAGE WITH THE DIFFERENT GROUPS OF INTEREST AND WHAT IS THEIR LIKELIHOOD OF RESPONDING?	14
4.3	HOW CAN HMRC BEST MEASURE AWARENESS OF COMPLIANCE ACTIVITY WORKED AS PART OF A TASKFORCE? 16	
4.4	WHAT ARE THE OPTIONS FOR MEASURING ATTITUDINAL CHANGE AS A RESULT OF TASKFORCE ACTIVITY?	17
4.4.1	Options for measuring attitudinal change.....	17
4.4.2	Measuring attitudinal change for the London Restaurant Taskforce (LRT).....	18
4.5	MEASURING THE IMPACT OF TASKFORCES OTHER THAN THE LRT.....	19
4.6	SUITABILITY OF THE CPS QUESTIONS FOR MEASURING ATTITUDINAL CHANGE IN A TASKFORCE POPULATION ...	19
4.7	WHAT IS THE BEST WAY OF SELECTING DIFFERENT GROUPS OF RESPONDENTS IN ORDER TO ALLOW MEASUREMENT OF ATTITUDE CHANGE?	20
4.8	FEASIBILITY OF MEASURING THE RIPPLE EFFECT TO OTHER ASSOCIATED TRADES INSIDE AND OUTSIDE OF THE TARGET AREA	21
5	INSIGHTS OBTAINED FROM THE FIELDWORK	22
5.1	INTRODUCTION	22
5.2	FINDINGS FROM THE SCREENING SURVEY	23
5.2.1	Awareness of taskforce activity	23
5.2.2	Awareness of consequences of tax evasion.....	26
5.2.3	Awareness of phoenixism	26
5.2.4	Attitudes towards compliance	27
5.3	INSIGHTS FROM THE QUALITATIVE INTERVIEWS.....	27
5.3.1	Introduction.....	27

5.3.2 How restaurants manage their tax affairs, interaction with HMRC and knowledge of inspection activity	27
5.3.3 Awareness of taskforce activity	29
5.3.4 Understanding of the term 'evasion'	31
5.3.5 Attitudes and factors influencing attitudinal change	31
5.3.6 Prevalence of tax evasion and social norms.....	31
5.3.7 Likelihood and threat of detection.....	34
5.3.8 Consequences of tax evasion.....	36
5.3.9 Acceptability of tax evasion.....	37
5.3.10 Deterrent effects – business behaviour.....	38
5.3.11 Deterrent effects – word of mouth.....	39
6 CONCLUSIONS AND CONSIDERATIONS.....	41
6.1 CONCLUSIONS.....	41
6.2 CONSIDERATIONS.....	42
APPENDIX A: PRE-SURVEY NOTIFICATION LETTER	44
APPENDIX B: SCREENING SURVEY OUTLINE.....	46
APPENDIX C: QUESTIONNAIRE USED IN SCREENING SURVEY	47
APPENDIX D: TOPIC GUIDE USED IN FIRST WAVE OF QUALITATIVE INTERVIEWS – COGNITIVE TESTING	55
APPENDIX E: TOPIC GUIDE USED IN SECOND WAVE OF QUALITATIVE INTERVIEWS – EXPLORATORY INTERVIEWS.....	63
APPENDIX F: RESPONSE RATE CALCULATION.....	72
APPENDIX G: ARE CPS QUESTIONS SUITABLE TO HELP ASSESS CHANGES IN ATTITUDES TO TAX COMPLIANCE?	73
Assessing individual CPS questions.....	73
SUPPLEMENTARY RESEARCH TO INFORM THE APPROACH.....	77
Repeated searches.....	77
Other tax agencies	77
APPENDIX H: ANALYSIS TO INFORM CONSIDERATION OF FEASIBILITY.....	80
Sample frame suitability.....	80
Sample representativeness	81

1 Executive summary

1.1 Introduction

HMRC has made a commitment to bring in £7 billion in additional revenues a year by 2014-15 by transforming its work against avoidance, evasion and criminal attack.

As part of meeting this commitment, HMRC launched a programme of taskforce activity in 2011-12– compliance interventions targeted at specific trade groups in specific geographic locations across the UK. The first taskforce was launched in May 2011, with a further eleven launched throughout 2011-12.

The twelve taskforces launched in 2011-12 have recovered more than £55 million to date and are expected to bring in over £70 million in total¹. As well as detecting and tackling tax evasion within the targeted populations, taskforces aim to influence the attitudes of non-targeted businesses to deter them from evading tax². HMRC hypothesise that this may occur as a result of direct observation of HMRC activity and/or increased awareness through social/professional networks and associated publicity.

HMRC has an established mechanism for assessing attitudes towards compliance – the Compliance Perceptions Survey (CPS)³. The CPS questions have been successfully adapted for use in assessing the impact of campaigns on taxpayer attitudes towards compliance. HMRC was interested to understand whether a similar approach could be adopted to examine the deterrent effects of taskforce activity.

The primary aim of this project was to test the feasibility of research to gauge:

- **Awareness of taskforce activity** among non-inspected businesses in the same trade group and geographical area as those inspected by a taskforce.
- **Associated attitudinal change** amongst this group, particularly the perceived likelihood of investigation/threat of detection.

A secondary aim of the study was to explore the feasibility of measuring any ripple effect from taskforces on attitudes in the wider business population.

It was not within the scope of this study to consider options available to HMRC using in-house administrative data.

The London Restaurant Taskforce (LRT) was selected as the basis for the feasibility study as it was the first taskforce to be initiated by HMRC and one of the largest taskforces in terms of the number of cases worked.

¹ See <http://www.hmrc.gov.uk/budget2013/level-tax-playing-field.pdf>

² In particular other businesses in the trade sector or geographical area targeted by the taskforce

³ See 'Compliance Perceptions Survey Small and Medium Sized Enterprises and Individuals 2011' for further information: <http://www.hmrc.gov.uk/research/report195.pdf>

1.2 Methodology

A methodology for examining awareness of the LRT and how this might have impacted on the attitudes of non-inspected businesses in the trade groups of interest was developed in discussion with HMRC. This was informed by a desk-based review of approaches to measuring awareness and impact of inspection activity, including consideration of the suitability of the questions used in the CPS. The agreed methodology was then implemented in spring 2013 in a small scale fieldwork exercise comprising:

- **A quantitative telephone screening survey** of 160 restaurant owners, neighbouring unrelated trades and related trades (restaurant suppliers and take-aways) both inside and outside the taskforce region to establish awareness of the taskforce and/or specific compliance interventions undertaken by the taskforce.
- **30 qualitative face to face interviews (15 face to face and 15 telephone)** with restaurant owners, related trades and neighbouring unrelated trades identified through screening as aware of the Taskforce and/or specific compliance interventions undertaken by taskforces (again both inside and outside the taskforce population).

Findings from the fieldwork undertaken in this study are described in detail in section 5 of this report; however, as they are based on a relatively small scale fieldwork exercise, they should be treated as merely **indicative** of awareness levels in the population, their attitudes towards compliance and the degree of attitudinal change over the last two years.

1.3 Feasibility

The insights obtained in this feasibility study indicate that:

1. It is feasible to obtain a commercial database with sufficient coverage of the population of interest to HMRC to form the basis for an evaluation of taskforce activity.
2. It is possible to locate the target respondents (business owners/managers) via a telephone survey approach and secure responses from a reasonably⁴ representative sample of the businesses of interest (i.e. businesses in the targeted population, related trades and unrelated businesses trading in the vicinity of targeted businesses).
3. It is possible to design a questionnaire that would enable identification of the level and nature of awareness of Taskforce activity.
4. It can be determined whether and how businesses' compliance perceptions have changed since the inception of Taskforce activity and the key factors that have contributed to the change.

⁴ The sample is considered representative for the following reasons: The overall refusal rate to the survey was low (6%), and the response and refusal rates were similar for different types and sizes of businesses, as illustrated in the analysis presented in Table 5 in Appendix H. The survey was also successful in reaching businesses likely from their responses to have been inspected by the London Restaurant Taskforce. It is possible that businesses evading tax would be less likely to respond to the survey than compliant businesses; however, it is not possible for us to determine from the available data whether that is or is not the case. We have no reason to suspect that non-compliant businesses would be any less likely to respond to the Taskforce survey compared with other surveys commissioned by HMRC.

However, it is not feasible to undertake an assessment of the deterrent effects of the LRT at this moment in time. This is due to the relatively limited level of awareness of taskforce activity among the population of non-inspected restaurants in London, related and unrelated trades.

Assuming HMRC would require a sample of at least 100 businesses aware of taskforce activity to begin to draw robust conclusions about deterrent effects⁵; we estimate that a minimum of 2,000 screening interviews would be required⁶. The sample size required to enable credible evaluation is likely to be much higher however, as even in the event that a 2,000 interview screening survey is successful in identifying awareness, it is possible given the findings of the qualitative interviews conducted in this study, that many respondents would find it difficult to distinguish the relative influence of awareness of Taskforce activity on their attitudes in the context of other factors affecting awareness levels.

This scale of survey work could not be conducted discreetly in the case of the LRT. This means that the only realistic option available to HMRC at present for the LRT would be replicate the fieldwork undertaken in stage 2 on a larger scale, using a screening survey to identify business owners/managers that might be aware of taskforce activity, followed by qualitative interviews to examine whether and how attitudes among those that appeared to be aware of taskforce activity had changed. A qualitative-led approach would not enable HMRC to precisely quantify the deterrent effects of taskforce activity on non-inspected businesses; however, it should provide evidence of specific cases of where and how awareness of taskforce activity impact led or contributed to a change in attitudes.

1.4 Key results from the fieldwork undertaken in this study

Approximately half of all respondents to the screening survey demonstrated no evidence of awareness of taskforce activity or contact with the LRT.

Nearly all respondents with awareness of restaurants that had been inspected in the last two years appeared to be unaware of taskforce activity. Qualitative interviews with businesses likely to have been inspected by the taskforces confirmed that recipients were generally unaware that this was part of a targeted programme of activity, as HMRC had described the inspection as routine.

A number of respondents had not been inspected themselves or heard about any restaurants being inspected in the last two years, but agreed in response to statement questions used in the screening survey that:

1. HMRC was taking steps to ensure that specific trade groups in particular geographic regions are paying the correct taxes; and/or

⁵ Fewer than 100 interviews would be insufficient to guarantee that HMRC could be 95% confident that the key results are accurate to within ± 10 percentage points (e.g. the percentage of those aware of taskforces or an increase in compliance activity for London Restaurants whose attitudes towards compliance had changed as a result of their awareness).

⁶ Based on the results of the screening survey and subsequent qualitative interviews, and assuming as was the case for the LRT, that businesses aware of specific interventions believe them to be of a routine nature rather than part of the taskforce. For further information about the results of the fieldwork undertaken in this study can be found in section 5.

2. HMRC had more of a physical presence in their local community than two years ago.

However, nearly all of the business owners/managers interviewed in the qualitative interviews agreeing with one or both of the statements above in the screening survey appear to have done so on the basis of *what they assumed was happening* rather than actual knowledge of taskforce activity. Therefore, any deterrent effects arising from this may have occurred anyway, even in the absence of taskforce activity.

Almost half of all respondents in the qualitative interviews appeared to believe there had been a decrease in prevalence of tax evasion over the last two years. This perception appeared not to be based on the presence of taskforce activity specifically, but more a general impression that HMRC is 'clamping down' on tax evasion. This appeared from the responses to be the culmination of a range of HMRC communication activity and articles in the media.

Although it is not possible to attribute the impression that HMRC is clamping down on tax evasion to taskforce activity specifically, the responses do provide anecdotal evidence that HMRC's activities, as a whole, appear to be having the intended effect on business attitudes in the trade sectors covered in this study (e.g. creating a feeling that businesses evading tax are more likely to be caught now than they were two years ago).

Businesses interviewed in the qualitative interviews that had been inspected by HMRC in the last two years typically reported they had not told other business owners in their trade sector or geographical vicinity that they had received an inspection. However, non-inspected businesses that had heard about inspection activity often said they had found out via word of mouth from friends or customers, some of whom were business owners themselves. This suggests that those reporting awareness of inspection activity were either relaying gossip rather than reporting genuine knowledge and awareness, or that business owners and managers receiving inspections are talking about inspection activity with people outside the trade groups that HMRC intended to influence through the LRT.

1.5 Considerations

The evidence obtained in this study does not preclude future research and evaluation of Taskforce activity. Whilst the findings of the research indicate it is not possible (at least at present) to measure the impact of the LRT, the findings of this study suggest that it would be methodologically feasible to measure the impact of taskforce activity providing the following conditions are satisfied:

- Awareness of taskforce activity is sufficiently high amongst the populations of interest to allow for a discreet and manageable research approach
- Those with awareness of taskforce activity have sufficient understanding to comment on where and how it had influenced their attitudes

This raises two questions for potential consideration in future research activity:

1. **Is there a sufficient level of awareness of Taskforce activity to facilitate an evaluation of the deterrent effects?**

We recommend that HMRC considers including a few questions in future SME compliance perceptions surveys or other forthcoming primary research to explore

whether respondents in relevant sectors are aware of Taskforce activity. This will provide an indication of the sectors in which the level of awareness might be sufficient to facilitate cost effective evaluation. It will also enable HMRC to examine whether there are any significant differences in attitudes between those who are aware of Taskforce activity (or at least perceive there to be an increase in targeted inspection activity) and those who are not.

2. Is there anything HMRC can do to raise the profile of taskforce activity and/or take steps to stimulate a deterrent effect?

One point for consideration would be whether it should be communicated to businesses subjected to a taskforce inspection that the inspection is being carried out as part of new targeted activity being undertaken by HMRC, rather than communicating the inspection as routine. There are arguments for and against making clear that it is a taskforce inspection; however, if HMRC intend to create and/or increase the deterrent effect via word of mouth (or at least a *measurable* deterrent effect) the findings of this research suggest that taking steps to distinguish taskforce inspections from routine inspection activity would be helpful, providing this can be done in a way that does not give the impression that inspections are only likely to happen where and while a taskforce is taking place.

2 Introduction

2.1 Policy context

In 2010, the coalition government initiated a spending review for the years 2011/12 through to 2014/15. The review was driven by the government's commitment to reduce government spending in order to cut the budget deficit. As part of the spending review, ministers agreed to reinvest £900m over the four years to 2014/15 in order to combat tax avoidance, evasion and fraud.

Following the Spending Review 2010 settlement, HMRC made a commitment to bring in £7 billion in additional revenues a year by 2014-15 by transforming its work against avoidance, evasion and criminal attack.

To support the achievement of this commitment, HMRC launched a programme of taskforce activity in 2011/12 – compliance interventions targeted at specific trade groups in specific geographic locations across the UK.

2.2 Taskforce activity

HMRC Taskforces are compliance interventions which are geographically targeted at specific trade groups. Taskforce interventions involve specialist teams visiting traders, usually at their business premises, to examine their records and carry out other investigations. These investigations are not typically announced as being part of a taskforce activity specifically.

The first taskforce was launched in May 2011, and targeted the restaurant trade. A further eleven taskforces were initiated in 2011/12, with an additional 28 taskforces taking place in 2012-13.

The taskforces launched in 2011-12 have recovered more than £55 million to date and are expected to bring in over £70 million in total⁷. However, as well as detecting and tackling tax evasion within the targeted populations, the taskforces aim to influence the attitudes of non-targeted businesses to deter them from evading tax⁸.

HMRC hypothesise that this *deterrent effect* is brought about as follows:

- Business owners become **aware** of taskforce activity, as a result of direct observation of HMRC activity and/or increased awareness through social/professional networks and associated publicity.
- Awareness of taskforce activity **reinforces the message** that HMRC is cracking down on tax evasion activity.
- This leads to **changes in attitudes** towards compliance (e.g. business owners perceive that the likelihood of getting caught has increased).

⁷ See <http://www.hmrc.gov.uk/budget2013/level-tax-playing-field.pdf>

⁸ In particular other businesses in the trade sector or geographical area targeted by the taskforce.

- The changes in attitudes lead to **changes in behaviour** that ultimately reduce the prevalence and extent of tax evasion among the business population.

2.3 Context for this research

HMRC has an established mechanism for assessing attitudes towards compliance – the Compliance Perceptions Survey (CPS)⁹. The CPS questions have also been successfully adapted for use in assessing the impact of campaigns on taxpayer attitudes towards compliance. HMRC was interested, therefore, to understand whether a similar approach could be adopted to examine the deterrent effects of taskforce activity.

In spring 2013, HMRC commissioned Databuild Research and Solutions Ltd to explore the feasibility of measuring awareness of taskforce activity and any associated change in attitudes towards compliance. Databuild delivered the work in partnership with Sharon Collard from the Personal Finance Research Centre at Bristol University, who was responsible for developing the CPS.

2.4 Aims and objectives

The primary aim of this project was to test the feasibility of research to gauge:

- **Awareness of taskforce activity** among non-inspected businesses in the same trade group and geographical area as those inspected by a taskforce.
- **Associated attitudinal change** amongst this group, particularly the perceived likelihood of investigation/threat of detection.

A secondary aim of the study was to explore the feasibility of measuring any ripple effect from taskforces on attitudes in the wider business population.

The London Restaurant Taskforce (LRT) was selected as the basis for the feasibility study. The LRT was selected for the following reasons:

- **The LRT was the first Taskforce to be launched by HMRC.** This meant that sufficient time had elapsed for a significant proportion of cases to be completed and, in turn, sufficient time for the deterrent 'ripple' effect on attitudes (if any) to have occurred.
- **The LRT is one of the largest Taskforces undertaken by HMRC** in terms of the number of cases worked. The rationale was that the greater the number of cases completed by a taskforce, the more likely businesses in the target population would be aware of the activity, increasing the likelihood of taskforce activity having a measurable impact on the attitudes of interest to HMRC.
- **A taskforce targeting fast food outlets in London was initiated shortly after the launch of the LRT.** This was felt to increase the likelihood that the groups of interest might be aware of taskforce activity, maximising the chances of locating a sufficient sample of business owners/managers with awareness of taskforces in order to explore whether and how this had impacted on their attitudes and behaviour.

⁹ See 'Compliance Perceptions Survey Small and Medium Sized Enterprises and Individuals 2011' for further information: <http://www.hmrc.gov.uk/research/report195.pdf>

As the primary purpose of the study was to explore the *feasibility* of evaluating awareness of taskforce activity and associated changes in attitudes/behaviour, it **was not** a requirement of this study to provide results that are robust enough to show significant differences in attitudes or awareness pre and post taskforce or between different areas and groups. However, the study did consist of enough interviews to enable an assessment of feasibility, providing a reasonable indication of awareness and attitudes while maintaining a discreet and manageable research approach.

2.5 Research questions

The research questions that this feasibility study was designed to address are as follows:

- How can HMRC best engage different groups of interest with the research and what is their likelihood of responding?
- How can HMRC best measure awareness of HMRC taskforce compliance activity?
- What are the options for measuring attitudinal change as a result of taskforce activity?
- Is the research option that is deemed most appropriate for the London Restaurants taskforce also suitable for other examples? What additional considerations would there be for adapting the suggested approach?
- How suited are the Compliance Perceptions Survey (CPS) questions (which HMRC currently uses to measure attitudes in the general population) to measuring attitude change in a taskforce population?
- What is the best way of selecting different groups of respondents in order to allow measurement of attitude change?
- Is it feasible to, and if indeed there is any, how can we measure the ripple effect to other associated trades inside and outside of the target area?

HMRC wanted to understand the feasibility of measuring both the awareness of taskforce activity and the way in which businesses became aware of the activity, for example, direct observation, word of mouth, publicity and professional networks.

HMRC were keen to explore whether it is possible to measure attitudinal change arising from taskforce activity amongst all of the groups hypothesised to be influenced by the activity – restaurants, related trades (restaurants suppliers and take-aways) and unrelated trades trading in the geographical vicinity of restaurants inspected by the taskforce. The indicators of particular interest to HMRC were:

- The perceived threat of audit & detection for different types of tax evasion such as:
 - VAT evasion;
 - Under declaring cash in hand income;
 - Excise duty evasion (through the purchase of illicit alcohol where Excise duty has not been paid);
 - Evading tax through means such as insolvency and phoenixism¹⁰
- Perceived prevalence of tax evasion;
- Acceptability of tax evasion;
- Perceived consequences for tax evasion; and

¹⁰ This occurs where businesses become insolvent and start up again under a different entity with common links to the previous business, in order to evade paying tax. This is a particular concern with restaurants.

- Changes in tax related behaviour such as receipt keeping, filing on time, and use of an accountant.

2.6 Feasibility

Using the LRT as a case study, in addressing the research questions the study sought to explore whether it was feasible to:

- Identify a suitable sample frame for the purpose of the study.
- Devise a clear set of questions for assessing awareness and the attitudes of interest to HMRC that the business population will understand.
- Engage a representative sample of businesses to respond to these questions¹¹, and to get them to do so fully and truthfully (as far as this can be determined¹²).
- Distinguish between awareness and impact of compliance interventions undertaken by HMRC in general and of interventions undertaken as part of taskforce activity.
- Deal with biases that may be encountered in attempting to assess the impact of taskforce activity, including non-response bias.
- Draw sensible, robust conclusions from the data that can be collected about the level of awareness of taskforce activity and its impact.

¹¹ By securing a good response rate and low level of refusals, with similar response and refusal rates being observed for each of the trade groups and sizes of businesses included in the research.

¹² In the context of this project, this involved using a combination of observations made in the qualitative interviews and analysis of the consistency and depth of responses to the quantitative interviews.

3 Methodology

3.1 Overview

The feasibility study was undertaken in two stages of research:

Stage 1

The first stage of the research comprised:

- **An inception meeting and workshop** with relevant policy and delivery stakeholders within HMRC to:
 - Agree the objectives and scope of the feasibility study.
 - Understand the precise nature of the interventions undertaken by the London Restaurant Taskforce.
- **A systematic, expert review** of the suitability of the Compliance Perceptions Survey (CPS) questions for measuring attitude change in a taskforce population¹³.
- **A supplementary review** of questions and approaches used in previous studies exploring the awareness and impact of compliance activities (UK and non-UK)
- **Analysis to identify a suitable commercial database for use as the sample frame for the research**; we identified three potential commercial database providers that could be used as a sample frame for this study, and reviewed their coverage and how they were compiled in providing a recommendation.

Stage 2

Following completion of stage 1, Databuild conducted a small-scale fieldwork exercise, involving:

- **A quantitative telephone screening survey** of 160 restaurant owners and related trades both inside and outside the taskforce region to establish the feasibility of using a telephone survey to establish awareness of the taskforce and/or specific compliance interventions undertaken by the taskforce.
- **A mixture of 15 qualitative face to face (F2F) and 15 qualitative telephone interviews** with restaurant owners and associated trades identified through screening as aware of the Taskforce and/or specific compliance interventions undertaken by taskforces (again both inside and outside the taskforce population), to further explore awareness of Taskforce activity, undertake cognitive testing of the shortlisted questions for measuring attitudinal change and inform our recommendations for future research options.

It was originally envisaged that the feasibility study would comprise a third stage of research – a pilot study comprising 400 quantitative telephone interviews to evaluate awareness of the LRT and its impact on attitudes among non-inspected restaurants, take-aways, restaurant suppliers and other types of business trading in the geographical vicinity of those targeted by the LRT.

¹³ The key results of this review are summarised in the Appendix G of this report.

However, part way through the second stage of the research¹⁴ it became apparent that the level of awareness and understanding of taskforces among the groups of interest to HMRC was too limited to enable the research to be conducted discreetly. The number of interviews required to identify a sufficiently large sample of business owners/managers to enable conclusions to be drawn about the impact of taskforce activity on compliance attitudes would likely saturate the population to such an extent that the eventual results might be flawed – there would be a significant risk that awareness levels (and any associated deterrent effects) might be raised artificially in the process of administering the survey.

Following an interim review during stage 2, the decision was made not to proceed with the proposed third stage of research, and that the topic guide to be used for the remaining thirteen qualitative interviews organised for completion in stage 2 should be revised to remove the cognitive testing elements (which were now of limited importance) and replace them with open-ended questions to gather insight into awareness, attitudes, attitudinal change and whether and how the word of mouth mechanisms underpinning the ripple effect envisaged by HMRC might occur.

3.2 Fieldwork summary

3.2.1 Screening survey

The study sought to explore the feasibility of measuring awareness and impact of the LRT among the following groups of interest to HMRC:

1. **Restaurants in London**¹⁵ – this was subdivided into three categories reflecting the relative number of cases completed in particular postal areas – high, medium and low concentration¹⁶.
2. **Related trades** – this group comprised takeaways trading in the vicinity of the targeted population and suppliers of the targeted population (both of whose attitudes HMRC hypothesised might be influenced by the LRT)
3. **Unrelated trades** – this was defined as any other type of business trading in the geographical vicinity of the targeted population. For the purpose of the study we sought to interview businesses in unrelated trades located in postal areas subject to a high concentration of LRT activity.

It was agreed at the inception meeting that franchises should be excluded as they are not typical of the businesses targeted by Taskforce activity. The sample was therefore manually de-duplicated to remove obvious franchise records (through comparison with franchise directories available online), and a question was included in the screening interview to identify and exclude any additional businesses that were part of a franchise.

¹⁴ Each stage was deliberately implemented using a phased approach to allow HMRC to consider whether and how to proceed with subsequent elements of the work in light of the emerging findings.

¹⁵ This was defined as organisations in the following SIC 2007 Codes 56100, 56101, 56102 and 56103.

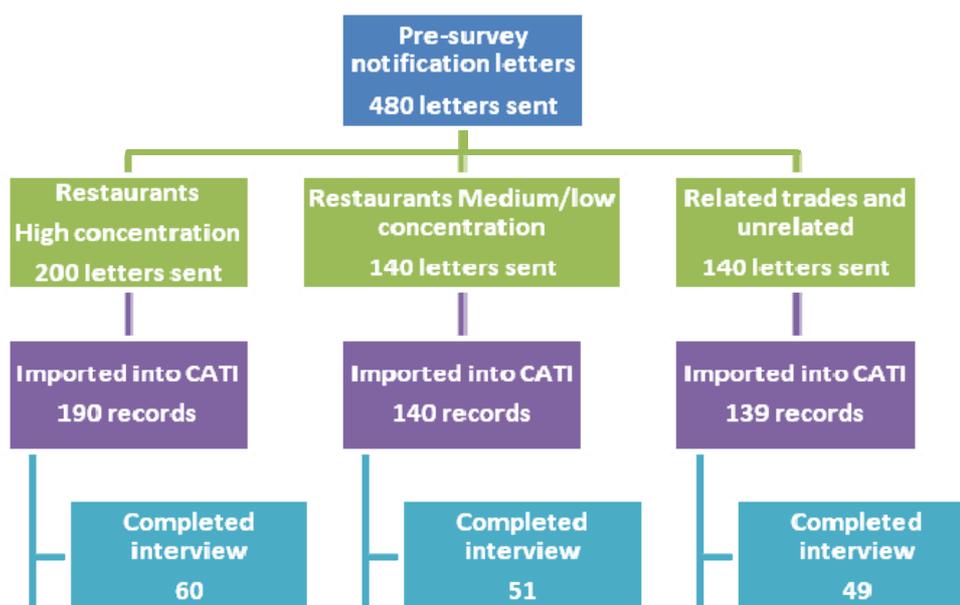
¹⁶ HMRC conducted analysis to indicate which postal areas should be categorised as high, medium and low concentration. The actual number of cases in each area was not shared with Databuild for the purpose of the research.

It was also agreed that the feasibility study would concentrate on small and medium sized businesses, as the majority of restaurants in London fall into this group. Businesses with a turnover of more than £10m were excluded from the sample where this was known. A screening question was also included to enable us to exclude any other businesses with a turnover of £10m or more.

Figure 1 illustrates the number of businesses included in the sample for the screening survey and the number of interviews conducted with each of the key groups included in the screening survey. In an attempt to maximise the response rate, all businesses contacted in the survey were sent a pre-survey notification letter with HMRC branding to inform them that the research was being undertaken¹⁷.

The overall response rate to the screening survey was 38%¹⁸; the overall refusal rate was 6%.

Figure 1: Summary of screening survey fieldwork¹⁹



3.2.2 Follow-up qualitative survey

The responses to the screening survey were used to identify business owners/managers that were or may be aware of Taskforce activity. Those providing responses in the screening survey that indicated some degree of awareness of Taskforce activity were

¹⁷ The pre-survey notification letter can be found in Appendix A.

¹⁸ The response rate calculation is detailed in Appendix F.

¹⁹ A detailed summary of the call outcomes for the screening survey can be found in Appendix B.

Eleven records were not imported to CATI as they were determined to be out of scope or unusable after pre-notification letters had been sent. This included Internet cafes, and records for which it was not possible to find a working telephone number.

asked if they would be willing to participate in a qualitative interview to discuss their responses and their views about taxation in more depth. Respondents were asked if they would be willing to participate in a qualitative interview if they met at least one of the following criteria:

- Were a restaurant in London and had themselves been inspected since May 2011²⁰;
- Were aware of restaurant in London that had been inspected since May 2011;
- Mentioned Taskforce in interview²¹;
- Agreed HMRC had more of a physical presence in the local community compared to two years ago;
- Agreed that HMRC were taking steps to target specific trades in specific geographical locations and that this was new activity in the last two years; and
- Agreed that HMRC had taken steps to target restaurants in London and this had not always been the case.

Table 1 outlines the number of qualitative interviews completed with each group covered in the study.

Table 1: Number and profile of completed qualitative interviews²²

Group	Number of qualitative interviews completed
Restaurants – high concentration	9
Restaurants – medium concentration	7
Restaurants – low concentration	5
Related	4
Unrelated	5
Total	30

The first 17 interviews were primarily designed to undertake cognitive testing of a set of questions that might be used in the full scale pilot to measure attitudinal change and the degree to which this might be attributable to Taskforce activity (stage 3). The topic guide used in the first wave of qualitative interviews can be found in Appendix D.

Following the decision not to continue to a full scale pilot (stage 3), the topic guide was revised to facilitate the use of further open questions to explore attitudes and to include additional questions specifically examining whether and how businesses might talk to each other about inspection activity. The topic guide used in the second wave of qualitative interviews can be found in Appendix E.

²⁰ A number of inspected restaurants were not invited to participate in the qualitative interviews to prevent the final sample of qualitative interviews being dominated by responses from those receiving an inspection themselves, as this group was not the primary group of interest to HMRC in understanding the deterrent effect on non-inspected businesses. Interviews conducted with inspected businesses were used to understand whether they knew they had been inspected by the taskforce and whether they had told anybody about the fact they had been inspected.

²¹ Only one respondent (an unrelated trade) mentioned the term Taskforce in the screening survey.

²² 52 businesses were invited to participate in a qualitative interview in total, and we were able to conduct qualitative interviews with 30 of these.

4 Feasibility of assessing awareness and impact of Taskforce activity

4.1 Introduction

This section summarises the key findings and conclusions of the study in respect of the feasibility of assessing awareness of taskforce activity and the associated deterrent effects on the attitudes of non-inspected businesses.

Our overall conclusion was that it would not be feasible to conduct a robust assessment of the deterrent effects of interest to HMRC in respect of London Restaurant Taskforce activity; however, this does not necessarily preclude research into the equivalent impacts of other taskforces. This section also considers the conditions under which it might be feasible to measure attitudinal change arising from taskforce activity.

4.2 How can HMRC best engage with the different groups of interest and what is their likelihood of responding?

It was clear in advance of the feasibility study that a telephone-based approach was likely to be the most cost effective method of engaging with the different groups of interest for this study and arriving at a sample that was representative of the population, providing a suitable sample frame could be identified. Adopting a telephone survey approach allows response and refusal rates to be monitored throughout data collection, therefore reducing the potential for bias to impact on findings. The use of other approaches, such as adoption of an online survey or face to face approach, would likely reduce response rates or introduce bias into the findings that cannot be easily controlled for throughout data collection. Face to face approaches would also likely increase the research costs substantially.

The study was successful in demonstrating the feasibility of using a telephone-based approach to engaging the populations of interest to HMRC. A suitable sample frame was identified for the research and whilst the process of engaging the target respondents was a time consuming exercise, it was feasible to engage all of the groups of interest to HMRC in respect of the LRT.

The key challenge was pinning down the target respondents. This means it is vital that a lengthy data collection period (minimum 4 weeks) is allowed for in securing a good response rate from owners/managers of restaurants and related trades in particular. Once the relevant respondent was identified and reached, the likelihood of responding was high, as demonstrated by the relatively low refusal rate (6%). The overall response rate was 38%, but could have been increased if respondents for which English was not a first language had been given the opportunity to respond in their preferred language. There was limited evidence of non-response bias in our analysis of the response and refusal rates by trade sector, and size (number of employees and turnover band)²³.

²³ For further details of this analysis, the reader should refer to Appendix H of this report.

The key findings and conclusions of the feasibility study in respect of the feasibility of identifying a suitable sample frame and locating the target respondent and securing a response are summarised in the table below:

Feasibility of:	Feasibility	Findings/conclusions
Obtaining a suitable commercial database	Feasible	<ul style="list-style-type: none"> • A number of commercial databases provide coverage of the population of interest. • Of the potential suppliers approached in this study, Experian appears to provide the best overall coverage of the population of interest. • We estimate that the Experian database provides coverage of approximately 13,000 restaurants in London. This figure is 87% of the population of restaurant outlets in London²⁴ reported by the Office for National Statistics (ONS).
Locating the target respondent and securing responses from a representative sample of the businesses of interest	Feasible, but time consuming	<ul style="list-style-type: none"> • It is possible to locate the target respondent (business owners/managers) via a telephone survey approach. • However, locating restaurant owners/managers was a time consuming exercise, as the target respondent was often not at the premises during regular working hours, and when they were on the premises, they were often too busy to take our call. • It was challenging to convey the purpose of the research where English was not a first language for the respondent. This was the case for both gatekeepers and the owners/managers themselves; however, those unable to complete the survey in English did not appear unwilling to participate and may have completed the survey if they were given opportunity to respond in a language in which they were fluent. • The following results indicate it is possible to secure responses from a reasonably representative sample of the businesses of interest, as far as it is possible to determine representativeness: <ul style="list-style-type: none"> ○ The overall refusal rate to the screening survey was low (6%) and, despite the challenges described above, we achieved an overall response rate of 38%. ○ The response rates were similar for each group covered by the research – restaurants in high, medium and low concentrations of LRT activity, related trades and unrelated trades. The refusal rates were also similar in the majority of cases for similar types of business²⁵. ○ The research also demonstrated the feasibility of surveying businesses subjected to inspection activity. The screening survey included interviews with 16 restaurants that had received an inspection from HMRC since May 2011; six of these agreed to participate in the qualitative interviews.

²⁴ The estimate presented here relates to coverage of individual restaurant outlets in London. It is based on the initial counts received from Experian, adjusted in light of the outcomes of our fieldwork (e.g. where we identified that a business on the list was not a restaurant)

²⁵ Analysis of response and refusal rates is presented in Table 5 in Appendix H. The refusal rate for unrelated trades was higher than that for restaurants and related trades. It is not entirely clear from analysis of the data why this is the case but analysis of the refusals indicates that unrelated trades were more likely than restaurants to say that their accountant deals with all tax related matters and/or that they were generally unwilling to participate in surveys in giving their reasons for refusal.

It is not possible for us to say whether the telephone survey approach was successful in reaching people that are or may be considering evading tax; however, one way in which HMRC could further examine the representativeness of the sample would be to explore whether the number of businesses inspected in the last two years is broadly in keeping with what HMRC might expect given knowledge of exactly how many and what proportion of restaurants were inspected in the high, medium and low concentration areas²⁶. Alternatively, if HMRC is able to match the database used in this research to in-house administrative data, it would be possible to examine whether the level of non-response was any higher or lower for businesses inspected by Taskforces compared to those not inspected by Taskforces.

In the absence of opportunity to conduct a detailed analysis of the representativeness of the sample in this respect, the fact that inspected businesses were willing to respond to the screening survey provides a reasonable indication that the survey was successful in reaching the kinds of businesses of interest to HMRC.

4.3 How can HMRC best measure awareness of compliance activity worked as part of a taskforce?

The small scale fieldwork exercise employed in this feasibility study has demonstrated that it is possible, through the use of a telephone survey, to obtain a reasonable indication of awareness of HMRC taskforce and inspection activity.

Depending on the answers given to closed questions employed in the quantitative survey script, the use of additional open-ended questions (to determine why respondents have given a particular answer) would enable the nature and extent of awareness of taskforce activity to be more accurately quantified. It would be feasible to conduct a cost effective, discreet assessment of awareness of taskforce activity to obtain a more robust indication of awareness levels.

It is possible that existing survey mechanisms such as the CPS could be extended to get an indication of awareness levels in other trade groups of interest to HMRC, though this approach would need to be piloted to ensure it did not detract from the achievement of the core objectives of the CPS.

²⁶ The small sample size will not enable robust conclusions to be drawn, but this may give some indication of whether the screening survey was successful in securing responses from the kinds of businesses that HMRC considers being at risk of evading tax.

4.4 What are the options for measuring attitudinal change as a result of taskforce activity?

4.4.1 Options for measuring attitudinal change

There are several options for measuring attitudinal change²⁷ as a result of taskforce activity; however, the feasibility of a robust assessment relies on the possibility of identifying a sufficient number of businesses that are aware of taskforce activity to enable any associated attitudinal changes to be explored and quantified.

Ideally, attitudinal change would be assessed over time. This requires a before-and-after measure, for example through a baseline survey before any Taskforce activity takes place and a follow-up survey with the same respondents after the Taskforce activity is completed. However, discussion with HMRC confirmed that, as this could interfere with operational activity by making evaders aware of investigations, it is not possible to collect baseline data in the target areas prior to intervention.

An alternative is to use the results of the SME CPS as a benchmark, against which the attitudes of non-inspected businesses in the trade group and geographical area targeted by the taskforce could be compared. There are two key issues with this approach:

1. It is likely that any comparison would have to be made between SMEs *as a whole* and the sample of non-inspected businesses of relevance, unless the sample sizes of SMEs in the CPS was sufficient to analyse the data by specific trade groups.
2. There are a wide number of factors that influence compliance perceptions; therefore, even if differences could be observed it would still be necessary to conduct some follow-up research to understand whether and to what extent the observed change was due to taskforce activity as opposed to other factors.

The approach tested in this study was to use a post hoc approach, asking respondents to reflect on their attitudes now, and whether they had changed in 'the last two years'. In earlier work carried out for HMRC²⁸, questions which used a time reference were largely ruled out in relation to CPS, as it was difficult for respondents to comment on how their attitudes had changed over time without a specific reference point (such as a particular event or intervention).

The findings of this study suggest that it is feasible to obtain a reasonable understanding of how attitudes have changed and *why* compared to an approximate reference point (e.g. two years ago), providing the respondent is asked *why* their attitudes have changed. Asking respondents to specify the reasons why their attitudes have changed gives opportunity to validate the timescale for reported attitudinal change (as they are able to reference the approximate timings of particular events or interventions). The approach does however rely on the extent to which respondents accurately remember and report what their attitudes were in the past, and there is no way to validate this using a post hoc approach.

²⁷ Note that it was not within the scope of this study to consider options available to HMRC using in-house administrative data.

²⁸ Development of the Compliance Perceptions Survey, Collard and Smith, 2011
<http://www.hmrc.gov.uk/research/report157.pdf>

The final option for measuring attitudinal change would be to adopt a qualitative approach; this would not enable HMRC to quantify the deterrent effect, but would provide examples of instances where taskforces had impacted on the attitudes of non-inspected businesses. A qualitative approach is likely to be the only option in any instances where the level of awareness is too limited for a quantitative survey to be conducted discreetly.

4.4.2 Measuring attitudinal change for the London Restaurant Taskforce (LRT)

In the case of the LRT, awareness of taskforce activity among the groups of interest to HMRC appeared to be limited.

Assuming HMRC would require a sample of at least 100 businesses aware of taskforce activity to begin to draw robust conclusions about deterrent effects; we estimate that a minimum of 2,000 screening interviews would be required²⁹. The sample size required to enable credible evaluation is likely to be much higher however, as even in the event that a 2,000 interview screening survey is successful in identifying awareness, it is possible given the findings of the qualitative interviews conducted in this study that many respondents would find it difficult to distinguish the relative influence of awareness of Taskforce activity on their attitudes in the context of other factors affecting awareness levels.

This scale of survey work could not be conducted discreetly in the case of the LRT. Importantly, the number of interviews required would likely saturate the population to such an extent that the eventual results might be flawed – there would be a significant risk that awareness levels (and any associated deterrent effects) might be raised artificially in the process of administering the survey.

This means that the only realistic option available to HMRC at present for the LRT would be to replicate the fieldwork undertaken in stage 2 on a larger scale, using a screening survey to identify business owners/managers that might be aware of taskforce activity, followed by qualitative interviews to examine whether and how attitudes among those that appeared to be aware of taskforce activity had changed. Attitudes could be briefly explored in the screening survey to inform who should be targeted in the qualitative interviews to maximise insight.

A qualitative-led approach would not enable HMRC to precisely quantify the deterrent effects of taskforce activity on non-inspected businesses; however, it should provide evidence of specific cases of where and how awareness of taskforce activity impact led or contributed to a change in attitudes. Such examples would serve to validate HMRC's hypothesis that the LRT was impacting on the attitudes of non-inspected businesses.

²⁹ Based on the results of the screening survey and subsequent qualitative interviews, and assuming as was the case for the LRT, that businesses aware of specific interventions believe them to be of a routine nature rather than part of the taskforce. For further information about the results of the fieldwork undertaken in this study can be found in section 5.

4.5 Measuring the impact of taskforces other than the LRT

It is difficult to comment extensively on whether and how it might be possible to quantify the deterrent impact of taskforces other than the LRT.

We suggest that HMRC considers whether and how it might be possible to determine awareness levels among groups other than restaurants and related/unrelated trades in London. This would enable HMRC to consider whether it might be feasible to employ a quantitative approach for other groups.

It was hypothesised at the outset of the study that the LRT would be the most likely taskforce where a sufficient level of awareness could be identified, given that it was the first taskforce to be established, it was one of the most extensive in terms of the number of cases processed and was shortly followed by a taskforce targeting fast food outlets. We cannot say for certain from the evidence obtained in this study whether the hypothesis is correct, but if it is, then it is unlikely to be feasible to employ anything other than a qualitative approach in examining the deterrent effect of Taskforce activity.

Theoretically, it would be appropriate to adopt a telephone survey approach for other examples of taskforce activity providing the following conditions are satisfied:

- **Awareness of taskforce activity is sufficiently high amongst the populations of interest to allow for a discreet and manageable research approach.**

In any instances where more than a quarter of the population of interest would need to be interviewed in order to identify a sufficient number of non-inspected businesses with awareness of taskforce activity to explore deterrent effects, it is unlikely to be feasible to employ a quantitative survey as the fieldwork would saturate the population to such an extent in seeking to secure the interviews that it may inadvertently raise awareness levels among the population of interest, giving misleading results.

- **Those with awareness of taskforce activity have sufficient understanding to comment on where and how it had influenced their attitudes.**

Specifically, respondents need to understand that taskforce inspections are new targeted interventions that are undertaken over and above routine inspection activity. Where respondents have only a general perception of increased activity, even where they are aware of specific taskforce inspections, the findings of this study suggest it will be too difficult to unpack the relative impact of taskforce activity on their attitudes.

4.6 Suitability of the CPS questions for measuring attitudinal change in a taskforce population

Although not designed for the assessment of specific interventions like Taskforces, the advantage of using the CPS questions (or modified versions of them) are that a rigorous process was used to develop and test them, and they have already been used by HMRC on several occasions. By asking some of the same questions in taskforce evaluations, HMRC could use the CPS as a broad benchmark against which attitude changes could be assessed.

The fieldwork undertaken in this study has demonstrated the feasibility of adapting the Compliance Perceptions Survey (CPS) questions for use in measuring attitude change in a taskforce population.

However, additional questions are required to enable exploration of the extent to which observed attitudinal changes arose as a result of awareness of taskforce activity.

If it is possible to identify areas / trade groups where awareness of taskforce activity is sufficiently high to facilitate robust evaluation of deterrent effects, the quantitative questions subjected to cognitive testing in the qualitative interviews could be employed to measure attitudinal change with minor refinement.

4.7 What is the best way of selecting different groups of respondents in order to allow measurement of attitude change?

Given that awareness of taskforce activity may be low, it is likely that some form of screening would be required in order to select groups of respondents to allow attitudinal change to be measured.

To begin to explore attitudinal change, respondents must have some degree of awareness of taskforce activity in order to be able to attribute this attitudinal change to some extent to the presence of taskforces within their sector.

Respondents ideally need to understand that taskforces involve targeted activity and are not routine inspections.

However, where respondents are solely aware of recent inspection activity, it may not be possible to explore the impact of inspections on attitudes, as they may not be fully confident in the timing of the inspection (e.g. before or after May 2011) and therefore it may not be feasible to conclude that attitudinal change arising from awareness of inspections is attributable to taskforce activity.

Ideally, an assessment of attitudinal change would employ the use of a counterfactual (comparison) group, to attempt to control for factors other than the taskforce that had led to attitudinal changes. If both aware and non-aware respondents are asked questions about their attitudes and attitudinal change, it may be feasible to construct a matched counterfactual group to examine the degree and extent of attitudinal change among non-aware respondents compared to those that are aware.

However, the LRT was chosen on the basis that it was expected to be the taskforce activity that businesses were most aware of. If awareness is lower for other taskforce activities targeting different sectors, the number of interviews required to find respondents that are aware may be cost prohibitive and/or saturate the target population.

4.8 Feasibility of measuring the ripple effect to other associated trades inside and outside of the target area

It does not appear to be feasible to measure the ripple effect of activities undertaken by the LRT, at least through a survey approach, due to limited levels of awareness of taskforces or increased compliance activity for London Restaurants among the populations of interest.

It is not possible to conclude from the small scale fieldwork exercise undertaken in this study whether awareness levels would be similarly low for other trade groups/taskforces. We suggest that HMRC considers whether existing survey mechanisms (e.g. CPS) can be used to obtain an indication of Taskforce awareness levels before deciding whether it is possible and worthwhile to pursue a further assessment of the ripple effect associated with Taskforce activity.

5 Insights obtained from the fieldwork

5.1 Introduction

This section summarises the key findings from the small scale fieldwork exercise undertaken in exploring the feasibility of measuring awareness of taskforce activity and any associated impacts on the attitudes of businesses not inspected by the taskforce towards compliance.

The **screening survey**, which comprised 160 quantitative telephone interviews, concentrated principally on exploring awareness of taskforces with view to identifying a group of business owners/managers from the populations of interest to HMRC with some degree of awareness of the taskforce activity.

The screening survey was followed by a series of 30 **qualitative interviews** with businesses that appeared to have some awareness of taskforce activity in the screening survey. The qualitative interviews were used to explore the nature and extent of their awareness of taskforce activity in more detail and discuss:

- Their attitudes towards compliance;
- Whether and how these had changed in the last two years (to coincide approximately with the launch of the LRT);
- Why their attitudes had changed where this was the case; and
- Whether and how awareness of taskforce activity had influenced the change in their attitudes.

We commence this section with discussion of the key findings of the screening survey, in particular the key findings in respect of awareness of taskforce activity.

The remainder of the report is devoted to drawing out key findings from the qualitative interviews, the purpose of which were to draw out key themes rather than providing quantitative results..

As the findings presented in this report are based on a relatively small scale fieldwork exercise designed primarily to test feasibility, the findings should be treated as merely **indicative** of awareness levels in the population, their attitudes and the degree of attitudinal change over the last two years.

Accordingly, with the exception of the chart illustrating the degree of awareness of taskforce activity apparent from the screening survey responses, throughout the report we indicate the prevalence of particular opinions, attitudes and behaviours and present them as themes in qualitative terms (a few, some, most, all) rather than reporting the precise number or proportion of respondents to which particular points/observations applied in our sample.

Table 2: Conventions used in reporting on the frequency of particular responses highlighted in this section.

Please note: This table is indicative of the meaning of the terms adopted in this report, but should not be used as a quantitative indicator of the prevalence of particular attitudes, opinions or behaviour among the population as a whole.

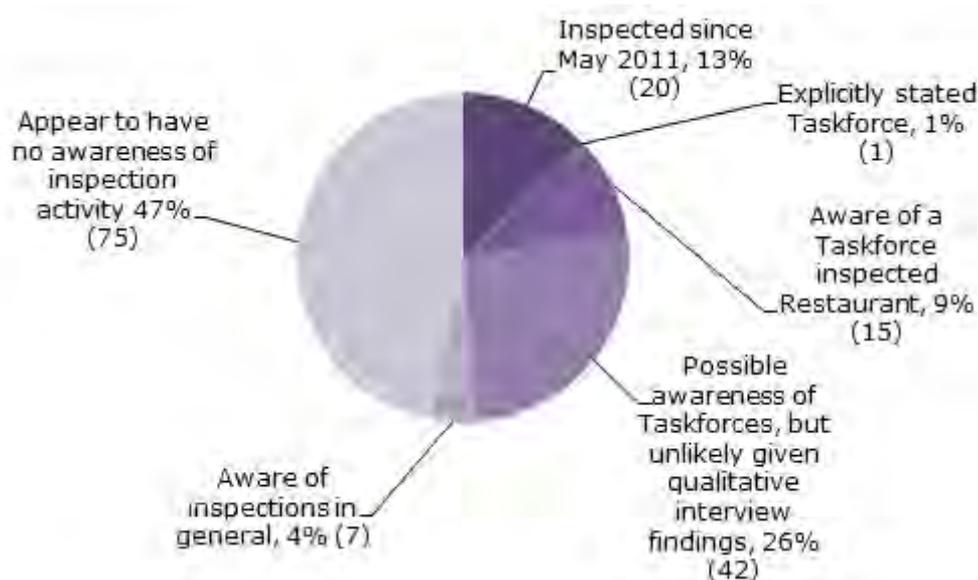
Comment/observation in the report	What this means
One respondent or a reference to an individual response (e.g. a quote)	One respondent provided an insightful comment which we felt should be reported, but, unless otherwise stated this was not mentioned by other respondents and is not necessarily a representative view
A few	More than two but less than five of the relevant respondents
Some / a number of	More than five respondents but less than 50% of relevant respondents
Half	Roughly 50% of relevant respondents
Most	More than three quarters of relevant respondents, but less than 95% of relevant respondents
All or nearly all	All or 95%+ of respondents

5.2 Findings from the screening survey

5.2.1 Awareness of taskforce activity

Figure 2 illustrates awareness of Taskforce activity observed among the screening survey sample.

Figure 2: Overall awareness of Taskforce activity indicated by screening interviews; all groups, not weighted (n=160)



Approximately half of all respondents to the screening survey demonstrated no evidence of awareness of taskforce activity or contact with the LRT.

We encountered a number of restaurants that reported they had been inspected by HMRC since May 2011, and a number of respondents that had heard about other restaurants that had been inspected since May 2011.

Respondents with awareness of recent restaurant inspections had generally become aware of the inspections via word of mouth; however, whilst some had heard about inspections from other local business owners (following the anticipated impact logic), the majority had heard about inspections from other sources, which included friends and relatives not involved in the trade and their staff and/or customers. One said their accountant had made them aware.

Nearly all respondents with awareness of restaurants that had been inspected in the last two years, however, appeared to be unaware of taskforce activity. There was one exception – a related trade (take-away) that was aware of specific inspection activity and appeared to be aware that HMRC had taken recent steps to target restaurants in London. Another business (a restaurant) had heard via customers that HMRC had inspected 10 restaurants in East London the week prior to the interview; however, they disagreed when asked whether HMRC were taking steps to target restaurants in London, suggesting they perceived this to be part of a general ramp up of inspection activity.

Nearly all respondents providing responses indicating they may have some awareness of taskforce activity did not use the term 'taskforce' during the interview. Again there was one exception; however, whilst the respondent agreed that HMRC had been taking steps to target restaurants in London, the respondent believed that the targeted activity was something that had always been carried out, and thought that HMRC had the same level of physical presence in their local community as was the case two years ago.

A number of respondents had not been inspected themselves or heard about any restaurants being inspected in the last two years, but agreed in response to statement questions used in the screening survey that:

1. HMRC was taking steps to ensure that specific trade groups in particular geographic regions are paying the correct taxes; and/or
2. HMRC had more of a physical presence in their local community than two years ago.

However, the findings from the qualitative interviews (see section 5.3.3) suggest the majority of these agreeing HMRC was taking steps to ensure that specific trade groups in particular geographic regions are paying the correct taxes were not aware of taskforce activity.

Where respondents felt HMRC had more of a physical presence now compared with two years ago, further probing into these responses highlighted that respondents had generally misunderstood this question, and had mistaken 'physical presence' with other forms of HMRC communication. When probed, just a few respondents were aware of an increase in physical presence of HMRC within their business communities.

"I've seen them around at a previous employer where they carried out visits."
[Restaurant, high concentration of LRT activity]

"They came to us and they came to other people as well."
[Restaurant, high concentration of LRT activity]

In a few cases, the perceived increase in physical presence of HMRC was based on an assumption that HMRC must be "doing more", rather than having physically seen HMRC within their communities.

"Probably more, I assume. Not that I've seen them but I assume they are trying to improve themselves every day. Just like every part of the Government..."
[Related trade]

The remaining respondents who stated that there had been more of a presence compared with two years ago were in fact referring to an increase in non-physical presence, such as an increase in HMRC postal and email communications:

"I get more letters and phone calls."
[Restaurant, high concentration of LRT activity]

"There seems to be more letters, bits on radio." [Unrelated trade]

A few respondents saying HMRC had more of a physical presence said they felt this because they had heard about other business owners having more dealings with HMRC compared to two years ago, but many comments suggested this was taking the form of follow-up checks rather than inspection activity necessarily:

"From what I've heard from other business owners they've had more dealings with HMRC than before." [Restaurant, medium concentration of LRT activity]

"So many people are talking about it in the restaurants and coffee shops. They are checking everything." [Restaurant, high concentration of LRT activity]

Some respondents said that there has been less of a physical presence compared with two years ago, suggesting that this was because there is "more use of the internet" to monitor tax payments and that HMRC are "getting more strict on cash flow".

Most of the respondents stated there was about the same amount of physical presence compared with two years ago. They did not give specific reasons, simply stating that they are "not aware of any changes".

"Yes, they go round they check everything. They were doing it before that anyways not just now." [Related trade]

5.2.2 Awareness of consequences of tax evasion

The majority of respondents to the screening survey said they had not heard what happens to businesses that knowingly under-report their income and have been caught by HMRC.

Where respondents had heard what happens to businesses in their sector that knowingly under-report income, they had generally heard about this since 2011³⁰, with approximately half indicating that they had become aware via news articles in the newspaper and on the internet, radio and TV, and half indicating they had become aware via word of mouth.

Newspapers, both locally and nationally, were said to have reported on tax evasion generally, but also specifically report on restaurants evading tax and the consequences of it:

"We hear a lot about this in the news. I read it in a local newspaper."
[Restaurant, medium concentration of LRT activity]

"...a local newspaper report of a local restaurant caught not paying their taxes..."
[Restaurant, high concentration of LRT activity]

Where respondents said they were aware of the consequences of tax evasion via national press coverage, however, they mostly discussed recent coverage in the media of the tax avoidance activities of large, high profile businesses, such as Starbucks:

"I heard about it from the Starbucks case on the news."
[Restaurant, medium concentration of LRT activity]

Word-of-mouth has also played a part in spreading awareness of the consequences of tax evasion, with some hearing from business owners, and others hearing from friends that had heard about particular businesses that had been caught.

5.2.3 Awareness of phoenixism

Awareness of evasion activity was not explored extensively in the quantitative screening survey; however, a question was included to explore awareness of phoenixism:

Would you agree or disagree with the following statement:
I have heard of businesses in my industry that deliberately file for bankruptcy to avoid paying debts and then start up a new company.

The majority of respondents had not heard of businesses in their industry that had deliberately filed for bankruptcy to avoid paying debts and then started up a new company, though some indicated they were aware of this activity via word of mouth, or suspected that it was happening when the same customers or suppliers closed their previous company and appeared shortly afterwards with a new business name.

³⁰ The London Restaurant Taskforce began in 2011.

5.2.4 Attitudes towards compliance

Attitudes towards compliance were not explored extensively in the screening survey; however, three questions were included to provide an indication of attitudes and provide context for the follow-up discussions in the qualitative interviews.

The key findings from the screening survey in respect of attitudes towards compliance were as follows:

- The majority of respondents agreed that HMRC treats their business fairly in its dealings with them. A slightly greater proportion of restaurants agreed that this was the case compared to related and unrelated trades, however, this difference is not statistically significant given the relatively small sample sizes involved.
- Nearly all respondents disagreed or strongly disagreed that it is OK if people deliberately do not pay all the tax they are supposed to on their income. This was consistent across restaurants, related and unrelated trades.
- The majority of respondents felt that it was quite likely or very likely that HMRC would find out if their business regularly under-declared income or corporation tax liability. Again, this was consistent across restaurants, related and unrelated trades.

5.3 Insights from the qualitative interviews

5.3.1 Introduction

This section summarises key insights from the qualitative interviews, including

- How restaurants organise their tax affairs and their interaction with HMRC;
- Further insight into awareness of taskforce activity;
- The perceived prevalence and nature of tax evasion activity and social norms;
- Attitudes towards compliance and the likelihood/threat of detection of evasion;
- Whether and how compliance perceptions/attitudes have changed in the last two years;
- The factors influencing attitudinal change; and
- Word of mouth between businesses and the potential for deterrent effect.

5.3.2 How restaurants manage their tax affairs, interaction with HMRC and knowledge of inspection activity

The way in which businesses deal with their tax affairs largely determines the extent and nature of their interaction with HMRC. Interestingly, responses to the qualitative interviews also suggest that the way in which restaurants manage their tax affairs may influence their awareness of HMRC's activities.

Respondents dealing with their tax affairs without support were generally small or new businesses and/or business owners that wanted to retain control so they were confident all tax matters were being dealt with correctly to avoid penalties associated with tax evasion:

"I try to do it correctly [myself] as I am aware of the penalties and I'm really scared of that." [Restaurant, high concentration of LRT activity]

Business owners/managers dealing with their own tax affairs had more regular and direct interaction with HMRC, and were more likely than other business owners to feel that HMRC was undertaking targeted inspection activity e.g. “small restaurant trades” [Restaurant, high concentration of LRT activity] or “businesses in London” [Restaurant, low concentration of LRT activity].

Those dealing directly with the tax issues of their business (where this was ascertained in the interview) had often seen or heard about inspection activity and believed that HMRC had more of a physical presence in the business community now compared with approximately two years ago.

Other restaurants appeared to use accountants or other external bodies to outsource tax affairs partly or entirely:

“I do all of my own records and pass them to a company once per year.”
[Restaurant, high concentration of LRT activity]

“I do most of the accounting myself, but send books to accountant once a year for tax calculation and preparation of annual accounts.”
[Restaurant, high concentration of LRT activity]

“We collect all the books and the receipts and take it to the accountant.”
[Restaurant, high concentration of LRT activity]

Dealing with tax affairs through an accountant allows business owners to invest more of their time in the practicalities of running a business day to day, as explained by one respondent:

“I don’t actually deal with anything to deal with tax or any money, all I do is skill work, just operations, basically to run restaurant, to work out the cost and all that, but I don’t actually deal with wages or taxes and so on.”
[Restaurant, medium concentration of LRT activity]

These businesses usually believe that they are already doing “a good job” of completing their taxes and are “100% confident” [Unrelated trade] in their accountant’s ability to deal with tax affairs correctly. However, as a result, these business managers have limited direct interaction with HMRC.

Interestingly, businesses interviewed in the qualitative interviews managing their tax affairs through an agent appeared to be typically unaware of tax evasion activities among other businesses in their sectors, and had limited to no knowledge of inspection activity:

“I have not noticed anything that HMRC has done and have no experience of inspection activity...Nothing has happened of note in the last two years.”
[Unrelated trade]

For businesses managing their tax affairs through an agent, their awareness of HMRC interventions appeared to be limited to awareness of HMRC’s wider activities, such as the introduction of ‘real time payroll’.

Newspaper, radio, television and online advertising campaigns appear to be at the forefront of respondents' awareness of HMRC initiatives in general. Recent media articles at the time of the interviews, particularly tax avoidance stories relating to Starbucks and the mass media news coverage surrounding this, appeared to dominate what respondents could recall of HMRC activity and initiatives, and further probing was often required to go beyond this to understand whether and to what extent they could talk about the steps HMRC was taking to tackle tax evasion.

5.3.3 Awareness of taskforce activity

In the instances where respondents to the screening survey had expressed general awareness of HMRC taking steps to ensure that specific trade groups in particular geographic regions are paying correct taxes, these responses were followed up in the qualitative interviews.

A few respondents did appear to be aware of taskforce activity to some extent, as illustrated by the comments below:

"I'm sure I read something in the paper - probably The London Standard about a crackdown on VAT and how businesses are run but can't remember any details as I'm not in the restaurant industry."

[Unrelated trade]

"I heard that they're targeting more businesses that take cash. This is where they are lacking in terms of getting tax back. I did read about it as well in a newspaper – in a community paper. HMRC is targeting mainly restaurants and fast-food chains, like Fried chicken and kebab houses. It has to be inside London."

[Related trade]

However, it cannot be concluded with confidence that respondents agreeing in the screening survey that HMRC was taking steps to ensure specific trade groups in particular geographic regions are paying the correct taxes are truly aware of taskforce activity.

Nearly all of the business owners/managers interviewed in the qualitative interviews giving this response appear to have responded to the screening survey on the basis of *what they assumed was happening* rather than actual knowledge of taskforce activity. Therefore, any deterrent effects arising from this may have occurred anyway, even in the absence of taskforce activity.

Furthermore, probing established that in many instances businesses believed there was simply an increase in routine inspection activity being carried out (despite not being aware of recently inspected businesses themselves). Where this was the case, responses suggest that business owners often thought that businesses to be inspected were largely selected at random. The assumed increase in inspection activity would mean in turn that more restaurants were being inspected, rather than there being specific targeted activity. Again, associated attitudinal change (if any) may have come about anyway in the absence of taskforce activity.

Comments from respondents included:

"...the government's efforts to prevent tax evasion are more likely to target restaurants as tax evasion was easier to commit there but I have not heard of anything specific...just a general feeling."

[Restaurant, high concentration of LRT activity]

'Yeah, because, I don't know, you hear that they are cracking down on it a bit and that random inspections of small businesses have increased...to try and cut it down so that's the feeling but I don't know if that's true.'

[Restaurant, high concentration of LRT activity]

"I don't know, I just think HMRC probably have a certain way to find out or work it out what is going wrong. I'm just guessing to be honest. They probably have, I don't know, a random inspection maybe."

[Restaurant, high concentration of LRT activity]

Respondents' views and assumptions about HMRC's inspection activities often appeared to be driven by topical media coverage of tax avoidance activity – which led many to conclude that HMRC must be doing more to tackle evasion. Responses suggest that media coverage of tax avoidance might be overshadowing the visibility of taskforce activity.

In some cases, perceptions were also based on 'gossip' about an inspection, rather than knowledge of a specific inspection:

"I went to an off licence because I wanted to buy a cigarette and I heard... this word 'tax'. That's what I heard. I didn't hear the kinds of things they were discussing." [Restaurant, low concentration of LRT activity]

A few respondents also commented in passing that if research was being carried out for HMRC, then some form of increased activity must be taking place.

The restaurant identified in the screening survey that was aware of inspection activity and appeared to be aware that HMRC was taking steps to target restaurants had initially become aware when their accountant approached them in 2011, informing them that they could take out an insurance policy against inspection costs³¹; the respondent did decide to take up an insurance policy. The respondent also said they had seen an article in the Evening Standard; however, they understood that HMRC was targeting all small restaurants across the whole of the UK rather than specific geographical areas.

In general however, whether a restaurant had received an inspection itself or the business owner/manager interviewed was aware of a restaurant other than their own being inspected, respondents generally understood or perceived these inspections to be of a routine nature. The qualitative interviews conducted with inspected restaurants confirmed that HMRC were not explicit in the fact that inspections were part of a Taskforce initiative.

³¹ Whereby the restaurant pays a premium and if they have an investigation, the policy covers the costs

5.3.4 Understanding of the term 'evasion'

Where respondents' understanding of tax evasion was explored in the qualitative interviews there was quite a lot of variation between what they perceived or understood by the term.

A few respondents had a very clear understanding of tax evasion:

"From what I understand it is telling lies about your accounts and not paying full tax. In relation to excise duty, some businesses buy alcohol privately and put it into a separate account."

[Restaurant, low concentration of LRT activity]

"Tax evasion is where people act illegally and don't pay tax, for example if they under declare cash in hand income [and] don't pay the correct amount of VAT."

[Unrelated trade]

However, the majority appeared to have limited understanding of tax evasion and/or appeared to confuse evasion with avoidance. In these instances it was necessary for the interviewer to periodically reiterate the difference in the course of delivering the interview:

"To be honest, [my understanding of the term tax evasion is] not a lot as far as I'm concerned."

[Restaurant, high concentration of LRT activity]

"[I understand] Not much at all [of tax evasion]. I'm not really familiar with it."

[Restaurant, medium concentration of LRT activity]

"It means avoiding taxes and not paying regular due taxes."

[Unrelated trade]

5.3.5 Attitudes and factors influencing attitudinal change

Most of the respondents interviewed in the qualitative interviews indicated that their attitudes had changed in the last two years towards one or more of the areas covered in the topic guide. Sections 5.3.6 to 5.3.9 consider each of the key attitudinal areas covered in the qualitative interviews in turn, summarising overall attitudes and describing whether, how and why they have changed over the last two years.

5.3.6 Prevalence of tax evasion and social norms

Whilst some respondents to the qualitative interviews felt that tax evasion was widespread among restaurants, the majority felt it was not widespread. There also appeared to be a general feeling amongst respondents that tax evasion was less widespread among restaurants than businesses in general, which was most often associated with a general shift towards the trade taking an increasing number of payments by card where the transaction would be electronically recorded, rather than cash.

Broadly speaking, perceptions of the prevalence of tax evasion among businesses and restaurants were based on either:

- Direct experiences/observations/perceptions of specific businesses that respondents had encountered where they suspected tax evasion was occurring; or
- A general awareness of HMRC activity either through media reports or word of mouth.

The majority of those who perceived tax evasion to be very prevalent among restaurants and/or businesses in general based their perceptions on direct experiences:

"I have lived in this country 10 years and I have eaten in many places...but whenever I go and eat with my girlfriend it is always the same. "The cash machine is not working, can you pay cash?" But I know... it is because they don't want to pay into the system. But in a way I think maybe they do well because they don't want to pay 20%. Last month I paid £10k in VAT, I didn't get anything from my profit." [Restaurant, high concentration of LRT activity]

"You see a lot of businesses that close down one day and then these people open up in different names the next day by the same people running the organisations. A lot of it they can liquidate if they can't afford to pay the tax bill and the VAT, yet they move on and then create another business and then start again from scratch, so I assume that is a way in which it happens and that happens quite often you see people closing down businesses." [Unrelated trade]

Whilst some respondents perceiving that tax evasion was not widespread among restaurants felt that this was due to actions taken by HMRC, no explicit reference was made to taskforces or recent/increased inspection activity:

"Most of the holes have been closed by HMRC, I don't think it's that easy [to evade tax] to be honest." [Related trade]

"I don't know really, because I think there are systems in place to stop it, things like VAT inspections and obviously it's the responsibility of the accountants to make sure it doesn't matter." [Unrelated trade]

"I heard that businesses can get away. But recently from friends in different trades it's very difficult to get away now and on TV it is advertised that the tax man will come and get you, that sort of thing. It will make a lot of people think twice before they actually do anything now, but before, they could get away very easily." [Restaurant, low concentration of LRT activity]

Whilst the majority of respondents felt the prevalence of tax evasion had changed in recent years, some felt the prevalence was about the same as approximately two years ago.

Almost half of all respondents in the qualitative interviews appeared to believe there had been a decrease in prevalence of tax evasion. This perception appeared not to be based on the presence of taskforce activity specifically, but more a general impression that HMRC

are 'clamping down' on tax evasion, a culmination of a range of HMRC communication activity and articles in the media. For example, as one respondent commented:

*"HMRC has tightened up in general over the last few years...I have heard about HMRC [activity] in the media, adverts and leaflets, including messages like 'HMRC's getting closer to you!', 'you're on the watch list'...I've heard ads on LBC radio about HMRC 'watching you', 'knocking on your door.'
[Restaurant, high concentration of LRT activity]*

Other respondents perceived there to be an increase in the prevalence of tax evasion due to the financial pressures on businesses in the current economic climate. As one respondent commented:

"A lot of restaurants are feeling the pinch and trying to find ways to keep going. If the opportunity is there, more restaurants will be tempted." [Unrelated trade]

However, the economic climate was cited by one respondent as a reason for decreased prevalence explaining that the stakes are so much higher and that businesses would not want to risk losing everything if they were caught evading tax.

"So it's the same principle again that people are not doing things because they are struggling... why take the risk? ... The cost of living has gone up, the wages have not gone up with the cost and the cost of catering has gone up by about a fifty per cent increase, the menu has increased, so they cut down on the wages or they cut down on the staff or close." [Restaurant, medium concentration of LRT activity]

A number of respondents cited the under-declaring of cash in hand income as the most likely way in which restaurants might evade tax. Comments included:

"You see some restaurants that say they only accept cash or cheques, and this may indicate evasion." [Restaurant, high concentration of LRT activity]

"[Restaurants are] more likely to under declare cash income because they are more likely to have more cash, more [cash] sales... because if they want to obviously run away from paying a lot of tax, the easiest way is to say 'I don't earn a lot' I guess. In our company delivery notes will show how much a customer is paying and the invoices. I think because they're just taking cash from their consumer directly and because they don't have to report it to anyone, they can just put it in their pocket really I guess." [Unrelated trade]

"Don't know, I think a small amount probably do [under-declare cash in hand income]. Only because I worked in a restaurant years ago and I know that sort of thing went on." [Unrelated trade]

Few felt confident about commenting on the prevalence of evading excise duty as they either did not serve alcohol or they couldn't understand how it would occur, as illustrated by the following comments:

"It's difficult to get any alcohol without paying the tax, it's not easy to get."

[Restaurant, medium concentration of LRT activity]

"You can't just buy alcohol. You have to go to a reputable supplier."

[Restaurant, low concentration of LRT activity]

5.3.7 Likelihood and threat of detection

Throughout the qualitative interviews, the majority of respondents felt that restaurants evading tax were likely to be caught, where they felt able to answer the question.

In general and echoing comments around prevalence, businesses felt it was more difficult to evade VAT than under-declare cash income and evasion of income/corporation tax in general, as illustrated by the following comments:

"VAT is very difficult to evade, because of the 'formula' used...HMRC can check sales against invoices/purchases..." [Unrelated trade]

"Cash in hand is a very difficult one [to detect] because...it's invisible."
[Related trade]

Some respondents could not (or would not) distinguish clearly between different types of tax and simply made a sweeping statement about the likelihood of detecting tax evasion generally or focused on variation by business size. For example, one respondent did not comment on variation by type of tax but expressed a perception that small businesses were less likely to get away with tax evasion than big businesses (though it is not entirely clear to what extent the respondent was talking about tax avoidance rather than evasion as the two were often conflated):

"Because big businesses have got a proper accountant. A lot of people tend to run their own bill and tax income –they're the people that tend to avoid taxes. And even when they get caught they tend to say I don't know. Rather if you do have a proper accountant once you get caught you can't say I don't know. I think it's the people running their own business and their own accounts, they can get away with it even if they get caught. They are more likely to do so."
[Restaurant, low concentration of LRT activity]

In other cases, where the respondents did perceive a difference in the likelihood of HMRC detecting particular types of tax evasion, they often used their first response (which was generally about VAT due to the typical ordering of the questions in the topic guide) as an anchor for subsequent responses. For example, one respondent felt it was 'very very likely' that HMRC would detect tax evasion among small businesses. However, when prompted to discuss different types of tax evasion, the respondent said:

"[Catching those businesses that under-declare cash income is] probably harder, you can never prove if businesses make that much money, as long as you don't actually personally see the customers and their payments. VAT is, I think, different, as you would find out from other companies and what they bought but

with cash in hand you'd have to literally count the customers and see what they're paying." [Related trade]

In the final phase of qualitative interviews we included additional questions to explore whether business owner managers perceived the threat of detection to be more or less likely for restaurants compared to small businesses in general (though this was not asked outright to all respondents, and was only covered with respondents where time and the flow of the discussion allowed). A slightly greater proportion of these respondents felt it was likely that small businesses in general would get caught if they regularly evade tax compared to those that felt restaurants would be caught. Building on responses from other areas, this appears to be due to the fact that a slightly greater proportion of restaurants were seen to be dealing in cash transactions compared to SMEs in general.

Many restaurant owners who commented on the likelihood of HMRC detecting tax evasion said it was more likely that tax evasion would be detected now compared to two years ago. Roughly half of these also said that there had been a decrease in the prevalence of tax evasion compared with two years ago, though not all of these ascribed the changes being made by HMRC.

Factors influencing likelihood of detection

There are a number of factors that account for businesses perceiving a greater likelihood of HMRC detecting some types of tax evasion.

One of the factors most regularly cited by respondents was an increasing shift towards restaurant customers paying for their meals by card rather than cash (where it was perceived that there was more opportunity for evasion). As one respondent commented:

"I think for restaurants...You come here, you have a meal...it's one starter, one main course so 95% of people pay by card."

[Restaurant, high concentration of LRT activity]

However, many respondents attributed the change in their attitude to a perception that HMRC had generally been more proactive in the last two years and/or had increased the level of scrutiny to ensure businesses pay the correct taxes. Comments included:

"I hear it when I put on the radio... "We are knocking on your door" and "We are watching you" this and that, I am sure there are business people also who are listening to that and say is it going to be me next..."

[Restaurant, high concentration of LRT activity]

"They've been more proactive now in contacting businesses within 10 days of the payment deadline." [Unrelated trade]

"HMRC has tightened up generally in past few years...I get leaflets occasionally from HMRC – once you've seen the message that's enough – it sticks in your mind." [Restaurant, high concentration of LRT activity]

A few respondents mentioned awareness and/or a perception of increased inspection activity that may be attributable to taskforce activity; however, respondents generally

understood this to be a ramping up of routine inspection activity rather than targeted inspection of particular trades in specific geographical areas. Comments included:

"...I feel more aware of it. It's not like I'm seeing them walking down the road but I've heard of one or two incidences so maybe in my head it seems like more."

[Restaurant, low concentration of LRT activity]

"Yeah, because, I don't know, you hear that they are cracking down on it a bit and that random inspections of small businesses has increased to try and cut it down so that's the feeling but I don't know if that's true." [Unrelated trade]

Finally, some businesses felt that HMRC have improved computerised systems that help them to detect tax evasion more easily than two years ago, making it more difficult for businesses to evade tax.

Some businesses said that there had been no change in the last two years in the likelihood of HMRC detecting restaurants evading tax. Comments included:

"The law is the law. It is always there...no change in last two years."

[Restaurant, medium concentration of LRT activity]

"It's like with anything really, it's like if you are driving fast every day eventually the police will pull you over and you will get caught you know."

[Restaurant, medium concentration of LRT activity]

A few businesses, all restaurants, felt that HMRC were less likely to detect restaurants that are evading tax compared to two years ago; in all cases this appeared to be because the respondent felt that businesses under pressure to survive were finding more creative ways to evade tax. As one respondent commented:

"Smaller businesses, particularly takeaways and corner shops, are using accountants to become smarter and more creative in how they go about evading tax, making it harder for HMRC to catch them out. I think it's probably almost impossible for HMRC to catch businesses that evade tax by finding loopholes."

[Restaurant, low concentration of LRT activity]

5.3.8 Consequences of tax evasion

Many of the businesses interviewed in the qualitative interviews perceived that there was more chance of being penalised if caught evading tax now than approximately two years ago. Most of those businesses were restaurants.

The increased chance of being penalised was often attributed to the current financial climate and pressure to maximise tax receipts. Comments included:

"The government has run out of money, they put pressure on people like you and me, we can't afford to go on holiday, we can't afford to have a decent life."

[Restaurant, medium concentration of LRT activity]

"They're [government] making all efforts to tighten things up - they need to maximise tax collection in current economic climate."

[Restaurant, low concentration of LRT activity]

"More likely to get punished under David Cameron's regime. When I watch him on the news, he means what he says."

[Restaurant, medium concentration of LRT activity]

Some respondents stated that they did not know if the likelihood of being penalised had changed, and others said there had been no change in the likelihood of being penalised for tax evasion.

"If there is a penalty there is a penalty." [Unrelated trade]

"As far as I know, once you get caught there's no way to get away under any circumstances so I think people would get penalised the same." [Unrelated trade]

There was no evidence to suggest that changes in perceptions about penalties were based on the presence of taskforce activity; one respondent did suggest that the chances of being penalised "would depend on how much effort HMRC were putting in to the issue", but demonstrated limited knowledge of precisely what steps were being taken by HMRC and no knowledge of taskforce activity.

5.3.9 Acceptability of tax evasion

The majority of respondents in the qualitative interviews expressed feeling that it was and always had been unacceptable to evade tax. However, a few respondents said it depended on the circumstances, saying that where businesses were struggling to survive, they could understand why people might evade tax.

One respondent said they could understand someone taking steps to evade tax if the business owner had to choose between paying tax and keeping his/her family. Another respondent felt that each case should be decided on its own merits, with consideration of the factors that led to the business taking steps to evade tax.

One respondent said they understood why some firms took steps to evade tax where they had employees and were simply trying to survive, also suggesting that the scale of evasion might be less than the cost to the Government if the business were to fail:

"If a company is trying to keep going and keep people employed it's a way to keep going and keep everyone employed and if they don't then it will cost the Government more work as those people will be claiming unemployment benefits and the rest. In that way, not that it's acceptable, right or wrong but I understand firms doing it."

A few respondents indicating it was always unacceptable to evade tax said that businesses should contact HMRC if they were struggling, explaining the problem and trying to find a solution, with one commenting "you can't just decide yourself that you don't want to pay tax."

There was limited evidence of any changes in respondent attitudes in the last two years towards the acceptability of tax evasion.

5.3.10 Deterrent effects – business behaviour

There was limited evidence from the qualitative interviews that awareness of inspection activity had any significant impact on the attitudes of interest to HMRC. There was also limited evidence in the qualitative interviews of awareness of inspection activity impacting on business behaviour.

The majority of respondents in the qualitative interviews were aware of businesses that had been inspected. Some of these inspections are likely from the description provided (type of business and timing) to have been undertaken by the LRT although respondents were not generally aware of this, understanding the inspections to be routine and/or randomly selected.

However, all respondents aware of inspections had not taken any steps to change business practice as a result of hearing about inspections, usually because they believed they were doing the right thing anyway. As one respondent commented:

“No, we didn’t make any improvements to our businesses after hearing of the inspection...With us we are 100% confident we have no problem and we obviously talk to our accountant, make sure you do everything right...” [Related trade]

One respondent said they had taken steps to improve record keeping, but this was prompted by them being informed that they would be inspected, rather than in response to awareness of restaurants receiving an inspection:

“We made sure we had all our accounts handy when knew had inspection coming. There had been four office managers in 6 years so just collating all the information and checking that all the invoices were there and available.” [Unrelated trade]

Another respondent said they had not taken any action themselves having become aware of inspection activity, but felt that awareness of inspections might prompt other business owners to check that they were compliant:

“Businesses would probably want to make sure that nothing is missing from their business. But rather than disclosing any undeclared tax, it would probably make them pay off future taxes. But I’m not sure of specific things the owners did after they received the inspection.” [Unrelated trade]

Interestingly, there were a few instances where respondents to the qualitative interviews said that the survey contact had led them to think they ought to take action following the call to find out more about what HMRC is doing (e.g. speak to their accountant). This raises two points for consideration by HMRC, one for delivery and one for future research:

1. It suggests more explicit and direct contact with businesses about the taskforce activities (perhaps as part of routine correspondence) might increase the deterrent effect.

2. It indicates that further research may artificially raise awareness of taskforce activity, reinforcing the need for a discreet and small scale approach in assessing awareness levels.

5.3.11 Deterrent effects – word of mouth

Although we did not explore word of mouth in depth in all of the qualitative interviews³², where we did, there was limited evidence of businesses discussing inspection activity with one another. In particular:

- Inspected businesses interviewed in the qualitative interviews generally claimed they had not discussed the fact they had received an inspection with other business owners.
- Some restaurant owners reported having limited contact with other business owners within their sector, and many had limited contact with other business owners in their local area: *"We just say hello to each other, that's all, they don't give you any information. I don't know what they do, how they run their business."* [Restaurant, high concentration of LRT activity]
- Other business owners involved in the restaurant trade were generally considered to be competitors and not individuals with whom business matters should be discussed.
- Where restaurant owners do have contact with other business owners, they do not tend to discuss tax matters.

One business owner interviewed in the qualitative interviews (a related trade) appeared to have significant awareness of inspection activity from word of mouth.

"I heard of 3-4 restaurants in London being inspected... I have heard from my friends not just in one area, but from different parts of the country... I heard lots of groceries have been raided and big restaurants – I've heard of at least 4-5. They were not paying enough VAT and things like that. I've heard about restaurants mainly... I heard of 1-2 restaurants in Birmingham and 3-4 restaurants in London." [Related trade]

It is clear from the evidence of the screening survey, however, that word does spread about inspection activity, as many of those saying they were aware of a business that had been inspected indicated they had found out via word of mouth, from friends, customers and other people in their sector.

At least a few business owners interviewed in the qualitative interviews felt that some people reporting awareness of inspections were relaying gossip rather than knowing for sure that a business had been inspected:

"This is all gossip. It's gossip where people will say we had this problem but I wasn't there and I didn't see what happened. People will say that this shop had an HMRC investigation but you will never know if it's real or not because they wouldn't tell you themselves." [Unrelated trade]

³² Due to the focus of the initial interviews being to undertake cognitive testing of questions for use in a larger scale pilot telephone survey.

"I think what a business tends to do if they get inspected, they probably call their friends, just gossip really. That's how people know."

[Restaurant, low concentration of LRT activity]

Despite inspected businesses typically reporting that they had not told other business owners that they had received an inspection, some respondents aware of inspections said that they had heard about inspections being carried out where they were friends with the owner:

"If I hadn't have been friends with the owner it's unlikely I would have come to heard about the inspection." [Restaurant, medium concentration of LRT activity]

Roughly half of respondents that were asked directly if they thought they would be aware if a business in their local area was inspected said they would be unlikely to find out, generally saying they would only hear if it happened to a friend:

"The chance of hearing about an inspection (if I weren't friends with the business owner) would be nil." [Unrelated trade]

6 Conclusions and considerations

6.1 Conclusions

The insights obtained in this feasibility study indicate that:

1. It is feasible to obtain a commercial database with sufficient coverage of the population of interest to HMRC to form the basis for an evaluation of taskforce activity.
2. It is possible to locate the target respondents (business owners/managers) via a telephone survey approach and secure responses from a reasonably³³ representative sample of the businesses of interest (i.e. businesses in the targeted population, related trades and unrelated businesses trading in the vicinity of targeted businesses).
3. It is possible to design a questionnaire that would enable identification of the level and nature of awareness of Taskforce activity.
4. It can be determined whether and how businesses' compliance perceptions have changed since the inception of Taskforce activity and the key factors that have contributed to the change.

However, it is not feasible to undertake an assessment of the deterrent effects of the LRT at this moment in time due to the relatively limited level of awareness and understanding of taskforce activity among the population of non-inspected restaurants in London, related and unrelated trades.

Assuming HMRC would require a sample of at least 100 businesses aware of taskforce activity to begin to draw robust conclusions about deterrent effects³⁴; we estimate that a minimum of 2,000 screening interviews would be required³⁵. The sample size required to enable credible evaluation is likely to be much higher however, as even in the event that a 2,000 interview screening survey is successful in identifying awareness, it is possible given the findings of the qualitative interviews conducted in this study that many respondents

³³ The sample is considered representative for the following reasons: The overall refusal rate to the survey was low (6%), and the response and refusal rates were similar for different types and sizes of businesses, as illustrated in the analysis presented in Table 5 in Appendix H. The survey was also successful in reaching businesses likely from their responses to have been inspected by the London Restaurant Taskforce. It is possible that businesses evading tax would be less likely to respond to the survey than compliant businesses; however, it is not possible for us to determine from the available data whether that is or is not the case. We have no reason to suspect that non-compliant businesses would be any less likely to respond to the Taskforce survey compared with other surveys commissioned by HMRC.

³⁴ Fewer than 100 interviews would be insufficient to guarantee that HMRC could be 95% confident that the key results are accurate to within ± 10 percentage points (e.g. the percentage of those aware of taskforces or an increase in compliance activity for London Restaurants whose attitudes towards compliance had changed as a result of their awareness).

³⁵ Based on the results of the screening survey and subsequent qualitative interviews, and assuming as was the case for the LRT, that businesses aware of specific interventions believe them to be of a routine nature rather than part of the taskforce. For further information about the results of the fieldwork undertaken in this study can be found in section 5.

would find it difficult to distinguish the relative influence of awareness of Taskforce activity on their attitudes in the context of other factors affecting awareness levels.

This scale of survey work could not be conducted discreetly in the case of the LRT. Importantly, the number of interviews required would likely saturate the population to such an extent that the eventual results might be flawed – there would be a significant risk that awareness levels (and any associated deterrent effects) might be raised artificially in the process of administering the survey. This is evidenced by the fact that more than one respondent to the qualitative interviews said they would be taking steps following the interview to find out more about what HMRC was doing to tackle tax evasion.

This means that the only realistic option available to HMRC at present for the LRT would be replicate the fieldwork undertaken in stage 2 on a larger scale, using a screening survey to identify business owners/managers that might be aware of taskforce activity, followed by qualitative interviews to examine whether and how attitudes among those that appeared to be aware of taskforce activity had changed. Attitudes could be briefly explored in the screening survey to inform who should be targeted in the qualitative interviews to maximise insight.

A qualitative-led approach would not enable HMRC to precisely quantify the deterrent effects of taskforce activity on non-inspected businesses; however, it should provide evidence of specific cases of where and how awareness of taskforce activity impact led or contributed to a change in attitudes. Such examples would serve to validate HMRC's hypothesis that the LRT was impacting on the attitudes of non-inspected businesses.

6.2 Considerations

The evidence obtained in this study does not preclude future research and evaluation of Taskforce activity.

Whilst the findings of the research indicate it is not possible (at least at present) to measure the impact of the LRT, the findings of this study suggest that it would be methodologically feasible to measure the impact of taskforce activity providing the following conditions are satisfied:

- Awareness of taskforce activity is sufficiently high amongst the populations of interest to allow for a discreet and manageable research approach.
- Those with awareness of taskforce activity have sufficient understanding to comment on where and how it had influenced their attitudes.

This raises two questions for potential consideration in future research activity:

1. Is there a sufficient level of awareness of Taskforce activity to facilitate an evaluation of the deterrent effects?

We recommend that HMRC considers including a few questions in future SME compliance perceptions surveys or other forthcoming primary research to explore whether respondents in relevant sectors are aware of Taskforce activity. This will provide an indication of the sectors in which the level of awareness might be

sufficient to facilitate cost effective evaluation. It will also enable HMRC to examine whether there are any significant differences in attitudes between those who are aware of Taskforce activity (or at least perceive there to be an increase in targeted inspection activity) and those who are not.

2. Is there anything HMRC can do to raise the profile of taskforce activity and/or take steps to stimulate a deterrent effect?

One point for consideration would be whether it should be communicated to businesses subjected to a taskforce inspection that the inspection is being carried out as part of new targeted activity being undertaken by HMRC, rather than communicating the inspection as routine. There are arguments for and against making clear that it is a taskforce inspection; however, if HMRC intend to create and/or increase the deterrent effect via word of mouth (or at least a *measurable* deterrent effect) the findings of this research suggest that taking steps to distinguish taskforce inspections from routine inspection activity would be helpful, providing this can be done in a way that does not give the impression that inspections are only likely to happen where and while a taskforce is taking place.

Appendix A: Pre-survey notification letter

All businesses approached to participate in the screening survey were sent the following pre-survey notification letter. We received no contact from letter recipients.



HM Revenue and Customs
Knowledge, Analysis and Intelligence
Bush House
South West Wing
Strand
London
WC2B 4RD

<SALUTATION> <SURNAME>
<COMPANY NAME>
<ADDRESS LINE 1>
<ADDRESS LINE 2>
<ADDRESS LINE 3>
<«POSTCODE»>

Date <DATE>

Phone (Databuild) [REDACTED]
Fax [REDACTED]
Internet Site www.hmrc.gov.uk

Dear Sir / Madam,

RESEARCH ABOUT COMPLYING WITH TAX OBLIGATIONS

I am writing to ask for your assistance in a very important study HM Revenue and Customs (HMRC) is conducting. The aim of the study is to explore attitudes towards compliance with tax obligations among businesses like yours. Your feedback is invaluable as it helps us to understand how the tax regime affects your business so that we can improve and tailor the support we provide. We have appointed an independent research company, Databuild Research and Solutions Ltd, to contact businesses and ask questions about their perceptions of different aspects of the tax regime. Your business has been randomly selected to participate in this study.

Who are Databuild?

Databuild is an independent research consultancy based in Birmingham, specialising in research for government and the public sector.

Why do they want to speak to me?

As the key decision maker in your business, we believe that you are the most appropriate person for Databuild to speak to. However, if you consider another person in your business better placed to help us, we would be grateful if you could pass this letter on to them.

When and how might they contact me?

Databuild will be contacting the majority of businesses receiving this letter via telephone over the next four weeks.

What does it involve and how long will it take?

It involves an interview conducted on the telephone that will last approximately 10 minutes. The interview will take place at a time convenient for you. It will be conducted by a professional interviewer from Databuild.

What will happen to my answers?

Everything that you tell the interviewer will be kept in the strictest confidence and the information you provide will only be used for this study. Databuild is bound by the Market Research Society code of conduct to keep your responses and personal data confidential and will not provide HMRC with the names of the people or businesses that are interviewed.

Participation in this research is entirely voluntary. However, it is important to us to hear your thoughts in order to ensure a sufficient number and breadth of views are represented. If you have any questions about the research you can call Databuild on [REDACTED] or contact [REDACTED]. If you would prefer to get in touch directly with the research team at HMRC, then please contact [REDACTED].

Thank you for your time; your feedback is highly valuable in helping us to continue to improve the efficiency of the service we provide to you and all our customers.

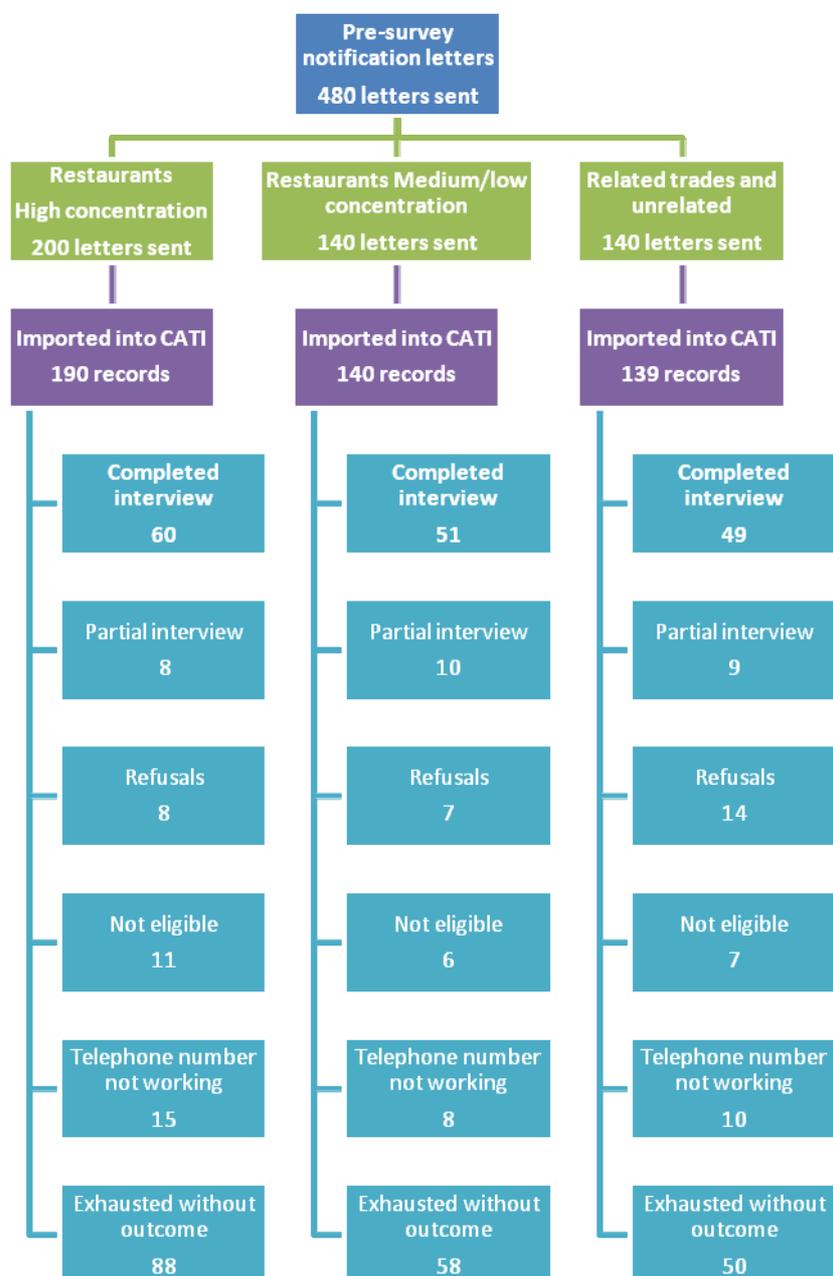
Yours sincerely,

[REDACTED]

Appendix B: Screening survey outline

480 pre-survey notification letters were sent out to businesses in the target groups for the screening survey. The majority of these were imported into our CATI software for inclusion in the screening survey. Records determined to be out of scope or unusable prior to the survey were excluded (e.g. Internet cafes, records for which it was not possible to find a working telephone number). 469 records were imported into our CATI software in total. Records were imported in phased batches, and exhausted prior to the inclusion of any further batches. The records for inclusion within each batch were selected at random. The sample was classed as exhausted after 7 calls without outcome.

Figure 3: Summary of fieldwork incl. call outcomes



Appendix C: questionnaire used in screening survey

Introduction to gatekeeper

Hello. My name is X and I'm calling on behalf of HM Revenue and Customs from a company called Databuild. I'd like to speak to the owner/manager if possible?

If needed and gatekeeper answers the phone;

We sent a letter out last week, so he/she should be expecting our call.

Introduction to business owner

Hello. My name is X and I'm calling you on behalf of HM Revenue and Customs from a company called Databuild. We sent a letter to you last week to notify you that we would be in contact. As it said in the letter, we would like to speak to you about your perceptions of different aspects of the tax regime. I would also like to speak with you about your awareness of the steps being taken by HMRC to ensure that businesses pay the correct taxes.³⁶

Would it be OK to run through my questions with you now?

If asked for further information:

- **Where did you get my name/number?**
Your business was selected at random from the records held by Experian, a commercial database provider who provided your name and a contact telephone number.
- **Why do you want to speak to me?**
As the key decision maker in your business, we believe that you are the most appropriate person for us to speak to. However, if you think another person in your business is better placed to help us, we would be grateful if you could put us through to them.
- **How long will it take?**
The conversation will last approximately 10 minutes, however this may vary depending on the depth of your responses. If now isn't convenient, perhaps I could arrange an alternative time to speak to you?
- **What will happen to my answers?**
Anything that you tell me will be kept in the strictest confidence and the information you provide will only be used for this study. Databuild is bound by the Market Research Society code of conduct to keep your responses and personal data confidential and we will not provide HMRC with the names of the people or businesses that are interviewed.
- **How can I confirm that you are who you say you are?**

³⁶ We included this statement to ensure informed consent was obtained prior to commencing the interview. We did not make clear in the pre-survey notification letter our intention to cover awareness of steps being taken by HMRC to ensure businesses pay the correct taxes as it was feared people might familiarise themselves with HMRC's activities in advance of the call and risk us obtaining misleading results.

You can contact the Market Research Society to confirm that we are a legitimate research organisation by calling the following freephone number 0500 39 69 99.

If the respondent indicates they would like to check the legitimacy of our call with HMRC directly

If you would like to confirm the legitimacy of this call with HMRC directly, then please contact [REDACTED]

If unwilling to participate in full survey³⁷

- Capture reason for refusal
- Before you go, can I just ask you one quick question – your answer will be treated in complete confidence

How strongly do you agree or disagree with the following statement?

It is OK if people deliberately do not pay all the tax they are supposed to on their income

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Thank you for your time

If willing to participate:

Reiterate confidentiality and notify respondent that calls may be monitored for training purposes

All responses you provide will be treated in confidence, though calls may be recorded for training purposes

Basic business profile information

First of all, it would be helpful if you could tell me a bit about your business...

1. What does your business do? (Capture verbatim and categorise)
 - a. Restaurant
 - b. Take-away only (i.e. serve food but no tables or seating for customers to consume the food on the premises)
 - c. Restaurant supplier
 - d. Other – what? (for use in latter stages where we speak to businesses in unrelated trades, but in the same geographic area). Close interview if business we had understood to be a restaurant in advance of the call does not turn out to be a restaurant

2. Before we continue, can I just check whether your business is part of a franchise?
 - a. Yes – close interview
 - b. No – continue

Restaurants and takeaways only

³⁷ To enable analysis of whether respondents differ from non-respondents.

3. And into which of these bands does your annual sales turnover fall? READ OUT UNTIL REACH ANSWER

- Less than £15,000
- £15,000 or more but under £50,000
- £50,000 or more but under £68,000
- £68,000 or more but under £100,000
- £100,000 or more but under £250,000
- £250,000 or more but under £500,000
- £500,000 or more but under £1 million
- £1million or more but under £10 million
- £10 million or more – CLOSE INTERVIEW³⁸
- REFUSED/DON'T KNOW

Can you tell me if your annual sales turnover more than £10 million?

- Yes – more than £10 million – CLOSE INTERVIEW
- No – less than £10 million – CONTINUE
- Unwilling to disclose – CONTINUE UNLESS REASON TO BELIEVE THEY HAVE A TURNOVER OF MORE THAN £10 MILLION

Thank you for your time, but we only need to talk with businesses that have a turnover below £10 million per year

4. How many people do you employ? Capture FTEs and code:

- a. No employees
- b. Micro (1-9 employees)
- c. Small (10-49 employees)
- d. Medium (50-249 employees)
- e. Large (250+ employees) – close interview

Interaction with HMRC

ALL

5. Can I just check; have you had any telephone or face to face contact with HMRC in the last two years? If yes: Could you tell me a little bit about what that contact involved? Unprompted question; researcher to capture verbatim and code, multiple response:

- Telephone contact initiated by HMRC – what was that regarding?
- Telephone contact initiated by the business – what was that regarding?
- Face to face contact initiated by HMRC
 - Received an inspection – when did this inspection take place (capture month and year)
 - Something else – what?
- Face to face contact initiated by the business – what?
- No contact

If they do not mention having received an inspection in the last two years in the previous question

³⁸ All businesses targeted by the London Restaurant Taskforce had a turnover of less than £10m per annum so we agreed with HMRC to exclude these businesses from the study.

6. Over the last two years, was this establishment either inspected by tax officials or required to meet with them?
 - Yes – inspected. When did this inspection take place? (Capture month and year)
 - Prior to May 2011
 - Since May 2011
 - Yes – required to meet with them but no inspection was carried out – why?
 - No

If inspected or required to meet with HMRC

7. Over the last two years, how many times was this establishment either inspected by tax officials or required to meet with them? (write in number of times).

Awareness of steps being taken by HMRC to ensure businesses pay the correct taxes

**For businesses subjected to an inspection, tailor question wording to ask about businesses other than yours that have received an inspection*

Unprompted awareness question

ALL

8. Are you aware of any steps being taken by HMRC to ensure businesses pay the correct taxes? What? (UNPROMPTED MULTIPLE RESPONSE) Capture verbatim and categorise:
 - **Aware of campaign activity** – aware that HMRC has provided businesses with opportunity to voluntarily disclose previously undeclared income
 - **Aware of inspection activity**; do you know of a business [* *any business other than yours*] that has received an inspection or are you just generally aware that HMRC undertake inspections – capture details and code:
 - Aware of one or more restaurants in London that has received an inspection; was that before or after May 2011?
 - Aware of one restaurant that received an inspection since May 2011
 - Aware of more than one restaurant receiving an inspection since May 2011
 - Aware of restaurants in London that have received inspections, but that was prior to May 2011
 - Aware of one or more specific businesses either inside or outside London that has received an inspection – capture business activity sector and approximate date of inspection
 - Generally aware that HMRC undertake inspections, but does not know of a specific business that has received an inspection
 - Other activity – what?
 - Not aware of any activity
9. Compared with two years ago, would you say that HMRC has:
 - More of a physical presence in your local business community
 - Less of a physical presence in your local business community
 - About the same level of physical presence in your local business community

Why do you say that? Unprompted:

- Mentioned Taskforces:
 - Used the term Taskforce
 - Did not use the term Taskforce, but demonstrated knowledge that HMRC has been targeting specific trade groups in specific geographical areas to target tax evasion
- Other reason not demonstrating knowledge of Taskforce activity

ALL

10. Would you agree or disagree with the following statements:

- I have heard about steps being taken by HMRC to ensure particular types of business in specific regions of the country are paying the correct taxes
- I have heard about steps being taken by HMRC to ensure restaurants in London pay the correct taxes

Agree/Disagree/Neither agree nor disagree

Where agree – capture details:

- Approximately when did you first hear about this?
- Where did you hear about this?
 - Word of mouth – who told you (capture business activity of informant)?
 - A local business owner/manager (capture business activity of informant where applicable)
 - Through my accountant
 - Other – what?
 - News article – capture details
 - Other – what?
- Are these steps new or something that HMRC has always carried out? When do you think they started doing this? Unprompted; researcher to code:
 - New steps being taken since May 2011
 - This has not always been the case, but started before May 2011
 - This work has always been carried out
 - Don't know

Researcher to code:

- Mentioned the term Taskforce explicitly
- Did not mention the term Taskforce

11. Would you agree or disagree with the following statements:

- I have heard what has happened to businesses in my sector that have knowingly under-reported their income and have been caught by HMRC
- I have heard of businesses in my industry that deliberately file for bankruptcy to avoid paying debts and then start up a new company

Agree/Disagree/Neither agree nor disagree

Where agree – capture details:

- Approximately when did you first hear about this?
- Where did you hear about this?
 - Word of mouth
 - A local business owner/manager (capture business activity of informant where applicable)
 - Through my accountant
 - Other – what?
 - News article – capture details
 - Other – what?

If not already stated above:

12. Do you know of any restaurants in London [**other than yours*] that have received an inspection? Was that inspection since May 2011?

- Yes – aware of one restaurant that received an inspection since May 2011 – roughly when did they receive that inspection (capture month and year)
- Yes – aware of more than one restaurant receiving an inspection since May 2011
- Aware of restaurants in London that have received inspections, but that was before May 2011
- No

Where aware of more than one restaurant that has been inspected

Do you know approximately when these restaurants were inspected by HMRC? Researcher to capture approximate month and year and code for each restaurant (to double check these were since May 2011)

ALL demonstrating awareness of a restaurant receiving an inspection

13. How did you find out that this restaurant / these restaurants had been inspected by HMRC? (Capture verbatim – probe for specifics – e.g. name of website or source)

- Word of mouth
 - A local business owner/manager (capture business activity of informant where applicable)
 - Through my accountant
 - Other – what?
- News article – record source verbatim (trade press, local newspaper) and whether this was paper-based or online
- Other – what?

ALL

14. And do you know of any businesses other than restaurants that have received an inspection?

- Yes – capture details of number of businesses and nature of business activity
- No

Do you know approximately when these businesses were inspected by HMRC? Researcher to capture approximate month and year and code for each business

15. How did you find out? (Capture specifics – we don't want names of individuals but do want to know business activity where applicable)
- Word of mouth – who told you?
 - a. A local business owner/manager (capture business activity of informant where applicable)
 - b. Through my accountant
 - c. Other – what?
 - News article – record source verbatim (trade press, local newspaper) and whether this was paper-based or online
 - Other – what?

Finally, I would just like to ask you a few questions about your views on taxation³⁹:

16. How strongly do you agree or disagree with the following statement?
HM Revenue and Customs treats your business fairly in your dealings with them.
- Strongly agree
 - Agree
 - Neither agree nor disagree
 - Disagree
 - Strongly disagree
 - DO NOT READ OUT - Don't know

17. How strongly do you agree or disagree with the following statement?
It is OK if people deliberately do not pay all the tax they are supposed to on their income
- Strongly agree
 - Agree
 - Neither agree nor disagree
 - Disagree
 - Strongly disagree
 - DO NOT READ OUT - Don't know

ASK TO ALL EXCEPT THOSE SUBJECTED TO AN INSPECTION

18. Suppose your business regularly under-declared its income or corporation tax liability. How likely do you think it is that HM Revenue and Customs would find out about this? Would you say it was...?
- Very likely
 - Quite likely
 - Not likely
 - Not at all likely
 - DO NOT READ OUT - Don't Know

³⁹ Although the primary purpose of the screening survey was to test awareness, a few questions about attitudes were included to provide context for the qualitative interviews.

Researcher to code interview outcome into one or more of the following categories based on their responses:

- a. Aware of HMRC's Taskforces (used or confirmed knowledge of term in screening interview)
- b. Aware that HMRC is undertaking work targeting specific trades in specific geographical areas to tackle tax evasion (aware, but did not use or confirm knowledge of the term Taskforce)
- c. Aware of the London Restaurant Taskforce
- d. Aware that HMRC had been targeting some restaurants in London to tackle tax evasion
- e. Had heard of one or more restaurants in London that had been inspected by HMRC since May 2011
- f. Had heard about one or more businesses (in another sector/location) that had been inspected by HMRC since May 2011
- g. None of these

Willingness to participate in a qualitative interview

Thank you for taking the time to speak to me today.

For all respondents that appear to be aware of Taskforce activity based on the responses (codes a, b, c, d and e above):

As I mentioned at the start of the call, I would like to arrange a time for my colleague to contact you to talk with you in more detail about your views on taxation. My colleague will be in your area on <days an interviewer will be in London>, so could come to see you.

- When would be convenient for you to speak to my colleague?

IF UNWILLING TO COMMIT TO A FACE TO FACE INTERVIEW:

Alternatively, you could speak to them on the phone.

- Would you prefer for that conversation to take place over the telephone?

Refused – capture reasons for refusal [to be monitored in early interviews; approach to be amended if we are unsuccessful in arranging qualitative interviews using the proposed method]

Thank you for your time today.

If the interviewee proffered specific intelligence during the screening survey the interviewer directed them to the HMRC website.

Appendix D: topic guide used in first wave of qualitative interviews – cognitive testing

Notes for interviewer:

This topic guide has been designed to assist us in exploring the feasibility of:

- Assessing awareness of Taskforce activity as opposed to traditional compliance interventions or other activity undertaken by HMRC (e.g. campaigns)
- Identifying changes in attitudes or behaviour in the last two years and since May 2011 (when the London Restaurant Taskforce was launched)
- Examining the extent to which any changes in attitudes or behaviour came about as a result of and can be attributed to awareness of Taskforce activity

It is structured as a series of quantitative questions for cognitive testing, followed by qualitative discussion to determine the effectiveness of the questions and any refinements that would be required for the questions to be effectively employed in a quantitative telephone survey in stage 3. After each question has been read out, keep a record of questions where the respondent:

- **Was willing and able to respond to the question without issue**
- **Was willing to respond, but struggled to answer the question properly;** signs of this could be explicit (e.g. asking for clarification, providing a response that doesn't fully answer the question) or implicit (e.g. facial expression, or providing a response that is inconsistent with previous answers)
- **Was unable to answer the question – why?**
- **Was unwilling to answer the question – why?**
- **Did not appear to provide an honest/accurate response to the question** (as far as this can be gleaned from their body language, hesitation/reluctance to provide an answer or where they provide a response that is inconsistent with previous answers)

Then ask additional questions at the end of each sub-section to explore:

- Interpretation of question
- Ease of understanding / answering
- If applicable, explore whether there is a better way to ask the question such that they would have understood it first time or provided a more accurate response

Where the interview is conducted face to face, interviewers should take the opportunity to probe more deeply into the responses to understand how and where their attitudes or behaviours have changed in the last two years, and when and why this changed. Where multiple factors are cited as reasons for the change, probe to establish the role that awareness of Taskforce activity specifically in bringing about the change. Do they think their attitudes or behaviours would have changed if they had not become aware of the Taskforce activity?

Where the interview is conducted on the telephone; seek to determine as far as possible the effectiveness of the questions for use in a quantitative telephone survey.

Request permission from the respondent for the interview to be recorded. The recording will only be used by the interviewer for reference in typing up his/her notes. It will not be shared with HMRC

1. Business profile and overall behaviour

Brief recap on business profile

- o Nature / type of organisation
- o Number of employees
- o How tax issues are organised
(e.g. in-house; use of intermediaries, payroll agents etc)

Brief background about the interviewee

- o Current role and responsibilities
- o Length of service
- o Background (including number and profile of businesses owned)

2. Attitudes towards compliance, changes and reasons for the change

I'd now like to ask you a few questions about tax evasion. By tax evasion, I mean:

- *Deliberately not declaring all the business income that should be declared for tax purposes*
- *Deliberately overstating costs for income or corporation tax*
- *Knowingly purchasing goods where Excise Duty has not been paid (e.g. alcohol)*

NOTE TO INTERVIEWER

The respondent may use the term "fraud" in talking about tax evasion activity. In the context of this research, the terms fraud and evasion are fully interchangeable.

Perceived prevalence of tax evasion

In your view, how widespread do you think that income or corporation tax evasion is, among small and medium sized businesses? Is that ...

- Very widespread
- Fairly widespread
- Not very widespread
- Not widespread at all
- Don't know

Why do you say that?

In your opinion, approximately what percentage of small and medium sized restaurants in the UK:

- Knowingly evade VAT
- Knowingly under-declare cash in hand income

- Deliberately evade income or corporation tax in general (e.g. through insolvency)
- Knowingly buy alcohol where Excise Duty has not been paid

Prompt with bands if respondent is struggling to answer the question, and stop when you reach the band they feel is about right:

- Less than 1%
- At least 1% but less than 5%
- At least 5% but less than 10%
- At least 10% but less than 20%
- At least 20% but less than 30%
- At least 30% but less than 40%
- At least 40% but less than 50%
- At least 50% but less than 60%
- At least 60% but less than 70%
- At least 70% but less than 80%
- At least 80% but less than 90%
- At least 90% but less than 100%
- 100%

Why do you say that? How do you feel about that?

Has this percentage changed in the last two years?

- Yes – it has increased – capture estimated % two years ago (banded if necessary)
- Yes – it has decreased – capture estimated % two years ago (banded if necessary)
- No change

If it has changed, why has it changed? Capture verbatim and code.

- Mentioned Taskforce activity – explicitly or implicitly
- Did not mention Taskforce activity

Acceptability of tax evasion

I am going to read out four statements. Please tell me which of them comes closest to your own views about corporation or income tax evasion.

- It is always acceptable
- It is mostly acceptable (but depends on the circumstances)
- It is mostly unacceptable (but depends on the circumstances)
- It is always unacceptable
- [NONE OF THESE]
- [DON'T KNOW]
- [NOT STATED]

If it depends on the circumstances – what does it depend on and what makes it acceptable or unacceptable?

Would you have provided the same answer or a different answer two years ago? If changed, what would they have said two years ago and why has their view changed? Capture verbatim and code

- Mentioned Taskforce activity – explicitly or implicitly
- Did not mention Taskforce activity

Perceived threat of audit/detection

How likely would you say it is for small and medium sized restaurants to get caught by HM Revenue and Customs when they regularly:	Very likely	Quite likely	Not likely	Not at all likely	[Don't know]
Evade VAT					
Under-declare cash in hand income					
Evade income or corporation tax in general					
Purchase alcohol where the Excise Duty has not been paid					

Why do you say that? Capture verbatim and code. Where respondent cites specific events/activities that make them think the likelihood of being caught has changed, probe to establish when the event/activity took place or when they heard about it

- Mentioned Taskforce activity – explicitly or implicitly
- Did not mention Taskforce activity

Do you think small and medium sized restaurants are more or less likely to be caught by HM Revenue and Customs now than they were two years ago, where they regularly:	More likely	Less likely	About the same	[Don't know]
Evade VAT				
Under-declare cash in hand income				
Evade income or corporation tax in general				
Purchase alcohol where the Excise Duty has not been paid				

Why do you say that? Capture verbatim and code. Where respondent cites specific events/activities that make them think the likelihood of being caught has changed, probe to establish when the event/activity took place or when they heard about it

- Mentioned Taskforce activity – explicitly or implicitly
- Did not mention Taskforce activity

Do you think HM Revenue and Customs is currently putting too much, too little or about the right amount of effort into reducing income and corporation tax evasion among small and medium sized restaurants?

- Too much effort
- Too little effort
- About the right amount of effort
- [Don't know]

[If not aware of taskforce activity in screening interview]

Do you think HM Revenue and Customs is putting any more or less effort into making sure restaurants in London pay the right amount of tax than it was two years ago?

- More effort
- Less effort
- About the same

Capture verbatim and code. Where respondent cites specific events/activities that make them think the likelihood of being caught has changed, probe to establish when the event/activity took place or when they heard about it

- Mentioned Taskforce activity – explicitly or implicitly
- Did not mention Taskforce activity

Perceived consequences of evasion

Do you think that HM Revenue and Customs deals any more or less firmly now with small and medium sized restaurants that do not pay the correct amount of tax, than it did two years ago?

- More firmly
- Less firmly
- About the same
- [DON'T KNOW]

Why do you say that? Capture verbatim and code.

- Mentioned Taskforce activity – explicitly or implicitly
- Did not mention Taskforce activity

How likely would you say it is for small and medium sized restaurants to be penalised where they regularly evade paying the correct amount of?	Very likely	Quite likely	Not likely	Not at all likely	[Don't know]
VAT					
Income tax					
Corporation tax					
Purchase alcohol where the Excise Duty has not been paid					

Do you think small and medium sized restaurants are more or less likely to be penalised now than they were two years ago where they regularly evade paying:	More likely	Less likely	About the same	[Don't know]
VAT				
Income tax				
Corporation tax				
Purchase alcohol where the Excise Duty has not been paid				

Why do you say that? Capture verbatim and code. Where respondent cites specific events/activities that make them think the likelihood of being caught has changed, probe to establish when the event/activity took place or when they heard about it

- Mentioned Taskforce activity – explicitly or implicitly
- Did not mention Taskforce activity

3. Awareness of Taskforce activity

Compared with a few years ago, would you say that HMRC has....

- MORE OF A PHYSICAL PRESENCE IN YOUR LOCAL BUSINESS COMMUNITY
- LESS OF A PHYSICAL PRESENCE IN YOUR LOCAL BUSINESS COMMUNITY
- ABOUT THE SAME LEVEL OF PHYSICAL PRESENCE IN YOUR LOCAL BUSINESS COMMUNITY?

Why do you say that? Capture verbatim

I understand that my colleague asked you a few questions on the phone about your awareness of things that HM Revenue and Customs are doing to ensure that businesses pay the correct taxes and you said that (recap on interview response, it will be one or more of the following):

- a. You are aware of HMRC's Taskforces (used or confirmed knowledge of term in screening interview)
- b. You are aware that HMRC is undertaking work targeting specific trades in specific geographical areas to tackle tax evasion (aware, but did not use or confirm knowledge of the term Taskforce)
- c. You are aware of the London Restaurant Taskforce
- d. You are aware that HMRC had been targeting some restaurants in London to tackle tax evasion
- e. You had heard of one or more restaurants in London that had been inspected by HMRC since May 2011
- f. You had heard about one or more businesses (in another sector/location) that had been inspected by HMRC since May 2011
- g. None of these

Is that correct?

Could you briefly describe your understanding of what HMRC are doing / have done and how you found out about this, for my benefit?

Probe to validate that awareness indicated by the responses to the screening survey are an accurate reflection of the respondent's awareness

4. Action taken in response to awareness of Taskforce activity

Did you seek any information for your business or do anything differently after you <became aware of the Taskforce⁴⁰> ? Capture verbatim and code:

- Sought information or clarification (e.g. about disclosure requirements) – what did you do? From whom did you seek information (accountant, friend, HMRC website, HMRC helpline, other – what)?
- Disclosed unpaid tax / made voluntary disclosure to HMRC
- Registered for paying tax if previously not registered
- Took steps to improve record keeping
- Stopped accepting 'cash in hand' jobs
- Stopped buying alcohol where the Excise Duty had not been paid
- Changed receipt recording behaviour
- Got an accountant (where did not previously have one)
- Changed accountant
- Something else – what?
- No

Capture details and any factors influencing the action other than Taskforce activity.

For each action; would you have done this if you had not heard about <the Taskforce>?

- **Yes – why do you say that?**
- **No – why not?**
- **Not sure – why?**

5. Interview close

That's all my questions; thank you for your time today.

Are there any other comments you would like to make in relation to the conversation today?

If the interviewee proffers specific intelligence the interviewer should direct them to the HMRC website.

⁴⁰ Substitute wording based on confirmed level of awareness. For example, if not aware of Taskforce activity specifically, but confirmed they had heard about a restaurant that had been inspected in London since May 2011, talk about any actions taken after finding out about the restaurant that had been inspected.

And can I just check if you would be willing for me to contact you if I have any further queries when I've had chance to go through my notes?

Thank you for your time.

Appendix E: topic guide used in second wave of qualitative interviews – exploratory interviews

The topic guide was revised prior to the second wave of qualitative interviews to allow for more open discussion between the respondent and interviewer. The majority of question areas from the original topic guide were retained to provide consistency. However, the questions included for cognitive testing were amended and additional notes were included for the interviewer to probe for additional detail in exploring the research questions.

Revised topic guide

Request permission from the respondent for the interview to be recorded. The recording will only be used by the interviewer for reference in typing up his/her notes. It will not be shared with HMRC.

Business profile and overall behaviour

Brief recap on business profile

- o Nature / type of organisation
- o Number of employees
- o How tax issues are organised
(e.g. in-house; use of intermediaries, payroll agents etc)

Brief background about the interviewee

- o Current role and responsibilities
- o Length of service
- o Background (including number and profile of businesses owned)

Attitudes towards compliance, changes and reasons for the change

I'd like to start by talking about tax evasion. What do you understand by the term tax evasion?

Probe to explore what they understand by the term. If a business was said to have evaded tax, what kinds of things would they expect that business might have done (or not done)?

I'd now like to ask you some further questions about tax evasion. By tax evasion, I mean⁴¹:

- *Deliberately not declaring all the business income that should be declared for tax purposes*

⁴¹ We have added a question above this definition to explore what the respondent means by evasion. We propose to retain this definition so respondents subsequently talk in terms of what we mean by tax evasion in responding to the questions, for consistency with previous interviews

- *Deliberately overstating costs for income or corporation tax*
- *Knowingly purchasing goods where Excise Duty has not been paid (e.g. alcohol)*

Perceived prevalence of tax evasion

How widespread do you think that tax evasion is, among small and medium sized businesses in general? Why do you say that? Probe to understand extent of evasion in their view and the basis for their opinion.

Think about different types of evasion e.g.:

- *VAT evasion*
- *Where businesses knowingly under-declare cash in hand income*
- *Where businesses [deliberately] evade income or corporation tax in general (e.g. through insolvency)*
- *Where businesses knowingly buy alcohol where Excise Duty has not been paid (if relevant)*

Does it vary according to the type of tax? Why? How widespread is tax evasion among businesses in their local area? How do you feel about that?

And what about restaurants? How widespread do you think that tax evasion is among restaurants? Why do you say that? What are the norms for their sector? Probe to understand extent and nature of evasion in their view and the basis for their opinion.

Think about different types of evasion e.g.:

- *VAT evasion*
- *Where businesses knowingly under-declare cash in hand income*
- *Where businesses [deliberately] evade income or corporation tax in general (e.g. through insolvency)*
- *Where businesses knowingly buy alcohol where Excise Duty has not been paid (if relevant)*

Does it vary according to the type of tax? Why? How widespread is tax evasion among restaurants in their local area? How do you feel about that?

In your opinion is tax evasion any more or less prevalent than it was two years ago? (i.e. is the proportion of SMEs/restaurants/businesses in their local area currently evading tax any higher or lower than it was two years ago or is it roughly the same, in their view)

Ask them to think about changes in prevalence for:

- *SMEs in general*
- *Restaurants in general*
- *SMEs in their local area*
- *Restaurants in their local area*

For each; how do you know? Probe to understand to what extent they feel it has changed, whether they can quantify it (e.g. rough % change compared to two years ago).

If the prevalence has changed, why has it changed? Capture details and note whether they mention anything about HMRC

Think about:

Has anything HMRC has been doing had an impact on the prevalence? If they express some general awareness that steps are being taken by HMRC that are having an impact, probe to establish why they think this is the case. In particular, are they aware of / have they noticed any increase in local inspection activity in general and/or increased inspections of restaurants.

Acceptability of tax evasion

In general (i.e. thinking about all businesses not just restaurants), would you say tax evasion is acceptable or unacceptable?

Where they say it is unacceptable; are there any instances where it is acceptable?

If it depends on the circumstances – what does it depend on and what makes it acceptable or unacceptable?

Would you say this is a view you have always held or has your view changed over time?

If changed, what would they have said two years ago and why has their view changed? Capture details and note whether they mention anything about HMRC

Think about:

Has anything HMRC has been doing had an impact on acceptability? If they express some general awareness that steps are being taken by HMRC that are having an impact, probe to establish why they think this is the case. In particular, are they aware of / have they noticed any increase in local inspection activity in general and/or increased inspections of restaurants.

And what about for restaurants specifically? Would you say tax evasion is acceptable or unacceptable for restaurants?

Where they say it is unacceptable; are there any instances where it is acceptable?

If it depends on the circumstances – what does it depend on and what makes it acceptable or unacceptable?

Would you say this is a view you have always held or has your view changed over time?

If changed, what would they have said two years ago and why has their view changed? Capture details and note whether they mention anything about HMRC

Think about:

Has anything HMRC has been doing had an impact on acceptability? If they express some general awareness that steps are being taken by HMRC that are

having an impact, probe to establish why they think this is the case. In particular, are they aware of / have they noticed any increase in local inspection activity in general and/or increased inspections of restaurants.

Perceived threat of audit/detection and consequences

How likely would you say it is for small and medium sized businesses in general (i.e. not just restaurants) to get caught by HM Revenue and Customs when they regularly evade tax?

Think about:

- *VAT evasion*
- *Where businesses knowingly under-declare cash in hand income*
- *Where businesses [deliberately] evade income or corporation tax in general (e.g. through insolvency)*
- *Where businesses knowingly buy alcohol where Excise Duty has not been paid (if relevant)*

Why do you say that? What about businesses your local area? Probe for details

Does it differ according to the type of tax? If so, ask them to describe the relative likelihood of getting caught (e.g. rank them according to most to least likely) and ask why?

Do you think small and medium sized businesses (in general) are more or less likely to be caught by HM Revenue and Customs now than they were two years ago, where they regularly evade tax?

Think about:

- *VAT evasion*
- *Where businesses knowingly under-declare cash in hand income*
- *Where businesses [deliberately] evade income or corporation tax in general (e.g. through insolvency)*
- *Where businesses knowingly buy alcohol where Excise Duty has not been paid (if relevant)*

Why do you say that? What about SMEs in their local area? Probe for details

Where respondent cites specific events/activities that make them think the likelihood of being caught has changed, probe to establish when the event/activity took place or when they heard about it

Think about:

Has anything HMRC has been doing had an impact on likelihood to get caught? If they express some general awareness that steps are being taken by HMRC that are having an impact, probe to establish why they think this is the case. In particular, are they aware of / have they noticed any increase in local inspection activity in general.

Are businesses today any more or less likely to be penalised where they regularly evade tax than they were two years ago? Probe for details about

precisely what makes them think penalties are any more or less likely – why do you say that?

Now thinking about restaurants, rather than SMEs in general, how likely would you say it is for restaurants to get caught by HM Revenue and Customs when they regularly evade tax?

Think about:

- *VAT evasion*
- *Where businesses knowingly under-declare cash in hand income*
- *Where businesses [deliberately] evade income or corporation tax in general (e.g. through insolvency)*
- *Where businesses knowingly buy alcohol where Excise Duty has not been paid (if relevant)*

Why do you say that? What about restaurants your local area? Probe for details

Does it differ according to the type of tax? If so, ask them to describe the relative likelihood of getting caught (e.g. rank them according to most to least likely) and ask why?

Do you think restaurants are more or less likely to be caught by HM Revenue and Customs now than they were two years ago, where they regularly evade tax?

Think about:

- *VAT evasion*
- *Where businesses knowingly under-declare cash in hand income*
- *Where businesses [deliberately] evade income or corporation tax in general (e.g. through insolvency)*
- *Where businesses knowingly buy alcohol where Excise Duty has not been paid (if relevant)*

Why do you say that?

Where respondent cites specific events/activities that make them think the likelihood of being caught has changed, probe to establish when the event/activity took place or when they heard about it

Think about:

Has anything HMRC has been doing had an impact on likelihood to get caught? If they express some general awareness that steps are being taken by HMRC that are having an impact, probe to establish why they think this is the case. In particular, are they aware of / have they noticed any increase in local inspection activity / restaurant inspections in general.

Are restaurants today any more or less likely to be penalised where they regularly evade tax than they were two years ago? Probe for details about precisely what makes them think penalties are any more or less likely – why do you say that?

Do you think HM Revenue and Customs is putting any more or less effort into making sure restaurants in London pay the right amount of tax than it was two years ago?

Where respondent cites specific events/activities that make them think the amount of effort being put in has changed, probe to establish when the event/activity took place or when they heard about it. Capture as much detail as possible to explore awareness and impact of Taskforce activity

Think about:

If they express some general awareness that steps are being taken by HMRC that are having an impact, probe to establish why they think this is the case. In particular, are they aware of / have they noticed any increase in local inspection activity / restaurant inspections in general.

Awareness of Taskforce activity

Could you briefly describe your understanding of any steps you are aware of that HMRC are taking to ensure businesses in general pay the correct taxes?

Probe for details, covering the breadth of activity that HMRC undertake. Try to distinguish between awareness of inspection activity vs other activity undertaken by HMRC. Where they are aware of inspection activity.

For each – are these new steps that are being taken by HMRC or has this always been the case. If new, when did they start doing this?

And are there any steps you are aware of that they are taking that specifically relate to restaurants? *Again, probe for details and check if these are new steps being taken by HMRC or if this has always been the case*

Compared with a few years ago, would you say that HMRC has any more or less of a physical presence in your local business community?

Why do you say that? Probe to pick up on anything that might indicate implicit awareness of Taskforce activity (e.g. more visits/inspections than there used to be etc)

Have you noticed any other differences in the last two years about the way in which HMRC ensures businesses pay the correct taxes?

IF NOT ALREADY COVERED, OTHERWISE SKIP TO ACTION SECTION

I understand that my colleague asked you a few questions on the phone about your awareness of things that HM Revenue and Customs are doing to ensure that businesses pay the correct taxes and you said that (recap on interview response, it will be one or more of the following):

- a. You are aware of HMRC's Taskforces (used or confirmed knowledge of term in screening interview)
- b. You are aware that HMRC is undertaking work targeting specific trades in specific geographical areas to tackle tax evasion (aware, but did not use or confirm knowledge of the term Taskforce)
- c. You are aware of the London Restaurant Taskforce
- d. You are aware that HMRC had been targeting some restaurants in London to tackle tax evasion
- e. You had heard of one or more restaurants in London that had been inspected by HMRC since May 2011
- f. You had heard about one or more businesses (in another sector/location) that had been inspected by HMRC since May 2011
- g. None of these

Is that correct?

Could you briefly describe your understanding of what HMRC are doing / have done and how you found out about this, for my benefit?

Probe to validate that awareness indicated by the responses to the screening survey are an accurate reflection of the respondent's awareness

Have you noticed any other differences in the last two years about the way in which HMRC ensures businesses pay the correct taxes?

**Action taken in response to awareness of Taskforce activity
(where they seem to be aware to at least some extent of
increased/new inspection activity)**

Did you seek any information for your business or do anything differently after you <became aware of the Taskforce⁴²> ? Capture details. *Think about range of actions they may have taken:*

- Sought information or clarification (e.g. about disclosure requirements) – what did you do? From whom did you seek information (accountant, friend, HMRC website, HMRC helpline, other – what)?
- Disclosed unpaid tax / made voluntary disclosure to HMRC
- Registered for paying tax if previously not registered
- Took steps to improve record keeping

⁴² Substitute wording based on confirmed level of awareness. For example, if not aware of Taskforce activity specifically, but confirmed they had heard about a restaurant that had been inspected in London since May 2011, talk about any actions taken after finding out about the restaurant that had been inspected.

- Stopped accepting 'cash in hand' jobs
- Stopped buying alcohol where the Excise Duty had not been paid
- Changed receipt recording behaviour
- Got an accountant (where did not previously have one)
- Changed accountant
- Something else – what?
- No

Capture details and any factors influencing the action other than Taskforce activity.

For each action; would you have done this if you had not heard about <the Taskforce>?

- Yes – why do you say that?
- No – why not?
- Not sure – why?

Word of mouth – do they talk about tax with other business owners?

Do you have any contact with:

- Restaurant owners in London
- Other local business owners
- Restaurant owners outside London

Probe to explore nature and frequency of contact. Think about any instances where they have some form of interaction with other restaurants – trade groups, local business groups, informal/social contact. Think about F2F, telephone, online communities etc.

Do they talk shop with other business owners? Do they ever discuss tax related matters? What do they discuss and why? What don't they discuss?

Do they ever discuss tax related matters with anyone else outside the business (e.g. friends / family)? What and why?

Are there any other ways in which you find out about changes that restaurants are making to their business in general?

If a local business was inspected by HMRC, would you know about it? How would you know?

Are you aware of any restaurants that have been inspected? How did you find out about it? Probe to explore ways in which they have become aware of inspection activity or how/whether they think they might become aware of inspections.

Where they have been inspected themselves (regardless of when)

I understand from my colleague that you were inspected by HM Revenue and Customs in <month and year from screening interview>.

Have you mentioned or talked about the inspection with any other business owners or managers?

- If so, what type of business does that individual own/run? What did you talk about? Why / how did you come to talk to them about it?
- If not – why not?

Interview close

That's all my questions; thank you for your time today.

Are there any other comments you would like to make in relation to the conversation today?

If the interviewee proffers specific intelligence the interviewer should direct them to the HMRC website.

And can I just check if you would be willing for me to contact you if I have any further queries when I've had chance to go through my notes?

Thank you for your time.

Appendix F: response rate calculation

Response rates were calculated on the basis of completed interviews using the following formula:

$$\text{Response Rate (RR)} = \frac{I}{(I) + (P + R + NC + O) + e(U)}$$

where

$$e = \frac{(I) + (P + R + NC + O)}{(I) + (P + R + NC + O) + NE}$$

The full calculation is detailed in the table below:

Table 3: Response rates

Outcome	High concentration	Medium/ low concentration	Related trade	Unrelated trade	Overall
Completed interview	60	51	23	26	160
Interrupted – partial interview	1	2	0	1	4
Could not speak sufficient English – partial interview	7	8	6	2	23
Eligible - Refusal target	7	7	3	9	26
Eligible - Gatekeeper refusal	1	0	0	2	3
Not eligible	11	6	4	3	24
Telephone number not working - unknown eligibility	15	8	3	7	33
Exhausted - Unknown eligibility	88	58	24	26	196
Total	190	140	63	76	469
Summary					
Interviewed	60	51	23	26	160
Partially completed	8	10	6	3	27
Refusal	8	7	3	11	29
NC – not contacted	0	0	0	0	0
Other outcome	0	0	0	0	0
Unknown eligibility	103	66	27	33	229
NE – not eligible	11	6	4	3	24
e – estimated % eligible for unknown eligibility	87%	92%	89%	93%	90%
Response rate calculation					
I	60	51	23	26	160
(I) + (P+R+NC+O)+e(U)	166	129	56	71	422
Response Rates	36%	40%	41%	37%	38%

Appendix G: Are CPS questions suitable to help assess changes in attitudes to tax compliance?

The CPS asks SMEs questions about income and corporation tax. If firms are VAT registered, they are also asked equivalent questions in relation to VAT. We understand from HMRC that the large majority of businesses targeted by Taskforce activity are VAT registered.

Before we consider individual CPS questions, therefore, a general issue is whether we should have separate questions for both income/corporation tax and VAT.

The argument for asking separate questions about income/corporation tax and/or VAT is that they are perceived quite differently by SMEs, as we know from the cognitive testing used to develop the CPS and results of the 2011 SME CPS which indicated the chances of being caught for VAT evasion are perceived as being higher than for income/corporation tax evasion. Moreover, our understanding from HMRC is that the initial focus of Taskforce activity is VAT (although other issues often emerge as well), which may argue for focusing solely on VAT.

The argument against asking separate questions about both income/tax and VAT is one of proportion and balance. Clearly, asking separate questions about both will take longer, and assessing attitude changes is only one of the objectives of the research (the others being Taskforce awareness and behaviour change).

We also have to consider the intention to ask equivalent questions of associated trades, to assess any ripple effect from Taskforce activity. These are likely to comprise some businesses that are VAT registered and others that are not.

One option is to develop separate questions, in line with the CPS, and test both in the cognitive interviews. An informed decision can then be made based on the interview data. Whether or not this is practical will depend on the length of the full question set that we agree for cognitive testing.

In addition, if this study progresses to a pilot we assume that the five screening questions and 10 segmentation questions currently included in the CPS will be asked. If so, this needs to be taken into account in the length of the question module. We do not propose to include the screening and segmentation questions in the screening survey or cognitive testing, however, as we propose to use the time available to concentrate on the feasibility of assessing awareness of Taskforce activity and the impact of taskforce activity on attitudes.

Assessing individual CPS questions

Although not designed for the assessment of specific interventions like Taskforces, advantages of using the CPS questions (or modified versions of them) are that a rigorous process was used to develop and test them, and they have already been used by HMRC on several occasions. As noted above, by asking some of the same questions in Taskforce

evaluations HMRC could use the CPS as a broad benchmark against which attitude changes could be assessed.

In this review, we focus on CPS questions that are most relevant to Taskforce activity: those that ask about perceived likelihood of investigation and threat of detection and prosecution. We have excluded other CPS questions on the basis that they are not directly relevant to the Taskforce study. As well as considering the CPS questions currently used, we also re-visit questions that were tested but not included in the CPS.

Table 1 sets out questions asked in the CPS (including new questions developed in 2011) that we consider being relevant to the Taskforce study. We have suggested how the questions might be modified, and the rationale for including the question. For the time being, we have included separate questions on income/corporation tax and VAT⁴³.

Table 1: CPS questions that are relevant to the Taskforce study

CPS (distribution of most recent SME responses in brackets where available)	Suggested wording for Taskforce study	Rationale for inclusion in Taskforce study
Q4 (RC4). In your view, do you think that corporation or income tax evasion among small and medium sized companies is: A MAJOR PROBLEM (11%) A MODERATE PROBLEM (24%) A MINOR PROBLEM (33%) NOT A PROBLEM AT ALL (14%) [DON'T KNOW] (20%)	In your view, how widespread do you think that income or corporation tax evasion is, among small and medium sized businesses? Is that ... <ul style="list-style-type: none"> • Very widespread • Fairly widespread • Not very widespread • Not widespread at all • Don't know 	To understand perceived extent of evasion. Recent cognitive testing of this CPS question found it to be problematic due to the number of ways in which it could be interpreted. Question revised to adopt wording suggested following cognitive testing
Q5 (RC5). How likely would you say it is for small and medium sized companies that regularly evade paying corporation or income tax to get caught? Would you say it is... A. VERY LIKELY (21%) B. QUITE LIKELY (41%) C. NOT LIKELY (19%) D. NOT AT ALL LIKELY (4%) [DON'T KNOW] (16%)	How likely would you say it is for small and medium sized restaurants that regularly evade paying corporation or income tax to get caught?	Can be used to assess attitudes to threat of detection. As there is no time reference period in the question, the answers would have to be compared with most recent SME CPS.
Q7 (RC7). Do you think small and medium sized companies that regularly evade paying corporation or income tax are more or less likely to be caught by HM Revenue and Customs now than they were? MORE LIKELY (30%) LESS LIKELY (6%) ABOUT THE SAME (46%) [DON'T KNOW] (17%)	Do you think small and medium sized restaurants that regularly evade paying corporation or income tax are more or less likely to be caught by HM Revenue and Customs now than they were two years ago?	Can be used to assess attitudes to threat of detection. Example of post hoc approach: the question asks respondents to assess likelihood now, compared with the past.

⁴³ Similar questions were developed in our questionnaire to cover Excise Duty evasion; however, they are not included here as questions about Excise Duty evasion were not included in the CPS

<p>Q11 (RC11). I am going to read out four statements. Please tell me which of them comes closest to your own views about corporation or income tax evasion.</p> <p>A. It is always acceptable (<1%) B. It is mostly acceptable (but depends on the circumstances) (4%) C. It is mostly unacceptable (but depends on the circumstances) (16%) D. It is always unacceptable (78%) [NONE OF THESE] [DON'T KNOW] (1%) [NOT STATED] (<1%)</p>	<p>No changes required</p> <p>We do not propose to ask the follow-up questions that are used in the CPS, in cases where respondents say it is mostly acceptable (Q12/RC11a) or unacceptable (Q13/RC11b)</p>	<p>Provides a benchmark for views about tax evasion in specific sectors, which can be compared across sectors and with the CPS SME data.</p>
<p>Q18 (RC15). How likely would you say it is for small and medium sized companies that regularly evade paying VAT to get caught? Would you say it is...</p> <p>A. VERY LIKELY (40%) B. QUITE LIKELY (36%) C. NOT LIKELY (12%) D. NOT AT ALL LIKELY (3%) [DON'T KNOW] (9%)</p>	<p>As Q5 (RC5) How likely would you say it is for small and medium sized restaurants that regularly evade paying VAT to get caught?</p>	<p>Can be used to assess attitudes to threat of detection.</p> <p>As there is no time reference period in the question, the answers would have to be compared with most recent SME CPS.</p>
<p>Q19 (RC16). Do you think small and medium sized companies that regularly evade paying VAT are more or less likely to be caught by HM Revenue and Customs now than they were?</p> <p>MORE LIKELY (32%) LESS LIKELY (6%) ABOUT THE SAME (47%) [DON'T KNOW] (15%)</p>	<p>As Q7 (RC7). Do you think small and medium sized restaurants that regularly evade paying VAT are more or less likely to be caught by HM Revenue and Customs now than they were two years ago?</p>	<p>Can be used to assess attitudes to threat of detection.</p> <p>Example of post hoc approach: the question asks respondents to assess likelihood now, compared with the past.</p>
<p>NEW Q2 (2011 study). Do you think HMRC is currently putting too much, too little or about the right amount of effort into reducing income and corporation tax evasion among small and medium sized businesses?</p>	<p>Do you think HMRC is currently putting too much, too little or about the right amount of effort into reducing income and corporation tax evasion among small and medium sized restaurants?</p>	<p>Can be used to assess attitudes to HMRC compliance effort in light of Taskforce activity</p>
<p>NEWQ3 (2011 study). Do you think that HMRC deals more firmly now with small and medium sized businesses that do not pay the correct amount of tax, than it did a few years ago? More firmly, less firmly, about the same</p>	<p>Do you think that HMRC deals more firmly now with small and medium sized restaurants that do not pay the correct amount of tax, than it did two years ago?</p>	<p>Can be used to assess attitudes to HMRC's compliance effort.</p> <p>Example of post hoc approach: the question asks respondents to assess likelihood now, compared with the past.</p>
<p>MBQc_2 amended (2011 study, HMRC criminal sanctions question). How likely would you say it is for small and medium sized businesses that regularly evade paying income tax to be prosecuted? Very likely, quite likely, not likely, not at all likely</p>	<p>How likely would you say it is for small and medium sized restaurants that regularly evade paying income/corporation tax to be penalised?</p>	<p>Can be used to assess attitudes to likelihood of penalties.</p> <p>HMRC have yet to prosecute a restaurant targeted by the London Restaurant Taskforce, so it is more appropriate to check for awareness of restaurants that have been penalised (where unpaid tax is recovered, goods are seized, or financial penalties are imposed) - rather than prosecuted.</p>

MBQc_4 amended (2011 study, HMRC criminal sanctions question). Have you heard of any businesses that have been prosecuted by HMRC for evading tax?' Yes/no	Have you heard of any restaurants that have been penalised by HMRC for evading tax?' Yes, no	Can be used to assess knowledge/awareness of prosecution.
--	--	---

There are also questions that were developed and tested in the 2011 CPS study that were not proposed for inclusion in the CPS. We consider there is value in assessing whether they are relevant for the Taskforce study (Table 2).

Table 2: Questions excluded from CPS that are potentially relevant to the Taskforce study

Question designed/tested in 2011 CPS study	Suggested wording for Taskforce study	Rationale for inclusion in Taskforce study
MBQc_2 (Criminal Sanctions question, HMRC tested it with individuals). Do you think people who regularly evade paying tax are more or less likely to be prosecuted now than they were in 2009? More likely, Less likely, About the same	Do you think small and medium sized restaurants that regularly evade paying [name of tax] are more or less likely to be penalised now than they were a few years ago?	Example of post hoc approach: the question asks respondents to assess likelihood now, compared with the past. In the CPS, it was proposed to replace this question with MBQc_2 amended (see above), which asks about likelihood of prosecution but does not have a time reference period.
Compared with 2009, would you say that HMRC has...MORE OF A PRESENCE IN YOUR LOCAL COMMUNITY, LESS OF A PRESENCE IN YOUR LOCAL COMMUNITY, ABOUT THE SAME LEVEL OF PRESENCE IN YOUR LOCAL COMMUNITY? Follow-up question: Why do you say that?	Compared with a few years ago, would you say that HMRC has...MORE OF A PHYSICAL PRESENCE IN YOUR LOCAL BUSINESS COMMUNITY, LESS OF A PHYSICAL PRESENCE IN YOUR LOCAL BUSINESS COMMUNITY, ABOUT THE SAME LEVEL OF PHYSICAL PRESENCE IN YOUR LOCAL BUSINESS COMMUNITY?	This question was developed to try and assess HMRC's visibility in local communities. But respondents struggled to understand and to answer it, and it was common for them to say that HMRC did not have a physical presence that they were aware of. When asked what they understood by the word 'presence', the most common response was that it referred to info provided by HMRC (such as leaflets or bulletins sent to businesses) or adverts such as those reminding people about the deadlines for submitting tax returns. On the basis of this feedback, we suggested that HMRC did not use this question. But we propose to consider testing it again to help gauge Taskforce awareness, given that Taskforce activity is carried out face-to-face.

Supplementary research to inform the approach

Repeated searches

In addition to reviewing the CPS questions, we have also repeated searches of the Survey Question Bank, Google Scholar and Google carried out for the 2011 CPS study. The aim was to identify any new material that might be relevant to the Taskforce study.

We only identified two questions that are relevant to assessing awareness of tax authority activities:

1. World Bank Enterprise Survey: J3. Over the last year, was this establishment either inspected by tax officials or required to meet with them? (yes/no).
2. World Bank Enterprise Survey: J4. Over the last year, how many times was this establishment either inspected by tax officials or required to meet with them? (write in number of times).

Other tax agencies

We searched tax agency websites in Australia, Canada, New Zealand, Sweden and the US for tax compliance studies, with a particular focus on identifying possible questions to assess awareness of Taskforce activity. The Australian Tax Office and the Canada Revenue Agency have carried out research that looks relevant for our purposes.

Two reports were recently published by the Canada Revenue Agency:

- 2012, Voluntary Disclosure Program
- 2010, Evaluation of Phase III of the Tax Relief Measures Advertising Campaign – Advertising Campaign Evaluation Tool.

In the Voluntary Disclosure Program research:

- Respondents were asked if they had heard of the program, based on the following description of it: a government program allowing taxpayers to possibly avoid penalties and prosecution if they came forward to report errors and omissions in their tax affairs.
- Respondents also seem to have been asked directly if they had heard of the Voluntary Disclosures Program.
- Respondents were asked questions about their level of support for the Program (from strongly support it to oppose it).

Based on the Canadian findings, we propose to consider asking respondents who are aware of Taskforce activity whether they think this is something new that HMRC is doing, or whether they think HMRC has always carried out this activity.

In the Advertising Campaign Evaluation Tool seems to include questions on:

- Unprompted and prompted awareness of adverts.
- How well respondents recall the message of the adverts.
- The sponsorship/attribution of the adverts.

Table 3 sets out potentially useful questions from work carried out by the Australian Tax Office. We have set out the questions as they were asked in the ATO research and indicated where these could be adapted for use.

Table 3: Questions asked by other tax agencies that are potentially relevant to the Taskforce study

Source	Questions that could be adapted for Taskforce study	Relevance
TNS for Australian Tax Office (2012) GST Voluntary Compliance Program Quantitative Tracking Research (Year 2)	QD5. And have you seen any communication or information from the Tax Office about GST in the last 12 months? year? Yes/No/DK QD6. Where have you seen this? (17 precodes)	Could be used to assess Taskforce awareness. Precodes may be useful to help determine whether or not the respondent is talking about Taskforce or some other contact with HMRC
ORC International for Australian Tax Office (2012). Small and Medium Enterprise Perceptions Survey (SMEPS) – Final report	The next questions are about your awareness and opinions of some ATO strategies. Q13a. Are you aware of the Wealthy Australian program (a program focusing on Australians with net wealth between \$5million and \$30million to ensure that they comply with their tax obligations)? (Yes/No) IF YES TO Q13a Q13b. How effective do you think the Wealthy Australian program is? READ OUT Very effective Somewhat effective Not at all effective Don't know [DO NOT READ OUT]	Assessing Taskforce awareness (prompted)
ORC International for Australian Tax Office (2012). Small and Medium Enterprise Perceptions Survey (SMEPS) – Final report	Q60 Apart from receiving your notice of assessment for your business income tax return and your BAS lodgement forms, has the ATO contacted you at any time in the past 12 months? (Yes/No) If contacted: Q61 How did the ATO contact you? Was it by...[READ OUT, SELECT ALL THAT APPLY] (Telephone; Written correspondence / letter; Email; A personal visit / face-to-face visit; Other (specify)	Assessing Taskforce awareness
ORC International for Australian Tax Office (2012). Small and Medium Enterprise Perceptions Survey (SMEPS) – Final report	Q80. The ATO is keeping the community informed about their efforts in dealing with tax crimes like evasion and fraud (5-point scale agree-disagree). <i>Note the Micro Business Perceptions Survey asks a similar question, but starting with 'Through various communications', see below</i>	Could be used to assess HMRC's effectiveness at disseminating information about Taskforce activities in local communities
DBM Consultants for Australian Tax Office (2012). Micro Business Perceptions Survey.	(Q77a) In the last 12 months, I have heard what happens to people who have not complied with their tax obligations (assume 5-point scale, but questionnaire not included in report)	Assessing Taskforce awareness
DBM Consultants for Australian Tax Office (2012). Micro Business Perceptions Survey.	(Q77b) I have heard of businesses in my industry that deliberately file for bankruptcy to avoid paying debts and then start up a new company (assume 5-point scale, but questionnaire not included in report)	Could be used to assess awareness of phoenix-ism

Source	Questions that could be adapted for Taskforce study	Relevance
DBM Consultants for Australian Tax Office (2012). Micro Business Perceptions Survey.	(Q80) Through various communications, the ATO is keeping the community informed about their efforts in dealing with tax crimes like evasion and fraud (assume 5-point scale, but questionnaire not included in report)	Could be used to assess HMRC's effectiveness at disseminating information about Taskforce activities in local communities
DBM Consultants for Australian Tax Office (2012). Micro Business Perceptions Survey.	(Q80a) In the last 12 months, I have heard what happens to people and businesses who have committed tax crimes like evasion and fraud (assume 5-point scale, but questionnaire not included in report)	Assessing Taskforce awareness
DBM Consultants for Australian Tax Office (2012). Micro Business Perceptions Survey.	Q83a) I have heard about what the ATO is doing in making sure large companies pay their share of taxes (assume 5-point scale, but questionnaire not included in report)	Assessing Taskforce awareness Adapt for specific sectors

References

- DBM Consultants (2012). Micro Business Perceptions Survey. Prepared for Australian Tax Office.
- Konrad, K and Qari, S (2012). 'The last refuge of a scoundrel? Patriotism and tax compliance'. In: *Economica*, 79, 516-533.
- Muehlbacher, S, Kirchler, E, Hoelzl, E, Ashby, J, Berti, C, Job, J, Kemp, S, Peterlik, U, Roland-Levy, C and Waldherr, K (2008). 'Hard-earned income and tax compliance: A survey in eight nations'. In: *European Psychologist*, Vol. 13 (4) 298-304.
- ORC International (2012). Small and Medium Enterprise Perceptions Survey (SMEPS) – Final report. Prepared for Australian Tax Office.
- TNS (2012) GST Voluntary Compliance Program Quantitative Tracking Research (Year 2). Prepared for Australian Tax Office.
- Torgler, B and Shaltegger, C (2006). 'Tax Morale: A Survey with a Special Focus on Switzerland'. In: *Schweizerische Zeitschrift für Volkswirtschaft und Statistik*. Vol. 142 (3) 395–425.

Appendix H: analysis to inform consideration of feasibility

Sample frame suitability

Table 4: Comparison of counts from commercial database providers and ONS population statistics

Geographic location	Source	Number of outlets SIC 2007	
		SIC codes 56100, 56101, 56102 and 56103	All other SICs
UK ⁴⁴	ONS	75,645	2,534,890
	Experian	112,137	2,547,263
	Dun and Bradstreet	81,424	1,361,577
	Sample Answers	49,151	998,293
London	ONS	14,930	404,805
	Experian	14,450	303,668
	Dun and Bradstreet	12,854	186,683
	Sample Answers	10,081	134,584
High concentration of Taskforce Activity	Experian	1,595	29,373
	Dun and Bradstreet	1,428	
	Sample Answers	1,188	12,031
Medium concentration of Taskforce Activity	Experian	2,744	63,433
	Dun and Bradstreet	1,873	
	Sample Answers	1,654	20,890
Low concentration of Taskforce Activity	Experian	6,452	137,209
	Dun and Bradstreet	4,626	
	Sample Answers	3,624	45,837

⁴⁴ Commercial databases will included businesses not covered in the Inter-departmental Business Register – e.g. businesses not VAT registered.

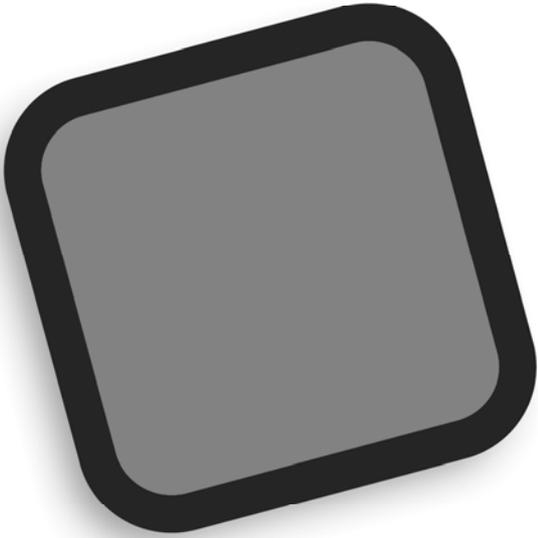
Sample representativeness

Table 5: Analysis of response and refusal rates

Type of activity	Sample (n)	Response rate	Refusal rate
Restaurants (high concentration)	190	36%	4%
Restaurants (medium/low concentration)	140	40%	5%
Related trades	63	41%	5%
Unrelated trades	76	37%	14%
Overall	469	38%	6%

Size according to Experian (where available)	Sample (n)	Response rate	Refusal rate
0-5 employees	223	39%	7%
6-249 employees	211	42%	7%

Turnover according to Experian (where available)	Sample (n)	Response rate	Refusal rate
£1 - 399,999	325	40%	8%
£400,000 - 9,999,999	58	42%	10%



DATABUILD
Research & Solutions