



## Understanding the relationship between service quality and tax revenue

### Background

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At the PAC hearing on 13 June 2016 HMRC undertook to further its understanding of the relationship between service quality and tax revenue. Gathering this evidence is important to ensuring our transformation plans focus on improving both customer experience and customer compliance.

HMRC and NAO agree that this is a complex and challenging area to research and develop meaningful insight. With millions of individuals and businesses participating in the tax system, their attitudes, behaviours, understanding of tax and many other factors will all influence their level of compliance alongside their customer service experience.

### Overarching approach

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We discussed with NAO how best to expand the evidence collected so far, which was limited and mainly theoretical in nature. Although it suggested that customer service and compliance behaviour might be related it did not reliably demonstrate a causal link between the customer service experience and tax compliance. This led to the PAC recommendation that further work was required.

With NAO we explored a wide range of ways to further understand and measure this relationship, taking a broad view of customer service and compliance behaviour. Given the complexities of researching this area, it is not feasible to analyse the causal link from *all* customer service activity to compliance. Instead we focused on specific aspects of customer service to further our understanding.

We have taken forward a range of analytical case studies exploring how compliance behaviour is influenced by particular aspects of customer service, including:

1. Exploring how the quality of service on HMRC telephone helplines affects subsequent filing, reporting and payment compliance

2. Undertaking research on the impact of negative emotions resulting from poor customer service on customer behaviour
3. Assessing the effect of pre-populating tax returns on the accuracy of income reporting

### Case Study 1: Quality of service on HMRC telephone helplines and subsequent filing, reporting and payment compliance

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This study investigated whether the telephone helpline service received by Income Tax Self-Assessment (SA) customers who called HMRC affected their compliance behaviour. We considered whether customers who abandoned calls to the helpline before speaking to an advisor exhibited more non-compliant behaviours. **Our findings did not show any link between abandoning the call and subsequent compliance behaviour.**

The study covered customers (without agents) who called the SA helpline during January 2015. We focused on those that had not yet filed their 2013-14 tax return. The quality of the telephone service that was experienced was based on whether the customer's last call was answered or abandoned. We compared 12,900 customers whose last call was abandoned, with 60,100 individuals whose last call was answered. We looked at levels of procedural non-compliance (e.g. filing after the deadline, or making amendments to their return) and financial non-compliance (e.g. whether audits identified incorrect tax paid and the amount of tax recovered).

We compared customers whose last call was abandoned with those whose was answered and found:

- There was no significant difference in the proportion of customers who were found to be non-compliant during a risk based audit. There was also no difference in the average amount of tax we recovered from each group.
- The proportion of customers who amended their return was not different.
- The proportion of customers who filed their return after the deadline was different. However, customers whose last call was abandoned were less likely to file late than those whose last call was answered. We have not identified any observable differences between these customer groups that can explain this.

## Case Study 2: Impact of negative emotions resulting from poor quality customer service on customer behaviour

Academic literature shows that customers experience negative emotions following an unsatisfactory service. This experiment, undertaken by the Tax Administration Research Centre, looked at the impact of differences in emotional states on non-compliance (including error and deliberate non-compliance). Assuming that poor customer service impacts on emotions the experiment looked at whether customers who experienced negative emotions such as irritation, sadness and anger would exhibit more non-compliant behaviours. **The experiment did not find evidence of a link between emotional states and compliance behaviour.**

The study was undertaken at the University of Exeter with 222 under-graduate university students in autumn 2017. Participants were randomly selected to a control group or to groups who experienced treatments designed to elicit negative emotions (anger, irritation and sadness). Participants then completed an incentivised task in which they had to highlight incorrect spellings in a passage of text. This task replicated cognitive processes associated with avoiding errors when completing a tax return.

The experiment also assessed the impact of negative emotions on misreporting of income earned from the incentivised task.

We found:

- The experiment was successful in generating differences in emotions – treatment groups exhibited significantly higher levels of irritation, sadness and anger and lower levels of contentment, happiness and joy.
- Extremely low levels of error and deliberate non-compliance were observed.
- Increases in anger, irritation and sadness had no significant impact on behaviour, with regard to error or deliberate non-compliance.

## Case Study 3: Pre-population of tax returns and effect on income reporting

This study explored whether pre-populating customers online Self-Assessment (SA) Returns with employment income and benefits data affected the accuracy of income reporting. We considered whether customers with SA Returns that were pre-populated with income and benefits data would report their income more accurately than those without pre-population. **Our findings showed that pre-population led to improved accuracy of income reporting in SA returns.**

The pre-population matched employment income and benefits data held in the National Insurance, Pay As You Earn Service (NPS) to a customer and pre-populated this information onto their online SA Return. Customers could accept or overwrite the pre-populated figures. Over 685,000 SA customers who accessed their 2015/16 SA Return via their Personal Tax Account between August 2016 and March 2017 had their returns pre-populated.

A representative sample of these pre-population customers was selected to form the treatment group for this study. Of these, 17% overwrote a pre-populated income figure and 15% overwrote an employment benefit figure on their SA Return. A control group (customers who were not pre-populated) which was most similar to the treatment group in terms of key characteristics was selected for comparison.

We compared customers with pre-populated SA Returns with those without pre-population and found NPS pre-population has:

- Led to improved accuracy of income reporting in SA returns, with some customers over-writing pre-populated figures with higher amounts and some with lower amounts.
- Had a small net negative impact on overall tax receipts due to improved accuracy of SA returns. Decreases in overpayments outweighed the reductions in small underpayments.
- Not impacted on levels of customer contacts. There was no significant difference between contact rates, duration of calls, or reasons for contact for the two groups.
- Not led to a higher volume of complaints or customer contact.

## Conclusions

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The work undertaken has further confirmed the complexity of the relationship between customer service and tax revenue. As mentioned previously there are many factors that influence taxpayers' compliance behaviour alongside their customer service experience. Any impact of customer service is therefore likely to be challenging to isolate amongst all these other factors. We have looked at a variety of customer service settings and have not found evidence of a consistent nor straightforward causal link.

We did not find any evidence of a causal link between customer service on HMRC telephone helplines or negative emotions resulting from poor quality customer service with compliance behaviour. This is consistent with what we observed during a

period of weaker performance on the telephone helplines in 2014 and 2015 which was not accompanied by an increase in the tax gap (tax gap dropped from 6.1% in 2014-15 to 6.0% in 2015-16<sup>1</sup>).

We did however find evidence of a link between very direct interventions in the form of pre-population of customer accounts and compliance in terms of increased accuracy of income reporting. We have also seen that encouraging more compliant behaviour does not always equate to increased revenue but rather improved accuracy thereby helping tax-payers pay the right amount of tax.

The conclusion from these case studies that direct customer service interventions are most likely to contribute to compliant behaviour fits with the department's strategy to promote compliance and prevent non-compliance as early as possible in each customer's relationship with us through upstream interventions. Compliance will be designed into our systems and processes through these interventions, enabling customers to get their affairs right from the outset.

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<sup>1</sup> Source: Measuring tax gaps 2017 edition  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655097/HMRC-measuring-tax-gaps-2017.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655097/HMRC-measuring-tax-gaps-2017.pdf)