



**Exploring claimants' understanding
of the tax credit system and the
process of reporting changes of
circumstance**

HM Revenue and Customs Research Report 53

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Executive Summary

This report is based on 50 in-depth interviews and two focus groups conducted with tax credit claimants between December 2006 and February 2007. It explores the reporting behaviour of claimants across tax credit groups and aims to provide insight into the reasons for reporting decisions.

Key Findings

Understanding and awareness

- Understanding of eligibility by tax credits claimants was reasonably high. However, claimants were unclear about what is taken into account in deciding how much tax credits people are awarded.
- Claimants did make the link between reporting changes of circumstances and their tax credits award. However, there was substantial confusion about how responsive the tax credits system is to these changes.
- Claimants largely did not have a consistent understanding of the reasons why their award may change or why over/underpayments are received. Although some were aware of why overpayments and underpayments are made, claimants did not understand the responsive nature of the tax credits system or how sensitive the tax credits system is to changes in their circumstance. Claimants tended not to understand that their claim can be recalculated as many times as their circumstances change, even if they understand their responsibility as a claimant to report changes.

Reasons for reporting/ non-reporting

- Tax credits reporting behaviour is not necessarily fixed and claimants may be late, on-time and non-reporters throughout the tax credits year.
- There were a wide variety of factors which affect what claimants report and when. These factors interacted with each other so that, at any one time, there could be several factors driving reporting decisions.
- Within the sample, income and working hours changes were the changes that claimants tended not to report.
- Claimants were less likely to report changes of circumstances which they did not perceive to permanent or significant.
- There is a relationship between reliance on tax credits and reporting behaviour. However, this relationship is not straightforward; it works in both directions. Therefore, reliance can determine positive reporting behaviour as well as non and late reporting.
- Overall, four kinds of reporting behaviour fall out of the analysis; fearfully motivated reporters, organised and motivated reporters, the laissez faire and deliberate/conscious non-reporters.

Towards a typology of reporting behaviour

- Reporting behaviour can be grouped into four types made up of levels of awareness (knowledge factors) and willingness to report (competence factors).
- These four groups exist across tax credits claimant groups (CTC maximum and minimum levels, in work/ out of work and WTC only).
- Claimants are were less willing/ capable of reporting changes of circumstances are likely to present the biggest challenge to policy makers.

Ways forward

- Generally, claimants perceived the tax credits system to be complicated and felt that it needs to be simplified. They requested more information that they can understand in terms of their own claim and information that is easier to understand than that which they have received in the past. In particular, these claimants wanted to know how the system works, especially with regards to how their own tax credits award is calculated.
- There was support for both listing changes that claimants have reported in the last year on the renewals form and for sending more reminders to report changes of circumstances outside the renewals period. However, it was felt that these measures would not be sufficient to ensure that all claimants report on time in the future.
- Claimants in this research tended to favour HMRC taking more proactive steps to ensure that awards are based on the right information and circumstances over equipping individual claimants with the means to take responsibility to report changes of circumstances. These steps include: the automatic sharing of information between Government departments and agencies, such as the HMRC Child Benefit service and the Child Tax Credit service and between DWP and HMRC.

Chapter 1 – About this research

1.1 Introduction

This report presents findings from a qualitative study looking at tax credits claimants' reporting behaviour. The research was conducted by Opinion Leader for HMRC between December 2006 and February 2007.

The structure of the report is described below.

- **Executive summary**
- **Chapter 1: Introduction**

This chapter sets out the context and background to the research, the research objectives and a summary of the approach.

- **Chapter 2: Understanding and awareness**

This chapter looks at claimants' understanding of the tax credits system and their awareness of their responsibilities as claimants. It covers claimants' understanding of eligibility and changes of circumstances which might affect tax credits awards, their understanding of the renewals process and the implications of reporting / non-reporting and late reporting on their claim.

- **Chapter 3: Drivers of reporting behaviour**

This chapter identifies the reasons for on-time reporting, late reporting and non-reporting. It looks at how reporting decisions are made and what factors affect what claimants report and when they report it. It identifies four behavioural category groups: fearfully motivated reporters, organised and motivated reporters, the laissez faire and deliberate/conscious non-reporters.

- **Chapter 4: Typology of claimant reporting behaviour**

Drawing from analysis in chapters 2 and 3, this chapter attempts to define possible groups of tax credits claimants based on their reporting behaviour. It looks at four possible groups defined by levels of willingness and levels of ability to report.

- **Chapter 5: Ways forward**

This chapter explores claimants' perspectives of what would help more people to report changes of circumstances and to report them on time.

- **Chapter 6: Conclusions**

This chapter summarises the main findings from the research overall. It sets the 'journey' that tax credits claimants have to take in order to meet their responsibilities in full.

1.2 Background and objectives

1.2.1 Policy background

The Government replaced Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) (as well as various other forms of financial support for children e.g. the Children's Tax Credit) in April 2003 with two new tax credits, Working Tax Credit (WTC) and Child Tax Credit (CTC). Tax credits are central to the Government's programme of tax and benefit reforms, and contribute to their three overarching aims:

- to provide adequate financial incentives to work;
- to reduce child poverty; and
- to increase financial support for all families.

The new tax credits system is designed to meet the needs of a wider range of claimants than the previous system. It is therefore much more far-reaching in scope and coverage compared with its predecessor. WTC also incorporated a new claimant group - those in work *without* children¹. Previously, WFTC was available only to those in work *with* children. WTC also offers financial

¹ Although some childless disabled people did have support through DPTC prior to 2003.

support to those with disabilities, who may be at a disadvantage in getting a job (provided through the disability element of WTC). Finally, CTC has simplified support available for families with children. Prior to the introduction of CTC there were four main ways in which families could receive financial support for their children. The introduction of CTC simplified this arrangement, so that all support could be channelled using two sources: child benefit and Child Tax Credit.

1.2.2 The tax credits process

Tax credits awards are designed on an annual basis with awards running from April 6th to April 5th as per the tax year cycle. Awards are based on HMRC's records of claimants' current circumstances and their previous year's income. These records may not be accurate if claimants' circumstances have changed within the year but they have not reported this to HMRC. If circumstances do not change (or are not reported) and there are no significant changes in income reported by the claimant, the award will run at that level until the end of the tax year. However, in a number of cases, claimants will experience a change of circumstances or income, which could influence their tax credits award entitlement.

It has always been mandatory to report the changes of circumstances below within 3 months.

- Changes in the number of adults heading a household, for example, if a couple breaks up or people begin living together as a couple (in this case the award will be terminated and a new claim will have to be made).
- Changes in qualifying childcare, for example, if the childcare ceases or if the cost is significantly reduced compared with the amount on which the award is based.
- Leaving the UK permanently or for a temporary absence of more than eight weeks (12 weeks if the absence is in connection with the death of a relative or, due to illness of the claimant or his/her relative).

From November 2006, it became mandatory to report the following additional changes of circumstances:

- if the claimant is no longer working at least 16 or 30 hours;

- if the claimant is no longer responsible for a child or a young person; and
- if a child or young person in the household ceases to qualify for support.

There are a number of other changes of circumstance which are not presently mandatory to report, e.g. a change in income or benefits received. However, HMRC actively encourage claimants to report these changes because they may have an impact upon the amount of tax credits to which a claimant is entitled.

The design of the tax credits system is based on both HMRC and the claimant having responsibilities to ensure that the amount of tax credits the claimant receives is correct. If claimants do not report these changes within the year, they may find that, when their award is finalised, they have received more or less money than they were entitled to.

1.3 Aims and objectives

The overall purpose of this research was to explore claimants' understanding of the tax credits system - in particular, how far claimants understand the requirements for reporting changes of circumstances. The research also aimed to develop an understanding of the reasons for non-reporting – whether this is due to a lack of awareness or whether claimants understand their obligations but fail to report changes of circumstances for a variety of other reasons.

In addition, the research aimed to explore claimants' understanding of their general responsibilities to keep their HMRC records up-to-date throughout the year, as well as to confirm details and provide any necessary information during the renewal period.

The specific objectives for this research are summarised below.

Objective 1: Explore claimants' understanding of the system

- Examine awareness of the specific changes claimants **MUST** report and those that might be useful, but are not mandatory, to report.

- Investigate awareness of the changes in circumstance that became mandatory to report from November 2006.
- Discover awareness of the consequences of non-reporting.
- Explore perceptions around the reasons for over/ underpayments.
- Examine awareness of the different ways that overpayments are recovered and whether these are understood to be linked to when changes are reported.

Objective 2: Understand claimants' reasons for reporting or not reporting changes of circumstances

- Explore the reasons for reporting and non-reporting.
- Examine the barriers and constraints to reporting.
- Explore the factors that motivate reporting.
- Explore how barriers to reporting can be overcome.
- Identify the reasons for non-reporting and provide an indication of the extent to which different factors drive non-reporting behaviour.
- Where claimants are found to have taken a decision not to report, explore their reasons behind this decision.

Objective 3: Explore measures to improve reporting and understanding of the system

- Explore what could help improve claimants' understanding of the tax credits system.
- Explore what could help increase the number of people reporting mandatory changes of circumstances.
- Understand the extent to which claimants need to be better informed about the system.
- If there is a need to improve claimants' understanding about the system, identify how this could best be achieved.

- Examine the behaviour of those who do report changes in order to identify approaches that can be used to encourage others to report.

1.3.1 Hypotheses

The research design was firmly rooted in an inductive approach. It sought to use the material from the interviews to explore hypotheses and develop theory rather than use the interviews to test pre-developed theories. Previous research with tax credits claimants pointed to a number of hypotheses, which this research has aimed to explore further².

- Reporting behaviour is influenced by reliance on tax credits.
- Lack of understanding contributes to type of reporting behaviour.
- Claimants are aware of the need to report but underestimate the implications/ feel that the change is minor and inconsequential.
- Claimants understand their obligations but fail to give reporting changes a high priority because of a lack of time/ lack of attributed importance to tax credits income/ lack of motivation/ lack of organisation/ basic skills issues/ lack of financial literacy (in terms of managing personal finances).

² Tax Credit Claimants: Small scale exploratory research. Opinion Leader. 2004.

Chapter 2 - Understanding and awareness

Summary

- Understanding of eligibility to claim tax credits was reasonably high amongst claimants.
- However, claimants were unclear about what is taken into account in deciding how much tax credits people are awarded. This had an impact on what they deemed to be important to report and what they deemed to be less critical in terms of their claim.
- Claimants in the sample generally made the link between reporting changes of circumstances and their tax credits award. However, there was substantial confusion about how responsive the tax credits system is to these changes.
- There was no consistent understanding by claimants of the reasons why their award may change or why over/underpayments are received.
- Although some were aware of why overpayments and underpayments are made, claimants did not understand that their claim could be recalculated as many times as their circumstances change.

2.1 Introduction

This chapter explores claimants' understanding of the tax credits system, their understanding of their responsibilities as a claimant and the consequences of not meeting these. It seeks to understand the tax credits system from the claimant's perspective and draws out differences in understanding across tax credits groups, where these occur.

2.2 How the tax credits system works: a claimant's perspective

Before we go on to consider claimants' understanding of what they should report and when, we shall first consider the claimant's understanding of who is entitled to tax credits and how tax credits awards are established. This provides valuable context to claimants' understanding of reporting responsibilities, what claimants think it is important to report, and, why they think it should be reported.

2.2.1 All claimants

Claimants had a fairly good understanding of what makes people eligible for tax credits. There was reasonably widespread acknowledgement of the role played by tax credits in supporting people and families on low to moderate incomes (despite the fact that families with children with incomes of over £60,000 a year are entitled to claim tax credits). Claimants - from those who receive only Working Tax Credit as a single claim to working families making a couple claim and receiving only the family element of Child Tax Credit - understood Tax Credits as an income 'top-up'.

"So anyone who is on a low income, their income's topped up and really, everybody should be on a decent standard of living, shouldn't they? I think that's the idea behind it."

CTC>Family element ID 581

"Whatever money you get, they work out how much you need to live on and then they make up the difference." **Not in work ID 213**

Perhaps unsurprisingly then, income was the most 'top of mind' factor. Claimants were most likely to say that they believed that HMRC took income into account when deciding who would be eligible for tax credits and how much tax credits they should get. Claimants understood that if income goes up, tax credits awards might go down and vice versa.

All claimants therefore had a fairly good level of general understanding about tax credits eligibility. Claimants were less knowledgeable, however, about the details of why they get the amount of tax credits they do or why their award might have changed over the period of their claim. There was

also less understanding about how much income would need to increase or decrease in order for tax credits awards to be affected (see Chapter 3, Section 3.6.1).

2.2.2 Claimants in work

Claimants in work (with and without children) thought that eligibility was based on being in work, income level and number of children although there were some variations to this. Those in work perceived that being in work to be the most fundamental of all the eligibility criteria. The next most important criterion for this group was having children. In our sample, many of those who were in work with children thought that tax credits are only available to working families. However, those in work with no children seemed to be more aware of the scope of eligibility for tax credits as they understood that working families with children might be entitled to tax credits in addition to people like themselves.

Claimants in work felt that the tax credits system was designed specifically for people who are employed and earning. People not in work (with and without children) were thought to be supported entirely through the benefits system. This was perhaps unsurprising, given that this has always been the case until the introduction of WTC and CTC. People in work were unlikely to think otherwise unless they have themselves claimed Income Support in recent years.

One of the reasons that work was considered by some claimants to be such a central factor is that it necessitates the payment of tax. Some claimants perceived that tax credits, because of their title, are directly related to PAYE and that the amount of tax credits received is derived from tax information that claimants believe HMRC holds. Indeed, some in the sample perceived tax credits to be a 'reward' to those who pay a lot of tax. These claimants were perhaps the most confused about why they received tax credits. As low-moderate income earners they did not consider themselves as belonging to a group of people who pay a lot of tax (which 'high' earners do) and so did not understand why they received tax credits, if these were, as they believed, linked to paying a lot of tax. The perception of tax credits as a 'reward' for those who pay a lot of tax led to further confusion for some who believed that, as low income earners or single parent families, they would expect to receive more financial help because they rely on it more than high income earners.

“If you are getting back a tax that you are paying, it would be the more you earn – but, say I’m a single parent with a very low income...then you would expect to receive more help but I don’t think that is the case”. **CTC>Family element ID 379**

Similarly, there was some degree of confusion as to whether the number of working hours affects basic eligibility or affects the amount of tax credits people receive. This was understood to work in two contradictory ways: the more hours worked, the greater the tax credits award or, the fewer hours worked (and therefore the less income generated) the greater the tax credits award.

“If I worked more hours, would I get less Working Tax Credit, or more? I’m really not sure about that.” **Not in work ID 541³**

If you work 16 hours a week, rather than say 30, you’d get a bit extra”.

CTC>Family element ID 581

2.2.3 Claimants not in work

This group believed that they were eligible because they had children. However, not all of those out of work necessarily understood that the money they received was Child Tax Credit and that it was administered through HMRC. Some of this group said that they received extra money from the “jobcentre” (Jobcentre Plus) and perceived that they received this to cover the additional costs of having children. In terms of the amount they got, there was a similar level of uncertainty about why they received the amount they did. Some speculated that the number of children has an impact but cannot say so with confidence.

Claimants not in work comprised two sub-groups: those who had prior experience of receiving the family element of Income Support through DWP; and, those who did not, having become an Income Support claimant following the transition to Child Tax Credit. Those in the latter group were aware that HMRC administered their Child Tax Credit and that their Income Support is dealt with by another department/ agency. Those in the former group were far less clear; they were often unable

³ This participant was not in work when the sample was drawn so their tax credit code reflects this status, as of November 2006. At interview, however, the claimant stated they had begun work in December 2006.

to recall who administered all of their income and the ways in which Income Support and Child Tax Credit are distinct.

2.3 Where tax credits knowledge comes from

Claimants' knowledge about tax credits came from a wide variety of sources including word of mouth, television/ radio advertisements, through common sense and conjecture, the claimant's own claim and, less frequently, HMRC information and advice.

- Word of mouth – knowledge is derived from talking to other tax credits claimants. In some circumstances the information passed on was factually correct and therefore increased claimants' understanding. However, word of mouth also spread incorrect information, leading to misunderstanding by some claimants about the tax credits system.
- Television/radio advertisements – many claimants could recall having seen television adverts about reporting changes of circumstance, although recall was not good about when exactly these were broadcast and what the content was. The information from the adverts that most claimants could remember was the need to tell HMRC if their partner moves into or out of the household. On some occasions claimants were not sure whether the adverts they could recall were specifically about tax credits or other benefits/tax related issues.
- Common sense – common sense can be a source of information about tax credits, just as it can be a driver for reporting behaviour (see 3.3 below). Some claimants reported that they simply used common sense to understand certain aspects of the tax credits system. For example, claimants claiming Working Tax Credits understood as a matter of common sense logic that a change in their working status would affect their claim.
- Conjecture – claimants' understanding of the tax credits system is based on their own reasoned guess work. Some claimants in the sample compared their own claim with that of other people they know, or with their experience of other benefits systems, to come to conclusions about the tax credits system. This kind of reasoned guess work can lead to

conclusions which could be factually correct or incorrect depending on where information has come from and how this has been understood by the claimant.

- Claimant's own claim – claimants' own experiences of the tax credits system can inform their understanding to quite a significant extent. Some in the sample understood eligibility in terms of their own claim and had little understanding of eligibility criteria beyond their own personal circumstances. For example, claimants in work, with children, understood tax credits as being solely for working families, based on the circumstance of their own claim.
- HMRC and other official information and advice – claimants may derive some of their understanding from HMRC and other official sources of information and advice e.g. the Job Centre. Participants cited these as sources of information less frequently than others. Many recalled having been sent leaflets periodically from HMRC but had little memory of what these were about or whether they had actually read them. More often, claimants contacted the Tax Credits helpline when they needed information. Usually, these sources provided claimants with information that is factually correct. However, at interview, some claimants did give examples of times when they had been given misinformation by the helpline (see 3.2.1 below).

2.4 What changes should be reported

When claimants in the sample were asked what changes they believed should be reported, they relayed a long list of changes many of which were not necessary to report (see Diagram 1, below). However, as discussed in the next chapter, this apparent enthusiasm for reporting changes of circumstance does not translate into reporting behaviour.

The changes of circumstances that claimants mentioned spontaneously fell into two categories: income related and home-life related changes. Within these categories, claimants generally made a distinction between major and minor changes. The following diagram sets out the changes that many claimants thought needed to be reported and identifies those that claimants regarded as

major and minor. Note that some changes were regarded as major by some claimants and minor by others. Where this is the case, the change has been categorised as both major and minor.

Diagram 1: Spontaneously mentioned changes of circumstance which should be reported

Income		Major	Home Life		Major	Minor
Minor						
Change in pay			New child			
Change to working hours			Child moves in or out			
Changing job			Household break-up			
Starting work			Child leaves school			
Leaving work			Marry partner			
Sick leave			Childcare Costs			
Maternity leave			Change of address			
New bank account						

[‘Sick leave’ refers to long term sick leave from work due to health problems]

In addition to these categories, there appear to be two schools of thought on what needs to be reported. One considered that only significant changes, which claimants (rightly or wrongly) thought would affect their claim, needed to be reported. The other believed that everything must be reported, regardless of whether this was thought to affect the claim or not. This is largely driven by claimants’ lack of understanding of their claim.

If my salary went significantly up or down or I left my job, if I became unemployed, if I was on long term sick leave, if my daughter left home or left education or somebody else came to live in the family home with another child, any significant changes of those sorts.

CTC <=Family element ID 102

Whether or not to report income and working hours changes was one of the most problematic areas for claimants. The main cause of confusion derived from the perception that HMRC need this information only at renewals and that it is only necessary to report income changes which would

take their income above a perceived 'threshold' for tax credits⁴. It is worth noting here that, among those in the sample who referred to a 'threshold', there was little common understanding of how this 'threshold' worked.

Unless you've either lost your job or you've had a fantastic promotion and you're getting more money or less money, then you don't let them know. Because it [income] was always at the middle, it never seemed worth my time in past experience to report it. Alright, I got a bonus of £1000, but it's not enough to take us over. It was never going to affect the £545 we were getting. **CTC <= Family element ID 1354**

Claimants thought that the reporting of working hours was also governed by an imagined threshold so changes in working hours which claimants view to be inconsequential are not deemed necessary to report. In addition, working hours were linked to income for many claimants, that is, the more hours they work the more income they would have. On this basis, some claimants were confused about whether they needed to report changes in working hours at all because, in their view, it is the impact of the changes on income (rather than the change itself), which would be of consequence.

Changes in income and working hours were the most commonly mentioned changes of circumstance during interviews. For this reason it is possible to make firmer conclusions about claimants' understanding of what needs to be reported and when, with respect to these changes, than it is with respect to changes to the household and child care.

Claimants in the sample did not make any distinction between changes which must be reported to HMRC and those that it would be useful to report. Some changes of circumstances, such as, change of address and change of bank details were not mentioned by many respondents, because it was seen as common sense that they would be reported. Similarly, leaving the UK was not mentioned spontaneously at all but when prompted was met with an "of course" reply.

2.4.1 Awareness of November 2006 changes

⁴ This is the income disregard which was set at £25,000 in April 2006. Some claimants at interview referred to an income 'threshold' within which they understood their income could fluctuate without affecting their claim. Only if their

HMRC has always advised that claimants should report any changes of circumstances. However, it has been mandatory to report the changes below.

- Changing numbers of adults heading a household, for example if a couple breaks up or when people begin living together as a couple (in this case the award will be terminated and a new claim will have to be made).
- Qualifying childcare ceases or the cost of it is significantly reduced compared with the amount on which the award is based.
- Leaving the UK permanently or for a temporary absence of more than 8 weeks (12 weeks if the absence is in connection with a relative death or, your or a relatives' illness).

From November 2006, it became mandatory to report the following additional changes of circumstances:

- no longer working for at least 16 or at least 30 hours a week;
- no longer being responsible for a child or a young person; and
- when a child or young person ceases to qualify for support.

Around November 2006, when it became mandatory to report these additional changes of circumstances, there were various communications (leaflet/ TV/ Radio) informing people of what it was necessary for them to report. This communication did not specifically tell claimants that there had been a change in legislation; rather it focused on giving a straightforward message to claimants to report all changes straight away.

There was some level of recall from participants of receiving information about reporting changes of circumstances around the end of 2006, there was little awareness that this guidance marked a change in legislation. In other words, claimants in the sample generally thought that they were required to report these changes anyway. In fact, almost without exception, claimants in the sample were surprised that they had not always been required to report these changes of circumstances and assumed that they had been.

income change took them above this 'threshold' did these claimants think their award would be affected.

2.5 Understanding of when changes should be reported

The widespread view was that changes of circumstances should be reported as soon as they have occurred. However, when prompted, claimants said that the timing of reporting changes was influenced by whether the change was considered to be major or minor (as discussed above). Changes of circumstances that were thought to affect eligibility, or to change the nature of a claim fundamentally (such as no longer being responsible for child or changing from a single person claim to a couple claim) should be reported straightaway. Changes, which they did not perceive to have a substantial effect on their claim (rightly or wrongly), were thought to require reporting at renewals. This distinction between 'major' and 'minor' changes was linked to how claimants make sense of the renewal process (see Section 2.5.1).

Claimants in the sample were asked what they mean by 'straightaway'. Generally, within one month after the change had occurred was considered to be soon enough. A few claimants suggested that changes of circumstances could be reported before they occurred, where they were sure that the change would actually take place.

2.5.1 Understanding of renewals

Recall of the renewal period and what is required at renewals was high, with most claimants in the sample able to identify approximately when they received their renewal form and the time by which they were required to renew their claim. Claimants' awareness of the information they were required to give at this time was also high. However, there was confusion between the Annual Review and the Annual Declaration forms⁵. Where this was sent to both people within a couple, the household believed that they had received four of the same letters where one would have sufficed. They also felt that they were being asked to give the same information twice within a short period of time, as the letters were usually received close to each other and claimants did not perceive these

⁵ The Annual Review form details what claimants were paid and the details HMRC hold on their claim. The Annual Declaration form asks claimants to confirm final income and sign off other details.

forms as being different or understand clearly the purposes of the two forms. This added to the perception that the system was complicated and poorly administered.

The reason I say it's probably not very efficient is because they sent out four copies of everything to us which is expensive and you know, completely unnecessary so, we got four copies. I got two copies in my name and my partner got two copies in his name even though we were down as living together and the money came to me, went down in my name, we all got two copies each, so this household received four copies of everything.

CTC <= Family element ID 1338

The renewal period was referred to by many as the 'annual update' which illustrates how the renewals process is understood. Having a period of renewal suggested, for many claimants, that this is when their award is re-calculated. Whilst this is correct it is not the only time when tax credits awards can be reassessed. The system is able to reassess tax credits awards when circumstances change, rather than at a set point within a calendar period. However, within the sample, claimants were generally unclear about how responsive the system is. In addition, some claimants in the sample recalled the renewals process as 'the time when they find out if they have been overpaid'.

*I don't understand, they obviously work stuff out and then send you all this money through the year and then when you send your next lot of stuff in that's when you find out that they've overpaid you a little bit. **WTC only ID 726***

2.5.2 Auto-renewals

Those who had their claims renewed automatically were aware that they are required only to confirm that their circumstances have not changed. However, they believed that this is required of all tax credits claimants and were not aware that the renewal process is different for other claimants.

2.6 The implications of not reporting and late reporting

2.6.1 Non-reporting

Generally, claimants knew that failing to report changes of circumstances could have implications. The main outcome of not reporting changes of circumstance was widely regarded to be an overpayment, which must then be repaid. There was also awareness of the potential for underpayments, though this was not considered to be the most important implication and was certainly less 'top of mind' for respondents in the sample. Some believed that ultimately, the implications of not reporting were very serious, potentially resulting in prosecution. These claimants thought that not reporting changes of circumstance was tantamount to benefit fraud and that therefore the tax credits system must attract similar penalties.

*I suppose it's serious and they could prosecute you later, like take the money back off you later. **WTC only ID 1256***

Not reporting was also perceived to have implications for HMRC. Claimants believed that HMRC could potentially lose money by claimants not accurately reporting their changes of circumstances. However, there were a minority in the sample who struggled to think what the implications of not reporting might be. These participants spanned various tax credits groups and have never experienced an overpayment or underpayment themselves.

*I do not know if you get fined or your money stopped, I have no idea what they do to be honest. **Not in work ID 841***

2.6.2 Late reporting

There was far less clarity about the implications of reporting late. Claimants overall were not sure about what late reporting meant for their claim. There was some speculation that reporting changes late might result in an overpayment/ underpayment for that period but there was also speculation that their claim would only be affected from the day that they reported the change.

Late reporting was not deemed to be as serious as not reporting at all and so claimants speculated that it would carry less severe implications. 'Late' reporting for administrative purposes means a day after the change took place (See methodology appendix for details of how reporting categories were defined for the research). However, claimants did not perceive that to be late. From a claimant's perspective, reporting a change late would mean reporting one month following the change. This lack of understanding about late reporting was driven by lack of understanding of how responsive the tax credits system is.

2.6.3 Claimants who have experienced overpayments

Those who had their tax credits award reduced or stopped in order to repay an overpayment thought that it was fair that the tax credits system recovers what it is owed. However, many in this group believed that they personally had not been treated fairly. This was because they were either trying to do the right thing or were unaware that they had not reported in sufficient time, or were simply unaware that they needed to report the change outside the renewals period. The sense that this was unfair possibly arose from a lack of understanding of the responsive nature of the tax credits system. Claimants did not necessarily understand that their award changes from when the change took place, rather than when they reported it.

Not all claimants who had experienced an overpayment were able to make the link between changes in their circumstances and being overpaid. They were unable to say with confidence how the change might have affected their claim. This was most particularly the case when the changes which took place were changes in income or working hours. This illustrates claimants' confusion about how information on income and working hours is used to determine tax credits awards. It seems that whilst claimants deemed income and working hours to be critical in establishing an award (see above); they were unclear about how income and working hours could affect the value of an award. Claimants found it straightforward to understand that their tax credits award would change as a result of their child leaving full time education, but they struggled to see why a pay rise which they regarded as unsubstantial, could result in an overpayment.

Part of this confusion derives from misunderstanding of when income is reviewed. Claimants perceived that, because they were required to share their P60 with HMRC at the end of the tax year that income was reviewed annually at the time of renewals and would not affect the award for the year just ended. To add to the confusion, where a change of circumstance had been reported, some claimants reported that they did not see an immediate change to their award. This was most commonly with respect to changes in income and working hours.

*It made sense.[that my award had changed] It was just that, I thought, it could have been adjusted earlier. **No work ID 395***

There were some claimants, across all tax credits groups, who could not rationalise why they had received an overpayment. These claimants talked about their award going up and down without ever understanding why this is the case.

A: I tell you for four and a half years we've been receiving and there are always some problems. They say we overpaid you, we stopped because we were over paying you, then start again next year, we fill the form, they pay you and then again stop again, you know. I don't know... it really is disgusting.

Q: And do you know why in the past they may have overpaid you at all?

*A: No, I don't know. No explanation. **WTC only ID184***

Q: And did they say how much you'd been overpaid? Or why you'd been overpaid?

*A: Yes they told me how much it was but they didn't tell me how I'd been overpaid. They don't put [the reason], it's just like a summary thing. **CTC<=Family element ID1277***

Claimants, like those in the examples above, who reported not receiving an explanation from HMRC as to why they had received an overpayment, were unable to make the connection between the overpayment and their reporting behaviour.

2.6.4 Awareness of recovery of money

Whilst claimants were generally aware that overpayments must be paid back, they were not always clear how this could be achieved unless they had personal experience of overpayments themselves. There was confusion over whether overpayments must be paid back in a lump sum or over a period of time (and how long this period of time is) and whether the arrangement to pay back would take account of savings and outgoings.

The reason why an overpayment was made was thought to have the biggest impact on how the money should be repaid and, indeed, whether it should be repaid at all. There was a sense that those who had experienced overpayments through their own 'fault', for example, through deliberately not reporting changes of circumstance, should be required to pay back the money as a lump sum. As claimants generally believed that this would be a fair outcome, they imagined it was what HMRC would do in such situations.

Where the overpayment was the result of a mistake or ignorance on the part of the claimant, claimants believed that these cases should be given more time and flexibility in their pay back arrangements. Largely based on their own experience, some claimants were aware that, if the amount to be reclaimed was not so high that tax credits had to be stopped altogether, HMRC would not claim back overpayments as one lump sum but would reduce the level of award to cover the overpayment. Those who were unaware of this believed that this was the way HMRC *should* reclaim overpayments, when the claimant was not 'at fault'.

As mentioned earlier, a number of claimants in the sample thought that the tax credits they received related to the amount of tax they had paid (amongst other things). This group thought that overpaid tax credits might be collected through changing claimants' tax codes; thereby they would pay more tax in line with the overpayment amount.

A: I would imagine they put up your tax code, I would have thought.

Q: Okay, so they will get the tax credits back from the tax you pay?

A: My tax code, and I don't know if they maybe would ask me for a cheque, I honestly don't know. CTC<= Family element ID 220

In contrast, where an overpayment was made and this was the 'fault' of HMRC, some claimants felt that this money should not be required to be repaid, though they were unable to say whether this was actually the case or not.

*It depends on whose fault it is the overpayment has occurred so if I failed to tell them of a change of circumstances which results in an overpayment then I bear some responsibility in having to repay it. If it's their fault for not having either kept me informed or having got the calculation wrong, it's their fault and I think it's unreasonable then. **CTC < Family element ID 102***

*They've got to look at individual cases and look at the circumstances of these people and what money they've got coming in. I mean if they've got saving then yes, take it back but if they haven't then, you know, just sort of take it back gradually. **CTC < Family element ID 98***

*I think if somebody knowingly been, like haven't told them their son's left college and all that and they find out, then yes they should pay it back. If it's something that is a mistake by them, they've worked out your tax...say they've worked out your child tax credits and they've worked it out wrong and overpaid you, then I think that's their mistake and it should stay their mistake and you shouldn't have to pay it back. **No work ID 524***

The issue of who is responsible for the overpayment is one aspect of claimants' understanding of the system of paying back money to HMRC. Claimants' understanding of overpayments and how the money is collected can be grouped into four themes.

- **Responsibility:** Who is responsible for the overpayment, HMRC or the claimant?
- **Worthiness:** Did the claimant try to do the right thing?
- **Affordability:** Can the claimant afford to pay back the money?
- **Reliance:** Would collecting the money result in substantial hardship?

Conclusions

Claimants had a reasonable understanding of the tax credits system in terms of eligibility but they were far less clear about how tax credits awards were calculated. They knew that it was necessary to report changes of circumstances and that their circumstances affected their tax credits award. However, it seems that many claimants were not clear why their tax credits award had changed over the length of their claim, or even, why they had been overpaid. Some claimants in the sample who had experienced an overpayment were unable to identify with confidence the cause of the overpayment or how they could be sure to prevent an overpayment in the future.

There was most uncertainty about what changes in income and working hours claimants should report. On a basic level they understood that these changes *could* affect their award but there was confusion about what exactly needed to be reported and when. Much of this uncertainty was driven by misconceptions about the relationship and exchange of information between employers and HMRC (see 3.5 below) as well as the perception that income and working hours changes needed only to be reported once a year, at renewals. Claimants' reporting behaviour with respect to changes in income and working hours could also depend on their perception of how significant or not a change was and the impact they believed this would have on their claim.

Overall, claimants did not understand the extent to which the tax credits system was responsive to changes of circumstances. In spite of the general awareness that awards are based on current circumstances and some awareness of the implications of not reporting, many claimants remained unclear that their claim can be reassessed as many times as their circumstances change.

Chapter 3: Reasons for reporting/ non-reporting

Summary

- There were a wide variety of factors which affect what claimants report and when. These factors interacted with each so that, at any one time, there were a variety of factors which ultimately underpinned reporting decisions.
- Tax credits reporting behaviour is not necessarily fixed and claimants may be late, on-time and non-reporters throughout the tax credits year.
- Claimants were most likely not to report changes in income and working hours than any other changes of circumstances, although this can depend on the significance of the change e.g. they may be more likely to report a major income rise or losing a job.
- Claimants were less likely to report changes of circumstances which they did not perceive to be permanent or significant.
- Some claimants found the process of having to report changes continually to be generally onerous and intrusive. Negative experiences of claiming tax credits can have an impact on this perception.
- Some claimants perceived that it was not necessary to report certain changes because they assumed that the tax credits department would automatically be passed this information e.g. an income rise, from other HMRC departments.
- There is a relationship between reliance on tax credits on reporting behaviour. However, this relationship is not straightforward; it works in both directions. Therefore, reliance can determine positive reporting behaviour as well as non and late reporting.
- Four kinds of reporting behaviour fall out of the analysis; fearfully motivated, laissez faire, organised and motivated and deliberate/conscious.

3.1 Introduction

This chapter explores the drivers of reporting and the reasons for not reporting changes of circumstances. It looks at the different drivers and factors and how these combine to determine decisions to report or not report.

Illustrative examples are used to show the reality of the decision-making process that claimants go through before reporting or not reporting a change. It concludes by determining three types of reporting behaviour groups.

3.2 Understanding of tax credits

It has been highlighted in Chapter 2 that claimants had a good understanding about the basic eligibility criteria for tax credits. Some claimants may report changes of circumstance because they were linked to their understanding of the basis on which they were eligible for their award.

If you're a lone parent, and you work 16 hours, then you can claim Tax Credit....

So [I'd have to report] if a partner moved in to live with me or if I went to work more hours

Not in work ID 541⁶

However, as the previous chapter also sets out, understanding of the tax credits system, specifically with respect to understanding how awards were calculated and how changes affected award amounts, was patchy and inconsistent. Whilst there may be a basic level of awareness of target population for tax credits and what kinds of factors might make somebody eligible to receive tax credits, understanding of what would affect the level of the award was generally far less clear amongst claimants.

Perhaps unsurprisingly then, lack of understanding was a primary reason why some claimants did not report changes of circumstances. Some claimants were simply not clear exactly what to report and when to report it and, as a result, failed to report on time. The key gap in understanding for this group lied in the lack of awareness of the factors that affect their award (rather than their eligibility)

⁶ This participant was not in work when the sample was drawn so their tax credit code reflects this status, as of November 2006. At interview, however, the claimant stated they had begun work in December 2006.

and the fact that claims could be reassessed more than once within a year. However, lack of understanding about what to report and when could also be a driver of reporting. Some claimants in the sample were so motivated by the fear of an overpayment (see 3.2.3 below and 3.12.1) that they reported any change as soon as it had occurred, regardless of whether they really needed to or not.

3.2.1 Tax credits helpline

There were positive reports on the tax credits helpline but positive experience of the helpline did not seem to influence reporting behaviour. On the other hand, some claimants said they were given incorrect information by the HMRC tax credits helpline. For example, some claimants were advised not to report an income or working hours change until renewals. In addition, some claimants reported that they were given conflicting information by helpline staff and that deterred them from reporting further changes.

3.2.2 During periods where no award is paid

Whilst only a few cases were identified, it is worth noting here that some claimants thought that they were not required to report changes of circumstance whilst their award had been stopped due to an overpayment. Whilst they may still have an active tax credits claim, these claimants believed that their claim, rather than their award, had been stopped.

I've not notified them of my change in circumstances because we're not getting it anyway at the moment, so I didn't see the point in letting them know that we had even more income at the moment. **CTC<= Family element ID 407**

3.2.3 Fear of implications

Linked to understanding of responsibilities and awareness of the system was the fear of the implications of not reporting. Amongst those claimants in the sample who reported on time and had a history of reporting on time, the main reason given for their reporting behaviour was the fear of being overpaid and the money being recovered.

I think fear of being overpaid and prosecuted and then having to pay money back that I have not got. CTC>Family element ID 581

However, fear of implications was not necessarily linked to a good understanding of which changes would have what implications for their award (see 3.2 above).

It is also worth noting here that this fear of any implications did not necessarily ensure that changes were always reported and reported on time. For a few in the sample, late and non-reporting occurred in spite of their awareness of the implications. It is possible then, for other factors to outweigh awareness of implications and fear of the consequences of non-reporting.

3.3 Common sense

Some claimants reported on-time simply because they believed it to be common sense to do so. Their awareness of what needed to be reported, why and when, was borne out of an instinctive understanding of what logically needed to be reported. For example, a claimant in the sample reported that their only eligible child had moved out and so they reported this and assumed it would affect their claim to Child Tax Credits. However, in other cases, claimants in the sample were not sure if their common sense understanding was accurate, or even if they necessarily needed to report certain changes when they did. However, this common sense understanding generally led to consistent reporting patterns which were in line with tax credits reporting expectations.

Common sense I think, it's not that we have had any letters or reminders about anything, it's just if you are getting something because your income is low, then your income goes

up, I think I would just ring the helpdesk and tell them and see what they said - does that answer your question? CTC>Family element ID 581

3.4 Intrusive and onerous

Regardless of their level of understanding and awareness of what they should be doing, some claimants disliked the premise of reporting changes of circumstance in the first instance. Some in this group had had negative experiences of claiming tax credits and/ or perceived the application process to be onerous and intrusive. They had strong views about the amount of information they needed to supply at the beginning of their claim and the information they were requested to give at renewals. As a result, they felt that to provide further information throughout the tax credits year when changes occurred was simply too much to ask. It was the perception of some claimants that the level of information required as part of a tax credits claim could potentially deter some people from claiming at all. However, that perception might not be factually correct given that the take up of tax credits (especially Child Tax Credit) is relatively high.

3.5 HMRC already know

Some claimants explained that they did not report changes of circumstances because they believed that HMRC would already have the information and that the Department would have applied this to their claim. In some cases, claimants believed that if they had given information to one government department/ agency, such as Jobcentre Plus, there was no requirement for them to then give the same information to another government department/ agency. This relates particularly to claimants who had moved into/ out of work and on/ off benefits.

The idea that departments across government and the different divisions within HMRC would share data with each other was borne out of the perception that government departments held detailed

information about people. In contrast, other claimants felt that it was entirely their responsibility to ensure that the different parts of government and public services that they dealt with had the right information. For these claimants, government administration generally (rather than the administration of tax credits in particular) was considered unreliable and inefficient. Again, these views were not attributed to particular tax credits groups or to any other characteristics which might differentiate claimants. Within the sample, it appears that these views were borne out of wider perceptions and experiences of government and were not related directly to claimants' experiences of the tax credits system.

3.5.1 Working hours and income changes

Working hours and income changes deserve separate attention with regards to perceptions around 'joined-up' government. Where the change was in income or working hours, some claimants in the sample believed that HMRC were likely to have this information already. These claimants believed that HMRC governed the amount of tax they paid and that their tax code was related to their tax credits award. Similarly, claimants believed that HMRC would know if they change jobs and any differences in working hours or income that might result from it. This view may stem from the misconception that P60s were issued by HMRC, rather than employers. It appears that for many claimants, HMRC was seen as the arbiter of all knowledge relating to their work and tax status.

I think a lot of people because they sort of categorise the Tax Office as one big whole, your final year amount, your P60 amount, the Tax Office should know anyway. So it's sort of like well if you think you're going to catch me out, or I'm going to put a duff figure in, you're going to know, so why should I bother telling you anyway?

CTC<= Family element

ID 407

Incremental pay rises and increases to the National Minimum Wage were particular areas of confusion. Some claimants believed that the government controlled incremental pay rises, or at least, would know about them. They believed that incremental pay rises were paid at the same rate across sectors and industries and that therefore, HMRC would be aware of these. The National

Minimum Wage was widely understood to be set by Government. Without exception within the sample, claimants did not perceive the need to report this.

I'm due for a pay rise – government pay rise that you get – everybody gets in April. They know that so why would I waste my time? They would receive thousands and thousands of phone calls because thousands of people work for the government; so I have received a 4% pay rise - and it is about £10 a week - I find it illogical - they might just as well wait until the end of the year - if it is not going to affect us greatly. **CTC>Family element ID 379**

3.6 Permanency and significance

Claimants made a distinction between permanent/ temporary changes and significant/ trivial changes which greatly contributed to whether the change was reported or not, either in-year or at renewals. Some changes were thought to be 'big' changes and others were considered to be reasonably inconsequential. Based on the sample for this study, it appears that those changes which were thought to be 'big' were associated with salient issues, or were changes which claimants understood to have an impact on their eligibility for tax credits or changes would change the nature of their claim, rather than the amount which they received.

To me, a big change is if you're not working and you start to work, or you're working and you lose your job, or if one of the daughters or... say for instance, my husband's got a daughter, and my stepdaughter comes to live with us, things like that. The big things that cause big changes. **CTC> family element ID 265**

Ideally as soon as possible, also being a tax payer, but yes, if it's something like children, another child not being dependent on it for, responsible for a child, I think there's no reason that can't be done as quickly as possible. But the hours it all depends if you've got a firm contract or not, I mean I know where I work, contracts can take a long time to come through, you may well be doing those hours and yet, so I can understand if there's a little

bit of leeway in there, and then in the financial situation, as in my case, it's sort of like you think to yourself 'well I don't know how much I'm going to, am I going to be widely out, but if it's a massive income I don't see why you shouldn't be reporting it. **CTC<= Family element ID 220**

Changes which were not permanent were not thought to have a radical impact on a tax credits claim and were therefore not considered to be worth reporting. For some claimants, reporting changes which were not permanent were thought to create unnecessary administration and potentially 'upset' their claim without real cause.

[If someone moved in with me] I'd maybe wait one or two weeks to just see if they're intending to stay or they're going to go off again. Yes, I probably would wait. Because the thing when you apply for Inland Revenue, they go through so much and it's take so long to sort out that if you told of every little change that you knew that wasn't going to affect much you'd be forever filling forms. **Not in work ID 213**

If it's a permanent thing then you are supposed to tell them. If it's a permanent thing then it's fine, you don't have to worry about the money but if it's not a permanent thing then you have to consider the money [you are getting]. **CTC > Family element ID 382**

3.6.1 Working hours and income changes

Again, working hours changes and income changes deserve separate attention in considering significance and permanency. These changes, above all others, caused the most concern to claimants in trying to establish significance and permanency. There were claimants in the sample who did not have fixed working patterns and, as a result, working hours and income fluctuated considerably throughout the year. Some of these claimants had resolved not to report these changes on the basis that their changing situation was not a change – indeed for them, it was the norm.

Case study: working hours and income changes

Vera works at a local factory which provides mass cleaning services for hotels and other businesses around the region where she lives. Her husband, John, claims Incapacity Benefit. Vera claims Working Tax Credits. She is currently not receiving any award as she was overpaid in the previous tax credits year. Vera does not understand why her award was stopped.

Vera only reports her income and working hours to HMRC, once a year, at renewals. However, Vera's hours are very variable and can change each week. Often when she arrives at work, she is turned away because there is not sufficient work for her to do. During the first 4 months of last year, Vera worked very few hours. Throughout that period, Vera said that she would be lucky if she got as many as 10 hours work a week. After April, Vera found that her hours increased substantially and that she was usually working at least 30 hours a week from then on. She is not sure whether she should report to HMRC when her hours change but feels that if she did, she would need to contact HMRC very often.

Neither Vera nor her husband, John, feels very confident about contacting HMRC or handling paperwork. They used the face-to-face service in order to make their claim and have had no proactive contact with HMRC since that time, over two years ago.

Some claimants believed that they did not need to report income changes unless their income rises above the 'threshold'. Few were able to give a figure for this threshold but rationalise that income changes of below five thousand pounds were likely to be inconsequential to their particular claim. However, this withstanding, claimants within the sample appeared to make decisions to report or not based on how much their income changed, regardless of the fact that they were not sure what the 'threshold' amount was. For these claimants, 'minor' changes in income (those that did not take them over the 'threshold'), would show up on their P60 and therefore some considered that they did not need to be reported.⁷

⁷ The HMRC leaflet '*Child Tax Credit and Working Tax Credit – a Guide*' states that if a claimant's income in the current tax year rises by less than £25,000, it will not affect the claimant's award and HMRC will still base the award on the claimant's income for the previous year. So for the current year, the claimant will get the benefit of a rise in income up to £25,000 without it reducing the claimant's tax credit award. The increased level of income is not taken into account until the next year.

I don't know because... when you get your renewal letter back, it tells you that you're allowed to earn so much a year, so I suppose it depends if you go out of that bound. If we go out of the bound, then I'd tell them, but if we didn't, I wouldn't tell them. CTC > Family element ID 1351

I would say it's.... I suppose it would be the knowledge that there's a range or a salary range or an income range where it does affect what you're entitled to. And, without actually doing any proper calculations, I figured that I was still within the range because it's quite low. So, that... because I thought I was in the range, I didn't need to report it immediately, but I think when the renewal form come, that is the stage at which I would declare it and hope that if there's any discrepancy then, they can just adjust me or something that like that to how much I'm afforded in terms of a tax credit. CTC < Family element ID 148

Interestingly, this 'threshold' logic did not stand where an income change was considered to be substantial. Some claimants in the sample suggested that if their income were to rise substantially (perceptions of this were subjective and were subject to variation), by around five thousand pounds or more, they would need to report it. Again, this was without knowing with any certainty whether they would have exceeded the 'threshold'.

I think changes of income, if it's just a small change I think it's something you wouldn't think about. But if sort of say I went from part-time to full-time then yes, that would be something that they would know about. CTC < Family element ID 644

Bonuses and overtime were, without exception, not reported to HMRC. They were both temporary and, in most cases, were considered to be insignificant. In addition, neither of these was considered to be truly a change in circumstance and, as such, they were considered to be entirely separate from a pay rise, for example, or a move to a new hours structure.

3.6.2 Permanency/ significance decision-making processes

Changes of circumstance, such as a partner moving in, were automatically considered to be significant by default of the nature of them having a major impact on the household (as covered in Chapter 2, section 2.4). However, it appears that the decision-making process involved in reporting changes involved two discrete phases of assessment. Where a change was first thought to be significant, the decision to report it was affected by an assessment of whether the change was permanent. In cases where it was clear that the change was permanent, claimants considered whether or not the permanent change was sufficiently significant to warrant reporting it.

3.7 Motivated by possible gain

The research explored whether some claimants might decide not to report a change even where it was significant and permanent on the basis of it providing personal gain. There is no strong evidence to suggest that claimants' were more inclined to report changes that might increase entitlement on time compared with changes that might reduce entitlement.

*We haven't done it since you have been unemployed, which I should have done because at the end of the day it benefits us because you are not working so we should be getting more tax credit. I think that's how it works. But I haven't informed them that you haven't been working for the past two months that I remember. **CTC>Family element ID 379***

3.8 Organisational and financial management skills

During recruitment, we ensured that claimants with varying levels of organisational skills and financial management skills were invited to take part in an interview. Through this, it is possible to see how organisational skills relate to claimants' reporting behaviour. Those who described themselves as 'very organised' with regards to financial matters, such as household bills and avoiding debt, as well as being aware of what they were entitled to, appeared to be more confident in their knowledge of tax credits and the responsibilities of their claim. They were keen to ensure

that they get their claim right and were instinctively more likely to report changes of circumstances as soon as they occur.

*I think it depends on your organisational skills. Mine, it's like when I get round to it. One of my friends, she'd do it on the day it happened. **CTC > Family element ID 1351***

Perhaps unsurprisingly, poor organisation skills contributed greatly to late reporting and, it seems that the less organised claimants were, the more likely they were to delay reporting. In a few cases, changes had not been reported during the tax credits year as claimants without strong organisational skills did not 'get around to it'.

*Although I'm organised, I'm maybe not that organised, so I normally wait until I get my form and fill it in. **CTC <=Family element ID 835***

*I mean it is finding the time I suppose to look through the things and phone these people and that. I mean going to work you come home, you know you got all the normal things to do. Looking after your baby and that, there is just no time to sit down and worry about stuff like that. **CTC <=Family element ID 183***

There were no discernable differences between tax credits groups in terms of the level of their organisational skill. Organised reporters and disorganised late/ non-reporters existed across all tax credits groups. Organisational skills were also not related to employment status. Some of those who were not in work took active steps to report changes as a direct consequence of their reliance on tax credits but others were much less organised about reporting changes.

The extent to which organisational skills affected reporting behaviour was dependent on the strength of other influences present at the time. Whilst there was a relationship between organisational skills and reporting behaviour, reporting behaviour itself was often clearly associated with the claimant's perceived importance of and reliance on tax credits (see below).

3.9 Perceived importance

Some claimants did not consider reporting changes of circumstances to be important. This did not necessarily mean that these claimants did not understand the implications of not reporting. Claimants often delayed reporting changes of circumstances because there were more pressing demands on their time when the change occurred and so reporting the change of circumstance was pushed down their list of priorities.

Unfortunately a lot of people have got things on their mind when they first have a baby, and it doesn't always jump into your mind to go and do that [report]. **CTC<= Family element ID 407**

When other aspects of claimants' lives were more pressing, there is no strong evidence to suggest that they would be more likely to report changes of circumstance which they believed would increase their entitlement, than those which they felt would have a small impact.

For other claimants, reporting changes of circumstances was less important or less of a priority because of their lack of organisational skills or negative experiences of previously trying to report changes.

We do try and do it straight away if we can but obviously it's not always the first thing you think of. There's maybe been a couple of months delay in the past, and sometimes you do have trouble getting through as well, so you'll phone and you don't get through or you know - and especially if you are at work and you're hanging, and you can't always hang on too long. So then you hang up and then you forget to do it for a few days, but normally within a couple of months, immediately if possible, but normally within a couple of months.

3.10 Reliance on tax credits

A small-scale study conducted in 2004⁸ found that claimants' attitudes to overpayments were driven by, amongst other things, their level of reliance on tax credits. The sample for this earlier research deliberately included a range of claimants receiving a variety of tax credits amounts, from those who relied on tax credits to make up a substantial part of their household income to those who said that they would not miss their tax credits award, should they not receive it.

That research found that the level of reliance on tax credits can have an impact on decisions to report. However, the relationship between reliance and reporting is not straightforward; it is possible for reliance to drive reporting behaviour in both directions. Some claimants reported because they were reliant on tax credits but others did not report for the same reason. The dynamics of this two-way relationship between reporting and reliance are summarised by the following examples. These pen portraits are based on claimants who took part in the current research.

3.10.1 Reliant reporter

Brian and Fiona are married with three children, aged 16, 17 and 19. Fiona has MS and diabetes and does not work. Her husband, Brian, works full time. They describe their household as being very reliant on tax credits. They currently use their tax credits award to pay for their mortgage. In the absence of their tax credits award, they feel that their household budget for everything else would suffer.

Q. How well do you think you could manage without them?

A. I don't think I could. Not with the wages he's on.

*Well it covers my mortgage for the month. **CTC>family element, ID 1129***

As a result of this reliance, Brian and Fiona are keen to ensure that they report any changes in circumstance they experience as soon as they occur. Within one tax credits year, they had reported 3 changes of circumstance: their daughter starting a college course, their daughter moving out and their daughter moving back in three weeks later.

⁸ Tax Credit Claimants: Small scale exploratory research. Opinion Leader. 2004.

*The day she moved out I phoned up Family Credit and told them that she had moved out and three weeks later I was back on the phone and saying, "She's moving back in!" So I lost her money for three week. As soon as she moved back in I told them. **CTC>family element, ID 1129***

Brian and Fiona's experience provides a good example of how reliance on tax credits can drive reporting behaviour and how reporting can become less of a priority for some claimants when they are no longer as reliant on this income.

3.10.2 Reliant non-reporter

Pete is very reliant on tax credits. He works full-time and receives the minimum wage. Whilst Pete lives alone, he has three children who do not live with him whom he helps to support. He is keen to keep his tax credits award and does not want anything to jeopardise the money he receives.

*I'm only making £85, but I have to pay some rent out of that, and some income tax out of that. So you're only better off by about £40, which isn't a lot, even though it's better than nothing. But if you didn't get your Working Tax Credit, you wouldn't be able to do it; do you know what I mean? **Not in Work ID 541⁹***

Pete therefore avoids reporting the changes in working hours he has experienced because he is worried that this might affect his tax credits award and complicate things.

3.10.3 Non-reliant reporter

Melanie and her husband describe themselves as comfortable. They receive a small tax credits award for their two-year-old daughter, which they save for her future. They do not need their tax credits award on a week-to-week basis, as they manage to cover all household bills as well as luxuries through their earnings.

⁹ This participant was not in work when the sample was drawn so their tax credit code reflects this status, as of November 2006. At interview, however, the claimant stated they had begun work in December 2006.

It was such a minimal amount really. We never really accounted for it [in our day to day budget]. It was - I suppose it was a small bonus if you got it, but it wasn't something we counted on. **CTC<= Family element ID 407**

Melanie knows she needs to report changes of circumstances and so does so, whenever they occur. Melanie does not worry about losing the money but likes to do the right thing.

I would still always inform them if I thought it was going to make a difference either way. If I thought we were...if we were receiving it and I thought it would impact on whether we stopped receiving anything, I'd phone them and the same with the other way really.

CTC<=Family element ID 407

3.10.4 Non-reliant non-reporter

Mercedes is a single mum who works full-time. Her career is going really well and she earns more now than she ever has. She is still entitled to around £40 a month in tax credits. This money is not used for anything in particular – it goes into her account and becomes part of the overall 'pot'. She feels that she would manage just as well without this tax credits award. She has had no proactive contact with HMRC since the beginning of her claim. She does not report changes of circumstances as she would not mind if the claim stopped as a result of her being overpaid.

A: the impact is negligible really. It probably allows me to take my daughter to the cinema and for a meal every month or a couple of times a month but, yeah, it's not an impact that would affect our real standard of living.

Q: So if it was taken away tomorrow, what effects do you think that would have?

A: I would have to say with the amount that I'm getting it would be fairly insignificant really. I wouldn't be happy but! Anything helps but you know what I mean, it wouldn't make a substantial difference to the way that we live. **CTC <=Family element ID 102**

3.11 Deliberate strategies

So far, this chapter has looked at the range of factors which, on their own or in combination, can amount to reporting in line with tax credits requirements, late reporting and non-reporting. This section will explore 'deliberate' non-reporting and will examine claimants who decide not to report regardless of awareness, organisational skills, reliance, and so on. It is worth noting that there were only a few deliberate non-reporters in the sample and the qualitative nature of this research does not allow it to estimate the extent of 'deliberate' non-reporting of changes of circumstances within the tax credits claimant population.

3.11.1 Fraudulent

Very few cases were identified within the sample where claimants had set out purposely not to inform HMRC of change of circumstance because they knew it would be detrimental to the level of award they received. There were, however, cases where claimants had set out to be less than up front about some changes. The intention of the claimants in these cases was to report the change at renewals. These claimants assumed that delaying the reporting would have consequences but many of them did not expect that the consequences would be substantial.

Fraudulent non-reporting case study

Jean was claiming Income Support and Child Tax Credit. Jean took a part-time cleaning job two and a half years ago. She worked twelve hours a week. She did not report this to Jobcentre Plus or

HMRC as she had reasoned that she did not work sufficient hours to declare. However, Jean was aware that she ought to have reported this change of circumstance but felt that her benefits would stop if she did. Jean is not clear about how being in work would affect her tax credits claim. Indeed, Jean is unaware that there is a system of tax credits which exists independently to her Income Support claim. A member of the public informed DWP that Jean had a job and was claiming Income Support. As a result, her Income Support was stopped. Jean is still receiving Child Tax Credit as if she were claiming Income Support.

*Someone shopped me to the social for working. Now I didn't realise I had to because I always thought it was 16 hours and okay like I said, I'm not stupid and maybe I did realise it but just sort of turned a blind eye to it because I only do 12 hours a week. **No work ID 22***

3.11.2 Taking a tax credits loan

Another example of deliberate non-reporting related to claimants knowingly not reporting changes of circumstances in full knowledge that they are being overpaid and that this money will be recovered after the renewals period. These claimants took a conscious decision to take the money now and to do without it later. In this sense, the overpayment was treated as a 'loan' to be paid back at a later date. The tax credits award was perceived as an account which holds their money. From this account, claimants believed they would only ever get what they were entitled to overall and did not see themselves as receiving anything 'extra' in the long run. They understood that they would ultimately 'pay back' the money in the form of a reduced award in the next period.

*Mainly because it was Christmas coming up and the money was handy and I thought 'I can pay it back afterwards anyway'. More like a loan really; a short term loan. **CTC > Family element ID 1351***

3.12 Reporting behaviours

Through an analysis of the reasons why people do and do not report changes of circumstance, it is possible to organise claimants into four distinctive overarching behavioural groups as a way of understanding reporting behaviour is. These are fearfully motivated reporter, the laissez faire, the organised motivated reporter and conscious/deliberate non-reporter.

3.12.1 Fearfully motivated reporters

This group would include both claimants who are aware of their responsibilities as a claimant as well as those who have little to no understanding. This group demonstrate high anxiety levels about their tax credits claim, which in some cases are the result of a previous negative experience. These claimants make regular phone calls to HMRC to report any changes of circumstances, regardless of whether these are considered to be trivial or temporary. When they receive any correspondence where nothing is required of them, they are also likely to call HMRC just to confirm that this is the case.

*Yes as I say I always end up ringing them. Because if they send me forms out, I look at them and I think they're asking questions that either they don't write them in English to me or so I think well if I pick the phone and say: "Oh yes that's". And they'll say: "Yes that's fine, blah, blah, blah we'll send you a form up." And then you'll get another form saying something else isn't right so I just pick the phone up again. **CTC > Family element ID 1351***

Some in this group might perceive the tax credits system to be arcane and, as such, have preoccupied themselves with reporting anything and everything straight away, rather than questioning why they would need to do this. Many in this group would not want to understand the system, preferring to remain on the side of caution by reporting everything, including things which are not relevant like their children's birthdays.

*Well, I was anxious ... so I thought that I'd better ring them and tell them that I have got this in case they needed to know.... You know, I didn't want it to come to the end of the year and there's somebody claiming, 'You owe us so much back', and so to keep above board... **Not in work ID 1066***

Overall, this group tend to be motivated to report by fear of overpayments. This group has a basic understanding that not reporting changes of circumstance may lead to an overpayment. However, they do not necessarily know which specific changes will lead to an overpayment and so report any changes that occur, in an attempt to eliminate any risk of overpayment. They are keen to keep all of their finances in order and would feel disappointed in themselves if they were to owe 'the government' money. For them, reporting on time is an obligation which they are vigilant in meeting.

*I would straightaway let them know, with the tax I wouldn't like to play - I wouldn't like to go to jail for a few pounds, you know it's not worth it really. I like to be honest with these things. You've got to be. **WTC only ID 184***

3.12.2 The laissez faire group

Claimants in the laissez faire group are laid back about their tax credits claim. This may be because they are not reliant on tax credits, but this is not necessarily the case. They are likely to be casual in terms of organising themselves and their finances. Even if they have some understanding about the implications of not reporting, they are most likely to report changes of circumstances late or not report changes at all within the year, preferring instead to wait until renewals.

This group are not intentionally dishonest, rather they did not attach a high priority to reporting changes of circumstances, and are likely to be less organised in their financial affairs. As such, they tend to avoid taking proactive steps in order to meet the responsibilities of their claim. They do, however, respond to renewals correspondence and reminders.

*I just sort of wait; leave it until they contact me. **WTC only ID 685***

However, though this reporting behaviour can be linked to organisational skills some claimants in the laissez faire group are well organised in other areas of their life.

*Although I'm organised, I'm maybe not that proactive, so I normally just wait until I get my form and fill it in. **CTC <= Family Element ID 835***

3.12.3 Organised and motivated reporters

This group have been described in section 3.8. They described themselves as ‘very organised’ with regards to financial matters, such as household bills and avoiding debt, as well as being aware of what they are entitled to. They also appear to be more knowledgeable about their responsibilities as claimants. They are keen to ensure that they get their claim right and are more likely to report changes of circumstances as soon as they have occurred.

3.12.4 Deliberate/conscious non-reporters

The deliberate/conscious group potentially falls into two sub-categories; knowledgeable deliberate/conscious non-reporting and uninformed deliberate/conscious non-reporting.

The knowledgeable deliberate/conscious non-reporting group within the sample is small. As mentioned earlier, this study has identified only a few cases within the sample where the claimant had deliberately set out to defraud the system.

However, the evidence from this study appears to indicate that non-reporting can be a conscious decision taken in ignorance. In other words, it is possible for claimants to decide not to report changes of circumstances without having an understanding of what they ought to report, when and what the implications for them will be. Claimants in the uninformed conscious/deliberate non-reporting subgroup are aware that they are not doing the right thing but are unclear exactly what the right thing to do is.

*I got a letter from my company pension, you're going to get your pension, blah blah blah, and this will be reported to the tax people. So I would assume that the tax people would then tell the tax credit people and it's all sorted out that way. So why do I have to then get on the phone and say 'well this is what I am getting'? **WTC only ID697***

Conclusions

There were a wide range of factors that have an impact on reporting decisions. These factors might have affected what claimants report and when they report it or both. These factors were not

independent of each other and often, claimants' reporting decisions were based on a combination of factors at play at one time.

Knowing what to report and when to do it did not necessarily mean that claimants reported on time. Other factors, such as whether or not the change was deemed to be permanent or significant, organisational and financial management skills, reliance on tax credits and how much of a priority tax credits took at the time the change occurred, can be more significant drivers of reporting behaviour. Given that reporting behaviour can be determined by a wide range of factors, as discussed above, claimants reporting behaviour is not necessarily fixed or consistent throughout the tax credits year. Claimants can in fact 'move' between the categories of on-time, late and non-reporting depending on the combination of factors which come to bear on their reporting decision. At interview, it was often found that a number of claimants who had been recruited as one type of claimant in fact exhibited different kinds of reporting behaviour throughout the tax credits year. The decision on whether to report can be built around the type of changes of circumstances rather than on the individual characteristics.

There are four main types of reporting behaviour: fearfully motivated reporters, the laissez faire, organised and motivated reporters and deliberate/conscious non-reporters. These behaviours cut across tax credits claimant groups.

Chapter 4: Towards a typology of reporting behaviour

Summary

- Reporting behaviour can be grouped into four types made up of levels of awareness (knowledge factors) and willingness to report (competence factors).
- These four groups exist across tax credits claimant groups (CTC maximum and minimum levels, in work/ out of work and WTC only).
- Claimants who are less willing/ capable of reporting changes of circumstances are likely to present the biggest challenge to policy makers.

4.1 Introduction

This chapter looks at the potential for understanding claimants' reporting behaviour through typology groups. It uses the evidence presented in Chapters 2 and 3 to devise an approach which uses the factors that drive reporting behaviour to classify claimants into four emerging groups.

4.2 Knowledge factors and competence factors

From the evidence collected, it appears that there are two sets of factors which make up reporting behaviour. The first group broadly includes understanding and awareness, and the second group includes factors which relate to attitudes and capacity. In other words, whether claimants report or not is driven by whether they know what to do and how to do it as well as whether they are willing and able to do so. Drivers which relate to attitudes (willingness) and capacity (able to report) are defined here as 'competence' factors, and drivers which relate to understanding and awareness are defined as 'knowledge' factors.

Knowledge factors, as we have seen in the previous chapters, are linked to what claimants report and when. However, competence factors are also significant drivers of reporting behaviour and, in

some instances; result in late or non-reporting in spite of awareness and understanding of the system and the responsibilities of claiming.

It appears then that both types of factors combine to form the decision to report on time, late or not at all. That is, decisions to report are driven by levels of understanding as well as levels of willingness and capability to report. The following diagram shows how knowledge and competence factors might interact with each other to form a reporting decision.

Diagram 3: Factors driving reporting decisions



4.3 Tax credits customer typology

Based on the interaction of both sets of factors, it is possible to identify four emerging groups. Those groups can be plotted on a spectrum of high and low levels of understanding and high and low levels of willingness and capability.

- **Group 1:** High on competence factors and high on knowledge factors

This group represent the ideal in terms of claimant reporting behaviour, they have a good understanding of what to report, why and when; they are also keen to report and get their award right. They are also reasonably well organised and present no obvious barriers to reporting changes. Claimants in this group report changes of circumstance close to when they occur.

- **Group 2:** High on competence factors but low on knowledge factors

This group want to 'do the right thing' and are generally well organised in their financial affairs. However, they are confused about how the tax credits system works and are uncertain about what they need to report and when. For many in the group, the main uncertainty surrounds income and working hours changes. Where these claimants experience changes in income and/ or working hours, they are unclear about whether or not they need to report these outside of the renewals period. This group includes claimants whose reporting trajectory can be described as 'fearfully motivated', as outlined in Chapter 3.

- **Group 3:** Low on competence factors and low on knowledge factors

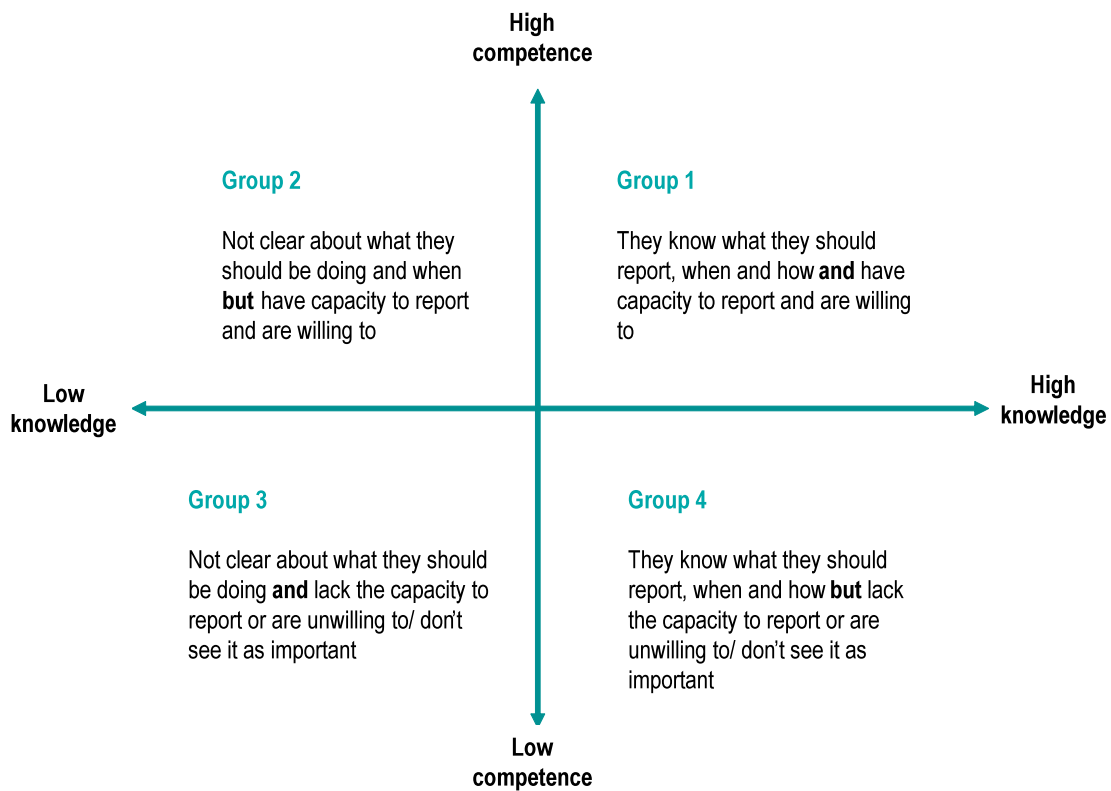
This group have little to no awareness of their responsibilities as a claimant and lack the willingness/ capacity to report even if they did know what to do.

- **Group 4:** Low on competence factors but high on knowledge factors

Group 4, in contrast, have a reasonable understanding of what their responsibilities as a claimant are and what factors might affect their tax credits award. However, they are either too disorganised to report, place a low priority in doing so or are deliberately trying to flout the system

This group include claimants who could be described as 'laissez faire' in the way they report. They are likely to wait to be prompted by the renewal form before reporting changes of circumstances or to report them late.

Diagram 4: Spectrum of reporting groups



4.4 Case studies

Group 1: high on competence factors and high on knowledge factors

Janice is married with one daughter, aged eight. She works part-time for the local council and her husband works full-time, also for the local council. Janice and her husband have been receiving tax credits since the new system was introduced in 2003. They currently receive the family element of Child Tax Credit.

Janice and her husband keep a close eye on their family finances. Each month, they take stock of their income and outgoings, and their money is divided up accordingly.

A lot of our bills are paid by direct debit so we know exactly what's gone out and then we just put aside an amount for housekeeping and the various other pots that you sort of allocate money to and then at the end of the month anything that's left over gets put into a savings account. **CTC<= Family element ID 220**

Proportionally, the contribution Child Tax Credit makes to the overall household income is quite small but Janice nevertheless considers it a very welcome addition and found it did have an impact when their payments stopped for a while during the 2006-07 award period.

It's not a sizable amount but thirty, forty pounds, it's still quite a lot. I mean it pays for something, and so when it stopped it did mean sort of reshuffling things, looking at priorities again, thinking 'what are we going to cut', because you do rely on that money, you budget accordingly. **CTC<= Family element ID 220**

Last May, Janice started to work as a freelance consultant in addition to her regular job. As soon as she knew she was going to start that work, she called HMRC to inform them. At that time she was advised to give HMRC an estimate of her working hours and income as a result of this extra work. Janice provided this estimate and was informed that it would not affect her award for the current year but that it might the following year.

I phoned them, I can remember phoning them quite early on because I was changing my hours plus it was the income change. **CTC<= Family element ID 220**

In June last year, Janice and her husband completed their renewal forms, including information about their incremental pay rises and Janice's consultancy hours and income.

We sent them the review and then they sent us back something else telling us what our award would be for 2006 to 2007 based on the information we'd given them. **CTC<= Family element ID 220**

A few months later they received their award notice for 2006-07 which informed them that they would not be receiving any tax credits from October but that they would receive some payment for the last two months of the financial year in 2007. Janice understands that tax credits awards are

calculated on income from the previous year and so assumed that their payments had stopped because of the increase in their income over the past year, which had resulted in an overpayment.

Group 2: High on competence factors, low on knowledge factors

Debbie works full-time as a security guard. She has two children: one aged 3 months, the other 3 years old. Debbie lives with her partner who works sporadically. She claims tax credits as an individual and receives more than the family element of Child Tax Credit.

Being able to work and provide for her family is very important to Debbie and she is proud of the fact that she can stand on her own two feet without being reliant on state benefits.

Tax credits make an important contribution to Debbie's financial position as they help towards paying her mother to look after her children while she is at work. The Child Tax Credit also provides a buffer for the months when Debbie's income is not enough to cover her outgoings.

I always work out my wages and I usually clear about £1200. But once I pay my mum, that's £850 and then after I pay whatever bills, I only have that bit of money to do shopping and once I do that my money is finished. If my money finishes but I know the baby's money is coming at least I'll know that the baby can get all the food and I won't have to worry.

CTC > Family element ID 382

Debbie feels that it is morally important to report changes of circumstance to HMRC. She is grateful for the money she receives and believes that claimants need to tell HMRC the truth about their circumstances so that they are not receiving something they are not entitled to.

However, Debbie has an understanding of some, but not all, of the changes that need to be reported to HMRC. Her mother is her main source of advice and information about tax credits - she is the one who reminds Debbie to fill in her renewal form or tells her to call the tax credits helpline if there are any changes or problems. Debbie usually defers to her mother's advice about tax credits which may or may not always be correct.

Debbie's working hours and income change as a result of working overtime almost every week. Although Debbie knows this needs to be reported to HMRC, she is not clear about when or how

this should be done and relies on her mother to remind her to fill in her renewal form and send in her P60 at the end of the year. The changes to Debbie's income and working hours are so frequent that she feels it is impractical for her to inform HMRC every time they change. Instead she sends an estimate of her income every six months to HMRC.

However, Debbie would inform HMRC immediately if she was to lose her job or get a large increase in her salary, as she is aware that this could have an important impact on her claim.

If I left my job, if I get fired today or tomorrow, I'm supposed to tell them. You are supposed to tell them ASAP, not a month later or two months later, you are supposed to tell them as soon as possible so they can make the changes. Because you could be receiving something but maybe it should be less or more so you have to tell them .

CTC > Family element ID 382

Debbie and her partner Robert are not married. Although he permanently lives in the family home, Robert is sometimes absent for long periods of time when he goes to visit his home country in Africa. When he is in the UK, Robert works on temporary contracts and brings in some money for the family.

Debbie has not told HMRC that Robert lives with her and makes some contribution to the household income as she believes that this would only need to be reported if they were married. She feels that the situation is not completely permanent and therefore it is not necessary to report this.

*I'm not married to Robert. We are living together but anything could happen. But if you are married you are supposed to tell them you are because then your money will change. When you're married at least you can work together with the money but if you are not married, yes you help each other but you don't know what could happen. **CTC > Family element ID 382***

Group 3: Low on competence factors, low on knowledge factors

Raj was incapacitated about four years ago and had to stop work as a result. He has not been able to go back to work and claims incapacity benefit. Raj's wife, Sandeep, works full time as a beauty consultant. They have two children, one of whom is aged 17, living at home and in full-time education, the other has left home. Raj and Sandeep have been claiming Working Tax Credit as a couple since Raj had to stop work. Raj and his wife are not native English speakers and have some problems reading and writing English.

Raj knows that claimants should tell HMRC if they leave work or experience a substantial income change. This knowledge is based on Raj's own experiences and he has little awareness of what other changes should be reported to HMRC and when. He also has little knowledge about what other benefits he might be entitled to, such as Child Tax Credit for his son who is in full-time education.

During the time that they have been claiming tax credits, Raj and Sandeep have had overpayments each year and their payments have been stopped twice. They are not aware of why this has happened. Raj believes that HMRC knows he is not working and that his wife's income has not changed much over the past few years so he does not understand why he continually has to fill in forms or why the award they receive has changed so often. Raj finds the renewal forms lengthy and difficult to fill in. It is likely that the problems he has with reading and writing English have contributed to these difficulties.

*They said that they overpaying me, then again we have to go fill the form, go to the tax office and they sorted out something and then they getting problems again. Really, it's all the time problem with them. I had a bad experience, you know and I don't bother anymore to go there because of that. And really the forms you send is paper like this thick to fill in for a simple question to ask how much you earning. **WTC only ID 184***

Raj has also found it difficult to get help with his tax credits claim. He contacted his local tax office and the tax credits helpline but has been unable to resolve the problems with his claim. Raj feels that there is a lack of organisation within HMRC and that the staff are not adequately trained to help people in his situation. Raj's health is generally not very good and he finds dealing with tax credits very stressful and exhausting so he often puts it off.

It's really bad organised, the way they do the things. Sometimes they over pay you, they taking off your credits and it was really difficult for them to sort it out. Lots of headache they give me. I got already blood pressure and diabetes. For them to sort it out, things take ages. **WTC only ID 184**

Raj feels strongly that there should be more support for people who do not speak English as a first language to explain the system to them and offer help completing renewal forms.

Group 4: Low on competence factors, high on knowledge factors

Anita is divorced and has three children aged 12, 16 and 18. All of her children are in full-time education but her 18-year-old daughter moved out of home in September 2006 to go to university. Anita works full-time as a nurse and is currently receiving the family element of Child Tax Credit only.

Anita first applied for tax credits when she and her husband got divorced two years ago, which resulted in a fall in household income for her. At that time, Anita also moved house and her son moved school. As a result, he needed to go to a before and after school club so Anita would need to drop him off and pick him up earlier and later in the day. Anita began to receive Working Tax Credit with the child care element and Child Tax Credit. At the time, tax credits were extremely important as they helped pay for childcare for her son, enabling Anita to continue to work full-time.

It was beneficial really, it helped me out, I mean I'm not getting a lot of child tax credit now, as my wages increased and because Kate's left home, after school club's finished, but it helped me when I needed it, to get me through a difficult time. **CTC <= Family**

Element ID 835

Anita, unlike some other claimants in the sample, was aware that failing to report change of circumstance can affect the award and, at that time, an overpayment would have had a significant impact on her finances. Because tax credits made such an important contribution, Anita made sure she filled in her renewal forms accurately and reported changes of circumstance when they occurred.

However, for the last year or so Anita has not needed to rely on tax credits as much. Her income increased as she was promoted at work and her son no longer needed to go to the after school club. She therefore now receives the family element of Child Tax Credit only and the contribution this makes to her overall finances is not significant.

I mean now it's just £22. I'm not concerned about it. But when it was more than that, it was needed really, I was concerned that the forms got filled in and got filled in accurately.... **CTC <= Family Element ID 835**

Although she is aware that changes of circumstance need to be reported to HMRC as soon as they occur, it is no longer a priority for her to do this as the impact of an overpayment would be minimal. That is, should her payments be stopped or reduced in order for an overpayment to be paid back to HMRC, Anita would not be greatly affected by this as she no longer depends on the money to make up her income.

Conclusions

This chapter has explored reporting behaviour by classifying claimants into four emerging groups that are defined by the factors that drive reporting behaviour. As shown in the last case study, the four groups identified are not necessarily fixed groups. Therefore, there is likely to be scope for HMRC to think about how claimants could move between groups and improve their chances of reporting in line with tax credits requirements in the future. For example, through building the awareness of those in group two (high on competence factors, low on knowledge factors).

Chapter 5: Ways forward

Summary

- Some claimants perceived the tax credits system to be complicated and felt that it needs to be simplified.
- Some said they wanted more information that is more relevant and easier to understand compared with the information that is currently available. In particular, these claimants wanted to know how the system works, especially with regards to how their tax credits award is calculated.
- There was support for both listing changes that claimants have reported in the last year on the renewals form and for sending more reminders outside the renewals period. However, it is not felt that these measures will be sufficient to ensure that all claimants report on time in the future.
- Some claimants favoured HMRC taking more proactive steps to ensure that awards are based on the right information and circumstances over equipping individual claimants with the means to take responsibility to report changes of circumstances.

5.1 Introduction

This chapter looks at possible ways forward to improve reporting behaviour in the future. It considers 'top of mind', unprompted suggestions made by claimants and then goes on to consider claimants' responses to possible ways forward suggested by HMRC. It uses evidence from the face-to-face depth interviews as well as material from two discussion groups convened after carrying out the in depth interviews.

5.2 Unprompted suggestions

During interviews, claimants were asked to think about what, if anything, HMRC could do to encourage more tax credits claimants to report changes of circumstances and to report on time. A number of suggestions were offered but some claimants were unable to think of any ideas. However, the claimants who were unable to make any suggestions tended to be sympathetic to HMRC and were genuinely unable to see how reporting behaviour across the claimant population can be improved.

5.2.1 Simplify the system

The system was universally perceived to be complicated and difficult to understand. Although some claimants made the link between reporting changes of circumstance and overpayments (see Anita's example in 4.4 above), others nevertheless reported that they had no understanding of why they had been overpaid in the past or why the amount of tax credits they received had changed since the beginning of their claim. However, the complaint that the system is "too complicated" was not directly related to how people reported. That is, those who reported on-time made the same complaint, even where they have demonstrated a reasonable understanding of the system and its requirements.

As set out in Chapter 3, some claimants felt that the process of applying for tax credits and servicing their claim was onerous and demanding. Whilst claimants generally understood that they, as well as HMRC, had a responsibility to get the award right, they felt that they were less able to meet the responsibilities of their claim because the system was too complicated to navigate.

Those who felt that they understood (and their understanding was not necessarily accurate) considered that they were 'lucky', or, 'unusual' to have grasped what they needed to do in order to ensure their award was correct. They raised concerns about how other, less well-informed, people would manage to navigate their way through the tax credits system. However, it is worth noting that the claimants who were perceived by other claimants as less 'well-informed' sometimes

demonstrated equal or better understanding of the tax credits system than those who described themselves as well-informed.

They are very complicated the benefits, they should make a lot more clear to people, they are complicated. They had, I think probably people out there they should have them and they are not having them and people that have got them in fact they shouldn't have them. I think it, it's too complicated, too much paperwork, too many complications; they should make it a lot clearer. **CTC > Family element ID 382**

It's not really for the normal person. If you specialise in Tax Credits and things you know possibly, but it's absolutely boring and it's very long and I think it must put people off claiming because they see the document and think 'oh, am I going to go through this?'

Focus group participant

As a response to how complicated the tax credits system was perceived to be, some claimants suggested that it could be simplified by being coordinated with the tax they pay.

I think it's the way it's calculated as well and the fact that, you know, if your hours do change and your payments change then the amount you're going to be awarded changes and, you know, it might be better added to your tax allowance or whatever if there's a simpler way of doing it. **CTC <Family element ID 102**

5.2.2 Provide clear and relevant information

Whilst many claimants had relatively poor recall of HMRC official information, they nevertheless called for more information about tax credits. However, the need expressed was for clear, easier to understand and more relevant information, rather than simply an increase in the kinds of information currently sent to claimants (see below for key information needs). The process of taking part in the interview provided the first opportunity for many claimants to consider what they understood about tax credits. As a result, many claimants in the sample, including those who demonstrated reasonable knowledge of the tax credits system and their responsibilities as a claimant, felt that they had learned new information by the end of the interview. In particular, claimants were unaware that they currently need to report changes within three months. They were

also not aware that some changes of circumstances are essential to report and others are useful to report, but not mandatory.

I think they should make it clearer to people about the deadlines and with the changes. As I said, I mean we weren't aware of the changes that were being brought in. CTC<= Family element ID 407

The key information needs that claimants identified were:

- what claimants need to report outside the renewals period and what changes can wait until the renewal period;
- why they need to report income and working hours changes in year;
- the deadline by which a change of circumstance can be reported; and
- the consequences if the change is reported later than the deadline.

In addition, it was suggested that HMRC need to make it clearer to claimants how their award was established. Tax credit calculations were considered to be unfathomable and this sense of mystery has fueled misunderstanding. As claimants generally did not understand why they received the award they had, they could feel disempowered and disenfranchised from their claim. Some in the sample suggested that they were unable to identify whether their award was correct or not and that, when their award changed, they were unable to discern whether it should have done.

Their numbers always differ. I mean, my income never changes and they always seem to come up with different amounts. And, you know, I can't really complain because I don't understand how they made the calculation. **Focus group participant**

5.2.3 Consistent information and advice

Generally, claimants did not find it difficult to report once they had decided that they were going to. The most popular method was by telephone. Some claimants preferred to write to HMRC as they

would rather use more formal and traditional methods of communicating with government. However, using telephone contact centres was a cause of further confusion for some claimants because they received mixed messages and inconsistent information from some contact centre staff. In some cases, where claimants had contacted HMRC to report a change in income, they were advised that they did not need to report this and that all they needed to do was send in their P60 when they received it. This may have been because the amount of the change was less than the income disregard. However, as the reasons why the change did not need to be reported were not explained to these claimants, their understanding of their responsibilities with respect to reporting changes in income was based on this information (i.e. they did not/would not report future changes in income because they had been told at one time that they did not need to report this.). In a few cases in the sample, receiving inconsistent advice had deterred claimants from using the telephone service and had prevented them from seeking further advice from HMRC.

*When you phone up when things have changed with your money and one will explain why and if you ring again someone will explain something else different like. **Disability element, ID 978***

In contrast, many more people in the sample reported positive experiences of using the HMRC tax credits helpline. The HMRC tax credits helpline was perceived as an essential and useful service. Given that there were claimants who found the tax credits system to be complicated and tended not to be confident in their understanding of it, the helpline provided an easily accessible route to information and advice. It also offered a route to reporting changes of circumstances, in the absence of which some claimants in the sample would have waited until the renewals period.

5.2.4 Streamline correspondence

Some claimants suggested that HMRC could 'streamline' its correspondence to households. Where annual declaration forms and review forms were sent within the same time period and in

couple households to both claimants, this could contribute to claimants' confusion about what is being asked of them.

When they send details to myself and my husband, I find it confusing because there's so much duplication and you wonder 'have I seen this one already'? If they're sending to one household it would be much easier to just send one batch of paper and not to individuals.

Focus group participant

I get 3 one year things and they all come in separate envelopes and my husband gets exactly the same and they all come in separate envelopes so that's like 6 envelopes it's like a lot of information. **WTC only, ID 726**

5.2.5 More regular renewals

Some claimants in the sample suggested that one method of helping claimants report changes of circumstances is to increase the number of times within a year that they must renew their claim. Some suggested that would need to happen as often as four times in a year, whereas others suggest that twice a year would suffice. Those who suggest the latter have some recall of the Family Credit system, in which claimants were required to apply for their award every six months.

5.3 Reactions to HMRC suggestions

During interviews, claimants were asked to give their thoughts on some specific suggestions made by HMRC to help claimants report changes of circumstances on time. This section sets out claimants' responses.

5.3.1 Listing changes on the renewals form

Claimants were asked if it would be helpful to have all of the changes they have reported over the year listed on their renewals form to help them check that their circumstances through the last year

were correct. There were claimants who believed that this information was already set out on their renewals form and struggled to see what would be different if this suggestion was put into practice. Other claimants were generally positive about this suggestion, believing that it would be helpful to have all of the information that HMRC has with regards to their circumstances set out in one place. They believed that this would help them to understand what HMRC is basing their claim on and therefore help them to understand their award. Claimants who were less organised were particularly positive about this suggestion as they were not always clear about what changes they have reported.

That's a good one yes. Because sometimes ... I've got to try and dig out the old one to look and see what was said on that one and what has changed if anything has changed.

CTC <=Family element, ID 835

However, some claimants admitted that they did not engage with correspondence from HMRC with regards to their tax credits claim and so would be unlikely to take notice of any changes to their renewal form.

But I don't know, I mean if they put more of a breakdown then I don't know if I can look at it. To be honest that's the only thing, those bits of paper come and you go oh not another bit of paper. **CTC > Family element, ID 422**

5.3.2 Sending reminders outside the renewal period

Claimants were also asked if they thought it would be helpful to receive reminders to report changes of circumstances outside the renewal period. Again, some claimants in the sample believed that this is already happening. It is possible that these claimants have confused correspondence sent in November 2006 to all claimants about the need to report changes of circumstances with reminders, or, that these claimants were confused about the reminders sent within the renewals period. This suggestion received a generally positive response although some claimants felt that it would likely to be inconsequential in terms of the difference it would make to some claimants' reporting behaviour. For those claimants who were less organised and for those who did not give a high priority to reporting changes of circumstances amongst their other

responsibilities, reminders were perceived to be a useful way of alerting their attention to their reporting responsibilities. However, some claimants suggested that receiving any more correspondence from HMRC with regards to their tax credits could potentially be a nuisance.

Yes they should send out more reminders because sometimes it is just purely busy lifestyle. People do forget, you know you are rushing around you come home and you sort of have your dinner get the kids ready and before you know it, it is the next day.

CTC <= Family element, ID 183

All the time and effort to send... I think the majority of people who get prompts think, "Oh, it's another one," and they'll just bin it. "Here's another leaflet." **No work, ID 1071**

5.4 Measures for specific reporting behaviours

The focus groups, which followed the interviews, were used to examine measures that might help claimants within specific reporting type groups to improve their reporting behaviour. Focus group participants were asked to consider four scenarios, based on the four reporting behaviour groups discussed in Chapter 4. Participants were given a variety of hypothetical options that may improve the reporting behaviour and experience of claimants in the four groups. They were asked to consider which of these options would be most appropriate for HMRC to use and whether they would also be considered to be helpful by claimants. If none of the options were deemed to be appropriate, participants were invited to make their own suggestions.

Group 1: high on competence factors, high on knowledge factors

Claimants were asked to consider how reporting can be made easier for those who have a reasonable understanding of the responsibilities they have as a claimant and are willing and capable of reporting. They were asked to consider the scenario of a couple who reported a change in their child's eligibility to both Tax Credits and the Child Benefit Office at HMRC. Given that this

group have a reasonable understanding of their responsibilities and are already reporting changes of circumstances, focus group participants were asked to concentrate on what would improve the 'customer experience' for these claimants.

The consensus view of both focus groups was to streamline the process of reporting changes, most particularly for those who have children. Claimants with children currently need to report changes with regards to their child's eligibility to the Tax Credits helpline and to the Child Benefit helpline of HMRC. Information that they give to one of these services is not automatically passed on to the other, even where the same information would be directly relevant.

I can't see why the two systems can't be amalgamated in the sense that it would stop you having to make all these numerous phone calls. **Focus group participant**

Focus group participants were asked if, in future, it would be preferable for tax credits claimants to make one call to a central point to report changes of circumstances that need to be reported for a number of benefits/tax credits. There was unanimous support for this measure.

Group 2: high on competence factors, low on knowledge factors

Focus group participants were asked to consider how best HMRC can help claimants who are willing and able to report on time but do not fully understand the responsibilities of their claim.

Participants felt that claimants who do not understand what to report and when simply need better access to information and advice to inform them about what their responsibilities are, which they will then act on as they are willing and able to do so. However, they also thought that, if HMRC could check all claimants' records against information held elsewhere, there would be less need to inform and educate claimants. The emphasis should be placed firstly on HMRC's ability to find out what changes people have experienced rather than on claimants to report, and then HMRC should consider new ways of informing this group about their responsibilities.

At least you would know that they would amend it for you and then send it through... 'yes, alright, I've done wrong, but at least I don't have to talk to anyone!' **Focus group participant**

As such, the options that participants chose in order to help claimants in this group are listed below in order of priority.

- HMRC carries out occasional searches of information it or another government department holds on tax credits claimants. That information is then compared with the information held on the tax credits system. If a discrepancy is found in the information of a claimant, *HMRC will amend the claimant's award and send the claimant a notice telling the claimant that it has amended the award and explain why.*
- HMRC carries out occasional searches of information it or another government department holds on tax credits claimants. That information is then compared with the information held on the tax credits system. If a discrepancy is found in the information of a claimant, *HMRC will contact the claimant to ask him/her to confirm that his/her circumstances have changed.*
- On the renewals form, list the changes people have reported over the year. Claimants then check that this record of their circumstances during the last year is correct.

Group 3: low on knowledge factors, low on competence factors

Claimants in this group are not clear about what they should be doing and lack the capacity to report or are unwilling to do so. Focus group participants were asked to consider what HMRC can do to help these claimants to report and to do so on time.

Again, focus group participants pointed to a need for HMRC to check information held by other agencies/ departments, rather than encouraging and enabling individual claimants to report changes of circumstances themselves. The options chosen in response to claimants in this group were, listed below in order of priority.

- HMRC carries out occasional searches of information it or another government department holds on tax credits claimants. That information is then compared with the information held on the tax credits system. If a discrepancy is found in the information of a claimant, HMRC

will amend the claimant's award and send the claimant a notice telling the claimant that it has amended the award and explain why.

- On the renewals form, list the changes people have reported over the year. Claimants then check that this record of their circumstances during the last year is correct.
- Tax credits claimants can make one call to report changes of circumstance that they are required to report for a number of benefits. For example, writing or calling one place to report the changes required for claiming Child Benefits and Tax Credits.

It was thought that these options would simplify the system for claimants in this group and that, because less is required of them, they may be able to fit reporting changes of circumstances into their life.

Group 4: high on knowledge factors, low on competence factors

Focus group participants were asked to consider what would help claimants who cannot see the importance of reporting changes of circumstances, or are unwilling to do so, despite understanding what their responsibilities as claimants were. They were given an outline scenario of a claimant whose partner had moved in. In the scenario, the claimant informed the Housing Benefit Office of this change but did not report the change to HMRC, despite knowing that she ought to. The focus here was on what would encourage claimants in this group to report changes of circumstance, given they already have the information they need to report in line with tax credits requirements.

Focus group participants' initial reaction to the scenario was one of surprise that HMRC would not know about the change via Housing Benefit as they thought that all information on the benefits people receive was held in one database.

If I wanted to cheat I would be scared because it's all on a database that they could check.

They could always check the information. But evidently they don't. **Focus group**

participant

Focus group participants chose two options in response to this scenario. These were listed in order of priority below.

- HMRC carries out occasional searches of information it or another government department holds on tax credits claimants. This information is then compared with the information held on the tax credits system. If a discrepancy is found in the information of a claimant, HMRC will amend the claimant's award and send the claimant a notice telling the claimant that it has amended the award and explain why.
- HMRC identifies particular groups of tax credits claimants and send them tailored reminders to encourage them to report change of circumstance, on time. For example, sending letters to tax credits claimants who receive income support, reminding them to report any changes in their employment status.

Conclusions

This section has examined both spontaneously mentioned ways forward as well as reactions and responses to possible measures that could be taken by HMRC in the future. The evidence presented here shows that claimants are, overall, more in favour of relying on HMRC to get their award right than they are of measure requiring the claimants to be more proactive and take more responsibility for it themselves e.g. HMRC carrying out searches on information it or another government department holds on tax credits claimants and comparing this with data on the tax credits system. These options were preferred in most scenarios to options which relied in the first instance on the claimant contacting HMRC to inform them of changes.

Chapter 6: Conclusions

6.1 Understanding of the system

Understanding of the overall aim of tax credits policy was high: claimants understood that tax credits exist to support those with low-moderate¹⁰ income and families. This basic level of understanding helped claimants to understand that changes of circumstances must be reported and what changes it was important to report. Understanding of eligibility was reasonably high, with claimants citing work status, income level, children and children's ages as the main factors which are taken into account in deciding who is eligible for tax credits. There were, however, some notable differences between groups. People in work tended to believe that tax credits claimants were only for people in work and were not available to people who receive unemployment-related benefits. This was partly driven by the misconception that tax credits were based on the tax that people pay and by a historical understanding of similar policies, such as Working Families' Tax Credit and Family Credit. Claimants who were not in work tended to think that tax credits were only available to people with children, based on their own circumstances and claim.

Whilst awareness of eligibility criteria was reasonably high, some claimants did not understand why the amount of tax credits they received changed or why they were overpaid. These claimants did not appear to 'learn' from the overpayment experience and were uncertain about what they would need to do to avoid being overpaid again.

Income was the most 'top of mind' and most frequently cited factor in determining both eligibility and the amount that claimants were awarded. However, within the sample, it was also the change of circumstance that claimants were least likely to report in-year, along with changes in working hours. This was for three reasons.

- Income and working hours were thought to be 'averaged' for the year. That is, claimants believed that HMRC took an average of the total income a claimant received throughout the year and worked out the amount of Tax Credit they were entitled to, based on this average.
- Lack of clarity about what difference income changes and working hours could make to their current award (and therefore, why should they report it?)
- Lack of understanding about how reporting changes of income outside of renewals would be beneficial to them in the future.

Claimants knew to report the six changes of circumstances that all claimants are now requested to report (changes in adults heading the household, cost of childcare changes, leaving the UK, not working for at least 16 or 30 hours a week, no longer being responsible for a child, children are no longer eligible (they are aged 16-19 and not in full time education)). Claimants were not aware that there had been only three changes in circumstance which they had to report in-year up until November 2006, when three more changes became mandatory. Claimants across all groups were under the impression that it had always been necessary to report these changes of circumstances. Claimants made no distinction between changes which they *must* report to HMRC and those that it would be *useful* to report.

In terms of when changes should be reported, there was clearly a gap between what people said they knew and what they actually did. Claimants generally thought that changes of circumstances should be reported as soon as they occur. However, it was clear from their reporting trajectories that they had not necessarily always reported on time (or at all, in some cases), in spite of their knowledge. Claimants across the board were unaware that they currently need to report changes within **three** months of the change occurring and most thought that they had a 'window' of only **one** month in which to report. This finding was supported by the experience of recruiting claimants for this research, in which it was not possible to identify more than two claimants who had reported a change later than three months after it occurred.

¹⁰ Income is described as 'moderate' as this is how participants viewed tax credits even though households with combined income of £60,000, arguably not a moderate income, can claim

Claimants were generally aware of the implications of not reporting changes in circumstance. They understood the risk of overpayments and, less commonly, the risk of underpayments. They knew, therefore, that reporting changes of circumstances had an impact on the tax credits award they received (and if they should be receiving a tax credits award at all). They were far less clear about the impact that reporting **late** would have on their claim.

Claimants were generally aware that HMRC would try to recover overpayments. Understanding of how tax credits would be recovered was patchy; some claimants believed that overpayments would be recovered in full in one payment; others believed it would be recovered over a period of time. Understanding of this process was higher amongst those who had experienced it. This group believed that there was no single policy to recover overpayments and that that a different approach was taken for different cases, sometimes unfairly, in their view.

6.2 Reasons for reporting/ not reporting changes of circumstances

Reporting behaviour is not necessarily fixed. This research has found that claimants' behaviour cannot be understood in terms of those who report in line with tax credits requirements and those who do not. In fact, it is possible, within one tax credits year, for a claimant to 'move' between categories and be an on-time, late and non-reporter. So, reporting on-time does not necessarily preclude the possibility of future late or non-reporting.

There was a wide range of factors driving reporting decisions, and, there were usually several inter-related factors at play when reporting decisions were taken by claimants in the sample. The key factors included levels of knowledge, awareness and understanding as well as assessment of permanency/ significance of change, organisational and financial management skills, reliance, perceived importance/ level of priority. These factors worked together to result in on time reporting, late reporting or non-reporting behaviour. The dominance of the factors may change depending on what was going on in the claimants' life at the time. For example, claimants might go through periods of being well organised and then temporarily be far less organised.

Awareness and understanding are not prerequisites of reporting. Claimants with enough knowledge did not always report and, equally, claimants with no understanding did report and do so on time. In terms of reporting behaviour, four types of characteristic behaviour emerged: 'fearfully motivated' claimants who report anything and everything to HMRC out of moral obligation and fear of overpayments; 'laissez faire' claimants, who generally have some knowledge (though this might be patchy) but are not organised, or do not treat tax credits as an important; 'organised and motivated reporters', who are relatively knowledgeable about their responsibilities as claimants and are more likely to report changes of circumstances as soon as they have occurred; and, conscious/deliberate non-reporters who deliberately attempt to flout the system.

Tax credits claimants can be plotted on a spectrum of ability and willingness/ capability to report. This research has identified a possible typology of claimant reporting groups, based on these different levels of willingness/ capability to report. These groups are:

- know what to report and when **and** will/ can report;
- know what to report and when **but** will not/ cannot report;
- not clear what to report and when **but** will/ can report; and
- not clear what to report and when **and** will not/ cannot report.

Recall of the renewal period was high. Claimants generally recognised this as when their claim is renewed, based on the information they supply. However, whilst claimants understood that their current circumstances affected their claim, they did not understand that, potentially, their claim could be reviewed as many times as their circumstances change. For some claimants, having a defined renewals period obscures how responsive the tax credits system is.

6.3 Improving reporting and understanding of the system

It is clear from this research that tax credits claimants' understanding of some aspects of the tax credits system is not as good as it could be, especially with respect to how awards are calculated and how overpayments are built up. However, there is also substantial evidence to suggest that improving claimants' understanding may not necessarily produce the gains in on-time reporting that would be desirable. There is a multitude of factors which work together to produce late and non-reporting behaviour and, addressing knowledge levels alone is unlikely to be sufficient. However, claimants would benefit from getting a better understanding of why it is important to report on time and why it is valuable to report income and working hours changes. Although there was generally a good understanding of eligibility criteria, many claimants would also benefit from understanding more about precisely what their claim is based on and how changes in these circumstances could affect their award e.g. lead to an overpayment. Giving claimants this information at renewals could provide one route to achieving this.

It could also be helpful to define more clearly the relationship between claimants, HMRC and their tax credits award. There was a tendency for some claimants to defer to 'the government'. When claimants were asked about what measures might help more people to report changes on time, they looked to HMRC to find the information proactively, rather than taking more responsibility as claimants. The system currently relies in large part on the honesty and participation of claimants. This research has found that, many claimants, including those who know what to report, why and when would rather not have the responsibility of continually reporting changes when they occur. There is scope, therefore, to encourage claimants to consider themselves as 'equals' in their relationship with HMRC – as jointly accountable and responsible for getting their award right. Although HMRC and claimants *are* jointly responsible for this, there is a need to explain to claimants more clearly what their responsibilities are, what the responsibilities of HMRC are and how these work together to get their award right.

6.3.1 The customer journey

This research has identified that there are seven key steps enabling claimants to report changes of circumstances on time. The first three of these steps involve claimants understanding *why* they need to report changes of circumstance whilst the next steps relate to *how* to report changes of circumstances. In order for claimants to continually report on time, it is necessary for them to go through these seven stages of comprehension. These stages are set out in the diagram below.

Why			How			
Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7
I've got the information	I know what the information means for me	I believe that it matters	I know what to do	I feel that I can	I report	I keep doing it
Through HMRC		I know the implications	I know what I need to tell HMRC and when	I'm confident enough in what I know	I take the step to report	I understand that my tax credits amount might change throughout the year, based on what I report to HMRC and that the amount I receive isn't just worked out once a year
Through others	I know how the information applies to me	I see reporting changes as important	I know I can phone or write	I have confidence in the HMRC customer contact services		

Appendix 1: The approach

1. Introduction

The research was qualitative in design, using in-depth, face-to-face interviews with tax credits claimants. A qualitative approach was the most appropriate for this research because a lot of personal issues were covered. There was, therefore, a need for a flexible line of questioning to enable the interviewer to probe for clarifications around specific issues. A more restrictive methodology, using a survey questionnaire, for example, would not provide the level of flexibility required.

The research consisted of a pilot and a main stage. A pilot study was carried out before the main stage of the research to enable the study to test the recruitment process and materials to be used and to refine them before the main stage. The key features of the pilot and main stages were as follows:

- four pilot interviews were carried out in London, during December 2006 and January 2007;
- 51 main stage interviews were carried out during January and February 2007 (this included one interview carried over from the pilot study which could not be completed before the pilot concluded); and
- the main stage interviews were conducted in London, the North East and the North West.

2. Sample design

2.1 Recruitment sample categories

Opinion Leader was provided with a sample drawn by HMRC from administrative data covering an 18 month period up to November 2006. It was segmented using three categories: claimants who have reported at least one change of circumstances on-time, those who have reported one or more change late and claimants who have not report any changes of circumstance. For the purpose of drawing the sample these categories were defined as follows:

- on-time: claimants who have reported at least one change of circumstances on the same day that the change took place, or has reported at least on change in advance¹¹;
- late: those who did not report at least one change on the day that it happened or in advance; and
- no change reported: those who have not reported a change of circumstance (this includes both those who have had a change of circumstance and not reported it as well as those who have had no change of circumstance to report. Administratively, these groups could not be separated and had to be grouped together when drawing the sample).

Sampled claimants were classified into the categories above using information about the date on which the change of circumstances happened and the actual date on which they reported the change to HMRC. The categories were derived to enable Opinion Leader to identify claimants who have reported at least one change of circumstances in a particular way (on-time, late or not reported). Although the sampled claimants were grouped into reporting types using the date on which they actually reported a change of circumstances to HMRC, some claimants queried their classification during recruitment. For example, some claimants who, according to HMRC's administrative data, had reported at least one change late queried that because they believed that they had reported the change on time. To resolve the discrepancy between some claimants' perception of the time when they reporting the change and the time as recorded on HMRC administrative data, Opinion Leader attempted to identify on-time, late and non-reporting behaviour using slightly different definitions, as this emerged as the most effective way of identifying the full range of reporting behaviour during the recruitment process.

- On-time: reported on the same day that the change of circumstance took place, or reported in advance (as above).
- Late: change of circumstance reported at least two weeks after the change occurred¹².

¹¹ Claimants can report changes up to seven days in advance

¹² The original intention was to recruit claimants who had reported later than three months. The three-month period was chosen to match the requirement that, during the period in which the changes covered in this research took place, certain changes of circumstances had to be reported within three of their occurrence. However, Opinion Leader were

- Non-reporters: those who have not reported a change of circumstance but confirmed at recruitment, prior to the interview, that they had experienced a change of circumstances.¹³
- No change reported: those who have not reported a change of circumstance and who said, during recruitment, that they had not had a change of circumstances. This group may or may not actually have experienced a change which should have been reported.

2.2 Additional recruitment criteria

In addition to reporting behaviour, recruitment criteria based on the following characteristics were applied to the sample during recruitment:

- Tax credits type;
- Working status and hours worked;
- Type of change of circumstance (identified across the non-reporting group);
- Age;
- Men/women;
- Ethnic group;
- English or non-English speaking; and
- Disability.

The definition of each characteristic and the quotas set for recruitment at the main stage are detailed in section 5.2.

unable to find sufficient numbers of these claimants. We were able to identify claimants who had reported approximately one month after the claim. Based on the experience of recruitment, it would seem that if claimants do not report the change within a month, they are unlikely to report it

¹³ We were able to ascertain during recruitment prior to the interviews taking place that 11 claimants had experienced a change of circumstance that they should have reported. We also recruited ten claimants who had not reported a change of circumstance for whom we left discussion of whether they had experienced a change which they should have reported until the main interview.

3. The pilot study

The key objectives of the pilot study were to test and develop the recruitment procedure and the effectiveness of the discussion guide and materials to be used during the interviews. The pilot aimed to interview:

- 3 non-reporters;
- 1 on-time reporter; and
- 1 late reporter.

The steps involved in the recruitment pilot were as follows.

- A sample of tax credits claimants in London was provided by HMRC to Opinion Leader. Claimants without contact telephone numbers were removed from the sample by HMRC prior to Opinion Leader receiving it.
- Letters explaining the purpose of the research were sent to claimants ahead of recruitment.
 - The letter provided a form and pre-paid envelope for claimants to return if they did not want to be contacted to take part in an interview.
 - Two weeks were set aside to give claimants a chance to opt out of the research.
 - All those who opted out were removed from the sample.
- Two versions of the letter were tested in the pilot to see if one gained more responses than the other. Letter one clearly advised claimants that the letter related to research and not to their tax credits claim. It produced less opt-outs amongst the non-reporting group so it was decided to use it as the opt-out letter for the main stage research.
- Recruitment of participants
 - All claimants who had not opted out received a telephone call from Opinion Leader.
 - Claimants were taken through a short questionnaire which was designed to check if they met the recruitment criteria detailed in 2.2.
 - Claimants who were willing to take part in the research and who met the recruitment criteria were invited to take part in the research.

4. The findings of the pilot¹⁴

4.1 Recruitment

The pilot sample was reduced by around half once opt outs, entries without telephone numbers and incorrect contact details had been removed. In the end, 49% of the pilot sample was available for recruitment for interview. This gave an indication of the extent by which Opinion Leader could expect the main stage sample to be reduced after the opt-out and data cleaning processes have been completed.

Where respondents answered questions honestly, the recruitment questionnaire used during the pilot study was effective for identifying changes experienced and tax credits reporting behaviour.

However, the pilot recruitment questionnaire was not successful at identifying non-reporters who were aware of their non-reporting (those who chose not to report a change of circumstance but were fully aware that they should). Furthermore, the pilot was not able to identify any late reporters (those who reported later than three months after the change occurred) from the pilot sample.

Given the limited success of the pilot recruitment questionnaire in identifying all the reporting behaviours the research needed to target in the main stage, Opinion Leader recommended that a proportion of the non-reporting group should be 'free found' at the main stage. The purpose of that was to try to avoid deterring non-reporting claimants, who may have been discouraged from taking part in the pilot by the recruitment screening process. Section 5.1 describes how the 'free find' process operated in practice.

4.2 Claimants who did not speak English

A high proportion of the pilot sample did not speak English well enough to complete the recruitment questionnaire. To address this problem and ensure that non-English speakers were not excluded from the main stage research, interpretation services provided by the company Language Line

¹⁴ Detailed findings of the pilot report can be found in the report by Opinion Leader, *HM Revenue and Customs, Researching reporting behaviour of tax credits claimants: Findings from the recruitment pilot*, December 2006

were used. By using Language Line, Opinion Leader recruiters were able to have a three-way conversation with claimants who do not speak English and a Language Line interpreter who would explain the research and go through the recruitment questionnaire.

4.3 The fieldwork materials

The pilot discussion guide and materials were effective tools for encouraging claimants to talk about their experiences and understanding of the tax credits system. These materials were therefore taken forward for use during the mainstage research.

5. Main stage

Mainstage recruitment followed the same steps as the pilot study. However, as detailed above, a number of aspects were refined in light of the pilot.

5.1 The recruitment questionnaires

It was pointed out earlier that the pilot found that the recruitment screening process had deterred some non-reporters from taking part in the research. To avoid this at the main stage, Opinion Leader recommended to ‘free find’ a proportion of the non-reporting group and a recruitment questionnaire to use with the ‘free find’ procedure was developed in addition to the one to be used with the standard main stage recruitment procedure.

- Simplified questionnaire – this questionnaire was used in conjunction with the ‘free find’ procedure. It asked claimants to confirm tax credits status and demographic details only. No questions were asked about any changes of circumstances experienced.
- Extended questionnaire – this questionnaire is based on the pilot questionnaire. In addition to the topics listed above, it also asked claimants about changes of circumstances experienced.¹⁵

¹⁵ It was expected that some claimants in the non-reporting group had experienced one or more changes of circumstances but did not report them, so the mainstage recruitment questionnaire was designed to try to identify these claimants.

(The recruitment questionnaires can be found in Appendix 2)

Recruitment of non-reporters

Half (12) of the non reporting group were recruited using the simplified questionnaire. This meant that, in essence, a 'free find' approach was used to recruit these people in the sense that Opinion Leader did not attempt to determine if they had experienced a change of circumstance at the recruitment stage but rather relied on the interview to obtain this information.

It was, without doubt, easier to recruit claimants from the non-reporting groups using the simplified questionnaire. The straight forward nature of the questions meant that claimants were less concerned or suspicious about the research and this enabled Opinion Leader to recruit people for interview very quickly.

The simplified questionnaire did not, however, enable Opinion Leader to identify at recruitment which, if any, changes had indeed been experienced. It was not possible therefore to target recruitment in terms of the quotas set. For this reason it was necessary to use the simplified questionnaire with a small proportion of the whole sample only.

Recruitment of late reporters

The pilot study had indicated that late reporters who reported changes later than three months after they occurred could be hard to identify. Indeed, Opinion Leader was initially unable to identify these people during pilot recruitment.

The definition of 'late' was therefore relaxed for the mainstage recruitment to include claimants who had reported changes within one month, as well as those who were vague about when they reported e.g. ' a short while afterwards', 'within a few weeks'. Although the revised definition is not in line with the three months period HMRC gives claimants to report a change of circumstances, it is in line with the HMRC administrative definition of 'late reporting', which is defined as from the day

after the change occurred. In addition, the revised definition enabled Opinion Leader to recruit claimants to the late reporting quota.

5.2 Recruitment quotas

The following quotas were set for recruiting people according to reporting behaviour:

On time reporting	Target
No adult in work, maximum CTC	3
In work, no children. WTC only	2
In work, less than max CTC, more than family element	3
In work, family element of CTC only or less	2
Total	10
Late reporting, no income change reported at finalisation	Target
No adult in work, maximum CTC	1
In work, no children. WTC only	2
In work, less than max CTC, more than family element	2
In work, family element of CTC only or less	2
Total	7
Late reporting and income change reported at finalisation	Target
No adult in work, maximum CTC	2
In work, no children. WTC only	2
In work, less than max CTC, more than family element	3
In work, family element of CTC only or less	3

Total	10
Non-reporting (no changes reported in previous 12 months)	Target
No adult in work, maximum CTC	6
In work, no children. WTC only	6
In work, less than max CTC, more than family element	6
In work, family element of CTC only or less	6
Total	24

To ensure that the research covered a mix of unreported changes of circumstances the following additional quota controls were set for the non-reporting group:

Changes across the non-reporting group:	Target
No material changes	4
Change in working status / hours	4
Change in income	4
Change in children	4
Change in child care	4
Change to household	4
Total	24

The research also aimed to obtain a varied mix of claimants across all tax credits and reporting groups. The following recruitment quotas were set as a guide to achieving this:

Across all tax credits and reporting groups	Target
Age 16-35	at least 10
Age 36 - retirement age	at least 10

Not working (receiving CTC only)	11
Working less than 29 hours per week	at least 10
Working more than 30 hours per week	at least 10
Working variable hours	at least 5
Self-employed	at least 5
Single person claimants	at least 15
Couple claimants	at least 15
English speaking claimants from Black, Asian or Minority Ethnic groups	at least 5
Non-English speaking claimants from Black, Asian or Minority Ethnic groups	at least 3
Men	at least 15
Women	30 - 35
Disabled	at least 3

It was agreed with HMRC that there could be a degree of flexibility in achieving the quotas across all tax credits and reporting groups. The priority for recruitment was to ensure, as far as possible, that quotas for reporting behaviour (on time, late and non reporters) were met. Those quotas were indeed met.

5.3 The main stage sample

The sample was drawn by HMRC in November 2006 from tax credits claimants living in three regions. The distribution of the sample by region was as follows:

- London – 504 claimants
- North West – 538 claimants
- North East – 532 claimants

Tax credits claimants were clustered into groups according to their tax credits claim, changes experienced and reporting behaviour in the 12 months before November 2006

Opinion Leader sought to minimise the amount of ‘unusable sample for the mainstage by recommending that the sample was drawn only from claimants for whom HMRC have telephone numbers. Nevertheless, a significant number of claimants’ telephone numbers were still incorrect on the mainstage sample. Opt-outs and incorrect contact details accounted for around ¼ of the mainstage sample.

5.4 The recruited sample

The following table sets out the numbers Opinion Leader were able to recruit in each of the reporting behaviour categories:

Tax Credits group	Reported on-time	Reported late	Non-reporter	No Change reported (possible non-reporter)
No adult in work, maximum CTC	1	2	4	4
In work, no children. WTC only	2	3	2	1
CTC>fam = in work, receives child tax credit more than the family element	1	6	1	3
CTC<=fam = in work, receives family element of child tax credit only or less	4	5	4	2
Disability element	1	3	0	0
Total	10	19	11	10

5.5 The interviewed sample

Given the potentially sensitive nature of the research and possible recall issues, it was anticipated that more detail would be obtained during the interview, which might mean that the respondent would ‘move’ between reporting categories. In other words, claimants might provide information during the interview that meant that the category they had been recruited to may no longer be appropriate. Looking at this movement and overlap between groups is key to understanding reporting patterns and behaviour and was therefore a facet of the project design, rather than a problem with the sample.

Following the interviews, we were able to discern reporting patterns much more clearly than was possible at recruitment. Based on what respondents shared with the interviewer, the sample included claimants in the following categories:

Grouping by number of changes of circumstance identified across all interviews (not individuals)	
• Reported within 3 months. Of which:	35
○ On the day or 7 days before	10
○ Within 1 month	22
○ Later than 1 one month and earlier than 3 months	3
• Reported later than 3 months	2
• Had a change to report and did not report it	19
• No change to report	1

The numbers in these categories do not add up to the number of interviews conducted (50) due to one or more of the following reasons:

- Respondents disclosed information, during the interview, about other changes of circumstances which were not identified during recruitment.
- Respondents in the sample had experienced more than one change of circumstance within the 12-18 month period. In some cases, all changes were reported, in others, some or none were reported, or some were reported on time and others were reported late.

5.6 Overcoming language barriers

As pointed out earlier, Language Line was used to provide interpretation support at recruitment. Whilst this method has successfully enabled a number of non-English speaking claimants to

complete the recruitment questionnaire, none of them were subsequently recruited. Most of the non-English speakers simply did not want to take part and one woman was not given permission to by her husband. This indicates that there were likely to be other cultural barriers that hindered the recruitment of non-English speaking participants to this research and these were not overcome by using an interpreter.

6. Discussion guide and fieldwork approach

The discussion guide was designed to enable participants to talk freely and honestly about their experiences. The discussion guide was developed, in collaboration with HMRC, which:

- Provided claimants the opportunity to 'off load' their negative thoughts about tax credits up front;
- Asked straight forward questions about claimants' circumstances, the changes of circumstances they experienced, and their understanding of the tax credits system;
- Used enabling and projective techniques (for example, time line tool and scenarios) to help uncover the motivations behind reporting behaviour.

In addition to straight forward questions, the discussion guides also contained scenarios used during the interviews and discussion groups to stimulate discussion. The scenarios were introduced to participants as hypothetical examples of tax credits claimants who had experienced various changes of circumstance. Participants were given time to consider the scenarios and were asked to give their top of mind thoughts about the hypothetical situation without any input from the moderator. This ensured that participants' genuine, spontaneous reactions were captured. The discussion guides and other fieldwork materials can be found in the appendices.

The discussion guide and materials used proved to be effective in identifying changes experienced and exploring claimants' understanding of what changes of circumstance need to be reported and

when. As mentioned earlier, these were designed and tested (and found to be effective) during the pilot stage. However, different scenarios were introduced about half way through the mainstage interviewing. By that point the research team had a good sense of participants' understanding of the original scenarios and therefore wanted to introduce some new scenarios (which covered different areas of understanding) to enable us to have a wider understanding of participants' views on as broad a range of changes of circumstance as possible.

7. Analysis

All interviews were recorded and transcribed. The transcripts were then analysed using Atlas Ti qualitative analysis software. This tool enabled the systematic analysis of data across and between tax credits reporting groups and behaviours.

Appendix 2: Recruitment questionnaire

RECRUITER INSTRUCTIONS

Before calling, please fill in enter and note the group code of the person you are calling. The code is based on the following table and can be found on the sample list.

Group code:

CALL SCRIPT/ QUESTIONNAIRE

Good morning/ afternoon/ evening. I am ____ from Opinion Leader Research, and we are conducting a research project on behalf of HM Revenue and Customs, formerly known as the Inland Revenue.

You should have received a letter from us in the last 2 weeks telling you a little bit about the research. We are hoping to carry out discussions with people who receive tax credits, to talk about their experiences of the tax credits system. This conversation would be very informal and would be carried out face-to-face.

The discussion would last around an hour, and in accordance with the Market Research Society's Code of Conduct would be completely confidential. None of the information people share with us during the interviews will be reported back to HM Revenue and Customs in a way in which their identity would be revealed.

If you were to take part, Opinion Leader Research would give you £35 in cash at the end of the interview, to thank you for your time.

We need to check that we are speaking to the right people to take part in this research by asking some quick questions about you first. This is for the purpose of research only and any information given to us about you as an individual or your family is treated as strictly confidential and will not be passed to HMRC. If there are things you want to talk to HM Revenue and Customs about after our conversation, I can give you their helpline number when we have finished. It should only take a few minutes. Don't worry if you are not entirely sure of the answers. Just tell me what you think the answers might be off the top of your head. Can I just check:

Q1 Do you or any members of your immediate family work in any of the following areas, either in a paid or unpaid capacity?

A	Journalism/the media	1	THANK AND CLOSE
B	Advertising	2	
C	Public relations (PR)	3	
D	Market Research	4	
E	HM Revenue & Customs	5	
F	Department of Work and Pensions	6	
G	No, none of these	7	CONTINUE

Q2. Can I just check what kind of tax credit your household receives? Do you receive: [Tick box]

Working tax credit only		Go to Q3
Working tax credit and child tax credit		Go to Q3
Child tax credit only		Go to Q3
Not sure		Re-confirm that they are receiving tax credit of some kind and continue to Q3
Don't receive any tax credits		CLOSE

Q3. And are you claiming tax credits as an individual, or as part of a couple?

As a couple	
As an individual	

IF CLAIMING AS A COUPLE, ASK Q4.

IF CLAIMING AS AN INDIVIDUAL, CONTINUE TO Q5

Q4. Are you the person who deals with tax credits in your household [Recruiter note: for example manages all the relevant tax credits paperwork]?

Yes	
No	

IF YES, GO TO Q5

IF NO, ASK FOR REFERRAL TO THE RELEVANT PERSON. EITHER CONTINUE TO Q5 IF THEY ARE PRESENT OR ARRANGE CALL-BACK.

Q5. ASK ALL

Can you tell me which of the following statements best describes your current work status?

[WHERE RELEVANT] And which best describes the current work status of your partner?

	You	Your partner
I am currently not working		
I work 29 hours or less per week		
I work 30 or more hours per week		

IF IN WORK ASK Q6

IF NOT IN WORK CONTINUE TO Q10

Q6. Do you think your working hours per week – just on average – have changed at all in the last 18 months?

[WHERE RELEVANT] And have your partner’s weekly working hours changed at all in the 18 months?

	You	Your partner
Yes		
No		

Q7. Does the number of hours you work vary from week to week or from month to month or not at all?

[WHERE RELEVANT] And does the number of hours your partner works vary from week to week or from month to month or not at all?

	Yes weekly	Yes monthly	Not at all
You			
Your partner			

Q8. Are you self-employed?

Yes	
No	

Q9. Have there been any changes to your income in the past 18 months?

[WHERE RELEVANT] And have there been any changes to your partner’s income over the past 18 months?

	You	Your partner
Yes		
No		

**CHECK RESPONSE TO Q2
 FOR THOSE CLAIMING CHILD TAX CREDIT GO TO Q10
 FOR THOSE CLAIMING WORKING TAX CREDIT ONLY, CONTINUE TO Q13**

**IF NOT SURE WHICH TAX CREDIT, ASK FIRST:
 Do you have any children?**

Yes	GO TO Q10
No	GO TO Q13

Q10 Now I would like to ask a few questions about your family. Have there been any changes to your circumstances with regards to your children in the past 18 months – for example a child has left full time education or has left home?

	Write in change
Yes	
No	

**Q11. NOT APPLICABLE IF UNEMPLOYED – GO TO Q13.
 Do you currently pay for any childcare for your child/ children?**

Yes	
No	

**IF YES, GO TO Q12
 IF NO, GO TO Q13**

Q12. Do you know if these costs have changed at all in the past 18 months?

Yes	
No	

Q13. Can you tell me which statement best describes what your household is like?

I am the only adult in my household	
-------------------------------------	--

I am married and we live together (Note to recruiter: same-sex couples with civil partnerships fall into this category too)	
I live with my partner but we are not married	
I live with my partner but we are not formally living together	

Q14. Has this changed at all in the last 18 months?

Yes	
No	

Q15. Have you ever told HMRC about any changes to you or your partner’s personal circumstances? This includes any changes that you may have told HMRC on your renewals form/when you renewed your claim? [Recruiter prompts: such as a partner moving in/out, you or your partner starting a new job, a salary increase for you or your partner, a child leaving school, having (another) child?]

Yes	
No	

**IF YES, RECORD CHANGE IN CIRCUMSTANCES BELOW AND ASK Q16
IF NO, ASK Q17**

Q16. Can you recall how soon you told HMRC about this after the change occurred?

[Recruiter prompts: before or on the day of the change; about one month after the change; within 3 months of the change; more than 3 months after the change; when a renewal pack was received]

RECORD BELOW

Q17. And finally, this last question refers to how you feel about organising the household finances. Can you please tell me which of the following statements you agree and disagree with. [RECRUITER NOTE: THIS INFORMATION IS FOR MONITORING PURPOSES ONLY]

	Agree	Disagree
I know what benefits/ Tax Credits I am entitled to		
I am generally organised and on top of things		
I tend to switch off when it comes to working out my money		
When I have to deal with something I don't completely understand, I actively look for extra information to help me out		

Can you also please tell me your age?

Record a

**And how would you describe your ethnicity?
RECORD ETHNICITY**

Black African	
Black Caribbean	
Black British	
Black other	
Indian	
Pakistani	
Chinese	
Asian Other	
White British	
White other	

**Would you describe yourself as disabled?
[WHERE RELEVANT] And would you describe your partner as disabled?**

	You	Your partner
Yes		
No		

RECORD GENDER

Male	
------	--

Female	
--------	--

AT THE END OF QUESTIONNAIRE:

Thank you for answering these questions. Someone from Opinion Leader may call you back within the next few days to arrange an interview with you. The discussion would be about your experiences of the tax credits system and would be between you and someone from Opinion Leader. It would be carried out in the strictest confidence and we will not pass any information to HMRC which could identify you individually.

Are you happy for someone to possibly call you back within the next few days, to arrange a time for the interview?

Yes	
No	

IF PARTICIPANT DOES NOT FIT RECRUITMENT CRITERIA OR DOES NOT WANT TO BE CALLED BACK PLEASE THANK AND CLOSE, REMINDING RESPONDENT THAT ANY INFORMATION THEY HAVE GIVEN US IS STRICTLY CONFIDENTIAL

IF PARTICIPANT IS CALLED BACK:

RECORD PARTICIPANT DETAILS

NAME(S):	
ADDRESS:	
TEL NOS:	
APPOINTMENT DETAILS:	

RECORD DETAILS OF INTERVIEW LOCATION

Home address (as above)	
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Other (please enter details)	
------------------------------	--

We will send you a letter to confirm the time and details of the interview. Thank you for agreeing to participate and we look forward to meeting you. I would just like to remind you again that any that any information given to us in this phone call about you as an individual or your family is treated as strictly confidential and will not be passed to HMRC.

PLEASE COMPLETE QUESTIONNAIRE SUMMARY

Details of any change in circumstances

--

Was the change reported?

Yes	
No	

When was the change reported?

--

Appendix 3: Depth interview discussion guide

PURPOSE:

The overall aim of the interview is to establish reporting behaviour and reasons for this [see attached note]. This research will help HMRC to understand and address late and non-reporting amongst some tax credits claimants. More specifically, the objectives of the interview are to:

- Examine understanding of the system (mandatory reporting and implications of late/ non reporting)
- Examine reasons for reporting/ non reporting
- Explore barriers and triggers to reporting
- Identify what would help to improve understanding of the system and ultimately what would result in more compliant reporting behaviour

CHECK LIST:

- Monitoring info from recruitment, participant ID, consent form, HMRC literature (helpline etc), timeline, scenarios, options for prioritisation exercise, post-it notes, incentive signing sheet.
- Restate the importance of honesty throughout. Remind participants, where necessary, that we are not looking to catch people out – we're looking for truth as far as possible rather than what participants think they should say or should have done. We are interested in their responses for the purposes of research only – we will not/ cannot tell HMRC about their individual case.

1. INTRODUCTION (10 minutes for introduction, warm up/about you and off loading)

- Introduction
 - HMRC have commissioned Opinion Leader to talk to a number of tax credit claimants to talk about experiences and understanding of the tax credits system and how tax credits can be improved
- Explain how long the interview will be (1 hour)
- Assure confidentiality and anonymity – COMPLETE CONFIDENTIALITY FORM
- Assure that Opinion Leader is independent from HMRC
- Ask permission to tape interview
- Encourage honesty
- Remind that there are no right or wrong answers – it's not a test!

2. WARM-UP/ ABOUT YOU

To get the participant talking

- To start off, can you tell me a bit about yourself?
 - If they work – what they do for a living – do they enjoy it, how long they have been working there, etc
 - If they don't – ask about their kids
 - Ask what they would normally be doing if they weren't taking part in this interview
 - Make general conversation about them

- In order to understand your specific situation, it would be helpful if we could go through this short questionnaire on your current circumstances. [PROVIDE REASSURANCES ON CONFIDENTIALITY AGAIN]
 - USE ATTACHED QUESTIONNAIRE – ENTER PARTICIPANT ID

3. OFFLOADING

To give the participant space to off-load any issues/ complaints they have about the tax credits system

- As you know, we are interested in talking to tax credits claimants about their understanding of the tax credit system. Before we get on to that in more detail, can you tell me first of all, what comes into your head when you think of tax credits?
 - What do 'tax credits' conjure up for you?
 - What words/ thoughts/ images do you associate with tax credits?
- How would you describe your experience of tax credits?
 - Why do you say that?
 - We are really interested in hearing the views of tax credit claimants. Before we continue with the rest of the interview, is there anything you would really like to say about your experience of claiming tax credits? [GIVE PARTICIPANT TIME TO COMPLAIN/ TALK THROUGH ISSUES THEY HAVE WITH TAX CREDITS IF THEY WANT TO]

3. UNDERSTANDING OF OWN CLAIM (5 minutes)

To explore respondents' spontaneous awareness and knowledge of Tax Credits

- What kind of tax credits do you get?
 - Probe for WTC and CTC

- How long have you been claiming this/ these tax credit(s)?
- Has the amount of tax credit you receive ever changed?
 - If yes, probe for what the change was
 - What do you think might have caused it to change?

4. THE PREVIOUS 12-18 MONTHS (5 mins)

- I'd like you to think about any changes that may have happened in your household over the last year & a half or so. [USING TIMELINE TOOL]
 - Looking back 12-18 months ago, is there anything about your circumstances which is different now to what it was then?
[PROMPT ON THE FOLLOWING POSSIBILITIES: A PARTNER MOVING IN/OUT, YOU OR YOUR PARTNER STARTING A NEW JOB, A SALARY INCREASE FOR YOU OR YOUR PARTNER OR CHANGE IN HOURS WORKED, A CHILD LEAVING SCHOOL, HAVING (ANOTHER) CHILD, CHILDCARE COSTS, CHANGE OF ADDRESS, BANK DETAILS, OTHER BENEFITS]
 - [DO THIS FOR WHOLE YEAR. TRY TO DO MONTH BY MONTH. USE KEY EVENTS, LIKE THE WORLD CUP, TO HELP RECALL PARTICULAR TIMES OF YEAR AND WHAT THEY MIGHT HAVE BEEN DOING THEN]
 - [WHERE RELEVANT] Is that something you told HMRC about? **[Interviewer note – clarify that participant contacted the Tax Credits office about this change and not another HMRC office]**
 - If yes, why?
 - If no, why?
 - If change of income is mentioned, probe for whether the amount affected whether they did/ did not tell HMRC
- Check for understanding of renewal form date as changes are discussed [BETWEEN APRIL AND AUG]
 - Probe for awareness of how often HMRC does this: once per year, at the end of each tax year, at any time throughout the year when a change is reported
 - Probe for awareness of renewal form
 - Probe for whether they know if their claim is renewed automatically [CLAIMANTS WHO RECEIVE THE FAMILY ELEMENT ONLY OF CTC OR HAVE A NIL AWARD AUTOMATICALLY HAVE THEIR CLAIMS RENEWED]

5. FINANCIAL MANAGEMENT AND TAX CREDITS (5 mins)

- This next section is about your household budget. I don't need you to give me figures – we are just interested in how you organise your household budget.
- Would you say that you tended to budget on a monthly or weekly basis?
 - Why is this? [Probe for impact of pay/ benefit day]
- How would you say you generally pay for things? By cash, Direct Debit, debit card, credit card, stamps from the post office, etc
- What do you currently use your tax credit award to cover?
 - Probe for everyday necessities or 'extras'
- What sort of contribution do tax credits make to your overall household income
 - Probe for how reliant they are on the tax credits
- Have you ever not received a tax credits payment, or had one paid late, for some reason?
 - Probe for the impact of this
- What difference would it make if you didn't have tax credits?
- When we called you to arrange this interview, you said that:
[FROM RECRUITMENT SCREENER - *I know what benefits/ Tax Credits I am entitled to; I like to be organised and on top of things; I tend to switch off when it comes to working out my money; When I have to deal with something I don't completely understand, I actively look for extra information to help me out*]
 - Can you tell me a little bit about why you said that?

6. AWARENESS OF TAX CREDITS (10 minutes)

- Let's pretend I have just landed from Mars and I've been sent on a mission to find out all about tax credits. If I asked you how HMRC decide who gets tax credits, what would you say [THIS IS ABOUT BASIC ELIGIBILITY RATHER THAN AMOUNT]
- And what would you say if I then asked you how HMRC would work out how much tax credit I should get?
 - Probe for income, number of children, childcare costs, working hours, household (single/ couple), disability

- What makes you say that
 - based on own claim
 - based on information I have seen/ read
 - based on what others have told me
 - off the top of my head
- What role do you think individual claimants play in establishing the amount of tax credits they receive?
- And what role do you think HMRC play in establishing the amount of tax credits people receive?

7. SCENARIOS (10 minutes)

- Read through and discuss each pen-portrait and ask the following:
 - What are your immediate reactions to this person's story?
 - Do you think they should tell HMRC? Why/ why not? [Probe for whether they think they should report to HMRC or another department/ agency such as Department for Work and Pensions or Jobcentre Plus]
 - If yes, when should they tell HMRC? Does it matter when? Why/ why not?
 - What do you think would happen if they did/ did not tell HMRC?
 - What would you do in their shoes

8. NOTIFYING HMRC OF CHANGES IN CIRCUMSTANCES (10 MINUTES)

To understand what participants know about reporting changes to HMRC

Re-introduce timeline at this point to confirm details/ make changes

Note that this section deals with reporting behaviour throughout their time as a tax credit claimant and not just the last 12 months

[Restate confidentiality for this section]

CHANGES THAT MUST BE REPORTED

- Just off the top of your head, can you think of any changes in circumstances which you must report to HMRC?
- You have mentioned [ENTER]. Do you think you have always had to report these changes?
 - probe for awareness of 'new' changes from November 2006
- The following are changes in circumstances which MUST be reported to HMRC:
 - changes in adults heading the household
 - cost of childcare changes
 - leaving the UK (them or their partner if couple claim)

- AND, from November last year, the following must also be reported
 - not working for at least 16 or 30 hours a week
 - no longer being responsible for a child
 - children are no longer eligible (they are aged 16-19 and not in full time education)

ASK FOR BOTH SETS OF CHANGES PRE NOVEMBER 2006 AND POST

- [IF AWARE OF ANY OF THESE] How did you know that this/ these changes of circumstances need to be reported? [PROBE FOR AWARENESS OF TV, RADIO AND ON-LINE CAMPAIGNS]
- [IF AWARE OF CHANGES FROM NOVEMBER 2006] How did you know this?
 - Probe for awareness of TV, radio and on-line campaigns
- Do you recall if you received any information about these additional changes that, from November last year must also be reported?
- Have you ever experienced any of these changes? [RE-INTRODUCE TIMELINE IF APPROPRIATE]
- Have you ever reported any of these of changes of circumstances to HMRC before - either during the year or when you renewed your claim [APRIL –AUGUST. NOTE if discussing 2004 renewal period was April- September]?
 - Probe for whether they have reported these changes to anyone else (either instead of or as well as HMRC) such as Jobcentre Plus/ DWP/other parts of HMRC [NOTE ANY CONFUSION OVER THIS E.G. ASSUMPTIONS THAT REPORTING TO ONE BODY IS SUFFICIENT]
- When did you report them? [NEED TO IDENTIFY, AND ENTER ON TIMELINE, WHETHER ON OR BEFORE THE DAY OF THE CHANGE, WITHIN THREE MONTHS OF THE CHANGE, BUT NOT TELL RESPONDENT ABOUT DEADLINE SO WE CAN EXPLORE IF THEY KNOW THE TIMINGS LATER]
- How did you report them (to HMRC)?
 - Probe for telephoning, writing [SPONTANEOUS ONLY: e-portal]
 - Probe for whether they knew what to do/ how to report or whether they found out/ guessed.
- [IF DIDN'T REPORT BUT AWARE THAT THEY SHOULD HAVE] Why did you not report this/ these changes of circumstances?

- Probe for lack of awareness of implications/ 'burying their head'/ fear of implications/ dependency on level of tax credit award/ lack or recognition that this rule would apply to them specifically in their specific case
 - Probe for extent to which this was a conscious and deliberate decision
- As I mentioned earlier, from last November, HMRC now requires that tax credit claimants report:
 - not working for at least 16 or 30 hours a week
 - no longer being responsible for a child
 - children are no longer eligible (they are aged 16-19 and not in full time education)
 - Why do you think this new rule about reporting changes of circumstances to HMRC was introduced?
 - What do you think about having to report these additional changes in circumstances?

TIMING OF REPORTING

- We've discussed changes that **MUST** be reported. We are now going to talk about when these changes of circumstances should be reported to HMRC.
- Just off the top of your head, when do you think changes in circumstances should be reported to HMRC?
 - Why do you say that?
 - Probe for:
 - When the renewal form comes through
 - Within 3 months of the change
 - Within 30 days of the change
 - As soon as possible after the change occurs
- Do you think it is more important to report some changes in circumstance sooner than others?
 - Probe for whether they think there are changes of circumstances that must be reported when they happen and other changes that need only to be reported at renewals.
 - Why do you say that?
- Thinking back to the first 3 changes of circumstances that I mentioned which have always had to be reported to HMRC. [CHANGES IN ADULTS HEADING THE HOUSEHOLD, COST OF CHILDCARE CHANGES, LEAVING THE UK], have you ever reported these but reported them later than within 3 months of the change taking place?
 - If yes, why? Was this reported at renewals?
 - Probe for whether some changes were deliberately reported late.

- If a conscious decision was made probe further to find out what informed this decision and ask which changes did they decide to report in year and which at the end of the year and why i.e. what drove them to make this decision
- From April 2007, all 6 changes in circumstances which MUST be reported to HMRC will need to be reported within 30 days of the change taking place. Currently, it is required that changes be reported within 3 months of the change(s) taking place.
 - Did you know about the 3 month rule?
 - Do you know about the forthcoming change making this 30 days?
 - How did you know this? HMRC information/ word of mouth/ proactively found out/ other?
- Why do you think that HMRC wants to reduce the period of time in which changes of circumstances should be reported?

USEFUL TO REPORT BUT NOT ESSENTIAL

- There are a number of other changes of circumstances which it would be useful for you to report to HMRC as close to when they occur as possible. [NOTE: PEOPLE ARE REQUIRED TO REPORT ALL CHANGES OF CIRCUMSTANCES AT RENEWALS] Do you know what these might include?
 - [TOP OF MIND FIRST THEN PROBE]
 - Income
 - Change in other benefits
 - Change of bank details
 - Change of address
- Have you ever reported any of these of changes of circumstances to HMRC (or Inland Revenue) before?
- [WHERE RELEVANT] When did you/ did you not report this?
 - Probe for during the year or when you renewed your claim [APRIL –AUGUST. NOTE if discussing 2004 the renewals period was April-September]?
- [WHERE RELEVANT] Why did you/ did you not report this?
 - Probe for whether they thought they had to/ knew they didn't have to
 - [IF DID NOT REPORT A CHANGE IN INCOME] probe for reasons:
 - amount too small/ income disregard
 - waiting until the end of the year when tax credits claim is finalised
 - Probe for whether they have reported these changes to anyone else (either instead of or as well as HMRC) such as Jobcentre Plus/ DWP /other parts of HMRC [NOTE ANY CONFUSION OVER THIS E.G. ASSUMPTIONS THAT REPORTING TO ONE BODY IS SUFFICIENT]

- How did you report (to HMRC)?
 - Probe for telephoning, writing [SPONTANEOUS ONLY: e-portal]
 - Probe for whether they knew what to do/ how to report or whether they found out/ guessed.

VIEW OF REPORTING CHANGES TO HMRC

- How easy do you think it would be/ was it to report changes of circumstances to HMRC?
- What would you do/ did you do (call, write, using internet)?

9. ATTITUDES TO REPORTING CHANGES (5 mins)

- Who should keep track of changes in circumstances and/ or income?
 - Probe whether they think it is them or the HMRC
 - Probe for what impact the renewal form process has on their view
- Who do you think the responsibility lies with to get your tax credit claim right?
 - Probe for what they think the balance is now and what they think this *should* be
- How important do you think it is to report changes to HMRC?
 - Probe again whether they understand that changes in circumstance and/or income could affect both their eligibility to receive tax credits and the award itself and may lead to an overpayment
 - Probe around if they didn't understand that awards were responsive, does their attitude towards reporting any changes, and reporting changes on time, change when they know this
 - Probe around their attitude towards reporting changes that *must* be reported compared to those which *should* be reported – do they consider it important to report all changes regardless of whether they are changes which they must or should report and whether they affect the amount of award or not?
- How important do you think it is to report changes in circumstances to HMRC?
- Do you think it is as important as dealing with other financial matters.
 - Probe around paying bills, getting overdrawn at the bank, paying credit cards, benefit applications, paying tax, etc.

10. IMPLICATIONS OF LATE/ NON-REPORTING (5 mins)

- What do you think might happen if changes in circumstances are not reported to HMRC?
 - What makes you say that?
 - Probe for HMRC paying out too much and paying out too little
 - Probe for what they know about this and how they know it

- What do you think might happen if changes in circumstances are reported to HMRC, but are reported late?
 - Why do you say that?

- One of the benefits of reporting on time is that people are less likely to receive an over/underpayment. If changes are not reported people could receive more or less money than they should. If they receive less, this can be backdated for up to three months. Are you aware, however, that people can be asked to pay back tax credit money when HMRC have paid them too much tax credit?
 - If yes, do they know how they are paid back? [WITHIN YEAR OR AT THE END OF THE YEAR]
 - Where did they get this information from?
 - Do they think this is fair?

11. **WAYS FORWARD (5 mins)**

- What support and advice have you used/ would you use to help you with your tax credits claim?
 - Probe for HMRC and non HMRC support, what was good/could be better about each

- What do you think should be done to encourage people to report on time?
 - Probe for what would motivate them [RELEVANT CASES ONLY]

- What would you do to help people report changes of circumstances, within the right time frame, in the future? What would you do if you were in Government?
 - Discuss options: e.g. options that they could do and options that HMRC could do
 - Sending letters (outside the renewals period) reminding people about reporting changes of circumstances to prompt them to report changes
 - On the renewals form, listing the changes people have reported over the year to check that their circumstances through the last year were correct.

ASK IF THEY WOULD BE WILLING TO TAKE PART IN FUTURE RESEARCH WORKSHOPS

THANKS, INCENTIVES AND CLOSE

[REMINDE PARTICIPANTS THAT WE WON'T BE PASSING INFO TO HMRC – E.G. “CAN I REASSURE YOU THAT THE INTERVIEW IS CONFIDENTIAL AND NOTHING YOU HAVE SAID WILL BE REPORTED TO HMRC IN A WAY THAT COULD IDENTIFY YOU. IF YOU WANT TO SPEAK TO HMRC ABOUT ANYTHING THE HELPLINE NUMBER IS 0845 300 3900]

PARTICIPANT ID:

QUESTIONNAIRE

Note: For Opinion Leader research purposes only

Record gender:

Male	
Female	

1a. What is your current employment status?

Employee	
Self-employed	
Not working	
Looking for work	

1b. And how many hours a week do you work on average?

0-15 hours	
16-29 hours	
30 hours or more	

2a. What is your partner's current employment status?

Employee	
Self-employed	
Not working	
Looking for work	

2b. And how many hours a week do they work on average?

0-15 hours	
16-29 hours	

30 hours or more	
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3. What is your family status?

Single	
Married/living with partner	
Widowed	
Divorced/separated	
Other	

3. How many children do you have living at home who are financially dependent on you?

0	
1	
2	
3	
4+	

4. How old are your children?

	Child 1	Child 2	Child 3	Child 4	Child 5
0-5					
6-10					
11-15					
16-18					

5. Are they:

	Child 1	Child 2	Child 3	Child 4	Child 5
In full-time education					
In full time advanced education e.g. A levels					
Left full time education and has no job					

Left full time education and has no job but has registered with Careers Office/Connexions					
Left full time education and has a job					

6. Have any of the above changed in the past 12 months, even temporarily? (write below)

Appendix 4: Focus group discussion guide

1 INTRODUCTION/WARM UP (10 mins)

- Introduce Opinion Leader and outline the purpose of the research
- Paired introductions

2 TOP OF MIND FEELINGS (10 mins)

Participants are given a few minutes to talk about their top of mind feelings (positive and negative) about tax credits. This will also give people an opportunity to share and offload any negative experiences, which might otherwise dominate the discussion.

- Participants are asked to close their eyes and think about all the things that come to mind when they hear the words 'tax credits' – probe for what words, images, feelings come to mind

3 EXPLORATION OF TAX CREDITS KNOWLEDGE (20 mins)

This section seeks to gain insight into participants existing knowledge of the tax credits system and reporting changes of circumstance. It aims to explore further some of the confusion surrounding reporting changes of circumstance which became evident during the in-depth interviews, such as how awards are calculated and what changes should be reported and when.

- How knowledgeable do participants feel they are about tax credits in general?
 - How confident are you about your knowledge of the tax credits system?
- Participants are divided into 3 groups and asked to discuss and agree the following:
 - What factors are taken into account to decide who gets tax credits and who doesn't
 - How HMRC decides how much tax credit people actually get – what factors affect this?
 - Each group feeds back their points
- Group discussion on how often tax credit amount is reviewed
 - When do you think HMRC review tax credit amounts?
 - Probe for whether participants think it is when circumstances change or annually at renewals – do they think working out tax credits is done once a year or do they perceive it as being a continuous process?
- Group brainstorm about which changes of circumstance are important to tell HMRC about
 - Flip chart responses and discuss why it is important that HMRC are told about these changes – probe for what impact reporting/non-reporting will have
- In terms of reporting changes of circumstance, what do you think HMRC ask people to do with respect to changes in:
 - Income*
 - Working hours*
 - Children and childcare*
 - Adults living in the household*
 - When should these be reported to HMRC?
 - Should some be reported as soon as they occur and others at renewals? Why? What difference does this make?

- Probe around income and hours average for the year – do people think HMRC works out their award by taking an average of their income and/or hours worked and therefore only report these kinds of changes once a year at renewals?

4 TAX CREDITS GAME (30 mins)

The purpose of this section is to investigate participants' perceptions about the roles and responsibilities of HMRC and claimants with respect to reporting changes of circumstance and the implications of late/non reporting. We will ask participants to look at 4 scenarios which will be linked to the customer type groups identified in the depth interviews. Participants will consider the scenarios from the point of view of the tax credit claimant and be encouraged to think about what they would do in that situation.. We will also look at what actions/support participants think would be effective for dealing with the 4 scenarios. Participants will be asked to consider what they think the most effective service options would be in this situation, and which options they think the claimant would prefer and which they think HMRC would prefer to be used. Looking at the scenarios from two different points of view will enable participants to think beyond their own circumstances and help to generate broader ideas which are based on the roles and responsibilities of both claimant and HMRC.

Groups exercise (15 mins)

- Participants are divided into 2 groups. Each group is given 2 different scenarios, based on the customer type groups.
- Each group first discusses each scenario, exploring, broadly, the following questions and making a note of their responses to feedback to the group later:
 - What are your initial thoughts about this scenario?
 - What would you be *thinking/feeling* about this if you were the claimant?
 - What would you *do* in this situation if you were the claimant?
 - What kinds of things could be done to help the claimant in this situation? what would make it easier for them / how could they be encouraged to report changes of circumstance?
(Participants are given blank cards to write their suggestions on)
- Once both scenarios have been considered, we will give participants a set of cards of hypothetical service options.
- The group looks again at each scenario and decides which service options they think would be most effective in that situation and which options should be prioritised from the point of view of HMRC and the claimant.

Feedback to group (15 mins)

- Each group presents their scenarios and the group discusses as a whole:
 - What are your thoughts/feelings about this scenario?
 - What would you actually do if you were in the position of the claimant / HMRC in this situation?
 - Which of the options do you think would be best in this situation?
 - Why? Probe for how would this help the claimant / HMRC?
 - Probe for participants own suggestions for service options

5 WAYS FORWARD (20 mins)

This section will allow participants to discuss the service options in more details and to summarise their feelings about the ways in which HMRC could help and support claimants to report change of circumstance in a timely manner.

- General discussion about service options (if not already covered above):
 - How do you feel in general about the different ways people could be supported to report changes of circumstance that we have just looked at?
 - Probe for which options people think would be more/less effective and why
 - Probe for whether participants think certain options are more suitable for some people and not others, and why

 - How do you feel about reporting changes of circumstance that are relevant to different benefits to one department only rather than two or more? (as in Option E)
 - What advantages / disadvantages can you see in doing this?
 - Probe for any different perceptions of Tax Credits administration compared to Child Benefit administration
 - Are there certain changes you would always want to contact the individual departments about directly (so that you report the change more than once)? Why is this?
 - If you were able to report changes of circumstance to one place only, how do you think HMRC should communicate to customers that this is happening?
 - Should customers be explicitly told when they report the change that other departments will be informed?
 - Should customers be asked when they report the change whether or not they want the changes to be applied to any other relevant departments?
 - Should the changes be applied to all relevant departments automatically?

- What other things do you think would help you and others to report changes of circumstance to HMRC on time?

If information is suggested as a solution:

- What kind of information would help?
- How should this information be delivered?
- What are the key messages it should convey?
- In what way would this help?
 - Probe for information needs e.g. about eligibility; how amounts are calculated; what changes need to be reported and when; what the implications of late/non reporting are; etc
 - Would this help you in particular? Why do you say that?
 - Probe for what impact it would have on their own reporting behaviour and, hypothetically, that of others

- HMRC currently gives information to claimants about what to report and when through a variety of ways. Why do you think this might not have been effective for some people?
 - Probe around: limited recall of info (which we know from depths), not enough detail, messages not clear, etc
 - Probe around what works and for who

- Probe around what else is would help, beyond “more information”. Probe around support needs and balance between proactive reporting and reactive reporting to reminders/ letters.
- What final piece of advice would you give to HMRC about how they should help and encourage people who receive tax credits to report changes of circumstance on time?