



Research to explore the feasibility of collecting in-year estimates of income from tax credits claimants

A Report for:



Presented by:

GfK NOP

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Glossary

WTC	Working tax credit
CTC	Child tax credit
Plateau	Where families are receiving the family element of CTC only
General Estimates	Respondents were asked to provide overall estimates of their household income, without being asked to consider each specific element of how their income is made up. This was collected as a 'range' and then as an overall specific amount either annual or for a typical month. e.g. what was your overall <u>household</u> income for the last year April 2005-March 2006?
Detailed Estimates	Respondents were asked to provide estimates for each element that their household income comprises and for each claimant in the household e.g. overtime; basic salary for each job; other income, such as savings
Type of tax credit claimant (as defined on HMRC database)	<ul style="list-style-type: none">▪ WTC only (<i>Working tax credit only</i>)▪ WTC and CTC (<i>Working tax credit and Child tax credit</i>)▪ CTC only - plateau or less (<i>Child tax credit only households receiving the family element or less of tax credits</i>)▪ CTC only - > plateau single (<i>Child tax credit only households with a single claimant receiving more than the family element of tax credits</i>)▪ CTC only - > plateau joint (<i>Child tax credit only households with joint claimants receiving more than the family element of tax credits</i>)▪ Self-employed (<i>Households with self-employed claimants</i>)▪ Not employed (<i>Households with unemployed claimants</i>)
Fixed income	The amount of income received each month is the same
Variable income	The amount of income received each month varies. This generally occurs where claimants are self-employed, work variable hours each month or receive other income which is not the same each month

1 Research Summary

1.1 Background and Objectives

HM Revenue and Customs (HMRC) introduced Working Tax Credits and Child Tax Credits in April 2003. Since then, take-up rates of tax credits have been high, with over 6.1 million families benefiting from them in April 2006.

The assessment of tax credit entitlement is based on the claimant's income from the previous year (and in some cases the previous year's income minus one year, PY-1), which means estimates of income for the current award may be very different from the actual income of the claimant. In order to have more up-to-date information, in the 2005 Pre-Budget Report, the Chancellor announced that HMRC will contact key groups of tax credit recipients to ask them to provide estimates of their household income prior to the end of the tax year, that is, 'in-year'.

HMRC commissioned GfK NOP to conduct a programme of research to investigate how feasible it is for tax credit claimants to provide HMRC with accurate information of their income to date, prior to receiving their P60s at the end of the tax year.

The **main purpose** of this research was to provide evidence to assist in the understanding of claimants' ability to provide estimates of household income and to determine the accuracy level of estimates. In addition, evidence was needed from the research to inform possible operational options for the collection of estimates.

More specifically, the overall objectives of the research were:

- To explore whether tax credit recipients **are willing and able** to provide an in-year estimate of their household income.
- To assess the **accuracy** of claimants' in-year estimates by re-contacting claimants to verify estimates using actual information extracted from claimants' P60s.
- To explore whether there are problems for **particular groups** of the tax credit population who may find it difficult to provide an estimate. For example, the self-employed, those with variable hours, etc.
- To explore **which questions** should be used to obtain in-year estimates.
- To assess whether estimates can be collected using **different modes** and whether the level of accuracy of estimates varies depending on mode.
- To explore whether **prompt forms** (e.g. a paper form sent prior to telephone collection of estimate) may help them to provide a more accurate estimate of household income.

The main aim of this report is to provide feedback on the ability of tax credit claimants to provide estimates of household income and the accuracy of these estimates. However, at the outset of this research, it was also found to be necessary to design suitable questions for the proposed prompt form for household income estimation and therefore the report does provide some findings on form design.

1.2 Methodology

The study consisted of both qualitative and quantitative research, which was conducted using a three-stage research design, as follows:

i Exploratory Stage

The exploratory stage was conducted **to develop the types of question**, which would need to be asked of claimants in order to collect estimates of in-year income. In particular, this stage of the research: explored the comprehension of questions; assessed the effectiveness of instructions and routing; developed an understanding of the ways in which respondents came up with answers; identified any difficulties encountered in providing an estimation; and collected household income estimates. The exploratory stage consisted of **40 face-to-face in-depth interviews** (qualitative) and was conducted between 3 March and 11 April 2006.

ii Collection Stage

The collection stage was conducted **to collect estimates of household income** among tax credit claimants prior to the end of the tax year. A quantitative research programme was undertaken using both telephone interviewing and self-completion methods. **801 interviews** were conducted by **telephone (CATI)** – 430 were sent a form in advance of the telephone interview and 371 were sent no form. **54 productive postal returns were received** (excluding 25 returns from unemployed households receiving non-taxable benefits, who were not eligible to take part in this particular research project). The interview collected both ‘general’ estimates and then more ‘detailed’ estimates (see Glossary on p.6 for definitions), as well as claimants’ overall opinions of the task. The collection stage was conducted between 20 April and 5 May 2006.

iii Verification Stage

The verification stage was conducted amongst households with any employed respondent who had agreed to a follow-up interview to **collect actual household income**, verified by the claimant's 2005/06 P60 (annual earnings) and statements of interest from other income. This stage was conducted using both qualitative and quantitative methodologies. **411 telephone interviews** were conducted as part of this stage and **12 postal returns** were received from households with any employed respondent who had agreed to a follow-up interview for the quantitative research. For the qualitative research, **23 follow up face-to-face in-depth interviews** were conducted. Fieldwork for the verification stage took place between 30 May and 14 July 2006.

1.3 Main Findings

a) Ability to provide in-year estimates of income

In general, **tax credit claimants were able to provide in-year estimates** of income, which was evident in that overall 93 per cent of claimants in the quantitative research were able to provide an overall estimate of household income from a given set of ranges. When asked to answer more detailed questions on their household income, the **vast majority of employed respondents (93 per cent) were able to provide an estimate of their earnings** for each month between April 2005 and March 2006.

The task of providing estimates was **not so easy for claimants providing income information about their partners, and for claimants with variable income**. 83 per cent of respondents were able to provide earnings estimates for each month for their employed partner, compared with 93 per cent for themselves. The majority of self-employed respondents were on a variable income and only a third of these self-employed respondents attempted monthly estimates of profit.

b) Accuracy of estimates

Claimant estimates of household income were compared with the actual income received as shown on their P60s. This comparison showed that the majority of employed respondents in the quantitative research were able to provide income estimates, which were **accurate** to within £2,000 when verified against the actual amount (62 per cent). Again respondents found it harder

to provide accurate estimates for their partner's earnings. Two-fifths of respondents (42 per cent) were accurate to within £1,000 for their own income, but the equivalent figure for those estimating their partner's income was one fifth (20 per cent).

In general, as found in both the qualitative and quantitative research, respondents tended to **over-estimate** their incomes. A range of reasons were identified in the qualitative research for why respondents had over-estimated their income: the main being that they received more income than anticipated from savings and investments. Reasons for under-estimating income included failing to include 'other' sources of income; and difficulty estimating how much overtime they or their partner would work.

c) Questions which needed to be asked of tax credit claimants

The qualitative stage developed the questions, which needed to be asked of tax credit claimants for them to estimate their household income. In the main, **the form, which was finalised at the end of the exploratory stage, was understood and considered relatively easy to complete.**

d) Method of collecting estimates

The quantitative research tested a number of different collection methodologies: a telephone interview with and without a prompt form being sent in advance; a postal only completion option; and a postal or online completion option. In terms of providing estimates, **there do not appear to be any major differences between the two telephone methodologies.** There is an indication that **respondents receiving the postal form only were less likely to fully complete the form.** Only three responses were received via the internet and therefore no comment can be made on this collection methodology, in terms of completion of questions.

e) Preferences for returning information

When asked how they would prefer to return the income information, **respondents completing a telephone interview were generally more favourable towards a telephone method** of providing information while similarly **respondents completing the postal form preferred the postal option.** However, respondents from the postal survey specified postal as their preferred collection method to a greater extent than telephone respondents did for telephone (70 per cent compared with 49 per cent). It should be noted that the response rate for the postal survey was

lower than for the telephone survey, so those unhappy with this mode may have been less likely to have taken part in the research and so not answered this question.

Where telephone collection was preferred, there was a **definite preference towards receiving a prior notification form** of what questions would need to be asked which, according to the qualitative respondents, would prompt them to have the information ready and help to ensure the estimate was as accurate as possible.

f) Detailed estimates compared with general estimates

Respondents were asked to provide both 'general' estimates and more 'detailed' estimates for their household income (see Glossary p 6). It was found that **households on fixed incomes** (where income does not vary each month) **were generally able to answer detailed questions** about individual aspects of their income, but this was **more difficult** for households **where income varied** each month for one or more claimants in their household.

A comparison was made between the household income estimate calculated from the detailed estimates and the preceding overall 'general' estimates provided by claimants. It was found that only two-fifths of household income estimates, which were calculated from the detailed questions, were within the same £5,000 range as the 'general' estimate.

g) Willingness to provide estimates

In general, respondents interviewed both qualitatively and quantitatively **were willing to provide the information required to estimate household income**, but they may not always be able to provide all the necessary details. In the qualitative research, some respondents pointed out that they would have no option in any case. Support for the idea was strongest amongst those with fixed levels of income.

h) Compliance cost for respondents

Respondents were asked to say whether they had found the task of providing estimates easy or difficult and it was found that **those who took part in the telephone survey were more likely to consider the task easy** than those receiving a self-completion postal form (64 per cent compared with 53 per cent).

Respondents who completed the postal form were also more likely to have taken longer to collect the required information than those who completed the form prior to a telephone interview.

i) Understanding of the purpose of giving estimates

Respondents' understanding of HMRC's proposal to collect in-year estimates of household income **was on the whole accurate**, with two-thirds fully understanding the implications. The remaining third claimed to have no idea why HMRC would want to do so.

When respondents were asked whether they considered the proposed collection of estimates to be a good or poor idea, **the vast majority of quantitative respondents thought that it was a good idea**. However, there was some indication from both the qualitative and quantitative findings that those on variable income, such as the self-employed, were less likely to be supportive.

1.4 Conclusions

The main conclusion from this research is that tax credit **claimants are, in general, able and willing to provide estimates of their household income**. The research found that **detailed estimates could be more easily collected for households with fixed incomes. For two-fifths of claimants their detailed estimates were accurate to within +/- £1,000**.

However, there are **difficulties for certain groups of claimants**, which need to be considered when developing the programme. Households with variable income, such as self-employed claimants, struggled to provide the requested detailed information but were able to give **'general' estimates**.

Respondents also found it **more difficult to provide estimates for their partners**, for whom estimates proved to be less accurate.

This research suggests that, of the methodologies piloted in this study, **a telephone collection methodology with a prompt form sent prior to the interview would provide the most accurate estimate if a detailed estimate of income were required.** This approach was preferred by most of the telephone respondents in the survey and would also help claimants to collect information on their partner's income in advance of contacting HMRC.

The research found that a significant minority of **claimants did not understand why HMRC would want to collect in-year estimates of household income.**

The research also provided **some indications regarding what should be considered if a detailed income estimation form was required and suitable questions to include.**

Consideration needs to be given specifically to what income information it is possible to collect from the self-employed within year and what is understood by the term 'total household income'.

2 Main Report

2.1 Introduction and Background

HM Revenue and Customs (HMRC) commissioned GfK NOP in February 2006 to conduct a programme of research to investigate how feasible it is for tax credit claimants to provide HMRC with accurate information on their annual income, in the second half of the benefit period of April to April. This document reports on the findings from this research.

2.1.1 The purpose of this research

Following the announcement within the 2005 Pre-Budget Report of the measure to contact claimants to collect income estimates, it was the responsibility of HMRC to develop the operational design of the system, which would be implemented from early 2007. Policy colleagues working within HMRC were faced with a number of policy options in defining how the PBR measure would be implemented in practice.

The research was designed to **provide evidence** to increase the Department's understanding of **claimants' ability to provide estimates of household income and how accurate these estimates would be** when provided *prior* to their receipt of P60s at the end of the tax year.

This piece of research also aimed to **provide evidence to inform** a number of the **possible operational options**, including how claimants should be contacted and which claimants to contact.

Evidence from this project was required to inform the Department's knowledge of the ability and accuracy of claimants' provision of household income estimates.

2.1.2 Aims of this research

The overall aims of the research were:

- To explore whether tax credit recipients are **willing** and **able** to provide an in-year estimate of their household income.
- To assess the **accuracy** of claimants' in-year estimates by re-contacting claimants to verify estimates using actual information extracted from claimants' P60s.
- To explore whether there are problems for **particular groups** of the tax credit population who may find it difficult to provide an estimate, for example, the self-employed, those with variable hours, etc.

-
- To explore **which type of questions** should be used to obtain in-year estimates
 - To explore whether **prompt forms** (e.g. a paper form sent prior to telephone collection of the estimate) may help claimants to provide a more accurate estimate of household income.
 - To assess whether estimates can be collected using **different modes** and whether the level of accuracy of estimate varies depending on mode.

2.1.3 Research design to meet detailed objectives

The **overall design** of the research was in three stages

- **Explore** claimants' ability to provide in-year estimates and develop questions/procedures to aid this process
- **Collect** in-year estimates of income from respondents via the telephone and with a small number of postal contacts using the questions/procedures designed in the first stage
- **Verify** the quality of the income estimates supplied by claimants.

The detailed objectives set for **the exploratory research were:**

- To identify questions claimants can and cannot answer; and the reasons why
- To discover which sources of information claimants used to complete the questionnaire
- To establish whether any other sources of information are needed but not available
- To find out whether or not claimants complete the questionnaire with the help of others
- To understand what HMRC can do to help claimants to estimate their income accurately
- To explore how accurate claimants feel their estimates are; and their reasons for giving the answers they do
- Where claimants are unable to provide an exact estimate, to find out whether they would be able to inform HMRC if their current year income was likely to be higher or lower than last year's annual income
- To gauge claimants' willingness to provide in-year estimates
- To verify the quality of the income estimates supplied by claimants.

The detailed objectives set for **the collection of in-year estimates research** were to:

- Collect estimates of overall household income for the tax year 2005/06, as well as detailed estimates of earnings and all other income
- Determine the most appropriate questions and methods to be used for collecting this information.

The main objective set for the **verification of in-year estimates research** was to obtain actual income data from tax credit recipients, both respondent and partner, at the end of the financial year (June/July) to assess the accuracy of the original earnings estimate.

2.1.4 Research Context

This research project had to be designed and commissioned in a very short time-scale to pilot collection of an in-year estimate within the 2005/2006 tax year before this initiative went live in the 2006/2007 tax year. It was essential that the collection stage of the fieldwork was carried out before May 2006 to enable claimants to provide an estimate of their income *before* they received their P60s at the end of the tax year. The tight timing of this research had implications for the design of the research methodology, particularly the 'household income estimate prompt form'. As there are many factors to take into account when providing an estimate, the 'household income estimate form' was designed to provide claimants with a number of prompts to the types of information they should consider or include when estimating their income. Given the tight timing, the form could not be refined and tested ahead of the start of fieldwork, so instead the prompt form was designed using an iterative process being refined at each stage of the process.

The first version of the form, which was initially used within the telephone interviews, was quite complicated, as it included questions which were designed to illicit detailed information from the claimant. However, the later timing of the postal stage of the research provided the opportunity to refine the form, so that a much simpler form was used within the postal stage of the research. There are therefore slight limitations in the extent to which we can compare the results across mode of contact, as different versions of the form were used within the different stages. Any examples of the limitations in the comparability of results are highlighted in findings described later in the report.

2.2 Policy Background

In order to put these findings into context, the following information provides some background to the current tax credits system.

2.2.1 Policy Context

In April 2003, 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) with two new tax credits, Working Tax Credit (WTC) and Child Tax Credit (CTC). These formed the central component of the Government's programme of tax and benefit reform, which itself is underpinned by three over-arching objectives:

- To provide adequate financial incentives to work
- To reduce child poverty
- To increase financial support for all families

The new tax credits were much more far-reaching in their scope and coverage and were designed to meet the needs of a wider range of claimants than the previous tax credit system. WTC incorporated a new claimant group in its provision of tax credits, those in work *without* children, whereas previously WFTC was available only to those in work *with* children¹. CTC simplified support available for families with children so that all support could be channelled using two sources: child benefit and child tax credit.

Take-up rates of WTC and CTC have been high. In its first year of operation, 2003-04, 79 per cent of families eligible for CTC claimed. This compares to 65 per cent in the first year of WFTC and 57 per cent in the first year of Family Credit² (the predecessor of WFTC). This high level of take-up has ensured that in April 2006, 6.1 million families, containing 10.1 million children, were tax credits recipients or were receiving the equivalent child support through benefits.

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

² Family Credit ran from April 1988 to October 1999 when it was replaced by Working Families' Tax Credit.

2.2.2 A Responsive System

As well as being aimed at a wider range of claimants, Working Tax Credit (WTC) and Child Tax Credit (CTC) were also designed to improve certain aspects of the previous tax credit system. In particular, the new tax credits were designed to be more responsive to changes in family circumstances. The previous system of Working Families' Tax Credit did not do this, as it was paid as a six-month fixed award, determined according to family circumstances and a snapshot of income at the point of the claim. The general rule was that once a claim had been made it remained fixed for six months regardless of what happened to the family's circumstances within that time. Consequently, WTC and CTC were designed to tailor support to families' specific circumstances, and to respond to their changing needs, in order to *'provide support to those most in need, at the time when they most need it'*.³

In order to be more responsive to changing circumstances, an individual or family's award for WTC and CTC is based on two factors:

- **Their current circumstances** - for CTC this is based on the number of children they have, how many of those children (if any) are disabled, and whether the family has a child aged under one
- For WTC this is based on whether (and for how many hours) they are working, the amount of any eligible childcare costs, whether they are a couple or lone parent, whether one or both of the adults in a couple are disabled, or whether they are older workers returning to work.
- **Their gross household income for the tax year** (couples are jointly assessed).

Rather than being based on a fixed award, the current tax credit system initially bases WTC and CTC levels of award on HMRC records of claimants' *current* circumstances and their previous year (PY)'s income. HMRC records of claimants' current circumstances are based on information which claimants submit when making a claim, renewing a claim or reporting a change of circumstances.

If circumstances do not change (or are not reported) and there are no significant changes in the income, then the award will continue 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. In recognition of families' changing circumstances, it is mandatory for claimants to report certain changes of circumstances within **3 months** of them occurring.

³ The Child and Working Tax Credits: the Modernisation of Britain's Tax and Benefit System. HMT (2002).

At the time of the research⁴, these were:

- Changes in 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).

There are a number of other changes of circumstance which are not presently mandatory to report but which HMRC actively encourages claimants to report, as they may have an impact upon the amount of tax credits a claimant is entitled to. As awards are based on the claimant’s previous year’s household income, these changes will include anything which may result in their current year’s household income being lower or higher than in the previous year. This may include changes in circumstance such as an increase or decrease in working hours or an individual moving into or out of paid employment. It should be noted that tax credits claimants do not experience a reduction in their tax credits award as soon as their income rises. At the time of this research, the tax credits system included a £2,500 income threshold which meant that any in-year rises in income up to £2,500 were disregarded and would not affect a household’s tax credits entitlement for that year. Increases in income of more than £2,500 also had the first £2,500 of the rise disregarded. This was raised to £25,000 from April 2006.

If claimants report a change of circumstance within year, their award will be recalculated based upon the information provided. Currently, if claimants report changes of circumstances within three months of them occurring, where possible, the claimant’s award level will be re-adjusted, so that any additional payments are recovered within year. Therefore if claimants report changes of circumstance promptly, they may avoid receiving an accumulated overpayment at the end of the tax year. If claimants do **not** report changes of circumstance within three months of them taking place, they may find that when their award is finalised they have received more or less money than they were entitled to.

After April (the end of the tax year) most claimants⁵ are sent a renewal form, within which they are asked to confirm their income and circumstances for the year just finished and return this to HMRC

⁴ From November 2006, it will become mandatory to report more changes of circumstance (COC) than at present. These are:

- ceasing to work at least 16 or 30 hours;
- ceasing to be responsible for a child or a young person; and
- a child or young person ceasing to qualify for support.

by August⁶. Claimants have up to four months (from April- August) within which they are able to submit their renewal form, as it may take them time to get the necessary information together, e.g. to receive a P60 from their employer.

This allows HMRC to finalise the award for the previous year by cross-checking actual income and picking up any changes that have not been notified during the year. For example, the renewal details provided by the claimant by August 2006 formed the basis of claimants' tax credit awards in the award year beginning in April 2006.

For those claimants who have not reported an in-year change of circumstances (and consequently have not had their award recalculated prior to finalisation), their award for this period (April 2006- August 2006) will be based on their 2005/6 entitlement which will have been finalised in September 2005. (Please see the following diagram for a pictorial description of this process). This means that their tax credits entitlement will be based on their previous year's income, 2005/6 (PY) and in some cases previous year's income minus one year (PY-1). In these cases, there is quite a high likelihood that the claimant's current household income will be different from that reported at finalisation in the previous year, 2005/6. In most cases, the actual current income of the claimant will be higher than the predicted amount based on previous income. This can lead to an overpayment situation, as the tax credits entitlement is based on a lower estimate of income than that actually earned within the award year, 2005/6. End-of-year overpayments such as this are then recovered by making deductions from the next year's award, 2006/7.

Obviously, the sooner the claimant is able to submit their renewal details or report a change of circumstances, the earlier HMRC can update the claimants' records and adjust their tax credits award to reflect their current circumstances and therefore minimise the likelihood of an over- or under-payment. It is not possible to ask claimants to renew their claims earlier than the end of the tax year in April, as they need to receive their P60s in order to provide detailed household income information.

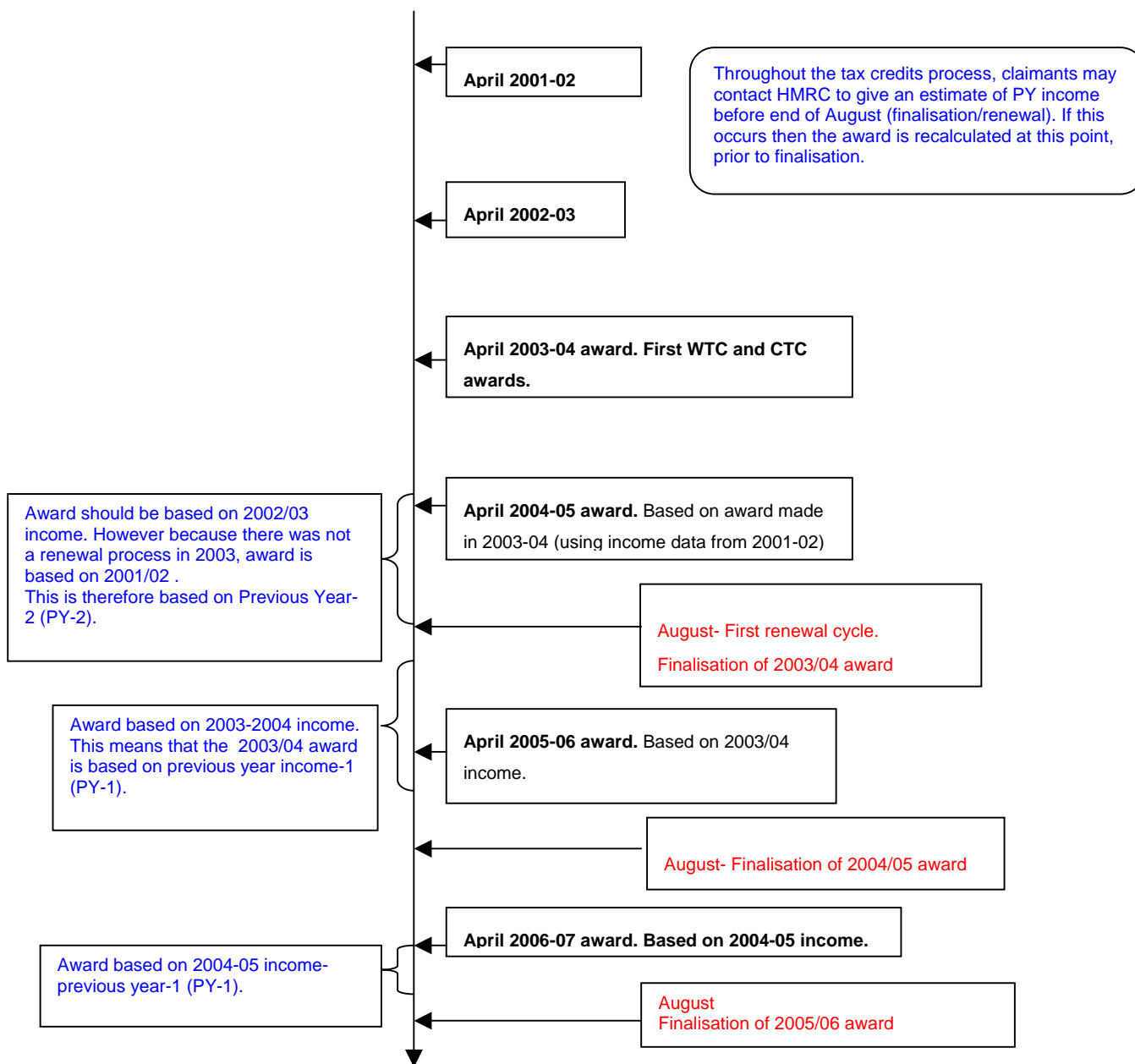
However, if HMRC collects in-year estimates, they are able to ensure that, when the next financial year begins, most claimants have at least a previous year's (PY) estimate in place rather than a PY-1, reducing overpayments which would otherwise arise in the next financial year.

⁵ Some claims are renewed automatically.

⁶ The renewal date was brought forward in 2006, prior to this, the final date for renewals was the 30th September.

The following diagram illustrates the timeline of the current award system. In particular, it highlights the way in which information from a previous year (PY) or previous year minus one (PY-1) may be used to inform the basis of a claimant's tax credits award.

Diagram showing Tax Credits Process



2.2.3 Improving the administration and communication of the system

The Government has monitored the operation of the new tax credits system (WTC and CTC) during its first two years and in May 2005 announced that HMRC would aim to improve administration and communication about the system. In addition, the 2005 Pre-Budget Report

(PBR) announced further steps to provide greater certainty to claimants while also attempting to maintain the flexibility of the system in responding to household changes in income and circumstance. In particular, the 2005 Pre-Budget announcements focused on alleviating the problem of overpayments for many households. For instance, as mentioned earlier, one of the Pre-Budget measures was that from April 2006, the disregard in increases in income between one tax year and another would rise from £2,500 to £25,000. This measure aimed to ensure that almost all families who experienced income rises would not have their tax credits entitlement reduced in the first year of the increase, which would hopefully boost work incentives at the same time as avoiding the establishment of an overpayment.

As outlined in the section above, the second key measure to attempt to reduce the overall number of claimants with overpayments was that starting in early 2007 HMRC would contact key groups of tax credits recipients to collect estimates of income information before the start of their new tax year. In particular, this measure related to those claimants that had failed to provide an estimate of their income since finalisation. This group was therefore at risk of accruing an overpayment, as their income data was provisional, being based on information submitted in the previous year (or even previous year minus one year). The measure was therefore designed to allow payments of tax credits up to the time of renewal to be set more accurately and so help to reduce the number of claimants who may potentially receive overpayments. This measure has been implemented with particular claimant groups from January 2007.

2.3 Methodological Overview

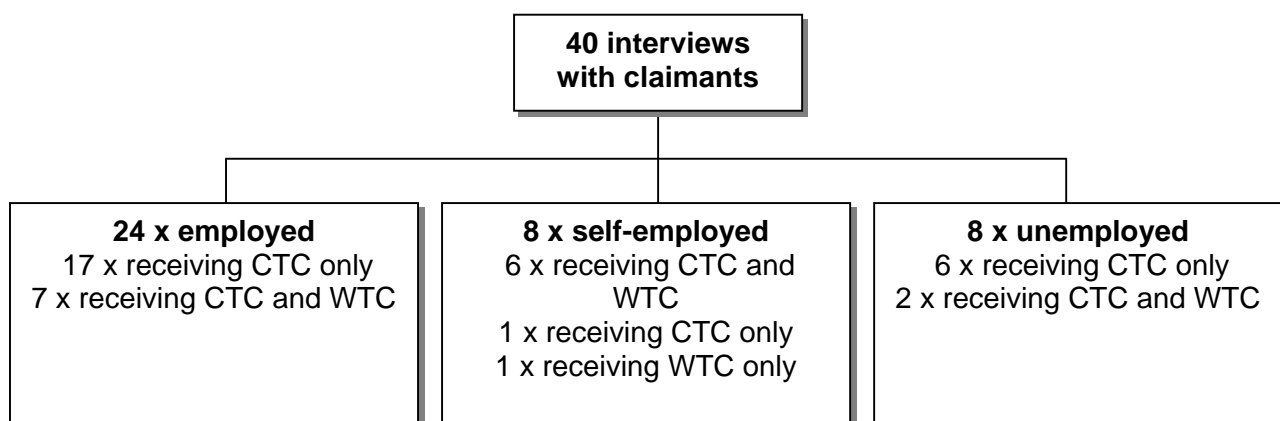
The research was conducted using both quantitative and qualitative research methods. The methodological approach used is outlined below with a full description of the survey methodology given in the Technical Report.

2.3.1 Exploratory Stage

The exploratory stage utilised qualitative research techniques. 40 face-to-face in-depth interviews, each lasting one hour, were conducted with a range of tax credit claimants. The first 15 respondents were asked to complete the form during the interview, allowing the researcher to observe claimants' approaches to filling it in. These interviews further informed the form's development, with this revised form being the focus of the discussions with the remaining 25 respondents.

Before discussing the form in detail, respondents were asked introductory questions on tax credits in general and the tax credits system. Once the form and income estimate had been discussed, the interview concluded by looking at possible methods of administering the form.

The 40 respondents were recruited using an HMRC sample from administrative records after an opt-out exercise had taken place. The diagram below outlines the sample composition. More details are provided in the Technical Report.



- 25 respondents were joint claimants
- 15 respondents were single claimants

2.3.2 Collection Stage

Quantitative research was used to **collect** household income estimates from claimants. In order to be eligible to take part in the collection stage of the survey respondents had to be in a household that had not yet received their P60s.

Four different methodological approaches were used at the collection stage. **The aim was to assess each method's efficacy at collecting accurate estimates and the respondents' willingness to use each method** in order to feed into the operational decisions based on a range of considerations regarding the data collection method to use at the national roll-out stage.

Two main data collection approaches were tested (**telephone and postal**) but were split into **4 methodological approaches**:

- Telephone with form
- Telephone without form
- Postal form only
- Postal form with web option

The claimants interviewed by **telephone** were split with one group being sent a 'household income estimation' form in advance of the interview to allow them time to collect and think through the information that would be asked for, and a control group that were not sent this form.

For the **postal** option, two methods were also tested. Some claimants were sent only a postal self-completion questionnaire and the remaining claimants were sent both a self-completion questionnaire and given the option of completing the survey online by logging onto a secure website.

All of the methods covered the same broad content in investigating claimant ability to give in-year estimates. However, the telephone interview and online survey with their access to complex routing could provide deeper questioning into the reasons for particular answers (their income make up etc). That is too complex for a respondent to follow as a self-completion exercise.

The initial questions provided the '**general**' estimates of household income and included:

- Overall annual household income from a given set of income ranges
- Overall general unbanded estimate of household income annually (or monthly, if not able to give annual figure)

-
- Whether household income had increased or decreased in the last year and by how much.

Later in the interview claimants were asked questions to provide more **detailed estimates** of their household income. They were asked to provide specific amounts for all elements of income for both themselves and their partners. The questions included:

- Specific amount of month-by-month earnings, maternity/paternity and bonus payments for employed claimants and employed partners
- Specific amount of month-by-month profit and turnover for self-employed claimants and self-employed partners
- Specific amount of month-by-month 'other' income such as income from a second job, savings income and pensions income for both claimant and claimant's partner.

All respondents were then asked a series of questions designed to evaluate how they found the exercise of providing income estimation data including:

- Ease of providing estimates
- Their evaluation of the accuracy of the income they provided
- Preferred collection method for providing income estimates.

The bulk of the interviews conducted at the collection stage were conducted via the telephone and the exact breakdown of the numbers achieved for each method at the collection stage are detailed below:

Method at collection stage	Achieved sample
Telephone with form	430
Telephone without form	371
Postal form only	54 ⁷
Postal form with web option	3

⁷ In total 198 postal questionnaires were returned of which 54 were completed by households which had not received their P60s and were not in receipt of non-taxable social security benefits only, who were not eligible for this research as they did not have a great deal of income information to detail. The response rate for the postal methodology was significantly lower than that achieved with the telephone method. This, however, is not a surprising finding given that postal response rates are often lower due to factors such as respondents' inertia, their possible lack of interest in the subject matter, and a tendency to delay completing the questionnaire. These are all barriers that a telephone interview can overcome as the respondent is actively encouraged through the process. In addition, on this project there was no opportunity to send reminders to the postal sample to improve response rates due to the project's tight timetable. The amount of information required to complete the survey may have also contributed to the lower response rate.

There were certain limitations to the collection stage that should be taken into consideration due to the circumstances under which the research was undertaken. The main limitation was that of timing. **The collection stage needed to take place *prior* to employed claimants receiving their P60** in order to collect an unprompted amount that could be verified against an external source, P60s, at the verification stage. Therefore, those claimants that were contacted and had received their P60, and in the case of the telephone interviews were able to remember the information provided on their P60, were excluded from the research. This in turn, together with a relatively short fieldwork period, limited the potential response rate that could have been achieved for this part of the research. Despite this limitation, the target sample size for the telephone methodology was still achieved, providing data accurate (at the 95% confidence interval) to within +/- 2 to 3 percentage points. The timeline in section 2.3.5 illustrates how the research programme's timetable was determined by both the issuing of P60s and HMRC's own deadlines.

The form for the telephone collection process was designed with input from the majority of the qualitative exploratory interviews. Due to time constraints the feedback from the final qualitative interviews could not be incorporated into the telephone form. However, these final depth interviews highlighted the need for further simplification of content and format. The form was revised accordingly and this simpler version used for the postal collection stage.

2.3.3 Verification stage

The verification stage of the research was conducted to **verify the accuracy of estimates** that were provided at the collection stage. To be eligible to take part in the verification stage either the respondent (or their partner) had to be employed and to have received their P60. Self-employed claimants were excluded from the verification stage as they do not receive P60s and often do not finalise their accounts until much later in the year. This makes verifying their income a more complex task and out of the scope of this survey.

In the main, the verification stage of the research was conducted via the same method that claimants used to take part in the first stage of the research. However, due to the low response rate for the online option in the collection stage, the verification stage was only conducted via telephone or by post. Those who completed the online questionnaire were sent the verification postal form. A further exception was for respondents who completed the collection stage of the research by telephone and were unable to be contacted via the telephone during the verification fieldwork period. These respondents were sent a shorter version of the verification postal form, which captured the key P60 information only, the aim being to at least gather the basic financial information needed to assess the accuracy of their estimates provided at the collection stage.

Without the verification information the collection data is of limited interest; thus the rationale for trying to recontact respondents via different methods. The sample sizes eligible for interview and achieved by each method are detailed below.

Method at verification stage	Eligible Sample	Achieved sample
Telephone with form	339	212
Telephone without form	307	199
Postal form only	21	12

The verification stage also included **follow-up interviews amongst as many eligible respondents from the initial qualitative stage as possible**. The aim of the qualitative research was to verify, as far as possible, respondents' actual total household income for the year April 2005 to March 2006 and to better understand respondents' experiences of completing the form, understanding the terminology used in the form and finding the necessary information to complete it. Twenty three respondents were in a position to provide actual figures (mostly the employed), and agreed to be re-interviewed. The unemployed and self-employed were not included in this stage, except in a small number of cases where one member of the household was employed, or where a self-employed respondent had specifically agreed in advance to be re-interviewed.

2.3.4 Sample Design

A stratified probability sample of tax credit claimants was provided by HMRC from administrative records which included classification in terms of type claimant, as follows:

- WTC only (*Working tax credit only*)
- WTC and CTC (*Working tax credit and Child tax credit*)
- CTC only - plateau or less (*Child tax credit only households receiving the family element or less of tax credits*)
- CTC only - > plateau single (*Child tax credit only households with a single claimant receiving more than the family element of tax credits*)
- CTC only - > plateau joint (*Child tax credit only households with joint claimants receiving more than the family element of tax credits*)
- Self-employed (*Households with self-employed claimants*)
- Not employed (*Households with unemployed claimants*).

The research aimed to discover whether there were variations between different types of tax credit claimant and therefore the sample definitions above were used as key segmentation criteria for the research.

The sample was drawn proportionately to type of tax credit claimant, with the exception of CTC only households with single claimants receiving more than the minimum amount of tax credits, which was boosted slightly as the proportion in the population was very small.

Stratified probability samples were then drawn for each different methodology within the collection stage of the quantitative research prior to fieldwork (the sampling approach is described in detail in the Technical Report).

The data generated from the research was weighted according to the HMRC profile of tax credit claimants as outlined below:

'Type Description' on sample	Proportion of Sample
WTC only	4.9%
WTC & CTC	26.0%
CTC only - plateau or less	37.1%
CTC only - > plateau single	1.9%
CTC only - > plateau joint	10.5%
Self-employed	5.6%
Not employed	14.0%
Total	100%

2.3.5 Interpreting the findings

The overall sample sizes achieved for the telephone research were 801 for the collection stage and 411 for the verification stage. These sample sizes provide results accurate to within +/-2 to 3 percentage points (801) and +/- 3 to 5 percentage points (411) at the overall level. Thus for example, 27 per cent of respondents were **unable to provide a more specific general estimation** of overall household annual income and we can be 95 per cent confident that the actual figure lies between 22 per cent and 32 per cent of **all** claimants.

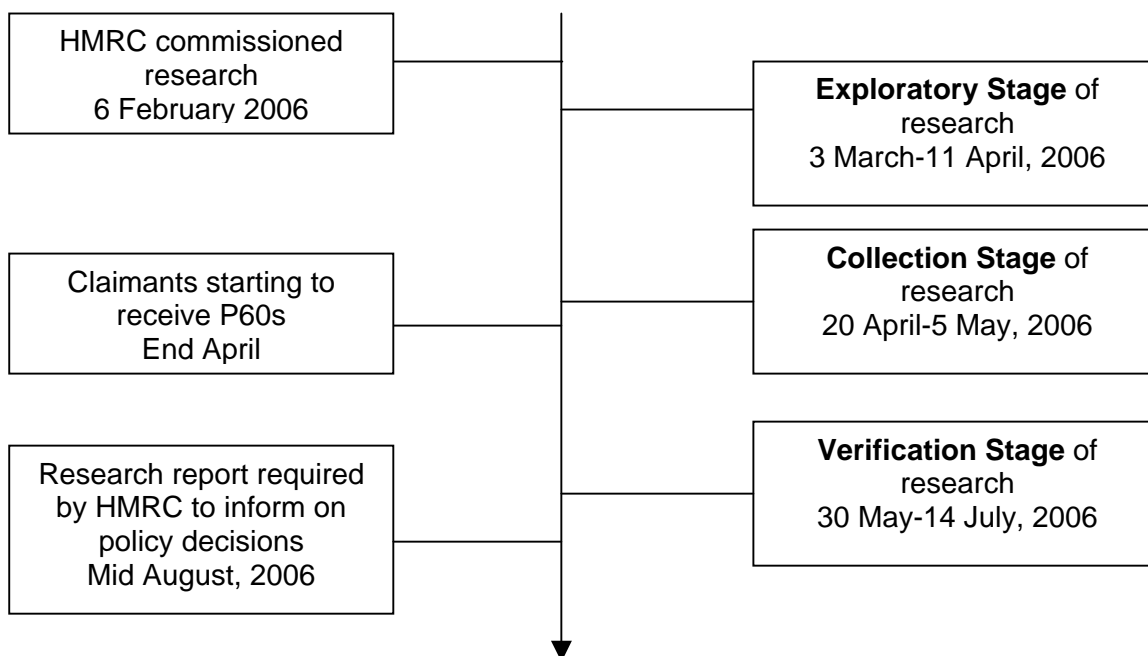
In general, where sample sizes are below 100 for any reporting segment, we would advise that the results are treated with caution as the sampling error is high. At the collection stage, the postal

responses have been reported separately in the main report although they are based on 54 responses, which is lower than would generally be recommended. However, some of the findings are interesting and it was therefore decided to include these figures with a proviso at each mention that the sample size is small.

Where a difference between sub groups is indicated in the commentary, this is statistically significant at the 95 per cent level, unless otherwise stated.

Timeline

The following diagram shows the timeline for the in-year estimates research programme.



2.4 Exploratory Stage

The qualitative research provided extensive detail on the development of the form necessary to enable claimants to give an estimate of their in-year income. These detailed findings can be found in the Technical Report, together with the form used in the qualitative research.

This section of the report summarises the findings from the qualitative exploratory stage with verbatim comments used to illustrate the points made. Each verbatim comment was attributed according to:

- Interview number (each respondent was given a number for analysis purposes)
- Working status within household (Part-time, Full-time, Self-employed, Unemployed)
- Number of claimants (Joint, Single).

Interpreting qualitative research findings

The nature of qualitative research means that the findings are derived from a small sample of specially recruited respondents and, as such, cannot be projected in numeric terms to a larger population. They should therefore be considered indicative rather than conclusive.

2.4.1 Summary of Key Points

The 'household income estimation' form

- When dealing with the form, respondents often **did not (fully) read** the introductory instructions, and therefore some completed it incorrectly
- The form was developed iteratively during the early interviews and the majority of participants considered the final version developed through this qualitative research quite straightforward
- The **self-employed**, however, **often experienced problems** with the form.
- The term 'household income' was open to the widest interpretation, and caused the most confusion; the final version of the form included a clear definition

2.4.2 Development of the 'household income estimation' form

During the early stages of the exploratory qualitative research, the development of the in-year 'household income estimation' form was an iterative process, with the form sometimes evolving, in consultation with HMRC, on a daily basis. In the first 15 interviews of the 40 conducted for stage one, respondents were asked to complete the form during the interview. In the remaining 25 interviews, respondents were sent the form to complete in advance (although not all did so). The form used for these 25 interviews is referred to in this report as the 'final qualitative research version', and remained unchanged. It can be found for reference in the Technical Report, together with the detailed findings relating to the form itself. The findings below focus on respondents' approach to completing the form, their understanding of the language it contained, and the sources of information they used to complete the form.

The form overall

As is often the case, many respondents read little of the introductory information provided on the form. The main implication of this behaviour is that claimants may not complete the correct sections of the form, and / or take longer than is necessary to complete it. In addition, if the introduction is to include definitions of terminology used in the form, it is vital that claimants read it, to avoid any misinterpretations while completing the form.

Respondents either completed the form themselves or with the help of their partner. Occasionally, self-employed respondents claimed that they would have to pay an accountant to complete the form on their behalf because they did not have the necessary documentation available or prepared in order to give monthly in-year estimates.

Understanding of the terms used in the form

The opening paragraph of the form explains that its aim is for claimants to 'provide an estimate of their **household income** during the tax year'. 'Household income' was usually interpreted as 'money coming into the house' and was the wording most likely to be misunderstood by respondents. In the early part of the exploratory research, this interpretation often led to confusion over whether or not to estimate a gross or net income figure.

'Household income': How much you're taking home every week, is it? I don't know. Well I'm not taking it home, it covers food and bills. I don't even earn enough to save. I don't

think it's very clear. To me it's how much is in my bank every week. (No. 18, Self-employed, Single)

Some respondents entered figures they obtained from bank statements, rather than from pay slips; and even where a pay slip was used, on occasion respondents transferred to the form net pay after tax and National Insurance had been deducted because this was seen as the 'household income'. As a result, the final qualitative research version of the form emphasised 'gross' income, and included the following definition of the term: 'the amount before tax and national insurance contributions are taken off'. Future reference to 'household income' in HMRC material should consider spelling out what is meant by the term, where possible, and how to estimate it, to ensure that gross rather than net figures are given, and claimants do not provide under-estimates of their income.

The first variation of the form used a split between 'regular' and 'variable' income to try to route respondents through appropriate sections of the form. These terms, '**regular**' income and '**variable**' income, proved to be further sources of confusion for some. For example, regular income could also be interpreted as including income from property and pensions although the form separated out regular, earned income from 'other income'. In addition, respondents' pay could vary slightly from month to month, causing some uncertainty about whether this was regular or variable, or at what point a regular income becomes a variable one.

It didn't register that I wasn't supposed to do this bit [of the form on variable income]. But I did because I know we're different every month even though I know we are paid regularly. (No. 14, Part-time, Joint)

The main implication of this finding for the design of any 'household income estimation' form is to question whether a split should be made between variable and regular and to highlight the difficulties for those giving estimates based on variable income.

The terms '**non-taxable social security benefits**' and '**taxable social security benefits**' were accompanied with lists of examples, which respondents relied upon to understand the phrases. The term '**partner**' proved straightforward for them to understand, as the word was very familiar to them from other types of form they encountered. Similarly, claimants found the word '**estimate**' easy to understand, but did not always provide an estimate on the form. Instead, some sought out actual figures for months to date – but left future months blank as they did not know what those figures would be.

Sources of information to help with form completion

Respondents referred to a range of items in order to find the information they needed to complete the form. They included:

- Pay slips (although the wrong information was occasionally taken from them, for example net pay)
- Bank/Building society statements
- The previous year's P60
- The previous year's tax credits award
- 'Books' kept by self-employed
- Pensions notification
- Dividend statements.

Some were not able to locate savings and investments statements, (all) wage slips, or timesheets, but reported that they might have been more thorough in their approach if they had received the form in reality.

2.5 Collection and Verification of Income Estimates

2.5.1 Collection Stage

Respondents were first asked to provide **'general' estimates** of their overall household income for the last financial year (April 2005-March 2006) in the quantitative telephone survey⁸. These estimates are referred to as 'general' as, at this stage, detailed values for elements which make up an income were not being requested, simply the claimants' ability to identify the 'range' their household's income fell into or a more specific 'overall' figure. **The 'range' or more specific 'overall' figure they identified is their 'general' estimation.**

Respondents, whether completing telephone, postal or internet questionnaires, were then asked more detailed questions about their household income to generate a more **'detailed' estimation** of their overall household income. The questions covered earnings for each month during the last financial year for both the respondent and their partner (if they had one) including bonus payments and maternity/paternity payments. Respondents were also asked about any additional income they had, including income from savings, property, trusts and pensions. **The responses from these questions were summed to provide a figure which has been identified as their 'detailed' estimation.**

The collection of both 'general' and 'detailed' estimates in the research allowed a comparison to be made about the level of income detail tax credit claimants might be able to provide.

⁸ It was not appropriate to ask this question on the postal or Internet form as respondents would have been able to alter their general estimate having worked through the prompts to provide a detailed amount.

2.5.2 Summary of key points – Collection stage

- Overall, **93 per cent of claimants** in the quantitative research **could provide a general estimation** of annual household income from a given set of income ranges
- **A quarter** of respondents were **unable to provide a general unbanded estimate** of overall household annual income– this figure was higher for households that included any self-employed members (37 per cent)
- The overall proportion providing either a specific general annual or monthly estimation totals 88 per cent
- Annual household income based on detailed estimates **could be calculated for 94 per cent of all claimants**
- Respondents had more **difficulty providing detailed estimates for their partners' earnings**
- **Self-employed** respondents were **less able to provide detailed estimates** than employed respondents, particularly when their income varied each month
- Approximately **two-fifths** of the detailed estimates of household income **were within £5,000** of the overall '**general**' household income estimates
- Nearly two-fifths of claimants (**37 per cent**) **said that household income had changed** in the last year.
- Among claimants who were unable to give a specific general estimation and whose income had changed, 14 per cent were able to say an amount by which their income had changed.

2.5.3 Claimants' Ability to Provide General Estimates

a) Claimants' ability to provide annual household income as a range

The **majority** of respondents in the quantitative survey (93 per cent) **were able to estimate** their annual household income **from a given set of income ranges**. Those households with any self-employed members were also able to estimate annual income (91 per cent) using a range.

Table 1 illustrates the proportion of households for which the respondent could identify a range within which their household's income fell for different claimant groups. There are some noteworthy differences in ability to give such a general estimate by claimant type, which are drawn out below.

Households claiming CTC only were significantly more likely to be able to give an estimate of their annual household income than households claiming WTC.

Table 1: Ability to provide a Range as a General Estimation of Annual Household Income

% figures shown	Type of Respondent (sample)			Type of Household (survey)		
	Total	WTC	CTC Only – plateau or less	CTC only – more than plateau	Any employed	Any self-employed
Range Given	93	89	97	95	94	91
Refused	1	*	0	0	0	1
Don't know	6	11	3	5	6	8
<i>Unweighted base</i>	733	228	293	160	693	116

Base: All claimants interviewed by telephone, excluding unemployed households

* = < 0.5%

() = small sample size

b) Claimants' Ability to provide a general unbanded estimate of Household Income

It was **harder for respondents to give a general unbanded amount** for their household's annual income than to estimate the range within which it falls, with a quarter unable to give an annual figure (27 per cent). Although fewer respondents could give actual figures, for those who did the distribution of income was very similar to the estimated ranges.

Table 2 illustrates the proportion of each of the main claimant types that were able to give a specific value for their household's annual income. This highlights one notable difference: the high proportion of households with any **self-employed** members who **cannot give a general unbanded estimate** of annual household income (37 per cent compared with 27 per cent of households with any employed person in).

Table 2: Ability to provide a General Unbanded Estimate of Annual Household Income

% figures shown	Total	Type of Respondent (sample)			Type of Household (survey)	
		WTC	CTC Only – plateau or less	CTC only – more than plateau	Any Employed	Any self-employed
Amount Given	73	76	70	74	73	63
Refused	*	*	0	0	0	1
Don't know	27	24	30	26	27	37
<i>Unweighted base</i>	733	228	293	160	693	116

Base: All claimants interviewed by telephone, excluding unemployed households

* = < 0.5%

() = small sample size

Those respondents who were unable to provide a general unbanded estimate for household annual income were asked if they could do so for the household's monthly income. Two-thirds (66 per cent) of these claimants were able to give a monthly figure.

c) Annual and Monthly specified household Income

By grossing up monthly income and combining it with the specified annual figures, we are able to have a **general unbanded estimate of annual income for 88 per cent of respondent households**.

Those households that have any unemployed or self-employed members are the groups that are most likely not to be able to give a general unbanded annual income figure (annual, or monthly grossed to annual).

d) Increases/decreases in household income

Respondents in the exploratory research were asked, during the first interview, how likely it was that they would be able to tell HMRC whether their annual income for the current financial year would be higher or lower than the previous year. The rationale being to identify whether those unable to provide an actual estimate could at least give an indication as to whether their income was likely to have increased or decreased.

They tended to believe that they would know this, to within £1,000 or so.

I'd be reasonably happy to do that, I could get that to within £150 - £200. (No. 15, Full-time, Joint)

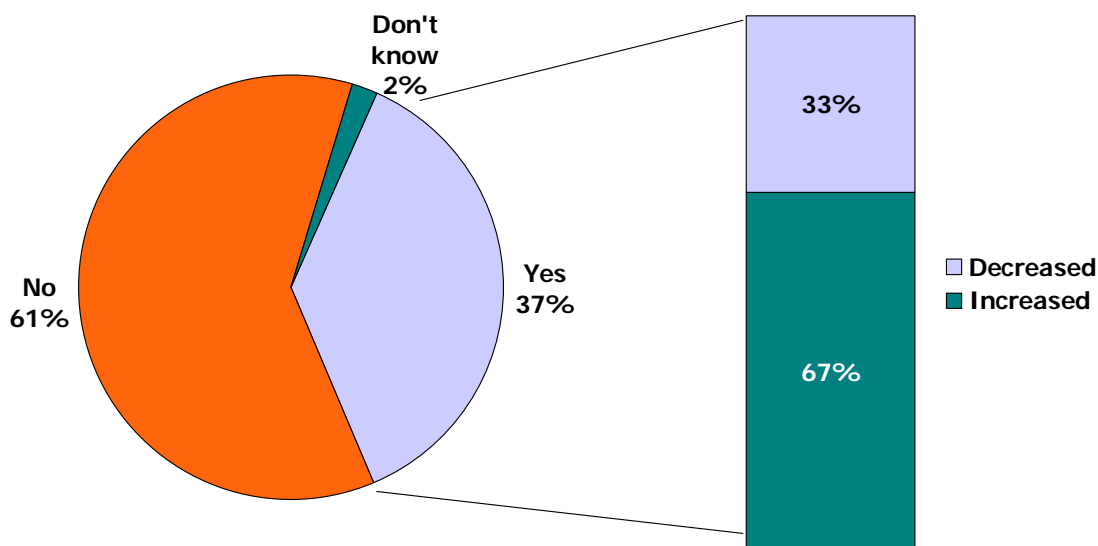
Some, for example amongst the self-employed or those with variable incomes, were not so comfortable with such an approach, as they could not be confident in the figure they provided, but this was also the case for some when providing an estimate using the form.

From my perspective, I wouldn't feel confident unless I did all this working out. (No. 7, Full-time, Joint)

I suppose I could say it's not going to change. But this time next year it could be a whole different story. My husband's constantly looking for a better job. (No. 14, Part-time, Joint)

Nearly two-fifths (37 per cent) of claimants in the quantitative research said their income had changed between April 6th 2005 and March 2006. For these claimants, two-thirds had experienced an increase and a third a decrease in household income. Amongst claimants who had been unable to provide a general unbanded estimate of income, 14 per cent were able to give an amount for how much their household income had increased or decreased by between April 6th 2005 and March 2006.

Chart 1: Income Changes since April 6th 2005



Base: All claimants interviewed by telephone (801)

Approximately a quarter (24 per cent) of those respondents, who had experienced an increase in household income, claimed that the amount had been for £2,500 or more⁹, although for 26 per cent of households the increase had been less than £1,000.

⁹ Just one per cent of respondents claimed the increase in household income had been more than £25,000

These findings **strongly support the possibility for collecting in-year estimates**, with virtually all claimants (98 per cent) being aware at the point of data collection (i.e. prior to receiving P60) that their household income has changed over the course of the tax year.

Although a smaller proportion experienced a decrease than an increase in annual household income (33 per cent compared with 67 per cent), the **amount of the decrease was much higher**, with 45 per cent losing more than £2,500 from the household income between April 2005 and March 2006. For 14 per cent, the decrease equated to £10,000 or more¹⁰.

e) Effect of Data Collection Method on Ability to Provide General Household Estimates

There was little difference in findings between general estimates of household income identified by those respondents provided with a form and telephone follow-up, and those provided over the telephone without the aid of the form. Similar proportions are able to give an estimate of household income regardless of whether they had the form as a prompt (nine per cent of each group were unable to give an estimate).

2.5.4 Claimants' Ability to Provide Detailed Estimates of an Individual's Income

Claimants were asked to provide month by month details of all their income within the last financial year (April 2005-March 2006) to obtain a more detailed estimation of their household income. Please also refer to the Technical Report, for further detailed results.

¹⁰ Four per cent of claimants who had experienced a decrease in household income had lost more than £25,000

a) **Summary of key points - Providing Detailed Estimates of an Individual's Income**

- Nearly all employed respondents in the telephone research (**93 per cent**) were able to **provide an estimation of their earnings for each month** between April 2005-March 2006
- This task was less easy to complete for their employed partners, although **83 per cent** were still able to **provide earnings estimates for their partner** for each month
- For **self-employed** respondents, the majority **attempted monthly estimates** of profit **when this was the same each month**, but the opposite was true for those with variable profit (85 per cent compared with 33 per cent)
 - By **prompting self-employed** claimants with additional options of specifying **profit in a typical month**, or **turnover in a typical month**, the total proportion of self-employed respondents able to answer any of these questions rises to approximately **three-quarters** (73 per cent)
 - Profit earned by **self-employed** respondents was **more likely to vary each month** than be the same (67 per cent compared with 33 per cent)
- Respondents' **ability to answer** about the earnings of their **self-employed partner was limited**. Three quarters were unable to make specific monthly estimates of profit where this varied, compared with 29 per cent when profit was the same
- Nearly **three-fifths** of respondents who provided an estimate of their earnings for the last month were able to give this as a '**gross**' amount, while two-fifths gave a 'net' amount
 - An additional 17 per cent were able to provide a 'gross' amount when prompted (63 per cent in total)
- The majority of **employed respondents** (around 85 per cent) and/or their employed partners **did not receive a bonus** or maternity/paternity payment during the last financial year
 - Where a payment was received, respondents were generally **able to provide an estimation if amounts were the same each month**, but less able if the amount varied, and again were less able to make estimates for their partner.

b) **Employed Claimants' Ability to Specify own Monthly Income**

Respondents were asked to provide the specific amount that they earned for each month individually. They were then asked to confirm whether the amount given was gross or net.

Virtually all employed respondents (93 per cent) were able to provide an estimate of their earnings for each month and this was true for each of the tax credits type recipients. In addition there was little difference between the groups in terms of the proportions able to give partial information, with an overall average of five per cent of claimants being able to give amounts for some months, but not all.

The tax credits system is based on gross amounts of income but this research investigated the preference of respondents to give either gross or net amounts. For the majority interviewed by telephone, they were able to give monthly earning estimates as a gross figure (56 per cent). Two-fifths of respondents gave a net figure. Those respondents who had answered with a net amount were then asked if they could provide the gross amount instead. In total, a quarter gave their monthly earnings only as a net figure, but a further 17 per cent were able to give a gross figure when prompted to (63 per cent of all employed respondents). The choice claimants made to give details of their monthly earnings (i.e. net or gross) does not appear to be affected by whether they had received a form or not.

The sample size for these questions on the postal survey was too small to provide robust data, but there is an indication that respondents were less likely to fully complete all the required details.

The majority of employed and unemployed claimants did not receive any other taxable income (93 per cent). For those that did, the majority had savings (43 per cent). The next most common form of other income for these claimants was a second job (19 per cent).

Generally, respondents **were able to provide an estimation for 'other income' when the amount was the same** each month, but the majority were unable to answer when the amount varied.

c) **Claimants' Ability to Specify Employed Partner's Monthly Income**

Respondents were also asked to provide the specific amount that **their employed partner** had earned for each month individually and whether the amount given was gross or net.

The majority of claimants interviewed by telephone **were able to estimate their partners' income for each month**, (83 per cent), but this was less than the proportion of claimants able to estimate **their own** earnings to the same level of detail (93 per cent). Where a partner's monthly

income **could be estimated it was for each month**, rather than for some months and not others: i.e. claimants are able to estimate income when it is stable rather than variable.

Half of respondents (**50 per cent**) initially gave the estimate of their **partner's monthly earning** as a **gross figure** and a further third provided a net amount; the remaining 16 per cent could not answer.

When those respondents who had answered with a net figure were prompted to provide a gross amount, the total proportion able to give a gross figure increased to **75 per cent**.

The prompt form did not seem to help telephone respondents estimate their partner's income with similar proportions able to give an estimate of their partner's earnings last month regardless of whether they had received the form (84% were able to give an estimate amongst those who received a form and 85% amongst those who did not receive a form).

The **majority of employed partners** (86 per cent) did **not receive a bonus** or maternity/paternity pay between April 2005 and March 2006. **Respondents were less likely to be able to provide an amount for their partner's bonus or maternity/paternity payments than they had for their own.** The base sizes are very small for some of these questions, but it is interesting to note that the majority of respondents could *not* provide an amount for their partner's bonus when it varied each month.

d) Self-Employed Claimants' Ability to Specify Monthly Income

Self-employed claimants were asked to estimate their profit and turnover for each month individually.

Approximately **three-quarters (73 per cent) of self-employed claimants** interviewed by telephone were **able to provide an estimate** of their own self-employed earnings in at least one of three ways (i.e. specifying their profit for each month, or for a typical month, or their turnover in a typical month). For **27 per cent**, giving an estimate of self-employed earnings **in any** of these ways was difficult or they were unable to do so.

For two-thirds of self-employed claimants monthly profit was variable and cannot be detailed by the majority of them (67 per cent). This equates to 45 per cent of self-employed claimants having such variable monthly profit levels that they cannot give detailed monthly amounts.

Overall, **50 per cent of self-employed** claimants were able to specify **monthly profit levels**, with the majority of this group being able to do so as a result of profit levels being the same each month. In addition **17 per cent** of self-employed claimants were able to estimate their **typical monthly profit** level, and a further **six per cent** of all self-employed claimants were able to indicate their **average monthly turnover**. It was therefore possible to collect one of the three types of monthly figures for income from three-quarters (73 per cent) of self-employed respondents.

e) Claimants' Ability to Specify Monthly Income of self-employed partners

Claimants with a self-employed partner were asked to estimate their partner's profit and turnover for each monthly individually. Similar problems were experienced by this group as by self-employed claimants themselves, though these problems are marginally exacerbated by estimating a partner's income.

In total, 69 per cent of claimants with self-employed partners were able to estimate their partner's income by specifying either their monthly profit, average monthly profit, or typical month's turnover.

For three-fifths of claimants with self-employed partners monthly profit was variable, and cannot be detailed by three-quarters of these claimants. This equates to **45 per cent of all self-employed partners having such variable monthly profit levels that the claimant cannot give detailed monthly amounts**.

f) Total household income calculations

For the telephone survey, total **annual household income could be calculated, based on the detailed questions, for 94 per cent¹¹ of claimants**. However, this high overall figure hides the difficulties encountered for households which included any self-employed members; for a quarter of these claimants an overall household income calculation could not be made. For the postal survey, 83 per cent of households could provide an overall household income.

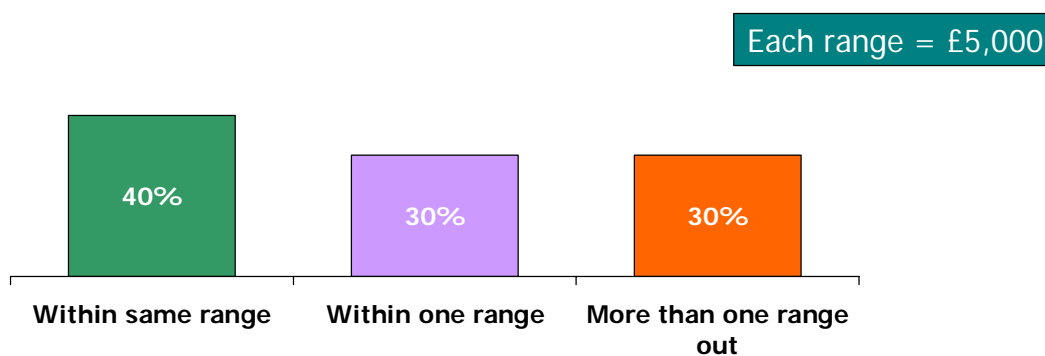
g) Comparison of detailed income calculations to general estimates

Chart 2 compares the calculated household income, based on detailed questions, compared with the claimants' general range estimates. This shows that two-fifths (40 per cent) of the calculated household incomes are within the same £5,000 range of the claimants' own general range

¹¹ This figure is higher than previous figures because it includes additional claimants who were unable to give amounts for each month of the last financial year, but were able to give an amount for the last month which was grossed up to the whole year.

estimate (For instance, if the calculated household income was between £15,000 and £19,999, the respondent also gave a response within this same range when asked to provide their overall household income from a set of income ranges). Nearly a third (30 per cent) of the general estimates were more than one range out, i.e. by more than +/- £5,000.

Chart 2: Detailed Estimates compared with General Range Estimates



Base: All claimants interviewed by telephone providing a response (753)

A similar picture emerges when we compare the calculated household income, based on detailed questions, with the unbanded general estimates given by recipients: the proportion of specified estimates that are more than +/- £5,000 out was at the same level (30 per cent) as for the general estimate given as a range.

h) Perceived accuracy of detailed estimates

Based on all the detailed information provided by claimants during the telephone interview, they were asked if the resulting calculated total household income was, in their opinion, correct or incorrect. Of the employed claimants, 70 per cent agreed the estimate was correct.

The main reasons given by the third of employed claimants for disagreeing with the detailed household income calculation were that they had received a bonus or overtime, which they had omitted to include (13 per cent) or that their payments vary too much (11 per cent). Claimants were also aware of giving inaccurate information, as indicated in the following reasons given:

- Gave a guess (seven per cent)
- Didn't know all the figures (six per cent)
- My fault – gave wrong information (five per cent)
- Amount should have been gross not net (two per cent)

Thirty-seven per cent of employed claimants and 43 per cent of those with employed partners who disagreed with the household calculation could not give a reason why.

Table 3: Reasons for disagreement with Detailed Household Income Calculation from estimates

	Employed Claimant	Employed partners
Received bonuses/overtime	13	9
Payment varies too much	11	5
Gave a guess	7	4
Didn't work a full year	6	6
Didn't know all the figures	6	8
My fault – gave wrong information	5	4
Received pay increase	5	0
Changed working hours	4	1
Amount should have been gross not net	2	5
Don't know what partner earns	*	13
Don't know	37	43
Unweighted base	133	(96)

Base: All employed claimants and employed partners who disagreed with detailed household calculation

** = < 0.5%*

() = small sample size

Regardless of whether the claimant agreed or disagreed with the calculated estimate of their household's income, based on the detailed questions, they were asked to assess how accurate they felt it was. **Three-quarters of claimants felt that the detailed estimate was either very or fairly accurate.** A higher proportion described their estimate as being very or fairly accurate than were prepared to say it was correct, largely because a 'fairly accurate' estimate implies the respondent has accepted some level of error in the estimate,

It is interesting to note that respondents were less likely to believe their detailed estimates were accurate compared with their general estimates. (76 per cent for detailed estimates compared to 94 per cent for general estimates), This observation was across all types of respondent as shown in table 4.

Table 4: Perceived Accuracy of Detailed Estimates of Household Income

% figures shown	Type of Respondent (sample)			Type of Household (survey)			
	Total	WTC	CTC Only – plateau or less	CTC only – more than plateau	Any employed	Any self-employed	Unemployed
Very / fairly accurate	76	80	82	76	80	76	50
Neither accurate nor inaccurate	9	10	6	9	8	13	12
Not very / not at all accurate	11	10	12	15	10	11	*
Don't know	3	*	*	*	*	*	38
<i>Unweighted base</i>	801	228	293	160	629	116	(68)

Base: All claimants interviewed by telephone

* = < 0.5%

() = small sample size

The data collection method does not seem to have had an effect on the claimants' perception of how accurate the **detailed** estimate of their household income was.

In the qualitative research, respondents in the main were happy with the amount they came up with as an estimate of their total household income using the form, and tended to feel that it would be accurate to within around £1,000.

It's come out to the sort of figure I'd expect it to be. It's not too different from last year. (No. 7, Full-time, Joint)

I'm very confident that will be right. (No. 9, Full-time, Single)

I would say within £100 accurate. We're regular with our income. (No. 23, Part-time, Joint)

On a small number of occasions, respondents were comfortable with their estimates even though it was clear to the researcher that errors and / or omissions had been made during completion of the form. For example, one confident self-employed respondent had neglected to consider his expenses and other income from interest and property in his calculation. He had also entered his partner's income twice on the form under regular and variable income.

It is very clear - even though I'm not the biggest fan of forms, as forms go, this is very straightforward. (No. 28, Self-employed, Joint)

In the main, respondents could not think of how HMRC could help claimants provide a more accurate estimate, other than to improve the 'household income estimation' form so as to ensure that claimants completed the relevant sections correctly. Suggested improvements to the form included:

- A prominent checklist of possible sources of income to ensure none is overlooked
- Clarity around the meaning of 'household income'
- Introducing colour, and colour-coding
- For the self-employed
 - A reminder that profit does not include expenses
 - A separate form for the self-employed
 - A separate section for other income, rather than having to include other income within the monthly estimates
 - Doing away with the monthly breakdown and instead asking for an annual estimate

It doesn't make any sense to me that HMRC want to know what you've earned every month. You could just say 'give an estimate of your annual income'. Maybe list some ways of doing it. Stick that in the documentation 'you may want to do this to help you calculate it. (No. 27, Self-employed, Single)

Further suggestions included:

- A dedicated helpline to guide claimants through the form and deal with queries
- A specimen form with explanatory notes for each question
- Doing away with the form altogether and, instead, asking by how much claimants expected their income to differ from the previous year
- Putting greater stress on the importance of completing the form accurately
- The possibility of a 'small penalty' for inaccurately completed forms

I think someone has to repeat the question to me to say exactly what they want because reading the question alone, I am not 100% sure what they are asking. (No. 37, Unemployed, Joint)

2.5.5 Accuracy of Estimates - verification and perceptions

For the verification stage, respondents who were employed themselves or had an employed partner were re-contacted during June/July 2006, following receipt of their P60 to obtain actual earnings and savings information, if applicable. Their actual income was then compared with their original estimates from 2 months earlier. The self-employed were excluded at this stage as they would not have official documentation of their 2005/6 income at this time.

a) Summary of key points

Level of accuracy: P60 data compared with estimates

- When comparing P60 data with the detailed estimates provided in the collection stage, **two-fifths (41 per cent) of respondents were accurate with their own earnings to within £1,000 and 70 per cent were accurate to within £3,000.**
- One in ten respondents' estimates varied by more than £10,000 in the quantitative research
 - CTC only (plateau or less) households were the most likely to fall into this category (18 per cent)
- **Claimants who had received a form** prior to the interview were **more likely to be accurate to within £1,000** than those who had not (44 per cent compared with 37 per cent)
- Respondents were **less accurate** with their **partner's earnings**, with a fifth being accurate to within £1,000, a half were accurate to within £3,000 while 30 per cent were more than £10,000 out on their estimates
- Respondents were **more likely to over-estimate** their earnings than under-estimate (61 per cent compared with 39 per cent)

Respondents' reasons for inaccuracy

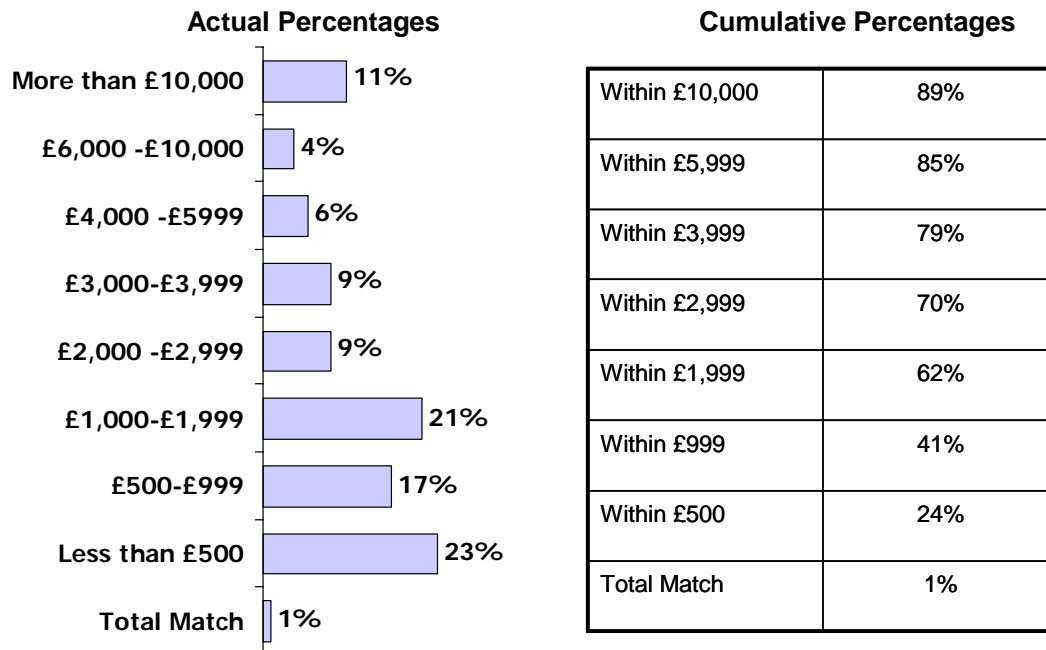
- The **top reason** given by respondents for there being a difference of more than £1,000 between actual income and the estimates was that the original figure had been **just an estimate/guess.**

The qualitative research supported this in finding that some respondents had just guessed some amounts, but had also failed to include 'other' sources of income, had experienced difficulty in estimating certain payments such as overtime and had received more or less income than anticipated from savings and investments

ii. **Actual level of accuracy – verification**

Chart 3 shows the proportion of variation between the P60 data and the original detailed estimates provided by respondents at the telephone quantitative collection stage.

Chart 3: Accuracy of OWN earnings: P60 data comparison with Detailed Estimates



Base: All employed claimants receiving P60 that provided estimate at telephone collection (358)

In total, approximately **a quarter of estimates (24 per cent) were accurate to within £500 or a total match** and two-fifths (41 per cent) overall to within £1,000.

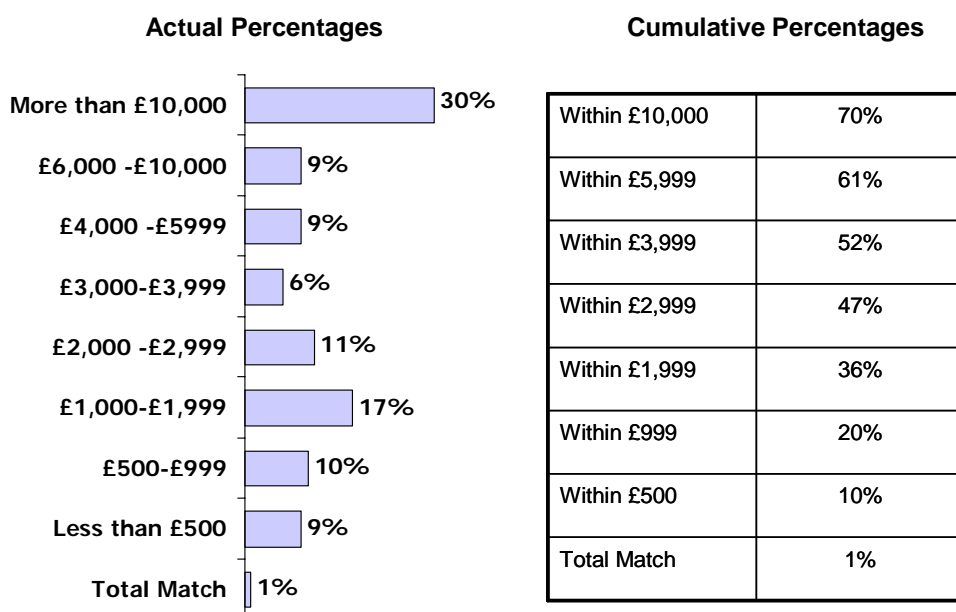
Three-fifths (62 per cent) were able to provide an estimate to within £2,000, but there was also a small group of respondents (11 per cent) who had originally provided estimates, which varied by more than £10,000 when compared with their P60.

Respondents were more likely to over-estimate their earnings than under-estimate. Three-fifths over-estimated their earnings in the quantitative research.

Respondents were also asked to provide P60 data for their employed partner. Chart 4 shows the comparison between their previous estimates and the actual data collected. Whilst 41 per cent of respondents were accurate to within £1,000 for their own income, **the equivalent figure for their partner's income estimates was 20 per cent.**

Three in ten respondents gave estimates, which were more than £10,000 different from the actual P60 information compared with one in ten for their own estimates.

Chart 4: Accuracy of PARTNER’S earnings: P60 data Comparison with Detailed Estimates



Base: All claimants with employed partners receiving P60 that provided estimate at telephone collection (202)

As with respondents’ own income, they were more likely to have over-estimated their partners’ income than under-estimated (75 per cent relative to 25 per cent).¹²

iii. Reasons for inaccurate estimates

Respondents who had provided estimates of earnings that were more than £1,000 different from their P60 data were asked whether they could account for the difference.

Table 5 shows the responses provided by respondents in the quantitative research for both their own earnings and their partners.

¹² On the postal survey, only three respondents provided information about their partner’s P60 and therefore no analysis was possible.

Table 5: Reasons for Variations between Detailed Income Estimates and P60 data

	Employed Claimant	Employed partners
Gave a guess	39	40
My fault – gave wrong information	17	24
Received bonuses/Overtime	14	10
Received pay increase	11	3
Didn't know all the figures	7	5
Figures were incorrect	5	-
Didn't work a full year	4	1
Changed job	3	7
Changed working hours	3	4
Earnings varies	3	2
Didn't have paperwork/P60	3	2
Don't know	2	-
<i>Unweighted base</i>	<i>189</i>	<i>126</i>

*Base: All employed claimants or claimants with employed partners receiving P60 that provided an estimation at telephone collection that was =>£1,000 different to their P60 earnings
Mentions of <2% not included*

The response provided by most respondents to explain the difference was that the **original figure provided had been just an estimate**, mentioned by two-fifths of respondents for both their own income and their partners'.

Following on from this, the next highest mention was that they had given wrong information. This was more likely to be the case for partners rather than the actual respondent (24 per cent compared with 17 per cent).

Other factors included not mentioning bonuses or overtime, pay increases or changing working hours or job.

Respondents in the qualitative research were able to provide more detailed reasons for the discrepancies between their estimates and the actual figures, but in general these reflected the responses provided in the quantitative research, as follows:

- Deciding not to provide an estimate for overtime, as it would be a difficult and time-consuming task
- A variable income whereby the claimant receives irregular 'on call' payments as a social worker
- Difficulty estimating a partner's earnings from a job the previous year which had only lasted a small number of months (respondent had not kept any documentation)

-
- Difficulty estimating commission-based pay on top of a basic salary
 - Failing to include a small pension
 - Failing to use a 'profit' figure - a respondent who was self-employed for a short period during the year
 - Forgetting to include a small interest payment on a current account
 - Guessing small amounts of other income (for example interest on bank / Building Society accounts), rather than looking for the relevant paperwork from which to estimate the figure
 - Guessing 'expenses' (self-employed)
 - Inability to calculate 'average' wage (where salary had changed)
 - Making a miscalculation on the original form, where respondent had not used a calculator
 - More/less income than anticipated received from dividends, savings, etc.
 - More/less overtime worked than anticipated
 - Receiving an unexpected salary increase

I bet the difference is because I do 'on call' payments which are irregular. There's a bit of overtime but it's additional income. And variable income, and it does vary. (No. 1, Full-time, Single)

My wife gets increased pay for working Sundays but they can change that at any time and also she receives overtime and we have no idea if we're going to get it or not. (No. 39, Unemployed, Joint)

Possibly [the difference is] because they put up our wages every year and I went on last year's pay. (No. 8, Full-time, Joint)

2.6 Claimants' Experience of Providing Estimates

2.6.1 Burden of Providing Estimates

a) Summary of key points

Ease of providing household income estimates

- In the telephone survey, **most respondents found the task of providing household income estimates easy** (64 per cent)
- Respondents in the qualitative research did not, on the whole, think the form was too difficult to complete
- The **more straightforward their (and their partner's) finances** the **easier** they tended to find **the task**
- According to some interviewed in the qualitative research, HMRC could make it easier to complete the task (and possibly improve accuracy levels) if there were a dedicated HMRC helpline to deal with any queries.

Time taken to collect information needed to provide estimates

- Respondents completing the **postal form** were more likely to have taken **longer to collect the required information** than those who had completed a form prior to the telephone interview.

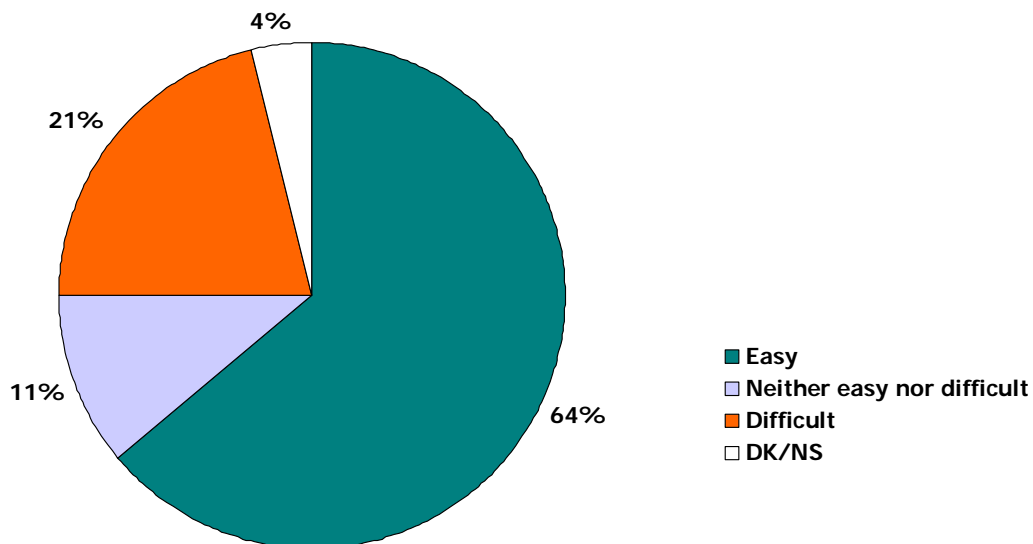
b) Ease of completing task

In general the task of providing household income estimates was **not difficult** for respondents as found in both the quantitative and qualitative research. There were **no major differences** in respondent opinions **between collection methodologies**, although those completing by post were somewhat less likely to consider the task easy, but this was not a significant finding. **WTC claimants** were **significantly more likely** to find the task **very easy** compared with CTC claimants receiving less than the plateau.

Respondents were asked how easy or difficult the task of providing household income estimates had been and the responses to this question are shown in Chart 5. This shows that overall, approximately two-thirds of respondents in the telephone quantitative survey felt that the task of providing household income estimates was either very or fairly easy (64 per cent). In addition, respondents who did not receive a form prior to the interview were just as likely to find the task

easy as those who did receive a form. Respondents who completed the survey by post were marginally less inclined to find the task easy.

Chart 5: Ease of Task: Providing Household Income Estimates



Base: All claimants

Nearly a quarter of WTC claimants (23%) found the task very easy, which was significantly higher than other respondents. The equivalent figure for CTC only claimants was 16 per cent.

In the qualitative research, the majority felt that the 'household income estimation' form was not too difficult to fill in (regardless or not as to whether the form had been completed correctly). These respondents tended to be those with relatively straightforward financial affairs (employed, with a regular fixed income, and no complex savings and investments), or with experience of completing other forms (for example to claim benefits). Initial impressions of the form had been a little daunting for some, but the routing and headings often helped to allay such fears.

A typical Inland Revenue form. It's quite straightforward when you get into it. (No. 23, Part-time, Joint)

We're used to filling out DLA forms so it's not a problem. (No. 3, Full-time, Joint)

[My reaction on seeing the form] was 'Oh my God, another tricky form to fill in'. . . . [But] It's a lot more basic to be fair than all the others. It tells you where to go. There's proper headings that are quite clear. (No. 24, Full-time, Joint)

Some respondents did not find the form so easy to fill in because of the various difficulties encountered (for example, calculating an average salary). Also, the task on occasion became more burdensome for those (with a partner) on a variable income, as they had to find and estimate monthly figures, including any 'other' income.

I started work on [the form] at 11pm and finished at 1.30am. Then I went through a couple of things today so that was another hour. So three and a half hours so far and we haven't actually [fully] completed it. But I think most people are probably more straightforward than we are. . . . I would say I'd rather not break everything down by months. You're interested in the end results. (No. 7, Full-time, Joint)

I was surprised how long it took me, I honestly thought it would take me ten minutes, quarter of an hour because I thought it was relatively straightforward; and it would have been if it hadn't been for this section [B: Variable income]. It was breaking his [partner's variable income] down into months that made it really, really difficult. (No. 12, Full-time, Joint)

In a very small number of cases, those with straightforward finances had suggested developing a 'short' version of the form for claimants like them.

I just feel it seems to be overly complicated for somebody like myself who can sign something to say 'I don't think my status is going to change much . . . '. I'll take on any problems as a consequence. (No. 11, Part-time, Single)

b) What could be done to help complete estimates?

The insight into what could be done to help complete estimates is somewhat limited as many claimants in both the qualitative and the quantitative research were unable to think of anything that could help them.

In the quantitative research the suggestion mentioned by the most claimants (albeit 6 per cent) was that 'if they had the appropriate/right information in front of them' this would help.

The qualitative research had suggestions such as providing a dedicated helpline with knowledgeable operatives, using colour-coding on the form, and including a prominent list of possible types of income claimants should include.

c) Length of time taken to collect information required

Most respondents who completed a postal form or a form prior to receiving a telephone call claimed the information had taken **less than an hour** to collect.

Respondents who received the postal form and those who completed a form prior to the telephone interview were asked approximately how long it took them to gather the information required to provide income estimates. Three-quarters of respondents who had completed a form prior to the telephone interview claimed that it took an hour or less, with a quarter indicating that it took up to ten minutes. The proportions are lower for those taking part via the postal methodology, with 50 per cent of respondents claiming that it took less than an hour to gather the required information.

Comparing different types of claimants and respondents there are no noteworthy differences in the length of time taken to collect information.

2.6.2 Preferred Collection Methodology

a) Summary of key points

Opinion of 'household income estimation' form being sent in advance

- Approximately **three-fifths (61 per cent)** of respondents, who had received a form prior to the telephone interview and gave an opinion, **rated the form as being very or fairly helpful**
- **Amongst telephone respondents who had not received a form**, a slightly higher proportion considered that **a form would have been very or fairly useful (71 per cent)**.

Method of collecting estimates

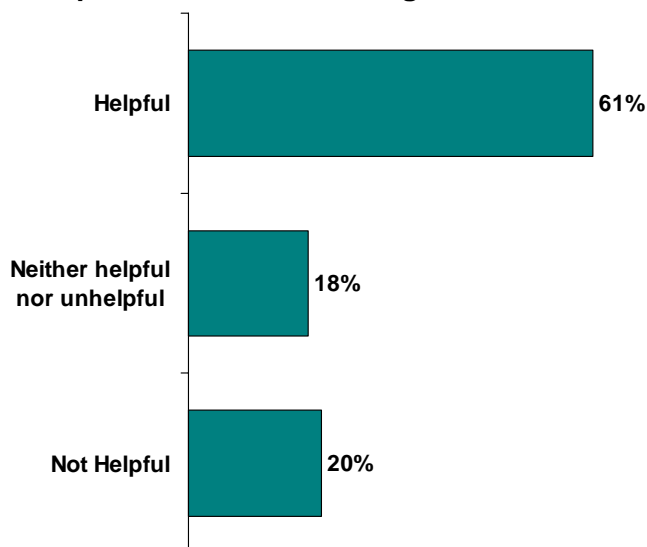
- Generally, **respondents completing a telephone interview were more favourable** towards a **telephone** method of collection than postal (49 per cent compared with 36 per cent), with a definite preference for receiving a form prior to the interview
- **Respondents from the postal survey specified postal as their preferred collection method** to a greater extent than the telephone respondents did for telephone (70 per cent relative to 49 per cent) but there was a lower response rate overall on the postal mode
- The qualitative research indicated some respondents would prefer telephone with a prior form while others wanted a postal form.

b) Helpfulness of form

Of those receiving the Household Income Estimation Form prior to the telephone interview, 18 per cent had not completed the form and a further 18 per cent did not recall receiving the form. However, 59 per cent of respondents had either completed the form or had referred to the form when providing estimates, and were able to provide a rating on how helpful the form was.

Chart 6 shows how respondents rated the helpfulness of the Household Income Estimation Form. Of those providing a rating, **the majority (61 per cent) reported that it was helpful to receive the Household Income Estimation Form prior to the telephone interview.**

Chart 6: Helpfulness of Form amongst those who received Form



Base: All telephone claimants receiving form prior to interview & providing rating (255)

Respondents, who completed the interview by telephone and had not been sent the Household Income Estimation Form, were asked to assess how helpful it would have been to receive a form prior to the interview. **The majority of respondents, who had not received a form, reported that it would have been helpful** and to a greater extent than those who actually received the form (71 per cent as opposed to 61 per cent).

d) Preferred collection method for HMRC collecting income estimates

Telephone was the preferred collection method amongst those interviewed by telephone, with a **significant preference for a form to be sent prior to the interview**. Postal was the preferred method amongst those who completed a postal self-completion form.

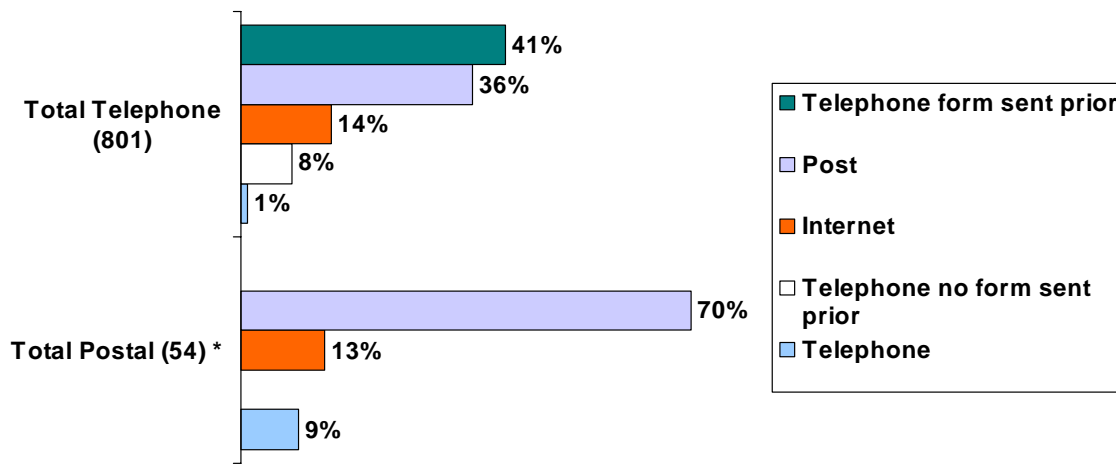
Chart 7 shows the responses for preferred collection methodology by actual collection methodology and respondent types. This illustrates that approximately half of telephone respondents were in favour of a telephone mode of collection, whereas 70 per cent of postal respondents preferred the postal option. However, the response rate for the postal survey was lower than for the telephone survey and this in itself may indicate that claimants, who did not participate in the postal survey, would be unhappy with a postal mode of collection.

Across all collection methodologies and respondent types, relatively little preference was shown for internet collection. This is reflected in the overall response rate that was achieved for the internet collection. Only three interviews were completed from a potential of 1,137 respondents (However,

please note these 1,137 respondents were also given the option of completing the research via the postal self-completion method).

It is important to note that the Household Income Estimation Form was revised significantly for the postal collection methodology. The telephone form was a more complex form, while the postal form was simplified in content and format.

Chart 7: Preferred Collection Methodology

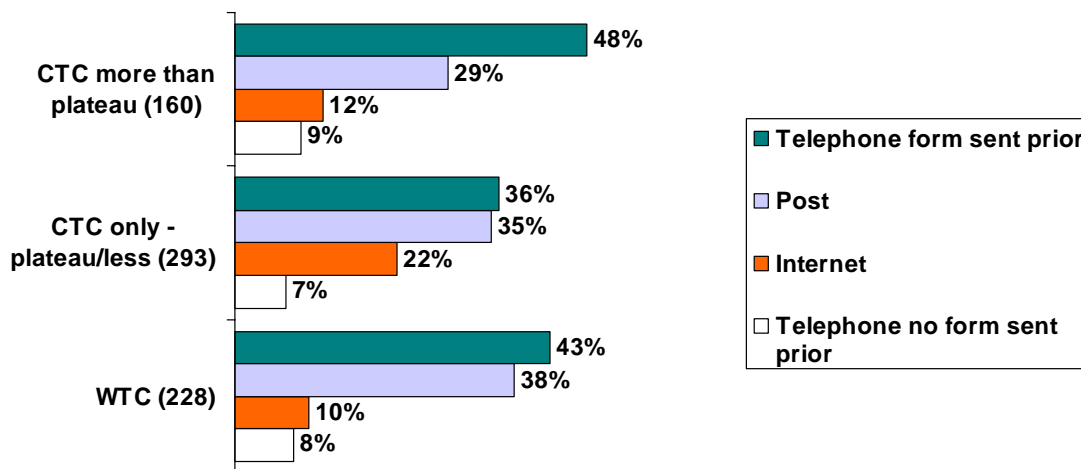


Base: All claimants

* Small sample sizes

Amongst telephone respondents who receive maximum benefits (CTC more than plateau), the most preferred methodology was again telephone and in particular, telephone with form, as shown in Chart 8. This group of respondents also had a significantly higher preference for telephone overall compared with CTC only claimants receiving lower awards.

Chart 8: Preferred Collection Methodology by Claimant Type



Base: All claimants interviewed by telephone

In addition to *stated* preference, another measure from which preference of collection methodology can be examined is the response rates that were achieved by collection methodology. The collection methodology showing the highest response rate indirectly shows an indication of respondent preference.

Table 6 shows the response rates by each of the different collection methodologies used in the research. Telephone achieved the highest response rate (38 per cent) in comparison to the postal and the on-line approaches. In particular, the telephone collection with respondents who had *not* received the 'Household Income Estimation Form' prior to the interview, achieved the highest overall response (44 per cent). The postal response rate was significantly lower than the telephone response rate at only four per cent, although this would have been 17 per cent if all returns could be included¹³. Likewise, the internet response rate was extremely low at less than half a per cent.

¹³ Claimants who had already received their P60 and who only received non-taxable benefits were asked to return their forms, without completing as these could not be included in the analysis

Table 6: Response Rates by Collection Methodology

% figures shown	Total no. of potential respondents	Total returns	Total received P60	Total only receiving non-taxable benefits	Total other ineligible Sample ³	Total Eligible sample	Total completed returns/ interviews ⁴	Response rate of eligible sample
Telephone - total	3042	N/A	43	N/A	910	2089	801	38%
Telephone with form ¹	1834	N/A	14	N/A	566	1254	430	34%
Telephone without form	1208	N/A	29	N/A	344	835	371	44%
Postal ²	1437	247	126	28	NA	1283	54	4%
Internet	1137	N/A	9	N/A	NA	1283	3	< 0.5%

¹ Simplified version of Telephone form used for Postal collection

² 79% offered option of online collection as well as postal, 21% offered postal only

³ Other ineligible sample includes contacts with wrong numbers, unattempted sample, respondents willing to be interviewed, but not required and respondents being unavailable during the fieldwork period

⁴ Achieved within fieldwork period available

The response rates achieved for the research should be examined in the context of the conditions by which the research was limited. Firstly, it is important to note that these response rates were achieved within the constraints of the fieldwork period available for the research (interviews had to be conducted for the collection stage prior to P60s being received). The postal response rate in terms of total returns was 17 per cent, but nine per cent of these had to be excluded as they had already received their P60, making them exempt from the research.

It is possible that higher response rates could have been achieved given a longer fieldwork period. In addition on this project there was no opportunity to send reminders to the postal sample to improve response rates due to the project's tight timetable.

e) Preferred collection methodology (qualitative)

The qualitative research found that respondents **preferred the same two methods as was found in the quantitative interviews**, namely 'telephone and form' and a postal form.

Respondents identified a number of benefits to the 'telephone and form' approach: they claimed to be more likely to complete the form if they were expecting a call; they would be able to ask questions of the HMRC person about areas of uncertainty; they would have greater peace of mind that their estimate was accurate, and that they had given the correct information.

Where there was a preference for a postal method, some respondents considered this a more convenient means of providing the information because they could complete the form and return it in their own time. Some also pointed out that this arrangement would allow the claimant to put in sufficient time and effort in producing an accurate estimate.

Some did not like the thought of discussing financially sensitive information over the phone with someone whose identity they could not verify, with or without a paper form completed in advance.

I wouldn't do it. I wouldn't give financial information like that out over the phone. (No. 11, Part-time, Employed)

In terms of when they thought HMRC should collect the in-year estimates, respondents in the qualitative research not surprisingly stated that the later in the financial year it was, the easier it would be for them to provide an accurate estimate. January and February were acceptable options to many. However, some self-employed and those with variable incomes warned that fluctuations in their income could occur in any month. For example:

- According to seasonal trade (public house)
- Buying or selling vehicles for a taxi business.

Were the estimates to be collected in January or February, respondents occasionally queried why it was HMRC could not wait another couple of months until the end of the financial year.

2.6.3 Opinion and Understanding of Why HMRC is Collecting Income Estimates

a) Summary of key points

Willingness to provide estimates

- In the qualitative research, the **majority were willing to complete an in-year estimate** should HMRC ask them to do so in reality.

Understanding of why HMRC wants to collect estimates

- **Understanding of why HMRC wants to collect in-year estimates was limited;** approximately two-fifths of quantitative respondents claimed not to know why HMRC should want to collect in-year estimates.

Opinion of HMRC collecting income estimates

- However, the **vast majority of quantitative respondents thought it was a good idea** for HMRC to collect estimates of household income
 - Those taking part in the qualitative research tended to be supportive of the concept if they themselves received consistent levels of income.

b) Willingness to provide estimates

In general, **respondents were willing to take part** in the research study and provide the information required to estimate household income, but they were not always able to provide all the necessary details.

15 per cent of those contacted by telephone refused to take part at the collection stage, but it must be remembered that this was a research exercise and so participation was voluntary.

At the end of the telephone interview all respondents who were either employed or had an employed partner were asked whether they would be willing to take part in the verification stage of the research. It was explained to the respondents that this would be to establish how accurate their estimates had been and would take the form of a much shorter telephone interview. The vast majority (93 per cent) of respondents, who were asked to take part in the verification, responded that they were willing to take part.

At the end of the postal questionnaire, respondents were also asked if they would be willing to take part in the verification stage. Of all those responding to this question, almost half of respondents were not willing to take part in the verification stage. This corresponds to the significantly lower response rate achieved for the postal collection in comparison to the telephone collection.

In the qualitative research, respondents had already agreed in principle to take part in both the estimate and verification stages. The majority of them, having completed the form, claimed to be willing to provide an in-year estimate if asked by HMRC to do so in reality, and one or two felt that they would have no choice but to provide the figures if requested. A small number of self-employed respondents qualified their willingness by stating that the form would have to make it easier for them to provide a more accurate estimate.

I don't have a problem with getting people to estimate their earnings. I just don't see why it has to be so complicated. (No. 27, Self-employed, Single)

Willingness doesn't come into it; it's a must, isn't it? (No. 11, Part-time, Single)

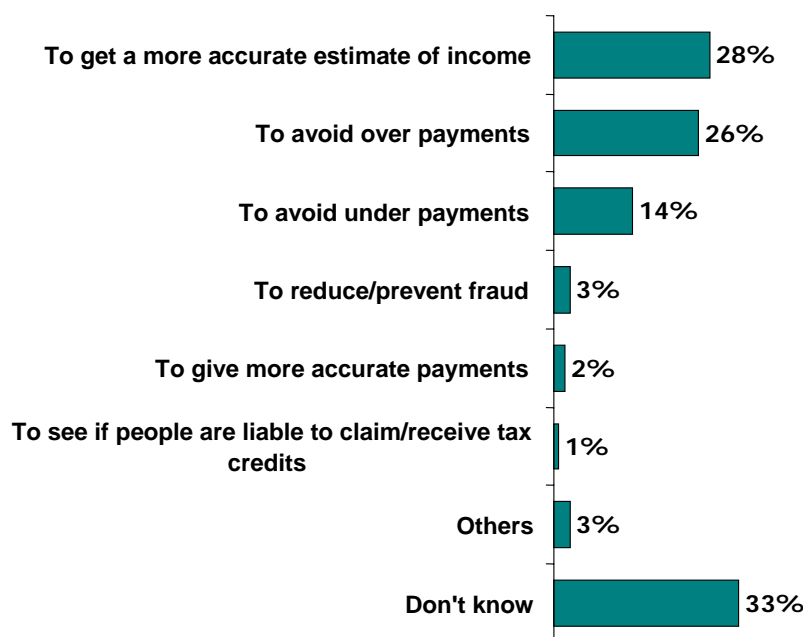
c) Understanding of why HMRC wants to collect income estimates

Respondents in the quantitative research were asked why they thought that HMRC were proposing to collect estimates of household income from tax credit claimants and chart 9 provides the breakdown of responses to this question. Respondents were allowed to provide more than one

reason, and were not prompted. Three reasons are prevalent amongst respondents taking part in the research via the telephone, and relate specifically to the ability of HMRC to gather accurate estimates. In particular, **respondents thought that HMRC wanted to get ‘a more accurate estimate of income’ and ‘to avoid overpayments’** (31 per cent and 27 per cent respectively). A smaller proportion thought that it was to prevent underpayments (14 per cent).

Respondents who completed the Household Income Estimation Form via the post were more likely to provide a wider variety of answers, though it should be noted that the base size for the postal methodology was substantially lower than for those taking part via the telephone.

Chart 9: Understanding of why HMRC want to Collect Estimates



Base: All telephone claimants *not* receiving form prior to interview & providing rating (190)

It is important to note, however, that **a large proportion of respondents claim not to know why HMRC wants to collect income estimates (33 per cent).**

Respondents in the **qualitative research** generally understood the thinking behind the idea of collecting in-year estimates, although it should be noted that, in order to maximise participation, respondents were told (in advance of taking part in the interview) the purpose of the research, and were reminded again at the start of the interview. The **main purpose** of the idea, in their minds, was **to improve the accuracy of the tax credit awards** HMRC makes.

Hopefully [it will mean] that the actual payments made are fairly accurate and they don't underpay or overpay. (No. 13, Part-time, Joint)

The main benefit identified for claimants was the greater likelihood of receiving the correct amount to which they were entitled, and which they could use without fear of having to return any of it to HMRC. Also, self-employed respondents occasionally thought that collecting estimates would prompt them to keep their 'books' in better order.

[The benefit to me is] knowing that the money we were receiving is ours to spend. (No. 20, Part-time, Joint)

Other self-employed respondents, however, could not see the point of attempting to collect in-year estimates from people like them because they would not have their 'books' ready, and their income could fluctuate.

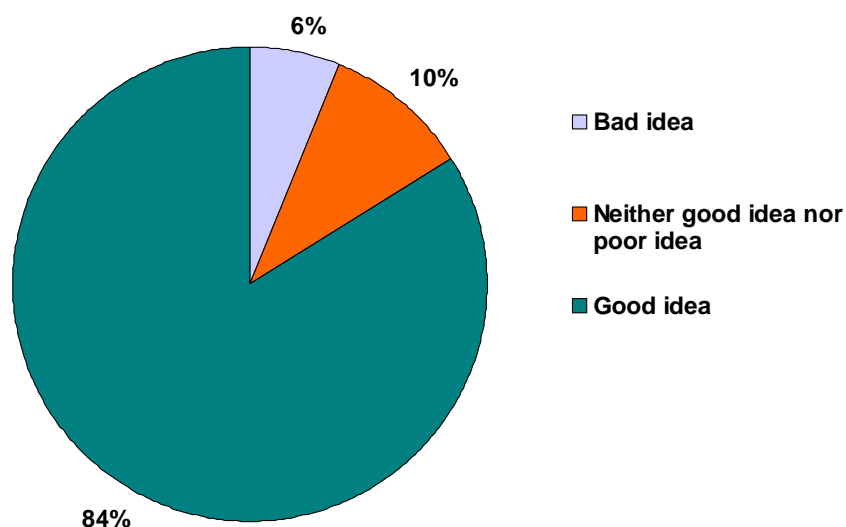
It doesn't help a great deal because at the end of the day I could be totally off the mark. Anything could happen. (No. 31, Self-employed, Joint)

d) Opinion of HMRC collecting income estimates

The **vast majority** of quantitative respondents **thought that it was a good idea** for HMRC to collect estimates of household income, with just under a half of respondents rating it as a very good idea (47 per cent) and a third rating it as a fairly good idea.

Only six per cent of respondents thought that it was either a very bad or fairly bad idea. Chart 10 shows the responses given in the quantitative research on respondents' opinions of HMRC collecting income estimates.

Chart 10: Opinion of HMRC Collecting In-Year Estimates



Base: All claimants

The idea of claimants providing an estimate of their total household income received some support among respondents in the qualitative research. They could see, for example, how an in-year estimate might help with the accuracy of tax credits awards, as claimants' financial positions and life-stages altered.

A lot of people's circumstances do change over time. It's going to help them either way as it will lessen the chance of them being overpaid. I'm happy with the idea. (No. 6, Part-time, Joint)

This **support** for the idea, however, **tended to be amongst those whose circumstances were unlikely to change**, and who had relatively straightforward, consistent levels of income. Where claimants' income fluctuated, the concept of providing an in-year estimate was not always so well received, for three main reasons: first, they often could not reliably estimate how their income would change from one month to the next; second, they found that attempting to estimate the income accurately was an onerous, and occasionally 'impossible', task; and third, in a few cases with the self-employed, respondents envisaged having to pay an accountant to provide the estimate.

For people in our circumstances [variable income] it's a hassle adjusting things up and down on a regular basis. . . . It's much easier for me to wait until the end of the financial year, add everything up and then say this is the situation. I've got too many other things to do. (No. 7, Full-time, Joint)

[I would do it] grudgingly because it would mean I'd probably have to use an accountant. (No. 31, Self-employed, Joint)

It's very difficult to estimate what you're going to earn, particularly if you're self-employed. Sometimes right up to the week ahead I haven't got any work and suddenly more jobs will come or some quotes I've quoted for will come back, so then I've got two months booked up, so it can be a bit precarious like that. (No. 29, Self-employed, Joint)