7. Reducing Fraud, Error and Debt

Since 2010, BIT has conducted numerous trials aimed at reducing fraud, error and debt with the UK Government. This work has historically focused on increasing payments by changing the messages sent in letters to individuals who were late to declare their income tax. We have previously reported the social impact that these trials have had – helping to bring forward hundreds of millions of pounds in additional revenue to the UK Exchequer.

Michael Hallsworth,
Director, Health and Tax

Over the past few years, the insights at the heart of these letters trials have been built upon, both by BIT through our work with local authorities and international governments (documented elsewhere in this report) and by the HMRC Behavioural and Customer Insight Team.

This section shows BIT's work on new aspects of tax compliance. It includes trials that show how we can: help people avoid being late with their tax in the first place (rather than improving the pursuit of late payments); influence corporations (not just individuals); and use new communication channels (like SMS prompts).

Preventing tax debts

The first trial focused on people who were due to make a Self-Assessment payment at the end of July 2015. The aim was to help prevent people from incurring tax debts and fines by prompting them before the payment deadline.

Ten days before the deadline, people were divided into two groups. The 'Letter' group was made up of people who did not have a valid mobile phone number according to HMRC records and the 'SMS' group comprised those who did.

Within the 'Letter' group, people were randomly allocated to receive a reminder letter, or no reminder. Which reminder letter the individual received depended on which one of three groups the person fell into. The first letter was for people who were new to Self-Assessment, but had missed their first payment, due in January 2015 (these are labelled 'New' in Figure 7.1). Letters to this group included a sentence noting the previous late payment.

The second letter was for those who had been late several times in the past. Letters to this group included a sentence noting these previous late payments ('Recurring'). The third letter was for people who had been late in the past, but had made their last payment on time. Letters to this group thanked the recipient for the recent timely payment, while noting the previous late payments ('Reformed').

Receiving a reminder letter significantly increased payment rates. It increased 'New' people paying by 34 per cent; 'Recurring' late payers by 59 per cent; and 'Reformed' individuals by 22 per cent (see Figure 7.2). Importantly, these effects endured even after HMRC had undertaken other enforcement actions: three months later, the payment rates of those receiving letters were still higher.

THE
BEHAVIOURAL
INSIGHTS TEAM.

Figure 7.1: **Proportion of people paying in full by the deadline and by three months after the deadline.**

** p<0.01, * p<0.05, + p<0.1
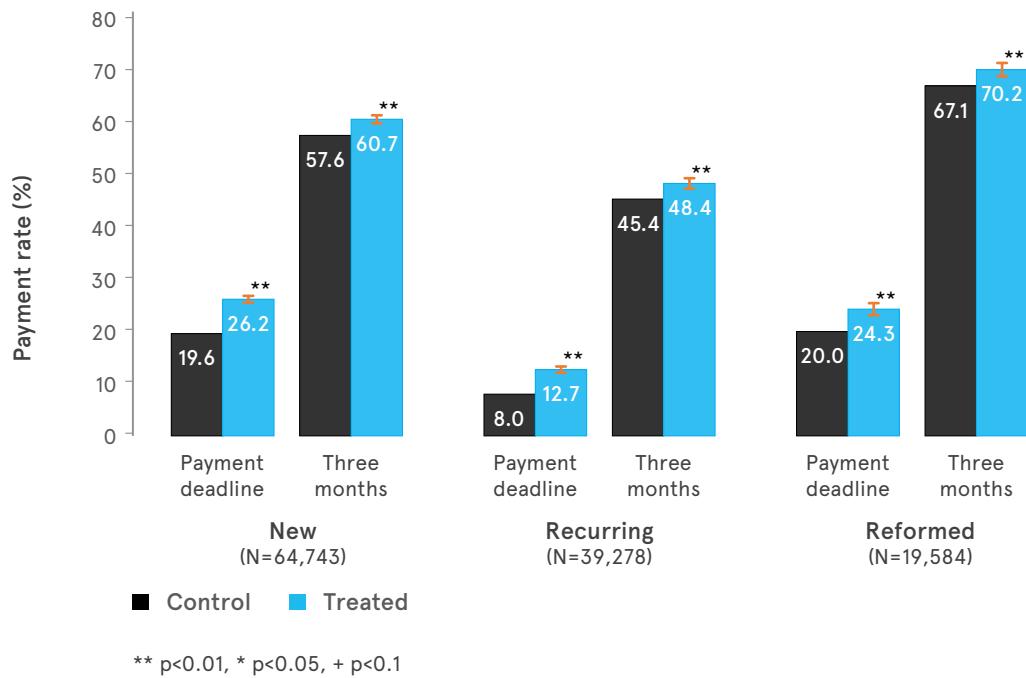
For the 'SMS' group, we identified the same three subgroups: 'New', 'Recurring' and 'Reformed'. However, in this trial we sent each subgroup two different messages: one was a standard reminder about the upcoming payment deadline and the other added in feedback on the recipient's behaviour (i.e. 'you were late last time'). We did this to isolate the effect of giving feedback on past behaviour from the general effect of sending a reminder.

Figure 7.2: **Proportion of people in 'Recurring group' paying in full on time, by text message treatment group**

N=20,681
** p<0.01, * p<0.05, + p<0.1
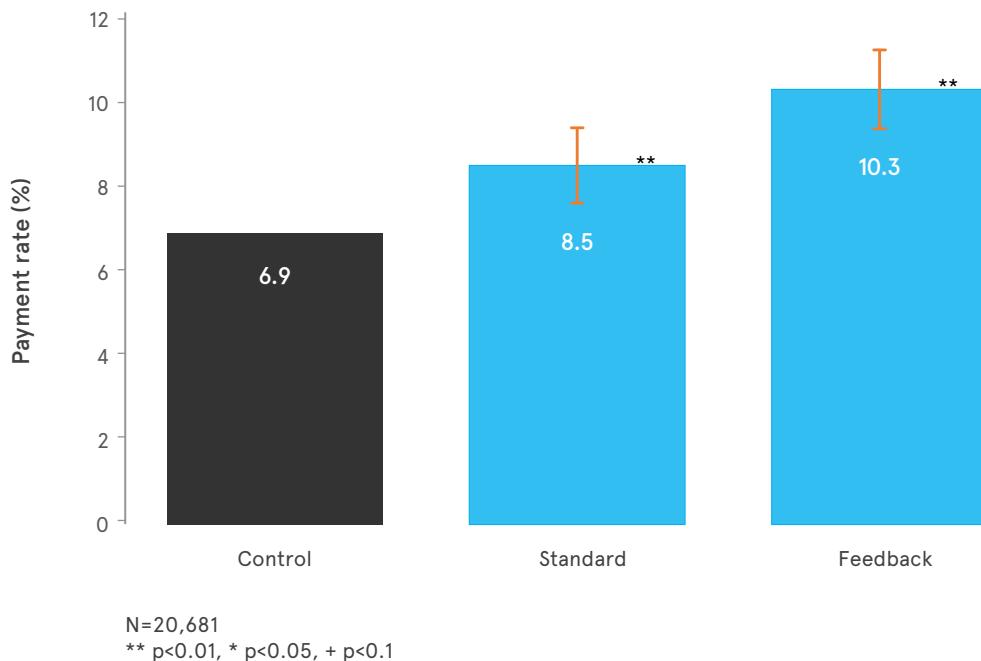
The results show that the feedback message in the 'Recurring' group resulted in a nearly 50 per cent increase in payment rates. This result is interesting because it would be reasonable to assume that this group would be the most difficult one to influence. Importantly, the performance improvement was still present three months after the deadline.

Contacting corporations

Much of our previous work has focused on debts held by individual taxpayers, for practical reasons. However, the majority of tax in the UK is paid by organisations (including income tax paid via PAYE). As a result, we wanted to establish whether organisations can be influenced in similar ways to individuals. We therefore ran a trial to vary the message sent to businesses that had incurred a corporation tax debt for the first time. This is an opportune moment to intervene, since providing timely feedback may prevent a business from becoming a habitual late payer.

The trial was simple: the existing letter was pitted against two new letters. The first letter contained a social norm message. This included a variation on a phrase that has been demonstrated to work well at encouraging individuals to pay their tax: 'The great majority of business owners who trade in your sector pay their tax on time. Most people with a debt like yours have paid it by now.' (Note that this phrase is, of course, factually correct.)

The second letter was educational in content. It addressed one of the main reasons for corporation tax debts – errors in filing. The letter provided helpful tips to make correct payment easier, such as using the correct reference number.

Both of the letters significantly increased the proportion of businesses paying in full. The educational letter was more effective than the social norm letter, which increased payment rates by 6 percentage points (or 15 per cent). This result shows again the power of 'making it easy' for someone to perform a behaviour. Interestingly, both the new letters were more effective for businesses with larger debts.

Figure 7.3:   **Rates of payment by companies within two weeks of receiving the letter.**
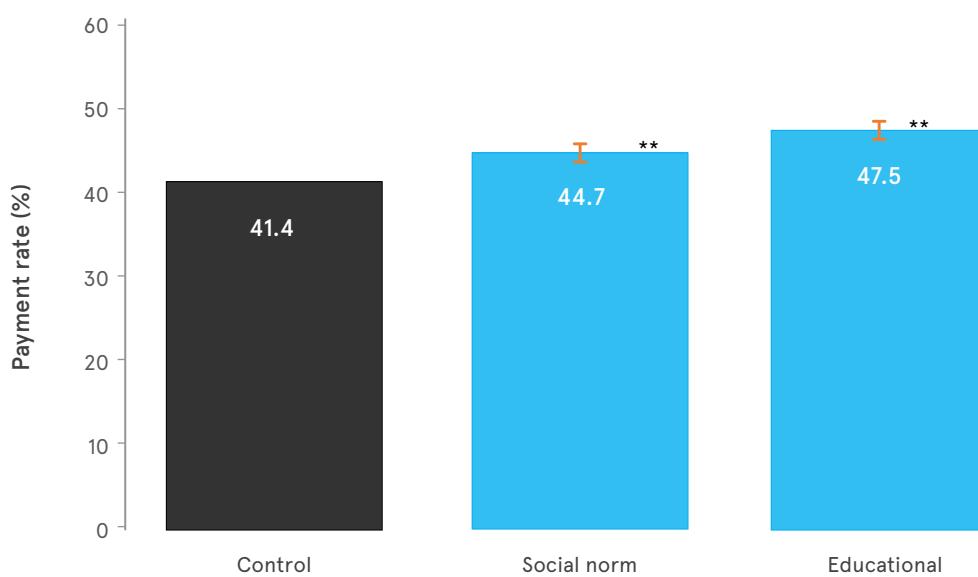
N=48,235
** p<0.01, * p<0.05, + p<0.1

Using SMS reminders

The final trial built on the earlier SMS message trial and also focused on Self-Assessment income tax. Again, three different SMS messages were tested against a control that received no message. All of the individuals had previously received a letter about their debt from HMRC.

The 'Standard' SMS message simply alerted the recipient to the debt and told them how to pay. The 'Monitoring' message pointed out that HMRC would be monitoring whether the debt was paid in the following week. The 'Penalties' message included the phrase, 'Most people pay on time to avoid penalties'. These three messages were compared with a group that did not receive any SMS message.

The results showed that sending the 'Standard' message only increased payment rates by 2.3 percentage points (and this was only significant at $p<0.1$). However, the 'Monitoring' message raised payment rates by 3.8 percentage points, and the 'Penalties' message by 7 percentage points, or 20 per cent in relative terms (both $p<0.01$). Given that SMS messages are cheap to send, these results are very promising indeed.

Figure 7.4:   **Rates of payment within 25 days of trial start date**

N=13,321
** $p<0.01$, * $p<0.05$, + $p<0.1$