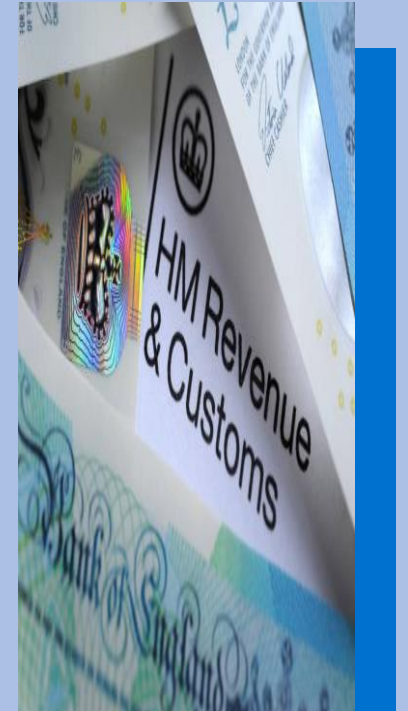


# Case study: Behavioral Insights- Tax Nudges: HMRC

## UK Trial on Tax\*

### 1. Make it Easy

- First principle is to consider how to make it easier for someone to do something, pay their taxes on time for example.
- Some ways to 'make it easy' include:
  - *Harness the power of defaults (A)*
  - *Reduce the 'hassle factor' of taking up a service (B)*
  - *Simplify messages (C)*
- (A) Defaults: tax systems can be put in place that automatically deduct individual's income tax without individual having to take any action (as in the UK's Pay-As-You-Earn system). Default option can be powerful tool for encouraging different outcomes.
- (B) Hassle Factor: sending taxpayers directly to a form, rather than a webpage that contains the form, increases response rates by 4% points.

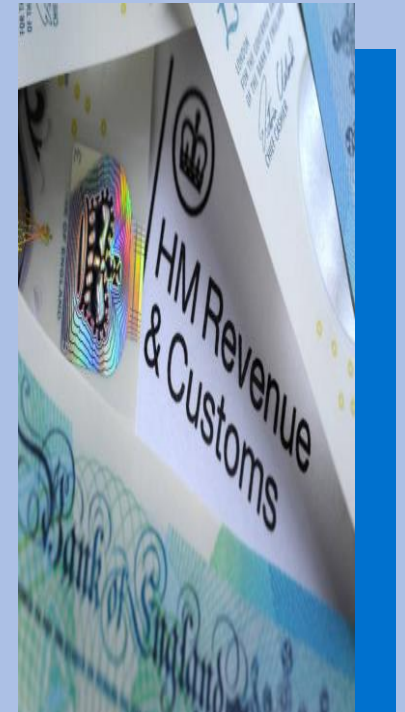
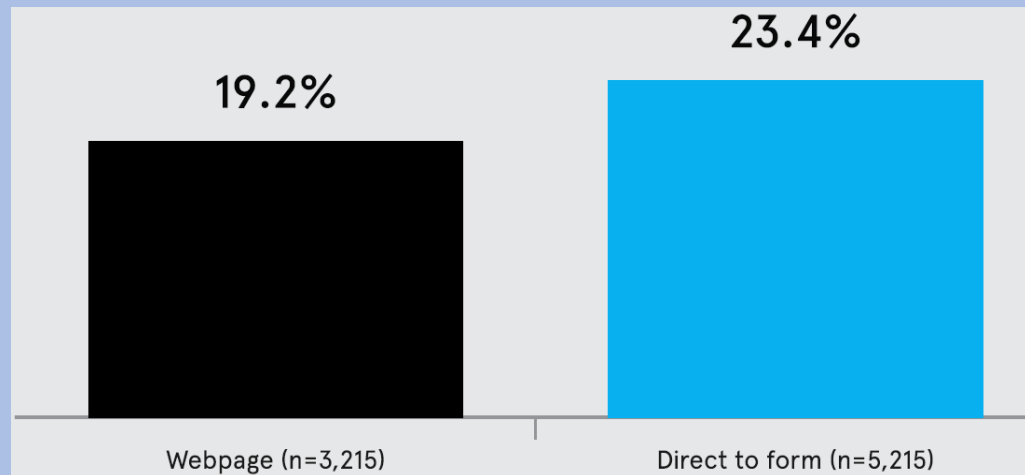


\* EAST: Four simple ways to apply behavioural insights, The Behavioral Insights Team

# Case study: Behavioral Insights- Tax Nudges: HMRC

*Increasing response rates by changing the default web-link*

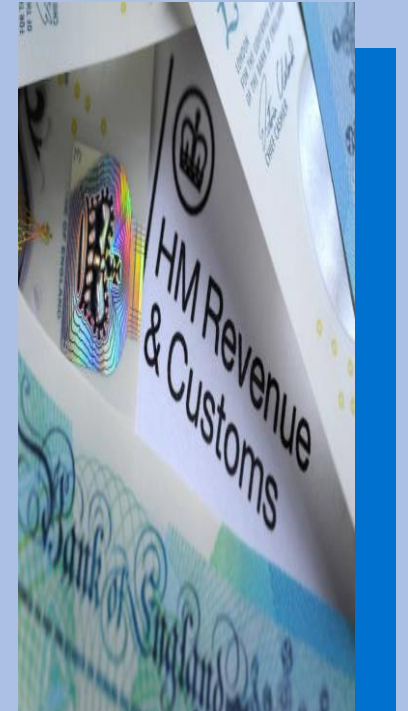
- Behavioral Insights Team has run a series of trials with HMRC that sought to improve tax collection rates by making it easier for individuals to pay. One of simplest interventions involved testing impact of directing letter recipients straight to specific form they were required to complete, as opposed to web page that included form.
- This change only slightly reduces difficulty of responding. Yet they found that simple act of making action easier had an unexpectedly large impact.
- Sending individuals directly to the form increased response rates from 19% to 23%.



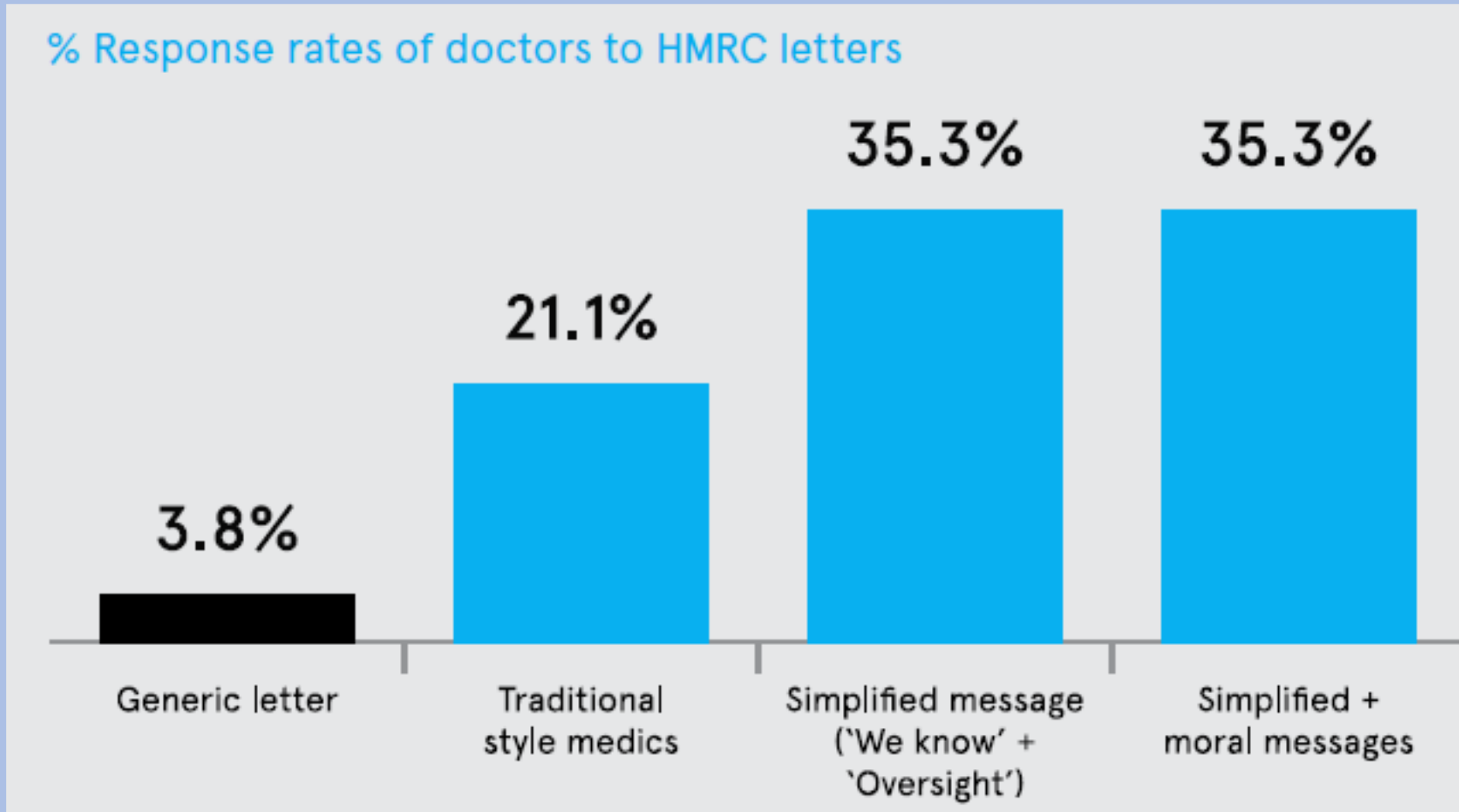
# Case study: Behavioral Insights- Tax Nudges: HMRC

## 2. Make it Attractive- Attract Attention

- Behavioral Insights Team ran trial with HMRC to test effectiveness of different letters aimed at encouraging doctors to pay outstanding tax liabilities.
- In November 2011, around 3,000 doctors were sent one of four different types of letters:
  - One group received a generic HMRC letter, of the kind anyone (regardless of their profession) would receive.
  - Second group received letters in the style that HMRC might usually send to a specific group, emphasizing that it was a campaign focused on doctors.
  - Third was a much simpler letter — shorter and more direct in tone. Also suggested failure to come forward was previously treated as an oversight, but would now be treated as an active choice by the recipient.
  - Fourth was identical but contained an additional moral message (which pointed out that a recent poll showed most people trust their doctor to tell the truth).
- Simply emphasizing that letters targeting a particular group through specific campaign had considerable impact — raising response rates by more than five times.
- Simplifying message also had a strong effect above and beyond focus on specific group.



# Case study: Behavioral Insights- Tax Nudges: HMRC



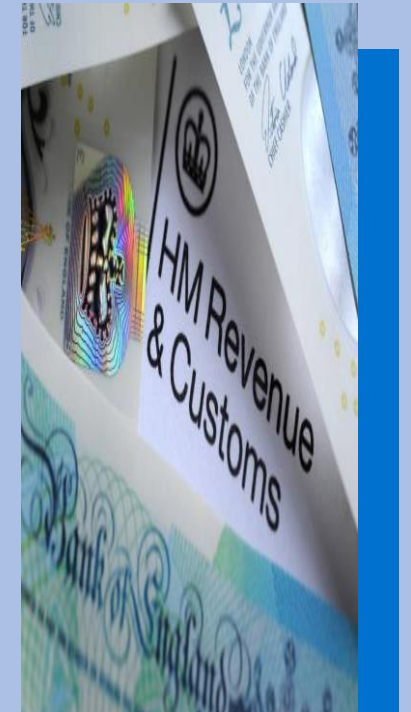
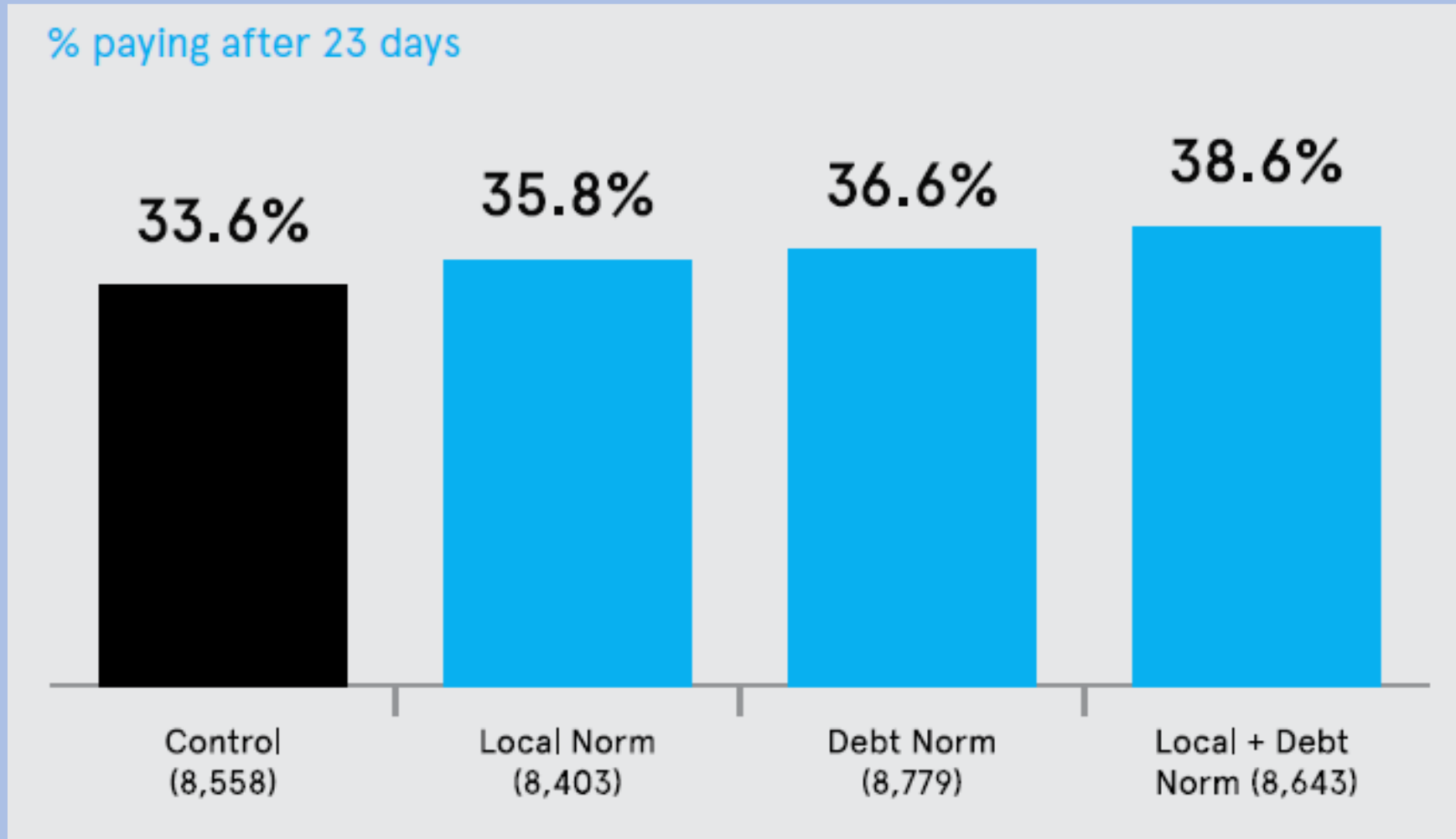
# Case study: Behavioral Insights- Tax Nudges: HMRC

## 3. Make it Social- most people perform the desired behavior

- Behavioral Insights Team and HMRC ran series of trials where including factual statements that most people had already paid tax increased tax payment rates
- Behavioral Insights Team and HMRC tested various social norm messages against a control letter (which contained no social norm) in letters to 100,000 Self Assessment tax debtors.
- ‘Local norm’ letters pointed out that great majority of people in recipient’s local area had paid on time (but area was not referred to by name); the ‘debt norm’ pointed out most people with debt like theirs had already paid. ‘Local and debt norm’ combined two messages.
- Messages became more successful as they featured more specific norms. Message that combined local and debt norm increased payment rates by 5% points (15% in relative terms) and led to £1.2m more being paid in first month than the control.
- Overall, use of these and similar messages brought forward £210m of tax revenue in 2012/13 financial year.
- HMRC and the Behavioral Insights Team awarded 2013 Civil Service Award for Innovative Delivery.



# Case study: Behavioral Insights- Tax Nudges: HMRC





# Case study: Behavioral Insights- Tax Nudges: HMRC

## 3. Make it Social- Encourage people to make a commitment to others

- Behavioral Insights Team and HMRC ran trial to test effect of different language in letters requesting tax returns to be filed.
- Found that by strengthening tone of commitment (from 'thank you for agreeing' to 'you agreed'), response rates rose from 21% to 25%.

