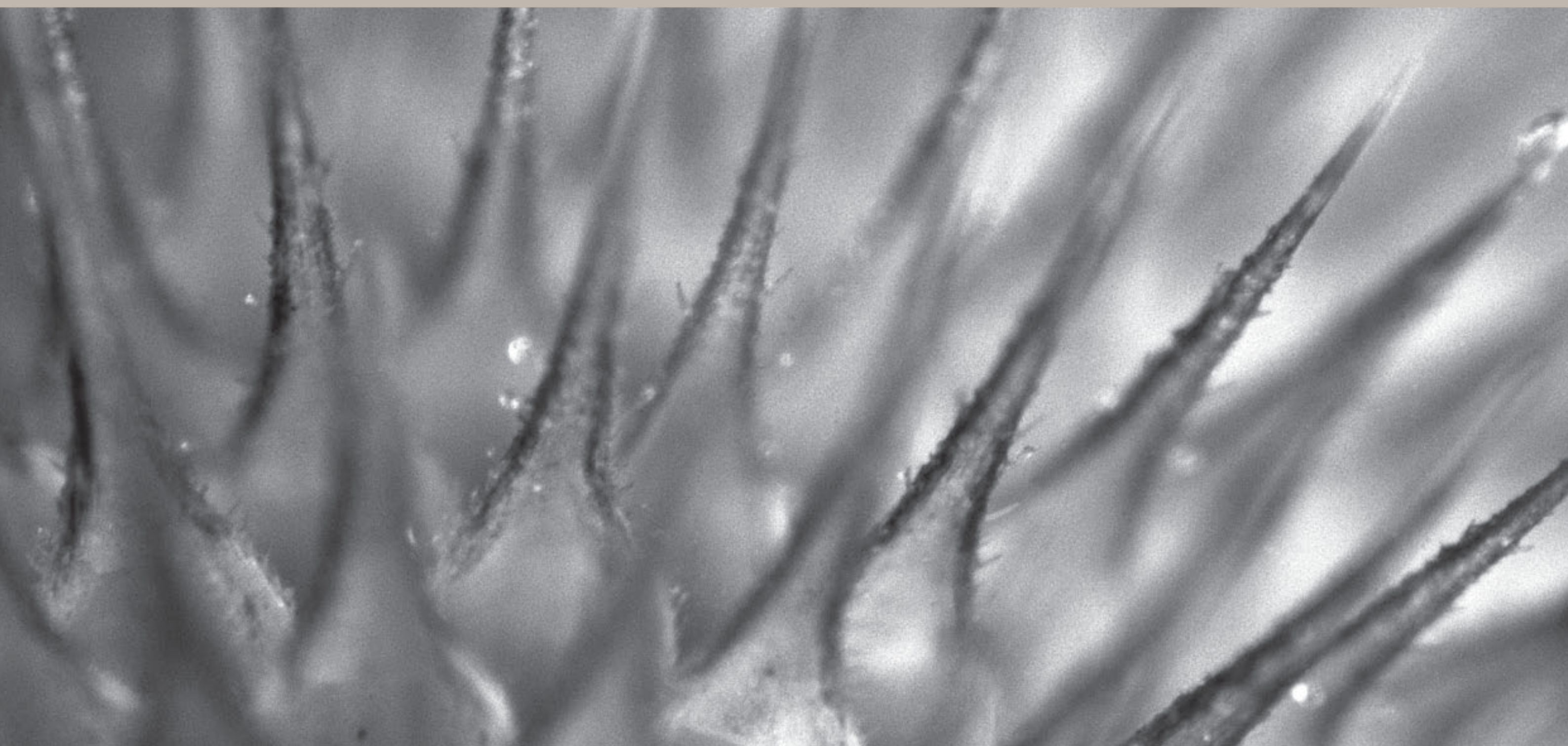
Research report 112

The Management of Tax Knowledge



The Management of Tax Knowledge

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Contents

Executive summary

Corporation tax can influence a firm's operating and financial decisions, not only by the direct imposition of the tax itself, but also indirectly though associated compliance costs. Firms can attempt to reduce the impact of taxation, both through tax planning and by ensuring that compliance-related tasks are carried out efficiently.

It goes without saying that tax knowledge is an important determinate of successful corporate tax planning. Paradoxically, governments may also desire firms to be aware of, or sensitive to, tax legislation. This may be in order to reduce administrative and compliance costs and, if tax legislation is being employed as a public policy tool, to change or encourage particular actions or activities, such as investment in research and development-related activities.

An important dimension of an efficient tax system is the processes by which taxpayers become aware of tax legislation and other tax-related information, referred to for the purposes of this research as 'tax knowledge'.

THE TAX SYSTEM AND THE MARKET FOR TAX KNOWLEDGE

Within any tax system there are clearly identified participants. Their roles can be examined in the context of a market for knowledge, tax knowledge. Such markets typically consist of producers, buyers and brokers. In the UK, HM Revenue and Customs (HMRC) is the knowledge producer, corporate taxpayers are the knowledge buyers, while accountancy firms (and other similar parties) perform, in their role of tax advisers, the function of knowledge brokers. At various stages, the parties' roles may change; for example, in some settings corporate taxpayers may act as knowledge suppliers to accountancy firms acting as knowledge buyers.

A distinctive feature of the market for tax knowledge is that it can be described as relatively non-competitive when compared with other knowledge markets, such as management consultancy, where a far greater proportion of traded knowledge is proprietary. An important question is, therefore, the nature of the interactions between the three parties comprising the tax knowledge market. The aim of this research is to describe those interactions and provide a set of practical suggestions to improve the operation of this particular market.

RESEARCH ISSUES

As important consumers of tax knowledge, corporate taxpayers' sources of knowledge are of particular interest, as are the motivating and inhibiting factors in their choice and use of tax knowledge. Besides considering the tax knowledge market in an inter-organisational context, we also look at the intra-organisational market that exists within each corporate taxpayer. How this intra-organisational market is structured, and the motivation of the various parties involved (eg tax experts and non-financial operational decision makers) is of importance. If corporate taxpayers are to respond to tax legislation in the desired manner, whether one looks at it from the perspective of either shareholders or a tax authority, then adequate knowledge of tax legislation is a prerequisite.

The functioning and role of the accountancy firms is examined in the context of how they meet the tax knowledge needs both of corporate taxpayers and of HMRC in its role as a knowledge buyer. Critical to the firms' capability in this respect is how they generate, maintain and retrieve their tax knowledge. In supplying this knowledge, it is important that accountancy firms can correctly identify the needs of the particular knowledge buyer.

As noted above, HMRC's primary role is that of knowledge supplier, with respect to the content of legislation, its interpretation or the associated administrative processes. Nonetheless, HMRC simultaneously acts as a knowledge 'buyer', both in its role of determining whether taxpayers have complied with legislation, and when it acts in a consultative capacity in the assessment of existing and proposed legislation and administrative processes.

RESEARCH METHOD

In examining the operation of the tax knowledge market, and in particular the issues raised above, a combination of research methods was employed: in-depth interviews and two questionnaire surveys.

The first stage of the research involved 26 in-depth interviews with the staff of the three parties in the tax knowledge market: corporate taxpayers (13), accountancy firms (8) and HM Revenue and Customs (5).

The sample of corporate taxpayers comprised companies drawn from a range of industries in order to increase coverage of the potential range of tax-related issues. Although attempts were also made to ensure that companies of different sizes were represented, the actual sample was finally determined by the interviewees available, and the majority of these were employees of UK-based multinationals.

The functional responsibilities of the interviewees were primarily accounting or finance-based, although other functions, such as human resources, were also represented. At the outset, attempts were made to ensure appropriate representation of these other functions, but although the accounting or tax contacts employed by the corporate taxpayers attempted to facilitate interview access with staff from other departments, only a small number of such interviews took place. This may indicate reluctance on the part of such individuals to recognise the importance of, or to participate in discussions of, tax-related matters, an issue that is explored in this research.

The accountancy firms interviewed cover the full size range from sole principal to Big Four practices. Geographical coverage was broad, with interviews taking place in London, two other cities and two towns across England and Wales. The majority of staff interviewed were tax specialists, although the sample did include knowledge management specialists and individuals with general responsibilities that included tax.

Within HM Revenue and Customs the interviewees represented a range of responsibilities. In addition to staff with direct taxpayer responsibilities, interviews took place with knowledge management specialists and staff with policy and practice responsibilities. Again, the geographical coverage was broad, although a number of staff were based in London because of their policy responsibilities and HM Revenue and Customs' organisational structure.

The second stage of the research was the two mail surveys. These were administered electronically via the Internet to samples of corporate taxpayers and to individuals working within accountancy firms. Unfortunately, two other mail surveys targeting human resource mangers and engineers attracted an insufficient response despite the assistance and support of associated professional institutes.

There were a total of 445 responses to the two surveys. These complemented the interviews, because the 223 corporate taxpayers that responded represented a broader size distribution than the interview sample. The majority of the 222 responses from accountancy firms were single-office partnerships, again complementing the interview sample.

KEY FINDINGS

The perception of tax specialists within both corporate taxpayers and accountancy firms is that the level of tax awareness among operational decision makers within corporate taxpayers is low. This is despite the fact that a significant proportion of these individuals are required to consider the tax effects of their decisions. As one might expect, the level of tax awareness among operational decision makers was higher among corporate taxpayers with internal tax experts. A challenge for all parties is how to raise awareness of taxation issues among operational decision makers.

It is, however, unclear what drives the decision to employ internal tax experts, and in turn the resulting level of tax awareness among operational decision makers. Although the presence of such internal experts was positively associated with taxpayer size, it was not associated with either perceived demand for tax knowledge or the level of tax complexity facing corporate taxpayers.

Although the majority of corporate taxpayers describe their relationships with HMRC as being 'good', only about a quarter consider they have sufficient opportunities to share knowledge with HMRC.

Only a small majority of corporate taxpayers (57%) agree that capturing internally generated tax knowledge is an important aspect of the tax function's role. Where procedures do exist to capture knowledge, the corporate taxpayers' attitude to their importance is not reflected in whether these procedures are formal or informal. The presence of such procedures is associated with access to tax expertise, either internal or an external source.

Operational decision makers within corporate taxpayers are not seen as reliable sources of knowledge relevant to tax decisions, either in terms of the timing of such decisions or their level of detail.

HMRC may be missing opportunities to learn from corporate taxpayers because, as noted above, corporate taxpayers perceive there to be a lack of opportunity to share information with HMRC. The perception is strongest among those corporate taxpayers using internal tax specialists, so the issue may be one of a lack of awareness rather than opportunity.

Corporate taxpayers employ external tax advisers for a number of reasons, but the principal motivation is simply to minimise their tax liability. Risk identification by tax advisers is also highly valued, as is their risk-shifting or insurance protection role. Accountancy firms recognise the importance of insurance-motivated demand for their services, although to a lesser extent than corporate taxpayers.

1. Introduction

Empirical tax research in accounting has, until recently, been largely quantitative, and focused on issues of tax policy, tax compliance and tax planning (Mulligan and Oats 2008). This previous research has made a large contribution to our understanding of technical tax issues and the various factors that affect the investment, financing and compliance decisions of taxpayers, both corporate and personal. In conjunction with this quantitative methodology, prior research in taxation has also tended to focus on only one party in the tax environment, such as the multinational firm or the individual taxpayer, tax accountant or tax official.

In this project we sought to explore the relationships between the UK tax agency, HMRC, corporate taxpayers and accounting firms. Some scholars have sought to study these relationships in a compliance setting (see Braithwaite 2003) but with the exception of recent work on large corporations by Oats and Tuck (2008), they have not addressed how knowledge is shared between the key parties in the tax environment.

In business, knowledge is now considered to be one of the most critical factors in establishing and maintaining competitive advantage (Conner and Prahalad 1996; Grant 1996a; Teece 1998; Hansen, Nohria and Tierney 1999; Quinn 1999; Dyer and Nobeoka 2000; Osterloh and Frey 2000; Douglas 2002; Riege 2005). Sharing, creating and applying knowledge is crucial to organisational success. Not only is it important that such processes take place within organisations, but it is also vital that knowledge is shared between organisations (Choo 1998; Ernst 2000).

To the best of our knowledge, this project is the first to focus on the management of tax knowledge within UK firms. Our aim is to determine how firms develop and use tax knowledge, and in particular the processes by which externally derived tax legislation is incorporated into firms' tax knowledge along with internally generated knowledge based on experience. We are especially interested in the following aspects.

- What determines the categories of tax knowledge within a firm, and what is the role of external tax advisers in this respect?
- What information sources do firms use to construct tax knowledge?
- How is tax knowledge retained and its relevance ensured?
- How do various parties access tax knowledge?

The remainder of this report is structured as follows. In the following chapter we provide some background and context to the field of knowledge management, and describe the relationship between HM Revenue and Customs (HMRC), accounting firms and corporate taxpayers in the context of knowledge markets. We also briefly outline the processes of knowledge sharing and the potential barriers to and facilitators of these processes. In Chapter 3 we describe our methodology. Chapters 4 and 5 respectively report our interview findings and survey results. Conclusions and policy implications are provided in Chapter 6.

2. Literature review

BACKGROUND

Knowledge management is a multidisciplinary profession that has established a relatively strong position in various disciplines, such as economics, organisation studies, business and management, communication science, and information technology. In the field of taxation, little attention is given to knowledge management research, although several UK researchers have used interview-based approaches in studying parties in the tax environment (HMRC 2007; Tuck 2007; Mulligan 2008; Toumi 2008). Hasseldine and Holland (2005) have identified four characteristics of the Corporation Tax system which impose significant compliance and related tax planning costs on companies. These characteristics have knowledge management consequences as they must all be managed within the tax function of firms; they are: (1) the complexity of legislation; (2) uncertainty over the nature of the administrative requirements; (3) awareness and interpretation of changes in legislation and administrative procedures; and (4) the administrative effort required to satisfy a particular item of legislation.

It seems that neither taxation research nor other research disciplines pay much attention to knowledge management issues in the taxation profession. Furthermore, current research on knowledge management is largely aimed at explaining and facilitating intra-organisational processes of knowledge sharing (Szulanski 2000; O'Dell and Grayson 1998; Hansen et al. 1999; Tsai 2002; Riege 2005). Studies that are conducted in the field of inter-organisational knowledge sharing primarily focus on cooperation processes between competitors (Loebecke et al. 1999; Bengtsson and Kock 2000; Sjogren and Fay 2002; Loebbecke and Angehrn 2003; Foti 2004) and on strategic alliances (Kale et al. 2000; Phan and Peridis 2000). A specific area in research on inter-organisational knowledge sharing that has been underexposed so far concerns the relationship between non-competitive organisations. There are a small number of publications about the link between the inter- and intra-organisational processes of knowledge sharing.

Our study contributes by starting to fill these gaps. The central aim of our study is to seek insight into how developments in tax legislation in the UK are captured by companies and are incorporated into their tax knowledge. The institutions that play a crucial role in the implementation of tax knowledge are the government and more specifically HMRC, accounting firms and corporate taxpayers. These organisations do not compete with each other; instead, they have a relationship of mutual dependency which enables the successful implementation of new legislation, and are considered to be willing to share knowledge for this purpose. The study focuses on exploring both processes of knowledge sharing between organisations, and on the implementation and use of knowledge within each of these organisations. Relevant themes that are addressed are the mutual understanding between these organisations, the way they share and incorporate tax knowledge, and the conditions under which they do so.

Apart from the theoretical considerations just mentioned the study also has practical relevance. We argue that our study could well benefit HMRC, accounting firms and corporate taxpayers. For example, more insight into how accounting firms and corporate taxpayers implement the changes in tax legislation could result in their applying the legislation more successfully, particularly when the legislation has a desired behavioural objective. This may benefit HMRC in terms of cost effectiveness, both through lower administrative costs and higher efficacy in making accounting firms and corporate taxpayers comply with regulations. Similarly, accounting firms and corporate taxpayers may experience lower compliance costs.

KNOWLEDGE MARKETS

The relationship between the three parties in our study that are involved in communicating, implementing, and utilising changes in tax legislation – HMRC, accounting firms, and corporate taxpayers – can be placed in a knowledge management context by using Davenport and Prusak's view on knowledge markets (2000). In these markets, the authors argue, knowledge is regarded as an economic asset and several players are active in the transactions of this asset. These players are described as knowledge buyers, sellers, and brokers. Knowledge buyers are people who actively seek knowledge. Knowledge sellers are defined as people who share knowledge with others, in return for (financial) compensation. Finally, knowledge brokers are people who connect buyers and sellers. All three types of players aim to benefit from exchanging knowledge. Davenport and Prusak (2000: 27) mention that 'an individual can perform all three roles in a single day and sometimes play more than one role simultaneously'.

Davenport and Prusak (2000) define knowledge markets at the organisational level and their players at the individual level. Nonetheless, we believe that knowledge markets may also operate on an inter-organisational level, with organisational instead of individual players. In this respect, the relationships between the three major parties that are involved in our study can be perceived as a knowledge market in tax legislation. HMRC, who develops and communicates new tax legislation, can be regarded as a knowledge seller. As a knowledge seller, HMRC is eager to receive feedback from corporate taxpayers and accounting firms, in order to optimise its processes. HMRC aims to collect tax 'efficiently and fairly while minimising the administrative burden to business and individuals' (HMRC 2009).

> *We've set up a number of forums to help us exchange views and ideas on the best ways to manage and improve the way we work with taxpayers, businesses and agents. These forums have representatives from business and the professions and others who have an interest in what we do.* (HMRC 2009)

Both corporate taxpayers and accounting firms are organisations that are likely to seek knowledge about new tax legislation. In this respect, they can be defined as knowledge buyers.

Accounting firms, however, may also have the role of knowledge brokers. They are considered to function as intermediaries between corporate taxpayers (knowledge buyers) and HMRC (knowledge seller), a role that can also be described as 'gatekeeping' or 'boundary spanning' (Choo 1998). For example, as gatekeepers, accounting firms can be helpful in representing clients' interests in communicating with HMRC. As KPMG states:

> *We are at the forefront of public debate on tax policy, regulation and the changing attitude to tax, pensions and corporate governance. We believe in strong open relationships with both tax and wider regulatory authorities. We give constructive independent views on behalf of our clients, and the wider business community* (KPMG 2009).

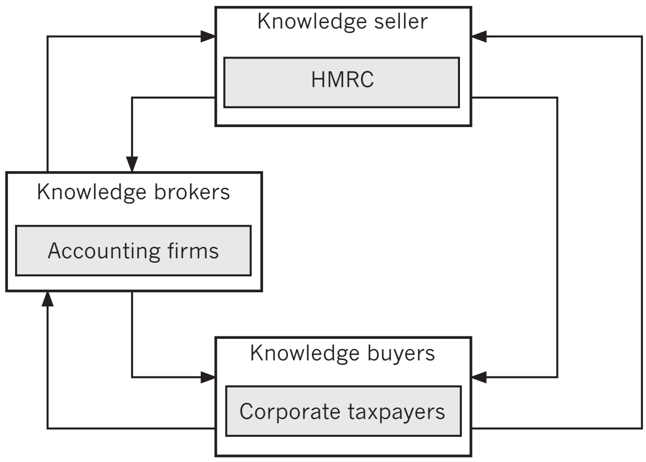
Furthermore, corporate taxpayers may decide to hire the expertise of accounting firms as external advisers when they find that they do not possess sufficient knowledge about how to comply with legislation or how to benefit optimally from tax reliefs. A claim that is relevant to many companies is the Research and Development (R&D) tax relief. Accounting firms can support companies claiming for such an R&D tax relief. For example, PricewaterhouseCoopers (PwC) describes how:

> *Our team of specialists work closely with clients to submit R&D claims and put in place effective and long-term reporting systems to help companies comply with all relevant HMRC requirements. Such an approach eliminates HMRC scrutiny over future claims and also translates into time and cost savings* (PwC 2009).

In this respect, accounting firms fulfil a consultancy role. Management literature has focused on the mediating role of consultancy firms in sharing knowledge. Although empirical research on this topic is relatively scarce (Sturdy 1997), the existing body of literature is applicable to our study, for it shows, among other things, that 'knowledge is the core asset of consultancies' (Hansen et al. 1999: 106). Consultancy firms, like accounting firms, offer their clients intangible assets (Sturdy 1997). These assets, however, are not necessarily unique. Clients may be well able to acquire or develop comparable assets without the intervention of consultancy firms. This is why consultancy firms 'need to claim superior expertise to maintain their value and competitive position' (Fincham 2002: 80). Obviously, this has interesting implications for the relationships between accounting firms and corporate taxpayers, especially with respect to the mutual dependency and communication flows between these two parties (Sturdy 1997; Sarvary 1999; Fincham 2002). Accounting firms are continuously in the process of acquiring and developing new knowledge in order to be able to offer their clients services with added value and maintain their competitive advantage. A distinctive aspect of consultancy is that, 'the most valuable part of knowledge originates almost entirely from client assignments' (Sarvary 1999: 97). So the (sometimes confidential) information that accounting firms acquire while working for corporate taxpayers can be used not only to the benefit of the corporate taxpayer, but also their own benefit. The knowledge-intensive character of accounting firms also involves challenges within the relationships between these firms and HMRC. Accounting firms are likely to be eager to build and sustain strong relationships with HMRC.

The supposed relationships between the three parties in our study are visualised in Figure 2.1.

Figure 2.1: Tax knowledge market



KNOWLEDGE SHARING

Processes of inter-organisational knowledge sharing are unmistakeably connected to intra-organisational processes of knowledge sharing. As Nonaka and Takeuchi (1995: 72) state: 'organizational knowledge creation is a spiral process, starting at the individual level and moving up through expanding communities of interaction, that crosses sectional, departmental, divisional, and organizational boundaries'.

Nonaka and Takeuchi (1995) refer to knowledge creation instead of knowledge sharing because knowledge cannot be **objectively** shared. By using the term 'creation', they distinguish their view on knowledge sharing from a more traditional, technological approach. According to the technological approach on knowledge sharing, knowledge can be stored in and extracted from ICT applications. For example, Milner mentions that an intranet is:

> *commonly referred to as the internal information and knowledge engine of all types of organisations, networked across offices, locations and, in some instances, national boundaries. Properly constructed, it should offer, at appropriate levels of security clearance, a way of*

> *empowering an employee to navigate the most suitable, and value-adding path through the organisation's operating structure, information holdings and knowledge base* (Milner 2000: 112).

According to more interactive views on knowledge sharing, such as that of Nonaka and Takeuchi (1995), exchanging knowledge implies that people both contribute and collect (Grant 1996b; Ardichvili et al. 2003; Van der Rijt 2007). Contributing parties try to convey their personal knowledge to others. For these other parties, however, this knowledge is just impersonal material that needs to be interpreted before it acquires meaning. The knowledge that results from this interpretation process has unique personal features, and is therefore never completely identical to the knowledge of the contributing party (Conner and Prahalad 1996). In other words, knowledge is initially created through interpersonal interaction and processes of personal interpretation.[1] Knowledge may also develop on other levels than the individual level, for example when it is shared in a group. Likewise, knowledge can be shared within and between organisational and inter-organisational levels. On each of these levels processes of interpretation take place. This entails an extra challenge for knowledge brokers, such as the accounting firms in our study, who need to 'understand the coding schemes used on both sides of the perimeter, enabling them to recognize information on one side and disseminate it on the other side' (Choo 1998: 145).

In the creation of knowledge, Nonaka and Takeuchi (1995) argue that different types of knowledge interact with each other. In this respect, they refer to the distinction between tacit and explicit knowledge. Tacit knowledge can be described as knowledge that is difficult to articulate, while explicit knowledge is easier to express. Owing to its more objective and abstract character, explicit knowledge leaves less room for personal interpretation than tacit knowledge. This makes explicit knowledge easier to share.

Changes in tax legislation are assumed to be communicated in a clear-cut and straightforward way, since it is considered that all parties involved with these changes should interpret them similarly and apply the new legislation in a correct manner.[2] So the knowledge that is shared on the inter-organisational level is expected to have a relatively explicit nature. Even so, the intra-organisational processes by which new tax legislation is interpreted and incorporated by organisations are expected to add tacitness to this explicit knowledge. Accounting firms and corporate taxpayers, for example, give meaning to HMRC's new (explicit) tax legislation. By combining this new information with existing knowledge (Choo 1998), they may develop new ideas and find yet unexplored opportunities in applying the new legislation. Again, this is particularly relevant for accounting firms, when considering their role as knowledge brokers. Even though HMRC provides similar knowledge to all accounting firms, these firms can distinguish themselves from and gain competitive advantage over other accounting firms by creating new knowledge. Choo states:

> *The organization evaluates new knowledge in relation to its beliefs about how the application of the knowledge will enhance its competitive position, its interpretations about how the market will react to new products or services, and its expectation about how the new capability matches its longer-term goals and vision.* (1998: 149)

In successfully acquiring and using external knowledge, the organisation's internal capabilities, skills, prior knowledge, and motivation play an important role (Choo 1998).

BARRIERS AND FACILITATORS

Prior research suggests that there are many different factors that either positively or negatively influence processes of knowledge sharing in and between organisations. In order to fully understand and potentially improve processes of knowledge sharing, it is important to know the barriers to and facilitators of such processes.

Szulanski (2000) formulates several factors that influence the transfer of knowledge and best practices in organisations. For example, he mentions the motivation of the knowledge source; the perceived reliability of the source; motivation of the knowledge recipient; the absorptive, retentive and innovative capacity of this recipient; and the strength of ties between source and recipient. Further, the author mentions that a supportive organisational context has an important role in successful processes of knowledge transfer (Szulanski 2000: 11–2).

Riege (2005) makes distinctions between other types of potential barriers to successful knowledge-sharing processes, many of which are similar to Szulanski's. Riege (2005) identifies three types of potential barriers. First, Riege considers potential individual barriers, such as lack of time, lack of trust, and demographic differences. Second, he mentions a range of potential organisational barriers, for example lack of leadership, an unsupportive culture, and internal competition. Finally, he looks at potential technological barriers, including lack of technological support and insufficient technological training.

1. In this perspective, the term 'knowledge sharing' is most frequently used for describing processes of knowledge creation. We continue to use the term, therefore, in this report.

2. Although the authors note that there might be incentives for legislation to be ambiguous, thereby increasing the uncertainty and therefore taxpayer costs, eg in the field of anti avoidance.

Comparable barriers are characterised by Hinds and Pfeffer (2003), although they distinguish between cognitive and motivational barriers to knowledge sharing. Cognitive barriers occur when people are not able to share knowledge, even when they want to. This can be related to several factors, such as an inadequate level of knowledge-sharing skills and opportunities, a lacuna in expertise between sharing parties, and characteristics of the knowledge that is shared. Motivational barriers, on the other hand, occur when people are not willing to share knowledge, even though they may be able. This may arise when they feel that they do not benefit enough from doing so. Such a benefit can be financial, intellectual, reputational or can be related to the improvement of career or enhancement of power. Further, the unwillingness to share knowledge can also be related to poor social relationships (Szulanski 2000; Riege 2005; Van der Rijt 2007).

In the context of public accounting firms, Vera-Muñoz et al. (2006) focus on how to enhance processes of knowledge sharing. They argue that information technology systems can facilitate such processes, given that employees are able to work with the available systems. Further, they point out that personal interactions within teams of auditors may be either facilitators or barriers. Factors that play a role in this respect are organisational culture, procedural justice (fairness of decision-making processes) and trust, role conflict and role ambiguity, supervision and feedback, and a match between organisational culture and individual characteristics. Finally, the authors focus on the role of intrinsic and extrinsic reward systems in enhancing knowledge sharing.

The literature that focuses on intra-organisational contexts can be applied to inter-organisational contexts. For example, HMRC may experience problems sharing certain tax knowledge with the industry when companies are unaware of its relevance. Conversely, companies may find that they are having difficulty communicating about tax legislation with HMRC owing to a difference in levels of tax expertise.

Studies identifying factors that influence knowledge-sharing processes in inter-organisational contexts generally give explicit attention to competition in inter-organisational knowledge sharing. For instance, Stonehouse et al. (2001:130) mention facilitators that are aimed at developing 'knowledge more quickly than an organisation's competitors', limiting 'the capability of competitors to develop new knowledge', and developing or acquiring 'the knowledge which is the source of competitive edge'. Such factors are less applicable to our study, since the parties involved in the study are not involved in competitive battles with each other.

Nonetheless, on the basis of the literature that focuses on the relationship between consultancy firms and their clients in general, specific factors that may influence the knowledge flows between accounting firms and corporate taxpayers can be distinguished. Fincham studied power dimensions between consultants and clients. His study (2002) shows that clients are not necessarily dependent on consultants' knowledge, but that consultants heavily rely on their clients. For example, to ensure that their work with a particular client continues, consultants seek internal support in the clients' firm, avoid internal parties that may undermine their work (such as internal departments that are able to offer similar services), and settle for solutions with which the client is happy (Fincham 2002). This means that consultants (such as accounting firms) are dependent on the knowledge of clients' (such as corporate taxpayers) in order to remain in control and successfully communicate with these clients.

An empirical study by Sturdy (1997) also sheds light on the often complex, underlying motives for knowledge sharing between consultants and their clients. He argues that the relationship between the parties is an interactive process. Clients intentionally hire, and communicate with, consultants. They do this for several reasons, such as for legitimising decisions, strengthening their position, and achieving goals. Consultants, on the other hand, offer their clients the reassurance they need, for example by normalising problems and solutions. Even so, they also try to reinforce their clients' uncertainty by pointing out new problems that need to be solved. This is a precarious balancing act. It may secure future work, but they also risk losing their clients' support.

Finally, another potentially important barrier that corporate taxpayers may experience in deciding whether to share knowledge with accounting firms is the fact that accounting firms are likely to (re-)use the knowledge that they acquire as a result of working for the corporate taxpayer in future projects, possibly even for other clients (Sarvary 1999). Sarvary explains, 'Knowledge is, before anything else, about learning. In consulting, learning takes place in the field at the clients' premises. The more clients a firm has, the more experience it can acquire and the larger the base for knowledge creation' (1999: 104). Corporate taxpayers thus estimate whether or not they are confident that accounting firms will not disclose confidential information to others, and accounting firms need to convince corporate taxpayers of their trustworthiness.

3. Methodology

INTERVIEWS

The goal of our study is to gain more insight into inter- and intra-organisational processes of knowledge sharing about new tax legislation. For this purpose, a total of 19 explorative, in-depth interviews were conducted with employees from HM Revenue and Customs (HMRC), accounting firms, and corporate taxpayers throughout the UK. All interviews were recorded and transcribed. Subsequently, the transcripts were coded and analysed with the help of NVivo software.

Three employees from HMRC were interviewed. The accounting firms that were selected for participation in the study include those from the 'Big Four', those from medium-sized practices, and from a single-office partnership and a sole proprietor. In these accounting firms, seven employees were interviewed. We identified several key factors and requirements for the purpose of selecting corporate taxpayers to participate in the project. Factors used in selecting potential firms were: the degree of regulation, the degree of capital intensity, increases in R&D expenditure, making a tax loss, firm size, foreign presence and partnership status.

Also, in securing a minimum level of regulatory responsibility, firms were required to be quoted. Firms were identified in the following industries: manufacturing; wholesale, retail, trade; transport and communication; government; and electricity, gas, water. Datastream and FAME databases were used to select organisations for participation in the project by reference to the characteristics identified above. The organisations were contacted by telephone and email. Ultimately, nine organisations in several fields agreed to participate.

The interviewees were all occupied in the field of taxation and/or knowledge management. As shown in Appendix 4, Table A1 (see page 51), 11 interviews were conducted face-to-face, and eight interviews were conducted by telephone. Most face-to-face interviews were conducted by two interviewers, the telephone interviews by one interviewer. All interview transcripts and coded summaries were read by at least two of the researchers.

In total, three different interview guides were designed for conducting the interviews: one for HMRC, one for the accounting firms (shown in Appendix 1 as an illustration), and one for the corporate taxpayers. An interview guide is different from an interview questionnaire as there is no strict order to the questions that are asked. In addition, the precise formulation of questions can vary between interviews. Interviews conducted with an interview guide have a relatively open character and the course of the interview is largely determined by the information that is provided by the interviewee. The guide lists several topics and focal points that enable the interviewers to steer the interview. A variety of subjects were covered, including: communication flows about new tax legislation between HMRC, accounting firms and corporate taxpayers; communication flows about new tax legislation within HMRC, accounting firms and corporate taxpayers' firms; and barriers to and facilitators of knowledge sharing within and between organisations. The results of the interviews are outlined in Chapter 4.

MAIL SURVEY

Following the interview phase, we developed two questionnaires to further explore the emerging findings of the interviews and the predictions made by previous literature. The first questionnaire was directed at corporate taxpayers (CT) and the second was aimed at tax advisers working in accounting firms (AF).

Both draft questionnaires were piloted in a business school and among members of the UK Taxation Research Network, and several minor modifications to the questionnaires were made as a consequence. The two questionnaires are reproduced in Appendix 2 (CT) and Appendix 3 (AF).

Rather than opt for a mail survey using printed matter and incurring postage, ACCA kindly agreed to email members of two sub-groupings: members in the Corporate Sector panel received an email link to the corporate taxpayer's questionnaire, and members of the Practitioner's Network received an email link to the accounting firm's questionnaire.[3] Both questionnaires were hosted on www.freeonlinesurveys.com. There were 223 responses to the corporate taxpayers' questionnaire and 222 responses to the accounting firms' questionnaire. Analyses of both questionnaires are presented and discussed in Chapter 5.

3. This research design choice meant we were unable to investigate the knowledge management structure in the non-affiliated agent population (which could be quite a different dynamic owing to the lack of continuing professional development etc).

4. Interview results

In Chapter 2, we framed the potential relationships between the parties involved in our study by referring to a knowledge market (Davenport and Prusak 2000). The usual players in such a knowledge market are sellers, buyers and brokers; HMRC was identified as a knowledge seller, accounting firms were defined as knowledge brokers, and corporate taxpayers as knowledge buyers. Besides focusing on the knowledge flows between these organisations, we also pointed out the significance of knowledge flows that take place within each of these organisations. Some interesting findings with regard to these inter- and intra-organisational knowledge flows emerged from our empirical study.

The initial observations that arose from the 19 interviews that were analysed are summarised in Tables 2, 3, and 4 (see Appendix 4) on the basis of the following themes:

- motives for and benefits of knowledge flows
- methods and procedures adopted on knowledge flows
- barriers to knowledge flows.

In this chapter a series of interviewee responses are reported which illustrate some of the issues involved. First, we discuss the relationship between intra- and inter-organisational processes of knowledge sharing in the knowledge market, paying particular attention to facilitators of and barriers to these processes. Next, we pay specific attention to the role of accounting firms as knowledge brokers in the knowledge market.

PROCESSES OF KNOWLEDGE SHARING

In line with our expectations, inter-organisational knowledge flows appear to be crucial for the creation of intra-organisational knowledge and vice versa. For instance, HMRC interviewees mentioned the importance of the contributions of accounting firms to their internal training sessions. They also reported their appreciation at receiving feedback from both accounting firms and corporate taxpayers, as this feedback provides opportunities to improve tax legislation, in which case issues of timing become relevant, as the following quotations show.

> *We had a case study that was drawn up jointly with the Big Four accountancy firms. We focused on a software case study, where the inspectors in syndicate groups worked through the case study and looked at typical questions arising about the R&D claim. And in each syndicate group there was a software specialist from one of the Big Four accountancy firms, who helped the inspectors to understand the issues in making a claim.* (HMRC interviewee 1)

> *The initial impetus was to get the guidance out to the outside world first, because the way it works is that companies will formulate their claims and they needed the guidance first. And then the inspector needed the guidance in handling the claims after they came in. So you look to giving the guidance to the outside world before you give it to the inspectors really. You give the inspectors overviews of guidance.* (HMRC interviewee 1)

> *One item that's always on the agenda is 'Are you getting any feedback from companies making claims about how we could improve the system, about any expenses that we might be missing that are genuine R&D expenses that we're not giving relief for?' And I think the inspectors as they go out visiting companies are putting across this message to the companies, 'If you want to influence the way the scheme is run or how it's designed, then by all means tell us'.* (HMRC interviewee 1)

Identification of target audiences and timing of the knowledge flow are important considerations for HMRC in its external communications. HMRC uses knowledge brokers such as accounting firms to distribute knowledge among their (potential) clients and will also in some cases seek to make contact with knowledge buyers directly.

> [W]*e had doubts over the coverage, as to whether we were getting everybody who might be interested. For example, it was almost self-selecting; you would try and find people who were carrying out* [a particular activity] *already and advise them how to make a claim.* (HMRC interviewee 1)

> [T]*hey are looking at the patent applications made, identifying which are in the field of science and technology and then trying to find out whether the companies have claimed relief for the work in developing those patent applications.…*[T]*hey have identified an issue with a number of companies that aren't making claims but should be making claims, and they're going to approach them and invite them to make claims.* (HMRC interviewee 1).

Similarly, corporate taxpayer interviewees (CTs) indicated that they use external sources to acquire and develop internal tax knowledge. In turn, the interviews show that intra-organisational knowledge flows are essential for successful inter-organisational flows of knowledge. Only with the appropriate knowledge flows, are companies able to use this knowledge to their benefit. In this respect, several interviewees mentioned that their company is often dependent on non-tax professionals in-house to make successful tax claims. Consequently, internal knowledge buyers and sellers can be identified. Depending on the direction of intra-organisational knowledge flows, the identities of internal knowledge buyers and sellers can be interchangeable.

> *Sharing* [tax knowledge] *with*[in] *the businesses is obviously one of the tricky things that I have to deal with because…I am actually reliant on accountants of the businesses who aren't actually tax people, to do a lot of the basic tax work.…*[I]*t is helpful if they have some tax knowledge. But on the other hand, you don't want to so overburden them with tax knowledge that either they can't cope or, frankly, it's something that they only do once a year and…you can't expect them to sort of give their all to it if they're not going to use it again for a year.* (CT interviewee 2)

Conflicts can arise if the tax professionals in the organisation are not fully informed of the context of the claim, and there are alternative or competing non-tax professionals who have different incentives. Avoiding such conflicts requires a certain level of knowledge, and this has implications for delegating decision making to the appropriate level.

> [Operational decision makers] *have other sources … a great number of them probably know quite a lot about R&D tax credits because as you can imagine, people out in the market are often trying to sell them R&D tax credit work.…As far as they're concerned, they're tax-paying because they have to pay for their group relief. So they're tax-paying, so they can see the benefit of it. But of course, [from] a group perspective, where the group isn't tax-paying, it actually isn't worth anything to us. So you have to…say 'well hang on'…And they…phone me up and…say 'I'm just about to engage this person to come and do this work for me, that's all right, is it? And we're going to pay them; that's all right, isn't it?'.* (CT interviewee 2)

The following quotes show that the successful transfer of knowledge can be improved by the appropriate motivation and use of subject experts, both internally and externally. For instance, a particular seller can add credibility to a particular transfer.

> *One thing we do, and we've always been very keen to do, is use visits from HMRC to…actually take them out to departments, to make departments realise that* [tax] *is a real issue. And it puts the departments on edge, which probably isn't a good thing but it makes them realise that tax is serious.…we are quite keen to make sure that HMRC are visible on visits* [when] *we take them round.* (CT interviewee 7)

> *Because they* [ie subject experts] *know…they can talk about the technology and then the finance teams often aren't technological in background and actually struggle to understand the technology, let alone understand the R&D regime. So if we can go straight to the technologists and speak to them in technology language, then that still takes the process* [ie time]. *And that's partly why we bring in our own technologist.* (AF interviewee 3).

Corporate taxpayers may take into account legal considerations that influence the form in which knowledge is retained, and even influence whether it is created.

> *There's another area of concern, which is that of discoverability of documentation. Most companies have no problem at all in making factual information available to revenue authorities. I think where companies start to have a problem is* [with] *expressions of opinion, either internally or prepared by advisers.…if we go out* [of the company] *for advice, much of that expression of opinion is not privileged unless it's within very confined sort of parameters involving lawyers. And therefore there's a lot of concern about whether we…inadvertently will find ourselves in a position of having to provide expressions of opinion to revenue authorities when it's not really appropriate.* (CT interviewee 1)

The dynamic relationship and interdependence between inter- and intra-organisational knowledge flows can also be found in the interviews conducted with the employees of accounting firms. An important issue mentioned here focuses on detail, and concerns over information overload.

> *The chances are that clients have seen whatever it is we've seen and we need to be able to have a conversation with the clients about the implication*[s]. *And there are varying degrees, in terms of being able to get knowledge out to our people, so they should always be aware of what's out in the public domain...They need to know enough to then have a sensible conversation. They might not need to know the detail or the answers, they just need to be aware of maybe some of the implications. And then within a very short space of time, we actually need to have taken it to the next stage and … be looking at the interpretation and the full implications, what some of the solutions and answers might be to that* [question]. *And it's trying to get…different levels of knowledge out at the right time. And as a technical group, we've got some of the best technical brains...within the group and we can be very, very detailed. So one of our challenges is frequently, almost like 'do they really need the Rolls Royce or would the pushbike do at the moment?'.* (AF interviewee 1)

The interviewees indicated that a common method of acquiring and using knowledge is the precedence-based system, which typically relies on voluntary submissions.

> *Very typically for our tax users, it's precedence-based information; what have we done? What advice has been given to other clients? That kind of stuff. Our tax practice relies heavily on end-user submissions. So people in the tax practice submit content they've generated through the course of their work. That content is then processed and it's filtered, it's sanitised, by which we mean client names are stripped out.…*[O]*ur tax practitioners can go and search over all of the internal* [company name] *generated content. But if, for example, they want to access legislation at the moment, they need to go out, go and access say, for example, the LexisNexis Butterworth site over the* [company name] *firewall. So effectively, if you're looking for* [company name] *precedence, and legislation, you've got to…run two searches.* (AF interviewee 2)

In the above setting the company is acting in all three capacities, as (internal) knowledge buyer, seller and broker. The effectiveness of a precedence system is dependent on the volume and quality of the submissions, the generation of which can conflict with more immediate demands.

> *People are all being measured nowadays in this environment, they're all being measured on utilisation, charge-out rates and that kind of stuff.…creating knowledge submissions; they can't charge that to anything, so it really has to be done…almost out of the goodness of their hearts.* (AF interviewee 2)

One firm reports rewarding staff with shopping vouchers in return for making submissions.

THE ROLE OF KNOWLEDGE BROKERS

In line with the literature review, the interviews indicate that the intermediate role of accounting firms is acknowledged by all players in the knowledge market. Both HMRC as knowledge seller and corporate taxpayers as knowledge buyers perceive accounting firms as knowledge brokers. Accounting firms seem vigorously to promote and defend this position.

> *HMRC are trying to be very close to the taxpayer and almost be seen as business advisers, and we clearly want to stand in the middle of that. So we don't necessarily want HMRC to be going straight to corporates because we believe our role is to facilitate that* [relationship]*…We have a lot more experience…as to how we can make that work effectively. Whereas sometimes the corporates can be quite naive and see HMRC as their friend, where actually they're never going to be that. And they can't be because they're a governmental institution and…they've got their rules to abide by.* (AF interviewee 1)

> *It's a kind of…balancing act of them* [the accounting firms] *sharing knowledge between the clients,* [while] *obviously not giving away all of our…trade secrets.* (AF interviewee 2)

HMRC interviewees seem to have a relatively positive attitude towards the mediating role of accounting firms in communicating with corporate taxpayers.

> *If we're doing an enquiry and we find the agent's* [ie the accounting firm] *got* [hold of] *the wrong end of the stick, if you can educate the agent and get them to do things right in the future, that has a huge effect compared with just educating one company.* (HMRC interviewee 2)

Corporate taxpayer interviewees also mentioned the benefits of having accounting firms as intermediaries in knowledge flows from and to HMRC.

> *HMRC tell it as it is, the accounting firms analyse it and explain the implications for you, which is quite helpful.* (CT interviewee 3)

> *Another way we might feed things back is via the accounting firms, so they might write to us and say 'Do you have any views that you'd like us to put in our representations* [to HMRC]*?' And we find that quite a convenient way to do things.* (CT interviewee 3)

Nevertheless, the interviews do show that both knowledge sellers and buyers also have reservations about the role of knowledge brokers, and a particular criticism is the commercialisation of knowledge by accounting firms. For instance, HMRC interviewees expressed concern about the possibility of accounting firms having a different interpretation of tax legislation. And corporate taxpayers appear to experience doubts about the reliability of the accounting firms, especially when accounting firms shift their focus from performing as a knowledge broker to acting as a knowledge buyer; this point is clearly formulated in the next quote.

> *They* [the accounting firms] *come and review our files, have a chat to see what we are doing…often I say to myself, they probably learn more from us than we learn from them, when they come to our organisation, sit down and discuss and see what we do. And I'm sure there are things which they can then go and sell to other companies. I'm sure it happens. Many things which we agree with the local VAT office, certain VAT treatments, certain VAT recovery, certain practices, which are not within the legislation, they may be as a discretionary treatment. And yes, I think the professional folks do come in and see how we are doing things, and I'm sure they take that away and see that as an opportunity to go* [into] *other firms and do a similar exercise.* (CT interviewee 8)

> *We had one of the Big Five in to do us a PAYE and NIC review, just to make sure everything was working alright. And the next you know you get a 20-page report, a sort of scathing report saying 'this is potentially wrong, this is potentially wrong, this could be troublesome, this could cost us a lot of money'. And once such a report is written, the hands of the management are tied; they have then got to act on it.* (CT interviewee 8)

> *The accounting firms and law firms are extremely sensitive to the commercial value of knowledge and information. To put it very cynically, they need to appear to be the fountain of all knowledge and wisdom, while actually imparting as little as possible, so they preserve it for selling to you on a future occasion.* (CT interviewee 1)

Aside from quality and reliance issues, the choice of supplier can be influenced by the corporate taxpayer's ability to retain or capture the knowledge created. There are potential limitations to an organisation's ability to retain knowledge generated both internally and externally.

> [P]*eople sometimes say there's a benefit in undertaking research in-house because you retain the knowledge; but I question that,…given* [a] *realistic turnover and movement of people within a tax department, you probably don't really preserve it in perpetuity anyway.* (CT interviewee 1)

I think the client is always wondering whether they've actually captured the knowledge, which has been so expensively purchased....[A]*ny time we are planning a complex transaction and there's something with which we even feel familiar, we still feel compelled to go out and take expert advice in all the specialist areas applicable to the transaction, which may well be going over old ground; and even if we think we understand the issues, we still have to do that to confirm that we've not forgotten anything that's happened in the law in the meantime.* (CT interviewee 1)

Despite the considerations above, the interviewees say that they do regularly rely on accounting firms. Most corporate taxpayers hire accounting firms for specific tasks. They believe that in those situations, the advantages of hiring accounting firms outweigh the (potential) disadvantages. In this respect, strong relationships are considered to be very important.

If we feel we can't rely solely on our own efforts, then we'll go to a professional firm, which for most issues probably will be a Big Four accounting firm, and ask for their formal advice. If it's a very specific legal issue, we might go to a law firm. (CT interviewee 1)

You want some external assurance that the decision you've come to is the right one...in the sense that you want someone else to have come to the same conclusion as you, so that you don't get sacked for it later. (CT interviewee 3)

We use them but we're not fully reliant on them. We listen to them, take their advice and then implement it. We don't say to tax advisers, 'come in and do the whole lot'. But we just listen to what they've got to say, but a lot of the stuff we do ourselves. (CT interviewee 7).

It does make us want to have known and trusted advisers, and relationship-building with advisers is very important. And I think those relationships can be damaged if information is exchanged inappropriately. But I find the Big Four, the big law firms, extremely professional in that context. (CT interviewee 1)

The interviews that were conducted with employees from accounting firms indicate that accounting firms are aware of the views of the other players in the knowledge market on their precarious role as knowledge broker. Consequently, they are eager to enhance their perceived reliability among, and maintain strong relationships with, HMRC and corporate taxpayers.

We really don't use information from one client with another, it's too risky. And you know, we'd need permission and, on the whole, we don't want to go to clients and ask their permission for that sort of thing, so we just don't do it. We change teams, so that we don't have people working on competitor claims either. So it's not that you might have one person with that knowledge going from one claim to the next, we tend to split our teams in such a way that, within a sector, we don't have people working on direct competitors' claims. (AF interviewee 3)

The firm as a whole is very, very clear on its terms of disclosure and filing positions; and you know,...not only do we wish to be whiter than white, we wish to be seen to be whiter than white. (AF interviewee 1)

An alternative response to similar concerns is deliberately to withhold the acquired knowledge from any knowledge storage system.

There's something about confidentiality, and there are various areas of the business where there are some enormous barriers to sharing knowledge because of confidentiality. Particularly in a deal-based environment, and also because of the size of firm that we are, we regularly deal with a number of big players in the same sorts of industries. So again, there may be areas...I'm thinking of one incident in particular I know which was a few years ago, where someone had come up with a very creative piece of planning, which was worth quite a lot to them. But actually we also operated for their main competitor, and therefore it was stipulated they didn't want any of this going onto any sort of central databases because their main competitor would see it, and they no longer would be sort of stealing a march on it effectively. (AF interviewee 1)

CONCLUSION

Our interview findings confirm Davenport and Prusak's (2000) original definition of knowledge markets. According to these authors, knowledge markets consist of individual players at an organisational level. The interview findings show that knowledge sellers, brokers and buyers can be defined within the organisations that participated in our study. Our study also shows, however, that inter-organisational knowledge markets can be defined. HMRC can be identified as a knowledge seller, accounting firms as knowledge brokers, and corporate taxpayers as knowledge buyers.[4]

4. It is noted that in April 2008, HMRC announced the extension of its (non-statutory) Clearances Service to business customers. This may help to resolve issues of open disclosure and finality that corporates seek.

5. Mail survey results

INTRODUCTION

This chapter reports the results of two surveys; one of tax advisers and the second of corporate taxpayers. Prior to being hosted on an independent website, the two surveys were piloted among a group of academic tax researchers who, in addition to their current involvement in tax-based research, had varying degrees of practical tax experience. Minor modifications were made to the surveys following this process.

An invitation to participate, along with details of the research project, was contained in ACCA's electronic journal *Accounting and Business.* This was followed up by sector-targeted emails sent by ACCA to sections of its membership, one for members in practice and the other for those employed in the corporate business sector. In total 445 responses were received, split almost equally between the two groups: 223 corporate taxpayers and 222 advisers. The discussion below will start with the corporate taxpayers' survey.

The results from the mail surveys directly feed into the study's policy implications, and these are outlined under the relevant sub-heading in this chapter as well as being listed in full in the next chapter.

In the following discussion of the results, references to a particular survey question are indicated, eg '(b)' refers to question b in the relevant table. The percentages in the discussion text indicate the extent of (dis)agreement; eg (45%) refers to the **combined percentage** '(dis)agreeing' or 'strongly (dis)agreeing' with a particular statement.

The mean response score for each question is given in the tables. For the purposes of identifying significant differences, a nonparametric approach is employed using either the Mann-Whitney-U or Chi squared tests, as appropriate. Differences in responses between sub-categories of respondents are reported only when they are statistically significant at the 5% level. In such circumstances the reported percentage is based on the sample size of the appropriate sub sample, for example in stating "Meetings with HMRC at national or regional level (b) were more important for companies with internal tax specialists (48.8%)", the 48.8% is based on the number of responses from companies with internal tax specialists.

CORPORATE TAXPAYER SURVEY: BACKGROUND OF RESPONDENTS

To provide a context for the subsequent discussions it is important to consider the characteristics of the corporate taxpayers (see Table 5.1). The respondents compromise a wide range of sizes of corporate taxpayer when measured by numbers of employees. The table shows that all four of the European Union standard size categories are represented, although the number of 'micro' firms is small. In the subsequent analysis, this category has been combined with the 'small' category to give 60 small-firm observations. There is also wide variation in the number of tax jurisdictions with which respondents interact. The median value of 3 is a better indication of the sample characteristic than the mean value of 8, because of the presence of one untypical company that operates in more than 150 jurisdictions.

The individual respondents held at least one Consultative Committee of Accountancy Bodies (CCAB) recognised accounting qualification. The one exception is a member of the Chartered Institute of Taxation (CIOT), a further six respondents were also members of CIOT and five held the Association of Taxation Technicians (ATT) qualification.

Table 5.1: Corporate tax respondents by working setting

	Mean	Median	Max	Min	Number
Number of employees in organisation	9,073	160	>400,000	1	219
Distribution by EU size definition	**Micro**	**Small**	**Medium**	**Large**	**Total**
Number of firms	17	53	49	99	218
	Mean	**Median**	**Max**	**Min**	**Number**
Number of tax jurisdictions organisation interacting with	8.75	3	>150	1	207

STRUCTURES OF TAX KNOWLEDGE MANAGEMENT

The survey considered three main forms of structuring the management of tax knowledge: the use of internal tax specialists; internal accounting specialists; or external tax specialists (see Table 5.2). In the subsequent discussion these three approaches are respectively referred to as 'internal tax specialists', 'internal accounting specialists' and 'external tax specialists'. A fourth category 'other' was provided for in the survey, and the responses show that it consists mainly of companies that combined both internal and external specialists. Collectively these four forms are referred to as 'structures'.

Table 5.2 indicates a relationship between company size and the structure of tax knowledge provision. Compared with SMEs, large firms are more likely to have an internal tax specialist and correspondingly use external tax specialists less frequently. Surprisingly, there is no relationship between type of tax structure and either complexity, ie number of tax jurisdictions, or demand for tax knowledge.

NEED FOR TAX KNOWLEDGE

Just over two-thirds (67.6%) of companies had a high need for tax knowledge. No relationship exists between the need for tax knowledge and either company size or tax complexity.

Table 5.2: Structure of tax knowledge provision and company size

Provision	Company size			
	Small	Medium	Large	Total
Internal tax specialists	7 (14.1)	4 (9.9)	33 (20)	44
Accounting and finance staff	22 (21.8)	16 (15.3)	30 (30.9)	68
Tax responsibilities are outsourced to external advisers	31 (27.6)	25 (19.3)	30 (39.1)	86
Other	10 (6.4)	4 (4.5)	6 (9)	20
	70	49	99	218

The bracketed figures represent the expected number in the absence of a statistical relationship between Provision and Company size.

USE OF TAX KNOWLEDGE

The degree of interaction between taxation and operational decision making within a company provides an indication of the importance of tax knowledge to a company. A lack of interaction can give an indication of areas where the use of tax knowledge could lead to improvements in decision making. Three operational areas were considered: human resource; production; and research and development.

The results in Table 5.3 are surprising when considered in the context of classical economic theory, and specifically with respect to the Scholes-Wolfson tax decision-making paradigm of considering all parties, all taxes, and all costs (Scholes et al. 2008). In fewer than half of the companies (46.8%) are operational decision makers required to consider the tax effects of the decisions they make (a); though when internal tax specialists are present the percentage (60.5%) is higher than for both the other categories, internal accounting specialist (50%) and external tax specialists (36.5%).

Other responses are similarly disappointing in terms of tax awareness within operational functions. For example, in only a third of cases (33.4%) are operational decision-makers considered to be proactive in seeking advice from internal sources of specialism (c), and less so (22.1%) when external tax specialists are used (d).

These low figures are consistent with low levels of tax-related knowledge and skills; 64.7% of companies disagree that operational decision-makers ‘have the necessary skills and knowledge to consider taxation effects appropriately’ (e). Overall, however, a small majority (58.2%) consider that their company gives an appropriate level of attention to tax matters (f), even though only 23.5% evaluate operational decision makers on a basis that reflects taxation (b).

Table 5.3: Operational decision makers

Listed below are statements with regard to decision makers in operating functions within your organisation, eg Research and Development, Human Resources and Production. Please indicate for each of these statements to what extent you agree.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) Operational decision makers are required to consider the tax effects of their decisions	13 (6.1%)	57 (26.5%)	44 (20.6%)	87 (40.7%)	13 (6.1%)	3.14
(b) Operational decision makers are evaluated on a basis that takes into account taxation	22 (10.3%)	86 (40.4%)	55 (25.8%)	45 (21.1%)	5 (2.4%)	2.65
(c) Operational decision makers are proactive in seeking tax advice from internal sources	18 (8.4%)	66 (31.0%)	58 (27.2%)	64 (30.1%)	7 (3.3%)	2.89
(d) Operational decision makers are proactive in seeking tax advice from external sources	32 (15.0%)	85 (39.9%)	49 (23.0%)	42 (19.7%)	5 (2.4%)	2.54
(e) Operational decision makers have the necessary knowledge/skills to consider taxation effects appropriately	40 (19.0%)	96 (45.7%)	39 (18.6%)	33 (15.7%)	2 (1.0%)	2.34
(f) Overall my organisation gives an appropriate level of attention to taxation matters	6 (2.8%)	32 (15.0%)	51 (23.9%)	105 (49.3%)	19 (8.9%)	3.46
(g) Operational decision makers provide tax specialists with necessary tax related information on a timely basis	13 (6.1%)	64 (30.2%)	79 (37.3%)	49 (23.1%)	7 (3.3%)	2.87
(h) Operational decision makers provide the tax function with necessary tax related information in an appropriate form, eg level of detail	11 (5.2%)	57 (27.1%)	82 (39.1%)	53 (25.3%)	7 (3.3%)	2.94

The conclusions from this section of the survey are as follows.

- Awareness of taxation considerations among operational decision makers needs to be raised. Although performance measurement on an after-tax basis may not always be appropriate or practical, at a minimum, recognition should be given to the importance of considering taxation issues when decisions are made (CT 1).

- HMRC should consider means of raising levels of tax awareness among operational decision makers within firms. One approach would be to use professional institutes and associations in the various fields as a means of making and developing contacts (HMRC 1).

Figure 5.1: Operational decision makers are required to consider the tax effects of their decisions
Source: Table 5.3 (a)

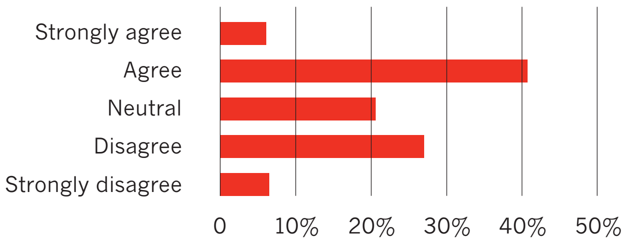
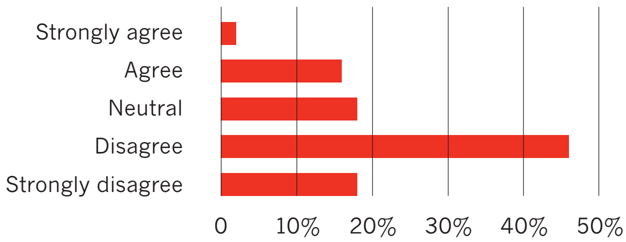


Figure 5.2: Operational decision makers have the necessary knowledge/skills to consider taxation effects appropriately
Source: Table 5.3 (e)



SOURCES OF KNOWLEDGE

The most important source (see Table 5.4) of tax knowledge is the HMRC website or newsletters (a) (83.9%), though other direct forms of interaction with HMRC are of relatively low importance as sources of knowledge. For example, there is a low level of participation both in representative meetings with HMRC at national or regional levels (b) (24.7%), and in business meetings, forums and boards (l) (37.4%).

Meetings with HMRC at national or regional level (b) were more important for companies with internal tax specialists (48.8%), when compared with other companies (18.9%). When external tax specialists were employed, the HMRC website was the second most important source after the company's auditor (i).

Table 5.4: Sources of knowledge

In sharing knowledge about tax legislation, your organisation can communicate with different sources in several ways. Below you will find several options specified. Please indicate for each of these options how important they are for your organisation in acquiring knowledge about tax legislation.

	Not at all important		Neutral		Very important	Mean score
(a) HMRC website or newsletters	3 (1.3%)	9 (4.0%)	24 (10.7%)	108 (48.2%)	80 (35.7%)	4.13
(b) Meetings with HMRC at national or regional level	54 (24.7%)	37 (16.9%)	74 (33.8%)	33 (15.1%)	21 (9.6%)	2.68
(c) Participation in HMRC consultation bodies and boards	69 (31.7%)	48 (22.0%)	75 (34.4%)	16 (7.3%)	10 (4.6%)	2.31
(d) Local HMRC units	33 (15.1%)	34 (15.5%)	86 (39.3%)	51 (23.3%)	15 (6.8%)	2.91
(e) Newsletters / 'Tax bulletins' issued by accountancy firms	2 (0.9%)	11 (5.0%)	34 (15.5%)	119 (54.3%)	53 (24.2%)	3.96
(f) Newsletters / 'Tax bulletins' issued by law firms	28 (12.8%)	37 (16.9%)	59 (26.9%)	73 (33.3%)	22 (10.1%)	3.11
(g) Training courses offered by accountancy firms	19 (8.6%)	27 (12.3%)	57 (25.9%)	84 (38.2%)	33 (15.0%)	3.39
(h) Training courses provided by other suppliers	8 (3.7%)	32 (14.6%)	73 (33.3%)	82 (37.4%)	24 (11.0%)	3.37
(i) Specific advice offered by your organisation's external auditor	13 (6.0%)	6 (2.8%)	30 (13.9%)	83 (38.4%)	84 (38.9%)	4.01
(j) Specific advice offered by accountancy firm(s)	10 (4.6%)	12 (5.5%)	41 (18.9%)	81 (37.3%)	73 (33.6%)	3.90
(k) Specific advice offered by law firm(s)	27 (12.4%)	35 (16.1%)	67 (30.9%)	54 (24.9%)	34 (15.7%)	3.15
(l) Participation in business meetings, forums and boards	22 (10.0%)	22 (10.0%)	93 (42.5%)	65 (29.7%)	17 (7.8%)	3.15
(m) Other – please specify at end of questionnaire	36 (34.9%)	3 (2.9%)	56 (54.4%)	3 (2.9%)	5 (4.9%)	2.40

KNOWLEDGE SHARING WITH HMRC

The results in Table 5.5 show a general lack of active participatory relationships with HMRC. It shows that companies use HMRC as a means of learning about developments (a) (66.8%) and to acquire tax knowledge (e) (53.4%) but less frequently in applying tax knowledge to specific situations (f) (40.7%).

Knowledge sharing is 'demand driven', with little evidence that of HMRC provide knowledge unprompted (b) (25.7%) or seek feedback (c) (10.5%).

The incidence of being asked for, and providing feedback to, HMRC is very low – questions (c) and (d) respectively. Internal tax specialist respondents were more positive (c) (27.9%) and (d) (25.0%) compared with (7%) and (12%) respectively for other companies.

The main conclusion from this section of the survey is that corporate taxpayers should develop a more proactive approach in their exchanges with HMRC, and consider the possibility of using its expertise early in the decision-making process (CT 2).

Table 5.5: Knowledge sharing with HMRC

Listed below are statements with regard to sharing knowledge about tax matters with HMRC. Sharing knowledge is a process that implies both acquiring and providing knowledge. Please indicate for each of these statements the extent to which you agree.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) HMRC is an important source for my organisation in learning about tax matters	1 (0.4%)	21 (9.4%)	52 (23.3%)	102 (45.7%)	47 (21.1%)	3.78
(b) HMRC informs my organisation about tax matters unprompted	22 (9.9%)	74 (33.3%)	69 (31.1%)	50 (22.5%)	7 (3.2%)	2.76
(c) HMRC asks my organisation for feedback on tax matters	52 (23.6%)	92 (41.8%)	53 (24.1%)	19 (8.6%)	4 (1.8%)	2.23
(d) My organisation provides feedback to HMRC about tax matters	45 (20.4%)	72 (32.7%)	64 (29.1%)	35 (15.9%)	4 (1.8%)	2.46
(e) My organisation uses HMRC to acquire tax knowledge	11 (5.0%)	28 (12.8%)	63 (28.8%)	92 (42.0%)	25 (11.4%)	3.42
(f) My organisation uses HMRC in implementing and applying tax knowledge	16 (7.2%)	40 (18.1%)	75 (33.9%)	73 (33.0%)	17 (7.7%)	3.16

ABILITY, MOTIVATION AND EXPERIENCES IN KNOWLEDGE SHARING WITH HMRC

Table 5.6 shows that a small majority of companies (54.3%) agree that sharing knowledge with HMRC enables the latter to determine the company's correct liability (k); while a minority (21.6%) believe that sharing knowledge enables HMRC to increase the liability (l). Knowledge sharing with HMRC may therefore be seen as a low-risk activity by the majority of companies.

The responses to the remaining questions in Table 5.6 are non-committal, although differences do exist between the different tax knowledge structures.

There is a clear distinction between internal tax specialists and internal accounting specialists (percentages in brackets below). Of these two groups, internal tax specialists have a higher level of:

- ability (a) 70.5% (34.3%)
- opportunities (b) 54.5% (23.2%)
- positive relationships (c) 77.3% (61.4%)
- accessibility (d) 66.7% (45.7%)
- necessary expertise (f) 65.9% (45.7%)
- motivation (g) 43.2% (20.0%)
- intellectual benefits (i) 47.7% (34.3%)

in their dealings with HMRC.

Table 5.6: Process of sharing knowledge with HMRC

Below are listed statements with regard to conditions that may influence the process of sharing tax knowledge with HMRC. Please indicate the extent to which you agree with each of the statements.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean Score
(a) My organisation has the ability to share knowledge with HMRC	17 (7.8%)	48 (21.9%)	64 (29.2%)	81 (37.0%)	9 (4.1%)	3.08
(b) My organisation has sufficient opportunities to share knowledge with HMRC	11 (5.0%)	73 (33.3%)	78 (35.6%)	50 (22.8%)	7 (3.2%)	2.86
(c) My organisation has a good relationship with HMRC	3 (1.3%)	7 (3.2%)	88 (40.0%)	108 (49.1%)	14 (6.4%)	3.56
(d) My organisation finds HMRC accessible	7 (3.2%)	32 (14.8%)	73 (33.6%)	96 (44.2%)	9 (4.1%)	3.31
(e) My organisation has positive experiences with HMRC	6 (2.7%)	27 (12.3%)	92 (42.0%)	85 (38.8%)	9 (4.1%)	3.29
(f) My organisation possesses sufficient expertise to share knowledge with HMRC	8 (3.6%)	39 (17.7%)	81 (36.8%)	79 (35.9%)	13 (5.9%)	3.23
(g) My organisation is motivated to share knowledge with HMRC	17 (7.7%)	52 (23.6%)	101 (45.9%)	43 (19.6%)	7 (3.2%)	2.87
(h) Sharing knowledge with HMRC is financially beneficial	11 (5.0%)	42 (19.1%)	115 (52.3%)	48 (21.8%)	4 (1.8%)	2.96
(i) Sharing knowledge with HMRC is intellectually beneficial	10 (4.5%)	27 (12.3%)	100 (45.5%)	73 (33.2%)	10 (4.5%)	3.21
(j) Sharing knowledge with HMRC is reputationally beneficial	10 (4.6%)	26 (11.9%)	97 (44.3%)	75 (34.2%)	11 (5.0%)	3.23
(k) Sharing knowledge with HMRC enables them to determine the correct tax liability	8 (3.7%)	10 (4.6%)	82 (37.4%)	103 (47.0%)	16 (7.3%)	3.50
(l) Sharing knowledge with HMRC enables them to increase the tax liability	6 (2.8%)	30 (13.8%)	134 (61.8%)	40 (18.4%)	7 (3.2%)	3.06

Similar differences exist when comparing internal tax specialists with external tax specialists, where the corresponding higher percentages for the external tax specialists are:

- ability (a) (32.1%)
- opportunities (b) (15.3%)
- positive relationships (c) (40.7%)
- accessibility (d) (41.9%)
- necessary expertise (f) (29.1%)
- motivation (g, chart 4) (13.9%)
- intellectual benefits (i) (37.2%).

A difference also exists in the nature of the relationship with HMRC (Table 5.6 (c)), with an increase in positiveness from:

- external tax specialists (40.7%)
- internal accounting specialists (45.7%)
- internal tax specialists (77.3%).

A similar ranking occurs with capability to share knowledge (f), with the three structures reporting percentages of 29.1%, 45.7% and 65.9% respectively.

In terms of the benefits of sharing knowledge with HMRC (e) and (h), internal tax specialists are more positive (52.3%) and (27.3%) than external tax specialists, where the relative values are (36.1%) and (19.8%) respectively.

Despite these differences between the structures, the absolute levels of the mean response in Table 5.6 are all below 4, the level indicating agreement. It thus appears that companies see HMRC as an important source of information but do not have a strong motivation to share information in a two-way process, despite the low risk identified.

The main conclusions from this part of the survey are as follows.

- Corporate taxpayers without internal tax experts should consider the benefits both of higher levels of tax awareness among operational decision makers and of improved relations with HMRC. Obviously costs are an important consideration in determining the optimum structure for tax knowledge management (CT 3).

- HMRC should make greater use of firms' tax-related experiences by improving its methods of capturing feedback. This would enable difficulties to be identified at an earlier stage. Again, the use of the full range of professional institutes could be a means of obtaining such feedback. Additionally, a means of providing feedback on an anonymised basis should be considered. A clear distinction should be made between operational matters and policy matters in soliciting and processing feedback (HMRC 2).

Figure 5.3: My organisation has a good relationship with HMRC
Source: Table 5.6 (c)

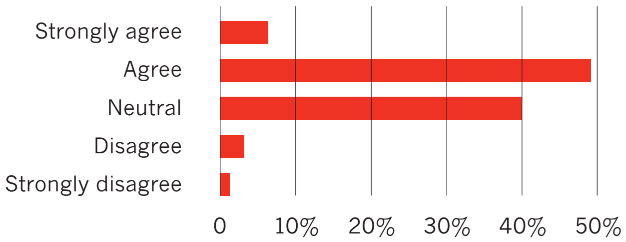
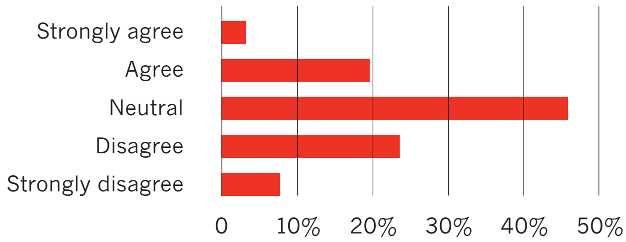


Figure 5.4: My organisation is motivated to share knowledge with HMRC
Source: Table 5.6 (g)



KNOWLEDGE SHARING WITH EXTERNAL TAX ADVISERS

Across the sample as a whole there is clear evidence from Table 5.7 that external tax advisers are used both to provide tax knowledge (a) (90.9%) and to implement and apply that knowledge (f) (79.4%).

Table 5.7 shows that a majority of companies (66.0%) report tax advisers being proactive in keeping them informed (b). A clear distinction, in terms of using external advisers as a source of tax knowledge (a), exists between companies with external tax specialists (100%) and those using external tax specialists in combination with either internal tax specialists (83.3%) or internal accounting specialists (84.8%). In response to the statement on the importance of tax advisers in implementing and applying tax knowledge (f), the percentages were, for external tax specialist 86.9%, compared with internal tax specialist (71.4%) and internal accounting specialist (77.6%) respectively. There is some limited evidence of knowledge flows from companies to tax advisers (c) with (39.3%) of companies agreeing that advisers seek feedback.

The main conclusion from this part of the survey is that, in their dealings with external experts, corporate taxpayers should be more organised in supplying necessary information and become more proactive in the relationship. This will help advisers to serve the needs of their clients better (CT 4).

Table 5.7: Sharing knowledge with tax advisers

Listed below are statements with regard to sharing knowledge about tax matters with (an) external tax adviser(s). If your organisation does not use an external tax adviser, please go to Question 9. Sharing knowledge is a process that implies both acquiring and providing knowledge. Please indicate for each of these statements the extent to which you agree.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) Tax advisers are an important source for my organisation in learning about tax matters	2 (1.0%)	4 (2.0%)	12 (6.1%)	93 (47.0%)	87 (43.9%)	4.31
(b) Tax advisers inform my organisation about tax matters unprompted	4 (2.0%)	22 (11.3%)	40 (20.6%)	98 (50.5%)	30 (15.5%)	3.66
(c) Tax advisers ask my organisation for feedback on tax matters	6 (3.1%)	43 (21.9%)	70 (35.7%)	65 (33.2%)	12 (6.1%)	3.17
(d) My organisation provides feedback to tax advisers about tax matters	7 (3.6%)	32 (16.3%)	61 (31.1%)	83 (42.4%)	13 (6.6%)	3.32
(e) My organisation uses tax advisers to acquire tax knowledge	4 (2.0%)	8 (4.1%)	14 (7.1%)	117 (59.7%)	53 (27.0%)	4.06
(f) My organisation uses tax advisers in implementing and applying tax knowledge	3 (1.5%)	8 (4.1%)	29 (14.9%)	104 (53.3%)	51 (26.1%)	3.98

CAPABILITIES AND MOTIVATION IN KNOWLEDGE SHARING WITH EXTERNAL TAX ADVISERS

There is a general trend (see Table 5.8) within this range of questions towards agreement with all of the mean scores above 3, though only two are in excess of 4 – (c) and (d).

Significant differences occur within the three tax knowledge structures with respect to the role of external advisers in helping to determine the correct liability (Table 5.8 (k)).

Both corporate taxpayers with internal tax specialists (59.5%) and internal accounting specialists (73.7%) report a lower percentage than those with external tax specialists (85.7%).

The level of positive experience with the external adviser varies as follows (e):

- internal tax specialists ....(56.8%)
- internal accounting specialists ....(78.6%)
- external tax specialists ....(85.7%).

These differences are consistent with the decision to use external tax specialists.

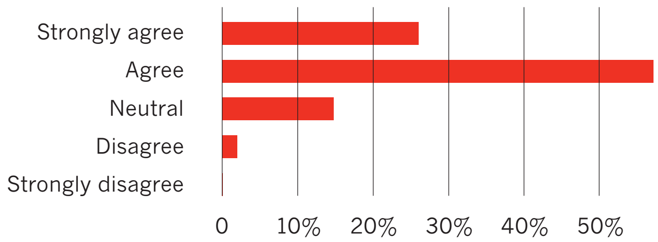
As companies can choose their adviser, one would have expected a higher level of agreement on the statements. Although the majority of companies have the ability (a) (75.1%) and opportunity to share knowledge with their tax advisers (b) (67.3%), this still leaves a significant minority which do not. Similarly, a large majority (83.2%) have a good relationship with their advisers (c) and find them accessible (d) (84.1%).

Table 5.8: Process of sharing knowledge with external tax advisers

Below are listed statements about conditions that may influence the process of sharing tax knowledge with (an) external tax adviser(s). Please indicate the extent to which you agree with each of the statements.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) My organisation has the ability to share knowledge with the external tax adviser(s)	7 (3.5%)	11 (5.68%)	31 (15.7%)	119 (60.4%)	29 (14.7%)	3.77
(b) My organisation has sufficient opportunities to share knowledge with the external tax adviser(s)	5 (2.6%)	15 (7.7%)	44 (22.4%)	109 (55.6%)	23 (11.7%)	3.66
(c) My organisation has a good relationship with the external tax adviser(s)	0 (0.0%)	4 (2.0%)	29 (14.8%)	112 (57.1%)	51 (26.0%)	4.07
(d) My organisation finds the external tax adviser(s) accessible	0 (0.0%)	6 (3.1%)	25 (12.8%)	124 (63.6%)	40 (20.5%)	4.02
(e) My organisation has positive experiences with the external tax adviser(s)	0 (0.0%)	8 (4.1%)	34 (17.4%)	116 (59.5%)	37 (19.0%)	3.93
(f) My organisation possesses sufficient expertise to share knowledge with the external tax adviser(s)	5 (2.6%)	9 (4.6%)	61 (31.4%)	97 (50.0%)	22 (11.3%)	3.63
(g) My organisation is motivated to share knowledge with the external tax adviser(s)	5 (2.6%)	16 (8.2%)	49 (25.3%)	95 (49.0%)	29 (14.9%)	3.65
(h) Sharing knowledge with the external tax adviser(s) is financially beneficial	5 (2.6%)	9 (4.6%)	58 (29.6%)	86 (43.9%)	38 (19.4%)	3.73
(i) Sharing knowledge with the external tax adviser(s) is intellectually beneficial	4 (2.0%)	8 (4.1%)	47 (24.1%)	106 (54.4%)	30 (15.4%)	3.77
(j) Sharing knowledge with the external tax adviser(s) is reputationally beneficial	6 (3.1%)	13 (6.7%)	93 (47.7%)	65 (33.3%)	18 (9.2%)	3.39
(k) Sharing knowledge with the external tax adviser(s) enables the determination of the correct tax liability	1 (0.5%)	5 (2.5%)	41 (20.9%)	105 (53.6%)	44 (22.5%)	3.95
(l) Sharing knowledge with the external tax adviser(s) enables a decrease in tax liability	2 (1.0%)	19 (9.7%)	82 (41.8%)	74 (37.8%)	19 (9.7%)	3.45

Figure 5.5: My organisation has a good relationship with the external tax adviser(s)
Source: Table 5.8 (c)



EXPERIENCES AND BENEFITS IN KNOWLEDGE-SHARING WITH EXTERNAL TAX ADVISERS

Table 5.9 shows that the principal motives for using an external adviser are their awareness of the legislation (e) (91.3%) and their experience in the practicalities of complying: what could be termed 'administrative tax knowledge' (f) (86.1%). Although the majority of companies state that external tax specialists are helpful in assessing tax risks (a) (81.5%) and facilitating agreement with HMRC (b) (60.0%), the percentages are lower than might be expected. Almost two-thirds of companies (65.6%) agree that using an external tax adviser is designed to provide insurance against a tax risk (c).

While the majority of tax advisers are willing to share their knowledge with the companies (h) (73.9%), and companies do not feel that the use of advisers inhibits their ability to develop their tax knowledge (g) (52.8%), the percentages involved are unexpectedly low.

The responses differ between the three tax knowledge structures. Relative to other companies, those with external tax specialists are more positive about advisers' helpfulness in assessing tax risk (a) (92.9%), ability to facilitate agreement with HMRC (b) (72.1%), and level of administrative tax knowledge (f) (96.4%).

The respective percentages for internal tax specialists are: (a) (67.6%), (b) (35.1%), and (f) (73.0%); while those of internal accounting specialists are: (a) (77.2%), (b) (57.9%), and (f) (82.1%).

The relative effectiveness of using external advisers in place of attempting to capture internally generated tax knowledge (i) was assessed lowest by internal tax specialists (13.9%) compared with either internal accounting specialists (50.9%) or external tax specialists (69.9%).

The accounting and finance function is the main point of contact with external tax advisers (j) for the majority of companies (84.1%), although differences exist between the structures in line with their form.

The main conclusion of this part of the survey is that tax advisers should develop or highlight their ability to facilitate agreement between their clients and HMRC (AF 1).

Table 5.9: Benefits of sharing knowledge with external tax advisers

Listed below are statements about the sharing of tax knowledge with (an) external tax adviser(s). Please indicate the extent to which you agree with each of the statements.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) The external adviser is helpful in assessing my organisation's tax risks	1 (0.5%)	6 (3.1%)	29 (14.9%)	121 (62.0%)	38 (19.5%)	3.97
(b) The external adviser facilitates reaching agreement between my organisation and HMRC	1 (0.5%)	18 (9.2%)	59 (30.3%)	94 (48.2%)	23 (11.8%)	3.62
(c) The use of an external adviser is designed to provide a form of insurance	3 (1.5%)	19 (9.7%)	45 (23.1%)	112 (57.4%)	16 (8.2%)	3.61
(d) The external adviser is proactive in suggesting tax-planning opportunities to my organisation	3 (1.5%)	24 (12.3%)	56 (28.7%)	97 (49.7%)	15 (7.7%)	3.50
(e) The external adviser's awareness of legislation is important to my organisation	0 (0.0%)	2 (1.0%)	15 (7.7%)	111 (56.9%)	67 (34.4%)	4.25
(f) The external adviser's experience in the practicalities of complying with tax legislation is important to my organisation	0 (0.0%)	4 (2.1%)	23 (11.9%)	105 (54.1%)	62 (32.0%)	4.16
(g) The use of an external tax adviser(s) inhibits my organisation's ability to develop its tax knowledge	16 (8.2%)	87 (44.6%)	50 (25.6%)	32 (16.4%)	10 (5.1%)	2.66
(h) The external adviser(s) is willing to share tax knowledge when employed by my organisation	0 (0.0%)	4 (2.1%)	47 (24.1%)	124 (63.6%)	20 (10.3%)	3.82
(i) It is more effective to use an external tax adviser than attempt to capture internally generated tax knowledge	7 (3.6%)	21 (10.9%)	67 (34.7%)	71 (36.8%)	27 (14.0%)	3.47
(j) The accounting/finance function is the principal point of contact with the external tax adviser	6 (3.1%)	8 (4.1%)	17 (8.7%)	93 (47.7%)	71 (36.4%)	4.10

COMPANIES' ATTITUDES TO TAX KNOWLEDGE MANAGEMENT

Table 5.10 shows that, although a small majority of companies agree that capturing internally generated tax knowledge is an important role of the tax function (e) (56.6%), only a minority of companies have either formal (a) (30.5%) or informal (c) (48.8%) procedures designed to capture this knowledge. This may reflect companies' scepticism over the effectiveness of such formal (b) (34.9%) and informal (d) 37.8% procedures.

Procedural differences exist, with internal tax specialists more likely to have formal (a) (48.8%) and informal systems (c) (65.1%) compared with internal accounting specialists (a) (23.9%) and (c) (50%) and external tax specialists (a) (31.0%) and (c) (39.5%).

Companies using external tax specialists are less confident about the effectiveness of informal systems (Table 5.10 (d)) (25.9%) than either internal accounting specialists (43.3%) or internal tax specialists (48.8%). If externally generated tax knowledge is seen as a substitute for internal generation, these results are consistent with the decisions made by companies over the structure adopted.

The main conclusions of this part of the survey are as follows.

- Corporate taxpayers should establish policies for tax knowledge management; as a minimum, they need to identify responsibilities in both tax and non-tax functions. Although size and complexity will determine the appropriate processes, all organisations should identify key responsibilities.
- Corporate taxpayers should consider their need for tax knowledge management in the wider context of decision making in general (CT 5).

Table 5.10: Capturing internal tax knowledge

Listed below are a number of statements on capturing tax knowledge created internally within the organisation. Please indicate, for each of these statements, to what extent you agree.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) My organisation has formal procedures designed to capture internally generated tax knowledge for future use	16 (7.4%)	78 (35.9%)	57 (26.3%)	52 (24.0%)	14 (6.5%)	2.86
(b) Formal procedures are effective in capturing internally generated tax knowledge	10 (4.6%)	40 (18.6%)	90 (41.9%)	61 (28.4%)	14 (6.5%)	3.13
(c) My organisation has informal procedures designed to capture internally generated tax knowledge for future use	7 (3.3%)	44 (20.7%)	58 (27.2%)	97 (45.5%)	7 (3.3%)	3.25
(d) Informal procedures are effective in capturing internally generated tax knowledge	7 (3.3%)	36 (16.8%)	90 (42.0%)	73 (34.1%)	8 (3.7%)	3.18
(e) Capturing internally generated tax knowledge is an important aspect of the tax function's role	5 (2.3%)	16 (7.5%)	72 (33.6%)	99 (46.3%)	22 (10.3%)	3.55

Figure 5.6: My organisation has formal procedures designed to capture internally generated tax knowledge for future use
Source: Table 5.10 (a)

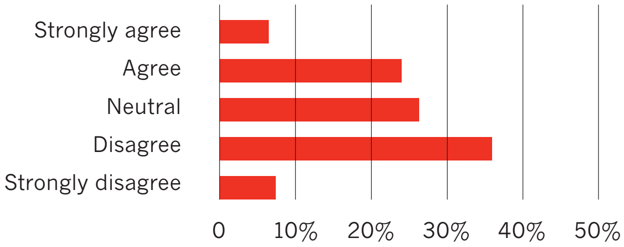
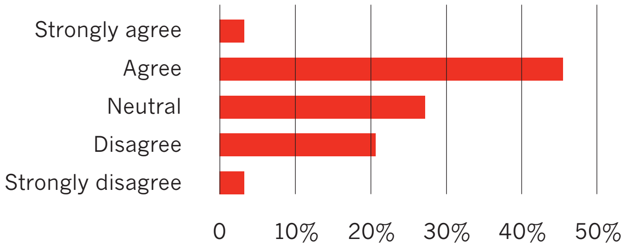


Figure 5.7: My organisation has informal procedures designed to capture internally generated tax knowledge for future use
Source: Table 5.10 (c)



ACCOUNTING FIRMS' SURVEY: BACKGROUND OF TAX ADVISER RESPONDENTS

Of the 222 respondents, 218 had a CCAB-recognised accounting qualification, of which 4 also held the ATT qualification and 21 the CTA qualification. Of the four without a CCAB qualification, three held other accounting qualifications, and one was CTA qualified. Table 5.11 shows that the typical tax adviser respondent worked in a two-partner firm with one partner specialising in tax, although a large minority (99 firms) had no specialist tax partner. In the following analysis, comparisons will be made between firms with and without a tax specialist; these will be termed 'specialist' and 'non-specialist' respectively.

Table 5.11: Adviser firm characteristics

Adviser respondents	mean	median	max	min	number
Number of partners or directors in organisation	7.95	2	958	1	219
Excluding largest observation	3.59	2	50	1	218
Number of specialist tax partners/directors in organisation	1.13	1	40	0	218
Excluding largest observation	0.95	1	15	0	217

Table 5.12 shows that, of their corporate tax clients, a minority of the operational decision makers, eg research and development, human resources and production managers, are required to consider the tax effects of their decisions (a) (44.5%). There is no relationship between the need for operational decision makers to consider tax effects and whether the adviser is a specialist or non-specialist.

Possibly as a consequence of the low priority given to taxation by operational decision makers, they are not seen as being proactive in seeking advice (b) (29%), providing tax related information on a timely basis (d) (21.1%) and in an appropriate level of detail (e) (20.1%).

Clients of specialist advisers have a higher percentage for both timeliness (d) (24.8%) and level of detail (e) (26.4%).

A majority of tax advisers have appropriate access to operational decision makers (Table 5.12 (c)) (60%), thoughin general the frequency of contact is rare, as reported in Table 5.13, research and development (d) (74.2%), human resources (c) (64.0%) and production (e) (56.4%). Although there is more frequent contact, or less rare contact, between specialist advisers and research and development (d) (69.1%) and human resources (c) (60.9%) compared with (81.1%) and (68.1%) respectively for non specialist advisers, the absolute levels are low.

The conclusion of this section of the survey is that tax advisers should be more proactive in their dealings with corporate taxpayers. This could be facilitated by having more direct contact with operational decision makers, with the aim of involving advisers in the decision-making process at an earlier stage (AF 2).

Table 5.12: Operational decision makers

Listed below are statements about decision makers in operating functions within your corporate clients, eg Research and Development, Human Resources and Production. Please indicate, for each of these statements, to what extent you agree.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) Operational decision makers are required to consider the tax effects of their decisions	19 (9.5%)	25 (12.5%)	67 (33.5%)	78 (39.0%)	11 (5.5%)	3.19
(b) Operational decision makers are proactive in seeking tax advice from external sources	18 (9.0%)	43 (21.5%)	81 (40.5%)	50 (25.0%)	8 (4.0%)	2.94
(c) Overall my firm has appropriate access to operational decision makers	7 (3.5%)	14 (7.0%)	59 (29.5%)	102 (51.0%)	18 (9.0%)	3.55
(d) Operational decision makers provide tax specialists with necessary tax-related information on a timely basis	14 (7.0%)	40 (20.1%)	103 (51.8%)	40 (20.1%)	2 (1.0%)	2.88
(e) Operational decision makers provide the tax function with necessary tax-related information in an appropriate form, eg level of detail	18 (9.0%)	41 (20.6%)	100 (50.3%)	36 (18.1%)	4 (2.0%)	2.83

Table 5.13: Contact with client staff

In communicating with your corporate clients, how often do you have contact with each of the following client staff?

	Very rarely	Rarely	From time to time	Often	Very often	Mean score
(a) Dedicated tax specialist within accounting and finance function	90 (44.1%)	42 (20.6%)	43 (21.1%)	22 (10.8%)	7 (3.4%)	2.09
(b) Tax specialist with non-tax responsibilities in accounting and finance function	94 (47.0%)	48 (24.0%)	34 (17.0%)	19 (9.5%)	5 (2.5%)	1.97
(c) Individual with Human Resources-related responsibilities	76 (37.4%)	54 (26.6%)	49 (24.1%)	18 (8.9%)	6 (3.0%)	2.13
(d) Individual with Research and Development-related responsibilities	97 (48.0%)	53 (26.2%)	37 (18.3%)	10 (5.0%)	5 (2.5%)	1.88
(e) Individual with Production-related responsibilities	77 (38.1%)	37 (18.3%)	47 (23.3%)	31 (15.3%)	10 (5.0%)	2.31

SOURCES OF KNOWLEDGE

Table 5.14 shows that a majority of tax advisers find that the HMRC website or newsletters are an important source of tax information (a) (91.3%).

External training (i) (87.6%) is the next most important source of tax knowledge for tax advisers. Apart from their use of the HMRC website, there is little evidence that tax advisers see other potential interactions with the HMRC as important knowledge sources. On the other hand, as an illustration of the two-way knowledge flow between adviser and client, Table 5.14 shows that clients (e) (73.7%) are an important source of knowledge.

Table 5.14: Sources of knowledge

In sharing knowledge about tax legislation, your firm can communicate with different sources in several ways. Below you will find several options specified. Please indicate, for each of these options, how important they are for your firm in acquiring knowledge about tax legislation.

	Very unimportant	Unimportant	Neutral	Important	Very important	Mean score
(a) HMRC website or newsletters	5 (2.3%)	3 (1.4%)	11 (5.0%)	107 (48.6%)	94 (42.7%)	4.28
(b) Meetings with HMRC at national or regional level	33 (15.0%)	47 (21.4%)	72 (32.7%)	54 (24.5%)	14 (6.4%)	2.86
(c) Participation in HMRC consultation bodies and boards	29 (13.2%)	58 (26.4%)	87 (39.5%)	36 (16.4%)	10 (4.5%)	2.73
(d) Local HMRC units	20 (9.1%)	47 (21.5%)	73 (33.3%)	62 (28.3%)	17 (7.8%)	3.04
(e) Interacting with clients	4 (1.8%)	14 (6.4%)	39 (18.0%)	92 (42.4%)	68 (31.3%)	3.95
(f) Newsletters / 'Tax bulletins' issued by other accountancy firms	7 (3.2%)	16 (7.3%)	80 (36.7%)	93 (42.7%)	22 (10.1%)	3.49
(g) Newsletters / 'Tax bulletins' issued by law firms	15 (6.8%)	37 (16.9%)	102 (46.6%)	56 (25.6%)	9(4.1%)	3.03
(h) Training courses offered by other accountancy firms	22 (10.0%)	43 (19.6%)	86 (39.3%)	51 (23.3%)	17 (7.8%)	2.99
(i) Training courses provided by other suppliers	3 (1.4%)	4 (1.8%)	20 (9.2%)	76 (34.9%)	115 (52.7%)	4.36
(j) Specific advice offered by another accountancy firm	11 (5.1%)	26 (11.9%)	77 (35.3%)	75 (34.4%)	29 (13.3%)	3.3
(k) Specific advice offered by law firm(s)	20 (9.2%)	41 (19.0%)	98 (45.4%)	49 (22.7%)	8(3.7%)	2.93
(l) Participation in business meetings, forums and boards	15 (6.9%)	36 (16.7%)	80 (37.0%)	70 (32.5%)	15 (6.9%)	3.16
(m) Other – please specify at end of questionnaire	24 (19.0%)	10 (7.9%)	64 (50.8%)	9 (7.1%)	19 (15.1%)	2.91

Figure 5.8: How important are the HMRC website or newsletters for your firm in acquiring knowledge about tax legislation
Source: Table 5.14 (a)

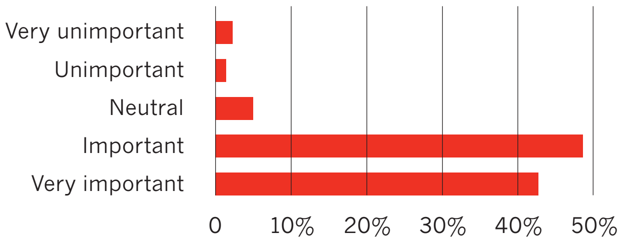
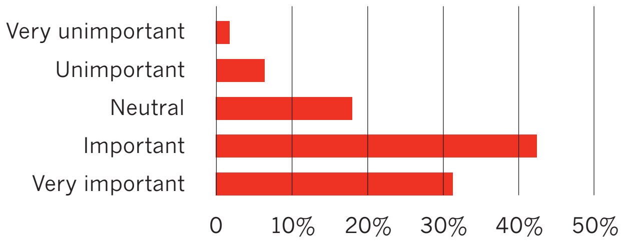


Figure 5.9: How important is interacting with clients for your firm in acquiring knowledge about tax legislation
Source: Table 5.14 (e)



KNOWLEDGE-SHARING WITH HMRC

In general, tax advisers' knowledge-sharing with HMRC is mainly limited to obtaining information (Table 5.15 (a)) (73.3%). Other forms of exchange occur only in a minority of cases, although a significant minority of advisers use HMRC for advice in implementing and applying tax knowledge (e) (32.7%).

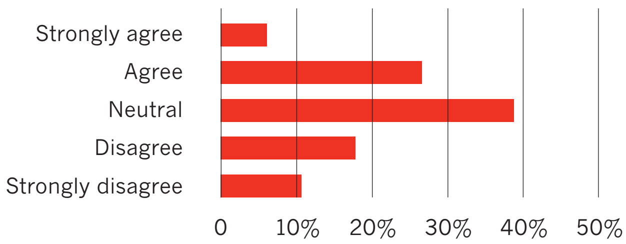
Intriguingly, specialist advisers (25.9%) are less likely to seek advice in this manner (e) compared with non-specialists (40.6%), though in providing feedback to HMRC (d), specialist advisers (34.2%) are more active than non-specialists (18.8%).

Table 5.15: Sharing knowledge with HMRC

Listed below are statements about sharing knowledge of tax matters with HMRC. Sharing knowledge is a process that implies both acquiring and providing knowledge. Please indicate for each of these statements the extent to which you agree.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) HMRC is an important source for my firm in learning about tax matters	3 (1.4%)	13(6.0%)	42 (19.3%)	106 (48.9%)	53 (24.4%)	3.89
(b) HMRC informs my firm about tax matters unprompted	36 (16.6%)	88 (40.5%)	67 (30.9%)	23 (10.6%)	3(1.4%)	2.40
(c) HMRC asks my firm for feedback on tax matters	63 (29.2%)	92 (42.6%)	39 (18.0%)	19 (8.8%)	3 (1.4%)	2.11
(d) My firm provides feedback to HMRC about tax matters	35 (16.3%)	66 (30.7%)	55 (25.6%)	53 (24.6%)	6 (2.8%)	2.67
(e) My firm uses HMRC in implementing and applying tax knowledge	23 (10.7%)	38 (17.8%)	83 (38.8%)	57 (26.6%)	13 (6.1%)	3.00

Figure 5.10: My firm uses HMRC in implementing and applying tax knowledge
Source: Table 5.15 (e)



ABILITY, MOTIVATION AND EXPERIENCES IN KNOWLEDGE-SHARING WITH HMRC

Table 5.16 shows that the general lack of information-sharing with HMRC on the part of tax advisers stems from capability (a) (38.8%) and opportunity (b) (24.2%). Motivation to share information is low (f) (22.4%). The strongest supports for sharing are to increase tax advisers' knowledge levels (j) (40.8%) and reputational benefits (i) (38.7%).

Non-specialist advisers (66.7%) have a greater level of understanding of the knowledge provided by HMRC (m) compared with specialist advisers (54.2%). The fear of sharing knowledge with HMRC leading to an increase in client liabilities (l) is experienced by only (18.5%), while a small majority consider that sharing knowledge with HMRC leads to determination of the correct liability (k) (51.1%).

Table 5.16: Process of sharing knowledge with HMRC

Below are listed statements with regard to conditions that may influence the process of sharing tax knowledge with HMRC. Please indicate the extent to which you agree with each of the statements.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) My firm has the ability to share knowledge with HMRC	28 (12.8%)	40 (18.3%)	66 (30.1%)	72 (32.9%)	13 (5.9%)	3.01
(b) My firm has sufficient opportunities to share knowledge with HMRC	37 (16.9%)	60 (27.4%)	69 (31.5%)	46 (21.0%)	7 (3.2%)	2.66
(c) My firm has a good relationship with HMRC	2 (0.9%)	6 (2.8%)	69 (31.7%)	118 (54.1%)	23 (10.5%)	3.71
(d) My firm finds HMRC accessible	17 (7.8%)	42 (19.3%)	67 (30.7%)	86 (39.4%)	6 (2.8%)	3.10
(e) My firm has positive experiences with HMRC	9 (4.1%)	36 (16.5%)	90 (41.3%)	74 (34.0%)	9 (4.1%)	3.17
(f) My firm is motivated to share knowledge with HMRC	18 (8.3%)	61 (28.0%)	90 (41.3%)	45 (20.6%)	4 (1.8%)	2.80
(g) Sharing knowledge with HMRC is financially beneficial	27 (12.3%)	52 (23.7%)	87 (39.7%)	49 (22.4%)	4 (1.8%)	2.78
(h) Sharing knowledge with HMRC is intellectually beneficial	17 (7.9%)	33 (15.3%)	84 (38.9%)	73 (33.8%)	9 (4.1%)	3.11
(i) Sharing knowledge with HMRC is reputationally beneficial	10 (4.6%)	27 (12.4%)	96 (44.3%)	72 (33.2%)	12 (5.5%)	3.23
(j) Sharing knowledge with HMRC increases my firm's knowledge level	8 (3.7%)	33 (15.1%)	88 (40.4%)	79 (36.2%)	10 (4.6%)	3.23
(k) Sharing knowledge with HMRC enables them to determine clients' tax liability correctly.	5 (2.3%)	26 (12.0%)	75 (34.6%)	94 (43.3%)	17 (7.8%)	3.42
(l) Sharing knowledge with HMRC enables them to increase clients' tax liabilities	8 (3.7%)	48 (22.1%)	121 (55.8%)	34 (15.7%)	6 (2.8%)	2.92
(m) Knowledge from HMRC is easy to understand	14 (6.4%)	73 (33.3%)	93 (42.5%)	39 (17.8%)	0 (0.0%)	2.72

Figure 5.11: My firm has the ability to share knowledge with HMRC
Source: Table 5.16(a)

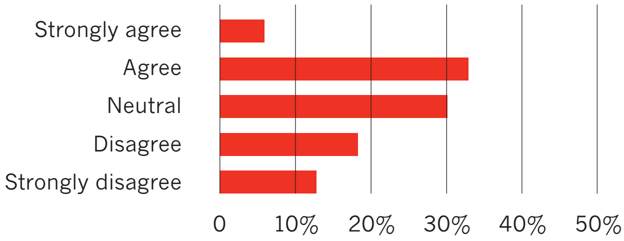


Figure 5.12: My firm has sufficient opportunities to share knowledge with HMRC
Source: Table 5.16(b)

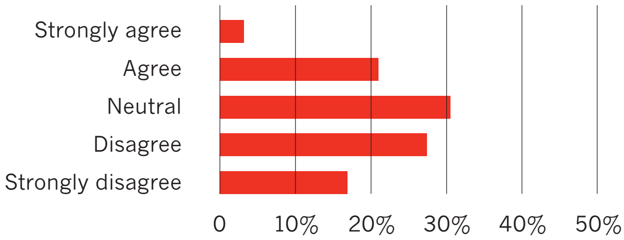
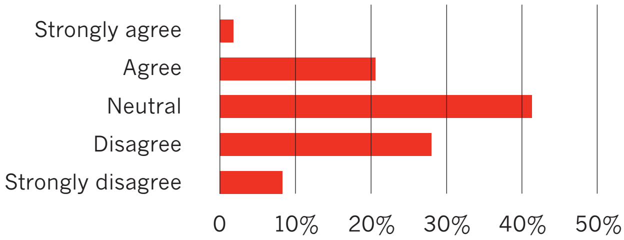


Figure 5.13: My firm is motivated to share knowledge with HMRC
Source: Table 5.16(f)



CAPABILITIES AND MOTIVATION IN SHARING KNOWLEDGE WITH CORPORATE TAX CLIENTS

There is a high degree of consensus among tax advisers about their motives for sharing information with clients (Table 5.17). The main reasons are: risk assessment (a) (83.6%); facilitating agreement with HMRC (b) (78.0%); and tax minimisation (c) (90.2%). In contrast, insurance provision (d) (30.4%) is seen as a motive by a minority of advisers. In marketing tax services a range of benefits are highlighted, identifying tax risks (k) (49.5%), potential tax savings (l) (55.8%) and administrative savings (m) (35.4%).

Specialist tax advisers differ with respect to highlighting tax risks, (k) (60.2%), tax savings (l) (64.0%) and administrative savings (m) (44.7%) compared with (36.4%), (45.5%) and (24.2%) respectively for non specialist advisers. Advisers' expertise lies in knowledge of legislation (f) (78.1%) and administrative experience with tax matters (g) (88.3%).

Clients are not seen as being particularly organised in sharing information with their advisers. Only 50% of clients provide information in an appropriate manner (h), while there is an even lower level of agreement both with respect to clients applying the correct level of attention to tax matters (i) (36.4%), and to their ability to identify their own needs (j) (7.5%).

Advisers should recognise the insurance motive in some of their corporate tax clients' decisions to obtain their advice, and act accordingly (AF 3).

Table 5.17: Sharing knowledge with clients

Listed below are statements about knowledge transactions with corporate tax clients. Please indicate the extent to which you agree in general with each of the statements.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) Clients primarily value my firm's ability to assess their tax risks	0 (0.0%)	3 (1.4%)	32 (15.0%)	121 (56.5%)	58 (27.1%)	4.09
(b) Clients primarily value my firm's ability to facilitate reaching agreement with HMRC	0 (0.0%)	3 (1.4%)	44 (20.6%)	114 (53.3%)	53 (24.7%)	4.01
(c) Clients primarily value my firm's ability to minimise their tax liability	0 (0.0%)	1 (0.5%)	20 (9.3%)	119 (55.3%)	75 (34.9%)	4.25
(d) Clients primarily purchase tax services as a form of insurance	13 (6.1%)	52 (24.3%)	84 (39.2%)	54 (25.2%)	11 (5.2%)	2.99
(e) My firm is proactive in suggesting tax planning opportunities to its clients	0 (0.0%)	7 (3.3%)	50 (23.3%)	119 (55.3%)	39 (18.1%)	3.88
(f) Clients primarily value my firm's awareness of legislation	0 (0.0%)	6 (2.8%)	41 (19.1%)	129 (60.0%)	39 (18.1%)	3.93
(g) Clients primarily value my firm's experience in the practicalities of complying with tax legislation	0 (0.0%)	3 (1.4%)	22 (10.3%)	143 (67.2%)	45 (21.1%)	4.08
(h) Clients provide my firm with necessary tax-related information in an appropriate manner	3 (1.4%)	23 (10.8%)	81 (37.8%)	95 (44.4%)	12 (5.6%)	3.42
(i) Clients give an appropriate level of attention to taxation matters	2 (0.9%)	51 (23.8%)	83 (38.8%)	72 (33.7%)	6 (2.8%)	3.14
(j) Clients have the necessary level of tax literacy to identify their own needs	34 (15.8%)	111 (51.6%)	54 (25.1%)	13 (6.1%)	3 (1.4%)	2.26
(k) My firm highlights potential tax risks as a way of marketing its tax services	2 (0.9%)	36 (16.8%)	70 (32.7%)	94 (44.0%)	12 (5.6%)	3.36
(l) My firm highlights potential tax savings as a way of marketing its tax services	2 (0.9%)	33 (15.3%)	60 (27.9%)	100 (46.5%)	20 (9.4%)	3.48
(m) My firm highlights potential administrative savings as a way of marketing its tax services	4 (1.9%)	43 (20.0%)	92 (42.8%)	65 (30.2%)	11 (5.1%)	3.17

Figure 5.14: Clients primarily value my firm's experience in the practicalities of complying with tax legislation
Source: Table 5.17(g)

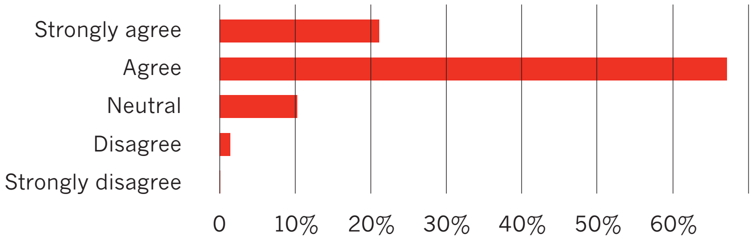
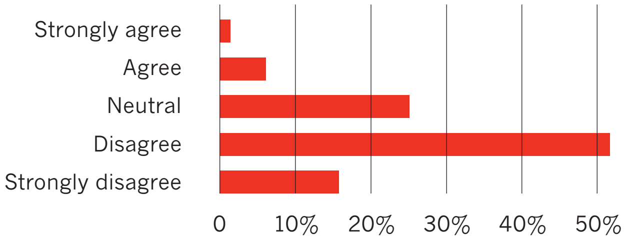


Figure 5.15: Clients have the necessary level of tax literacy to identify their own needs
Source: Table 5.17(j)



ADVISERS' ATTITUDES TOWARDS TAX KNOWLEDGE MANAGEMENT

Table 5.18 indicates that, in general, advisers appreciate the importance of capturing or retaining tax knowledge (f) (89.0%) and consider their staff conscientious in contributing to this function (e) (71.1%).

Advisers rely on informal procedures (Table 5.18 (c)) (78.5%) more frequently than on formal procedures (a) (54.8%). This preference is reflected in the relative effectiveness of the two approaches, informal procedures (d) (62.2%) and formal systems (b) (55.3%) respectively. Specialist advisers are more likely to use formal procedures (a) (61.0%) and to rank their effectiveness more highly (b) (58.5%).

With their expertise in knowledge management, advisers should consider how their clients can benefit directly through improved knowledge management within the setting of giving advice (AF 4).

Table 5.18: Process of capturing tax knowledge

Listed below are a number of statements on capturing tax knowledge. Please indicate the extent to which you agree with each of the statements.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean score
(a) My firm has formal procedures designed to capture tax knowledge for future use	4 (1.8%)	34 (15.5%)	61 (27.9%)	99 (45.2%)	21 (9.6%)	3.45
(b) Formal procedures are effective in capturing tax knowledge	1 (0.5%)	13 (6.0%)	84 (38.3%)	103 (47.0%)	18 (8.2%)	3.57
(c) My firm has informal procedures designed to capture knowledge for future use	1 (0.5%)	11 (5.0%)	35 (16.0%)	154 (70.3%)	18 (8.2%)	3.81
(d) Informal procedures are effective in capturing tax knowledge	1 (0.5%)	14 (6.4%)	67 (30.9%)	121 (55.8%)	14 (6.4%)	3.61
(e) Individuals within my firm are conscientious in contributing to tax knowledge capture activities	2 (0.9%)	7 (3.2%)	54 (24.8%)	123 (56.4%)	32 (14.7%)	3.81
(f) Capturing tax knowledge is an important aspect of the tax function's role	0 (0.0%)	3 (1.4%)	21 (9.6%)	126 (57.8%)	68 (31.2%)	4.19

6. Conclusions and policy implications

Using a combined methodology of interviews and two email questionnaires, this research study explored processes of knowledge sharing between HM Revenue and Customs (HMRC), accounting firms, and corporate taxpayers, and the implementation and use of knowledge within each of these organisations.

The tax knowledge market is distinct from most other knowledge markets in that the basic commodity, tax knowledge is, by intention, largely in the public domain. With the exception of some stages of the administrative process, in particular taxpayer negotiations, legislation and outcomes of disputes are in theory accessible to all interested parties. The existence of an observable knowledge market suggests that factors other than access to tax knowledge are in part responsible for its existence.

The interviews confirmed the initial characterisation of the tax knowledge market as generally non-competitive. Examples of complementary activities, acknowledged by the parties as such, were documented, involving HMRC (knowledge provider) and accountancy firms (knowledge brokers) and, similarly, between HMRC and corporate taxpayers (knowledge buyers). Further support for this view was provided by the results of the mail surveys.

Interviewees did observe examples of competitive or non-complementary behaviour, particularly when accountancy firms change their focus from acting as knowledge brokers to knowledge ‘buyers’ and where HMRC and corporate taxpayers transacted directly without the knowledge or ‘approval’ of accountancy firms.

Although those tensions do inhibit effective knowledge-sharing, their underlying causes are a necessary aspect of the market, in part to provide the incentive for accountancy firms to act as brokers operating on their current scale. In one respect this has a beneficial effect, as the high fixed cost involved in acquiring tax knowledge and skills to the necessary degree of competence would prohibit the majority of corporate taxpayers from gaining access to appropriate advice.

Nonetheless, the existence of accountancy firms in their role as brokers shows that there is a demand for tax knowledge, partly driven by the difficulties involved in interpreting tax legislation. There is also evidence that corporate taxpayers value the knowledge brokers because of their expertise in the administrative process. The mail surveys support the view that knowledge buyers see the purchase of tax knowledge as providing a form of insurance, in addition to the direct benefit of access to the broker’s knowledge. This is another example of the effects of the perceived difficulty of understanding tax legislation.

The mail surveys indicate that just over two-thirds of corporate taxpayer respondents had a ‘high’ need for tax knowledge. Surprisingly, the level of need was related neither to company size nor tax complexity. This suggests that perceived demand may be specific to the individual respondent, making it harder for HMRC and accountancy firms to identify organisational needs. This aspect is worthy of further study.

The mail survey results indicate that corporate taxpayers use a combination of sources of tax knowledge, and that the most important of these are HMRC (its website) and specific advice provided by accountancy firms. It appears that, although HMRC is successful in communicating knowledge directly to corporate taxpayers, there is still a high demand for the role played by accountancy firms. The need to use accountancy firms to complement HMRC sources cannot be explained by the fact that some corporate taxpayers fear that increased knowledge-sharing with HMRC would lead to increased liability. Instead it appears to be explained by lack of ability, with only a quarter of respondents agreeing that they have sufficient opportunities to share information with HMRC.

Whether this balance between HMRC and accountancy firms as complementary sources will remain – and the widespread use of the Internet, allowing for greater access to HMRC-sourced knowledge, suggests that it may not – is a question that invites speculation on the future level of demand for accountancy firms as brokers. The majority of corporate taxpayer respondents have a good relationship with their tax advisers, though the level of satisfaction is lower for taxpayers that do not employ external tax advisers as their main source of tax knowledge but instead rely on internal sources.

During the interviews, accountancy firms and HMRC both claimed a low level of dealings with operational decision makers, eg the staff of human resources departments, production, or research and development-related responsibilities. Accountancy firms also indicated that the information they require from operational decision makers is not generally delivered either in an appropriate format or on a timely basis. This is consistent with a low level of tax awareness among operational decision makers within corporate taxpayers, with effects both on the success of tax incentives and on tax management in general. The questions of how to enable and motivate individual operational decision makers to recognise tax factors is worthy of future study.

On the basis of our research findings, we now outline a number of implications for the parties in the UK tax knowledge market.

IMPLICATIONS FOR CORPORATE TAXPAYERS

Awareness of taxation considerations needs to be raised among operational decision makers. While performance measurement on an after-tax basis may not always be appropriate or practical, at a minimum, operational decision makers need to recognise the importance of considering taxation.

Corporate taxpayers should develop a more proactive approach in their exchanges with HMRC, and consider the possibility of using its expertise early in the decision-making process.

Corporate taxpayers without internal tax experts should consider the benefits, which they generally forgo of higher levels of tax awareness among operational decision makers and improved relations with HMRC. Obviously, costs are an important consideration in determining the optimum structure for tax knowledge management.

In their dealings with external experts, corporate taxpayers should be more organised in supplying necessary information and become more proactive in the relationship. This will help advisers to serve the needs of their clients better.

Corporate taxpayers should establish policies for tax knowledge management, as a minimum, identifying responsibilities in both tax and non-tax functions. Although size and complexity will determine the appropriate processes, all organisations should identify key responsibilities. Corporate taxpayers should also consider knowledge management needs in the wider context of decision making in general.

IMPLICATIONS FOR HMRC

HMRC should consider ways of raising levels of tax awareness among operational decision makers within firms. One approach would be to use professional institutes and associations in the various fields as a means of making and developing contacts with operational decision makers.

HMRC should make greater use of firms' tax-related experiences by improving methods of capturing feedback. This would enable difficulties to be identified at an earlier stage and, in particular, identify difficulties in interpreting legislation. Again, the use of the full range of professional institutes could be a means of obtaining such feedback. A means of providing feedback on an anonymised basis should also be considered. A clear distinction should be made between operational matters and policy matters in soliciting and processing feedback.

IMPLICATIONS FOR ADVISERS

Tax advisers should develop or highlight their ability to facilitate agreement between their clients and HMRC.

Advisers should be more proactive in their dealings with corporate taxpayers. This could be facilitated by having more direct contact with operational decision makers with the aim of involving advisers in the decision-making process at an earlier stage.

Advisers should recognise the insurance motive in some of their corporate tax clients' decisions to obtain their advice and act accordingly.

Given their expertise in knowledge management, advisers should consider how their clients can benefit directly through improved knowledge management within the setting of giving advice.

Appendix 1: Interview guide for accounting firms

Goals:

(1) To obtain a better insight into knowledge flows about (changes in) tax legislation between HMRC, accounting firms (AF) and companies.

(2) To check the accuracy of our assumptions about these knowledge flows.

(3) To further design and develop the study.

Subjects:
Communication flows about new tax legislation between HMRC and AF, within AF, and between AF and (potential) clients; barriers to and facilitators of sharing knowledge.

Confidentiality:
The identity of the interviewees will remain anonymous: their names will not be connected to the information that they provide during the interviews.

	Main questions	Notes / checklist
1	**Introduction**	
2	**Position of interviewee**	
	Please briefly describe your position in the organisation	Be concise! Possibly let interviewee illustrate this with visualised organisational structure?
3	**Knowledge sharing HMRC–AF**	
a	How would you describe the relationships between HMRC, your firm (and/or accounting firms in general), and other firms when it comes to communication about (applying) new legislation?	Does the interviewee consider AF (and/or accounting firms in general) to be external bodies, similar to other firms, or does the interviewee consider them to be intermediaries between HMRC and other firms? eg Internet, newsletters, training.
b	How does AF (and/or accounting firms in general) learn about new legislation from HMRC?	Which divisions or units within AF carry responsibility for learning about new legislation? Does HMRC inform accounting firms, or do accounting firms need to be proactive in searching for information about changes in legislation? Is this different for different types of tax legislation? Different means of communication by HMRC for different levels of complexity in legislation / types of knowledge? (eg tacit and explicit knowledge)?
c	Is there any feedback from AF (and/or AFs in general) to HMRC about new tax legislation?	If so, ask for explanation/ elaboration on what type of feedback takes place and what consequences this may have (eg feedback to check accuracy of information; does HMRC develop new procedures based on feedback provided?)
4	**Barriers and facilitators HMRC–AF**	
a	What do you consider to be the most important barriers in the process of knowledge-sharing about new tax legislation between HMRC and AF (and/or AFs in general)?	Check on the role of cognitive limitations (motivated but unable to share) and motivational limitations (able but not motivated to share).
b	What do you consider to be the most important facilitators to sharing knowledge about new tax legislation between HMRC and AF (and/or AFs in general)?	Specify to asking about giving and receiving knowledge.

5	**Knowledge-sharing within organisation**	
a	Through which, and to which, divisions or units is new legislation communicated internally?	If applicable, refer to answer to question 3b.
b	In which ways is new legislation shared internally?	Eg internal training, courses, intranet.
c	How much freedom does AF (and/or AFs in general) have in interpreting, incorporating, and applying new tax knowledge?	Different procedures and means of communication for different levels of complexity in legislation / types of knowledge (eg tacit and explicit knowledge)? Difference between different types of tax legislation (eg R&D, capital allowances)? Do different types involve a different level or type of sharing knowledge?
d	To what extent does AF need to create knowledge about new legislation that has a competitive value over the knowledge that other AFs or clients have?	Is it more a transfer of knowledge from HMRC to AF, or a creation of new knowledge by AF? If so, how does AF create this knowledge (eg by gaining more complex knowledge than others / by being more creative)? Any facilitating role for HMRC in creating this knowledge? Difference between different types of tax legislation (eg R&D, capital allowances)?
6	**Internal barriers and facilitators**	
a	What do you consider to be the most important barriers to sharing/creating knowledge about new tax legislation within AF?	Check on the role of cognitive limitations (motivated but unable to share) and motivational limitations (able but not motivated to share).
b	What do you consider to be the most important facilitators to sharing/creating knowledge about new tax legislation within AF?	Specify to asking about giving and receiving knowledge.
7	**External communication**	
a	How, do you think, do firms determine which sources (AF/HMRC) to use to construct tax knowledge?	Assumptions about the relationship between HMRC and firms. When do firms have direct contact with HMRC, and when indirectly through AF?
b	What is the role of AF in specific terms, and AFs in general, in communicating and applying new legislation in firms?	If applicable, refer to answer to question 3a How dependent are firms on AF’s (explanation)? Does this role change over time (eg firms acquire tax knowledge through AF and start handling procedures themselves in a later stage)?
c	How does AF inform organisations about new tax legislation?	Eg newsletters, on request, quoting?
8	**External barriers and facilitators**	
a	What do you consider to be the most important barriers to sharing knowledge about new tax legislation with (potential) clients?	Check on the role of cognitive limitations (motivated but unable) and motivational limitations (able but not motivated). Specify to asking about giving and receiving knowledge..
b	What do you consider to be the most important facilitators to sharing knowledge about new tax legislation with (potential) clients?	
9	**Conclusion**	

Appendix 2: Online corporate taxpayer questionnaire

Tax knowledge survey

This survey is part of a research project funded by a grant from ACCA...and is being conducted by Professor Kevin Holland (Southampton) and Professor John Hasseldine (Nottingham). We thank you for your time and help.

All responses will be treated in strict confidence and the identity of responders and their organisation will not be known.

Please answer the following questions in the context of your organisation (where your organisation consists of a group of companies please respond in the context of the group).

1) My organisation has a high need for tax knowledge

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

2) Which best describes the provision of tax specialists within your organisation? Please click one of the following boxes.

Centralised tax specialists

Decentralised tax specialists

Tax responsibilities dealt with by central accounting and finance staff

Tax responsibilities dealt with by decentralised accounting and finance staff

Tax responsibilities are outsourced to external advisers

Other (please specify):

3) In sharing knowledge about tax legislation, your organisation can communicate with different sources in several ways. Below you will find several options specified. Please indicate for each of these options how important they are for your organisation in acquiring knowledge about tax legislation.

Not at all important, Neutral, Very Important

HMRC website or newsletters

Meetings with HMRC at national or regional level

Participation in HMRC consultation bodies and boards

Local HMRC units

Newsletters / 'Tax bulletins' issued by accountancy firms

Newsletters / 'Tax bulletins' issued by law firms

Training courses offered by accountancy firms

Training courses provided by other suppliers

Specific advice offered by your organisation's external auditor

Specific advice offered by accountancy firm(s)

Specific advice offered by law firm(s)

Participation in business meetings, forums and boards

Other – please specify at end of questionnaire

4) Listed below are statements with regard to sharing knowledge about tax matters with HMRC. Sharing knowledge is a process that implies both acquiring and providing knowledge. Please indicate for each of these statements the extent to which you agree.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

HMRC is an important source for my organisation in learning about tax matters

HMRC informs my organisation about tax matters unprompted

HMRC asks my organisation for feedback on tax matters

My organisation provides feedback to HMRC about tax matters

My organisation uses HMRC to acquire tax knowledge

My organisation uses HMRC in implementing and applying tax knowledge

5) Below are listed statements with regard to conditions that may influence the process of sharing tax knowledge with HMRC. Please indicate the extent to which you agree with each of the statements.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

My organisation has the ability to share knowledge with HMRC

My organisation has sufficient opportunities to share knowledge with HMRC

My organisation has a good relationship with HMRC

My organisation finds HMRC accessible

My organisation has positive experiences with HMRC

My organisation possesses sufficient expertise to share knowledge with HMRC

My organisation is motivated to share knowledge with HMRC

Sharing knowledge with HMRC is financially beneficial

Sharing knowledge with HMRC is intellectually beneficial

Sharing knowledge with HMRC is reputationally beneficial

Sharing knowledge with HMRC enables them to determine the correct tax liability

Sharing knowledge with HMRC enables them to increase the tax liability

6) Listed below are statements with regard to sharing knowledge about tax matters with (an) external tax adviser(s). If your organisation does not use an external tax adviser, please go to Question 9. Sharing knowledge is a process that implies both acquiring and providing knowledge. Please indicate for each of these statements the extent to which you agree.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

Tax advisers are an important source for my organisation in learning about tax matters

Tax advisers inform my organisation about tax matters unprompted

Tax advisers ask my organisation for feedback on tax matters

My organisation provides feedback to tax advisers about tax matters

- My organisation uses tax advisers to acquire tax knowledge
- My organisation uses tax advisers in implementing and applying tax knowledge

7) Below are listed statements with regard to conditions that may influence the process of sharing tax knowledge with (an) external tax adviser(s). Please indicate the extent to which you agree with each of the statements.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

- My organisation has the ability to share knowledge with the external tax adviser(s)
- My organisation has sufficient opportunities to share knowledge with the external tax adviser(s)
- My organisation has a good relationship with the external tax adviser(s)
- My organisation finds the external tax adviser(s) accessible
- My organisation has positive experiences with the external tax adviser(s)
- My organisation possesses sufficient expertise to share knowledge with the external tax adviser(s)
- My organisation is motivated to share knowledge with the external tax adviser(s)
- Sharing knowledge with the external tax adviser(s) is financially beneficial
- Sharing knowledge with the external tax adviser(s) is intellectually beneficial
- Sharing knowledge with the external tax adviser(s) is reputationally beneficial
- Sharing knowledge with the external tax adviser(s) enables the determination of the correct tax liability
- Sharing knowledge with the external tax adviser(s) enables a decrease in tax liability

8) Listed below are statements with regard to the sharing of tax knowledge with (an) external tax adviser(s). Please indicate the extent to which you agree with each of the statements.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

- The external adviser is helpful in assessing my organisation's tax risks
- The external adviser facilitates reaching agreement between my organisation and HMRC
- The use of an external adviser is designed to provide a form of insurance
- The external adviser is proactive in suggesting tax planning opportunities to my organisation
- The external adviser's awareness of legislation is important to my organisation
- The external adviser's experience in the practicalities of complying with tax legislation is important to my organisation
- The use of an external tax adviser(s) inhibits my organisation's ability to develop its tax knowledge
- The external adviser(s) is willing to share tax knowledge when employed by my organisation
- It is more effective to use an external tax adviser than attempt to capture internally generated tax knowledge
- The accounting/finance function is the principal point of contact with the external tax adviser

9) Listed below are a number of statements on capturing tax knowledge created internally within the organisation. Please indicate, for each of these statements, to what extent you agree.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

- My organisation has formal procedures designed to capture internally generated tax knowledge for future use
- Formal procedures are effective in capturing internally generated tax knowledge
- My organisation has informal procedures designed to capture internally generated tax knowledge for future use
- Informal procedures are effective in capturing internally generated tax knowledge
- Capturing internally generated tax knowledge is an important aspect of the tax function's role

10) Listed below are statements with regard to decision makers in operating functions within your organisation, eg research and development, human resources and production. Please indicate, for each of these statements, to what extent you agree.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

- Operational decision makers are required to consider the tax effects of their decisions
- Operational decision makers are evaluated on a basis that takes into account taxation
- Operational decision makers are proactive in seeking tax advice from internal sources
- Operational decision makers are proactive in seeking tax advice from external sources
- Operational decision makers have the necessary knowledge/skills to consider taxation effects appropriately
- Overall my organisation gives an appropriate level of attention to taxation matters
- Operational decision makers provide tax specialists with necessary tax related information on a timely basis
- Operational decision makers provide the tax function with necessary tax related information in an appropriate form, eg level of detail

11) In which industry(ies) does your organisation operate?

12) How many employees has your organisation, approximately?

13) With how many tax jurisdictions does your organisation interact, approximately?

14) I have been employed by this organisation for ______ years.

15) Please specify your professional qualifications / memberships of professional bodies?

16) My gender is:

male

female

17) My age is:

<25

25–34

35–44

45–54

55–64

>65

18) Any other comments?

All responses will be treated in strict confidence and the identity of responders and their organisation will not be known. However, if you are willing to be contacted in the event that we would like to discuss some of your responses in more detail please give your name and contact details in Question 18.

A report of the research findings will be available from ACCA in due course and at the same time a summary will appear in *Accounting and Business*.

Appendix 3: Online accounting firms questionnaire

ACCOUNTING FIRMS' TAX KNOWLEDGE MANAGEMENT SURVEY

This survey is part of a research project funded by a grant from ACCA and is being conducted by Professor Kevin Holland (Southampton) and Professor John Hasseldine (Nottingham). We thank you for your time and help.

All responses will be treated in strict confidence and the identity of responders and their organisation will not be known.

Please answer the following questions in the context of your firm.

1) How many partners or directors does your firm have?

2) How many specialist tax partners or directors does your firm have?

3) Please specify your professional qualifications / memberships of professional bodies?

4) In sharing knowledge about tax legislation, your firm can communicate with different sources in several ways. Below you will find several options specified. Please indicate for each of these options how important they are for your firm in acquiring knowledge about tax legislation.

Very, Somewhat, Neutral, Not very, Not at all

HMRC website or newsletters

Meetings with HMRC at national or regional level

Participation in HMRC consultation bodies and boards

Local HMRC units

Interacting with clients

Newsletters / 'Tax bulletins' issued by other accountancy firms

Newsletters / 'Tax bulletins' issued by law firms

Training courses offered by other accountancy firms

Training courses provided by other suppliers

Specific advice offered by another accountancy firm

Specific advice offered by law firm(s)

Participation in business meetings, forums and boards

Other - please specify at end of questionnaire

5) Listed below are statements with regard to sharing knowledge about tax matters with HMRC. Sharing knowledge is a process that implies both acquiring and providing knowledge. Please indicate for each of these statements the extent to which you agree.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

HMRC is an important source for my firm in learning about tax matters

HMRC informs my firm about tax matters unprompted

HMRC asks my firm for feedback on tax matters

My firm provides feedback to HMRC about tax matters

My firm uses HMRC in implementing and applying tax knowledge

6) Below are listed statements with regard to conditions that may influence the process of sharing tax knowledge with HMRC. Please indicate the extent to which you agree with each of the statements.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

My firm has the ability to share knowledge with HMRC

My firm has sufficient opportunities to share knowledge with HMRC

My firm has a good relationship with HMRC

My firm finds HMRC accessible

My firm has positive experiences with HMRC

My firm is motivated to share knowledge with HMRC

Sharing knowledge with HMRC is financially beneficial

Sharing knowledge with HMRC is intellectually beneficial

Sharing knowledge with HMRC is reputationally beneficial

Sharing knowledge with HMRC increases my firm's knowledge level

Sharing knowledge with HMRC enables them to determine clients' tax liability correctly

Sharing knowledge with HMRC enables them to increase clients' tax liabilities

Knowledge from HMRC is easy to understand

7) Listed below are a number of statements on capturing tax knowledge. Please indicate the extent to which you agree with each of the statements.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

My firm has formal procedures designed to capture tax knowledge for future use

Formal procedures are effective in capturing tax knowledge

My firm has informal procedures designed to capture knowledge for future use

Informal procedures are effective in capturing tax knowledge

Individuals within my firm are conscientious in contributing to tax knowledge capture activities

Capturing tax knowledge is an important aspect of the tax function's role

8) Listed below are statements with regard to knowledge transactions with corporate tax clients. Please indicate the extent to which you agree in general with each of the statements.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

Clients primarily value my firm's ability to assess their tax risks

Clients primarily value my firm's ability to facilitate reaching agreement with HMRC

Clients primarily value my firm's ability to minimise their tax liability

Clients primarily purchase tax services as a form of insurance

My firm is proactive in suggesting tax planning opportunities to its clients

Clients primarily value my firm's awareness of legislation

Clients primarily value my firm's experience in the practicalities of complying with tax legislation

Clients provide my firm with necessary tax related information in an appropriate manner

Clients give an appropriate level of attention to taxation matters

Clients have the necessary level of tax literacy to identify their own needs

My firm highlights potential tax risks as a way of marketing its tax services

My firm highlights potential tax savings as a way of marketing its tax services

My firm highlights potential administrative savings as a way of marketing its tax services

9) In communicating with your corporate clients how often do you have contact with each of the following client staff?

Very rarely, Rarely, From time to time, Often, Very often

Dedicated tax specialist within accounting and finance function

Tax specialist with non-tax responsibilities in accounting and finance function

Individual with human resources-related responsibilities

Individual with research and development-related responsibilities

Individual with production-related responsibilities

10) Listed below are statements with regard to decision makers in operating functions within your corporate clients, eg research and development, human resources and production. Please indicate, for each of these statements, to what extent you agree.

Strongly disagree, Disagree, Neutral, Agree, Strongly agree

Operational decision makers are required to consider the tax effects of their decisions

Operational decision makers are proactive in seeking tax advice from external sources

Overall my firm has appropriate access to operational decision makers

Operational decision makers provide tax specialists with necessary tax related information on a timely basis

Operational decision makers provide the tax function with necessary tax related information in an appropriate form, eg level of detail

11) My gender is:

male

female

12) My age is:

<25

25–34

35–44

45–54

55–64

>65

13) Any other comments?

All responses will be treated in strict confidence and the identity of responders and their organisation will not be known. However, if you are willing to be contacted in the event that we would like to discuss some of your responses in more detail please give your name and contact details in Question 13.

A report of the research findings will be available from ACCA in due course and at the same time a summary will appear in *Accounting and Business*.

Appendix 4: Tables

Table 1: Overview of the interviews

Organisation	Industry	Type of interview	Number of interviewers
HMRC 1	Government	Face-to-face	2
HMRC 2	Government	Face-to-face	2
HMRC 3	Government	Telephone	1
Accounting firm 1	Consultancy & Business	Face-to-face	2
Accounting firm 2	Consultancy & Business	Telephone	1
Accounting firm 3	Consultancy & Business	Telephone	1
Accounting firm 4	Consultancy & Business	Face-to-face	1
Accounting firm 5	Consultancy & Business	Face-to-face	1
Accounting firm 6	Consultancy & Business	Face-to-face	1
Accounting firm 7	Consultancy & Business	Face-to-face	1
Corp. taxpayer 1	Manufacturing	Face-to-face	2
Corp. taxpayer 2	Manufacturing	Face-to-face	2
Corp. taxpayer 3	Wholesale, Retail, Trade	Telephone	1
Corp. taxpayer 4	Manufacturing	Face-to-face	2
Corp. taxpayer 5	Transport & Comms	Telephone	1
Corp. taxpayer 6	Transport & Comms	Telephone	1
Corp. taxpayer 7	Government	Face-to-face	2
Corp. taxpayer 8	Wholesale, Retail, Trade	Telephone	1
Corp. taxpayer 9	Electricity, Gas, Water	Telephone	1

Table 2: Motives for and benefits of knowledge flows

Views of	On knowledge flows with: HMRC	Accounting firms	Corporate taxpayers
HMRC	HMRC tries to give inspectors insight in the issues and perspectives of CTs (in order to understand their fears and concerns). Moreover, HMRC aims to establish internal consistency among units.	HMRC finds AFs critical of its productions. AFs are initial contact for HMRC with CTs, AFs publicise schemes and encourage CTs to apply. HMRC believes that educating AFs is more efficient than educating one company, since they are easy to reach (compared with reaching individuals).	HMRC is focused on reaching inexperienced CTs (without knowledge of claims), as well as advising experienced CTs. Initial contact with CTs takes place through AF. HMRC tries to improve standard of claims, consistency and certainty. They believe that this encourages innovation and competition. Feedback from CT to HMRC is important: guidance and schemes are designed in consultation with CT. In that case, HMRC ensures that the (impact of) guidance is clear and understood.
Accounting firms	Two-way communication process: AFs provide information to HMRC (for example when they perceive a major impact of legislation on clients / economy) and enquire about HMRC's views. They have a positive opinion about HMRC owing to high-quality manuals, pro-activity (in visits, mails, and publishing), flexibility and helpfulness.	Focus is on acquiring and maintaining knowledge. Different levels of knowledge are important: awareness, working knowledge, and deep expertise. AFs experience much freedom for exploring ideas, creativity, and innovativeness.	AFs need to offer CTs added value, since tax information is publicly available. This added value comprises: demonstrating expertise, experience, interpretation, process knowledge, advice, implementation, ability to focus on specific context of CT, innovativeness, pro-activity, intellectual property, and the creation of strong relationships. AFs share sufficient (free) knowledge to raise CTs' interest, but at the same time making sure they do not give away trade secrets. AFs want to be intermediaries between HMRC and CT. (AFs believe that CTs are naïve in thinking that they can have good relationship with HMRC.)
Corporate taxpayers	CTs find HMRC very understanding, flexible, practical, pragmatic. They feel they contribute as much knowledge as they collect (fair exchange).	CTs like to have a strong relationship with AFs. They employ AFs for: communicating with HMRC, training, assurance that CTs have correct interpretation (risk minimisation check), alternative interpretations, complex matters, forming views, compliance work, brainstorming, second opinion, check for new knowledge and developments, reviews, and when CT have insufficient skills, knowledge and resources.	Most CTs try to handle most tax issues in-house. CT tax professionals are reliant on non-tax professionals (eg business accountants, HR) and vice versa.

Table 3: Methods and procedures adopted on knowledge flows

	On knowledge flows with:		
Views of	**HMRC**	**Accounting firms**	**Corporate taxpayers**
HMRC	Training (sometimes with help from AF), electronic discussion groups, meetings, emails, intranet, phone, technical manuals. Moreover, HMRC aims to establish internal consistency among units through submissions in precedence files, meetings, discussions.	Two-way communication process: HMRC invites AFs to participate in consultative committees, gives presentations to AFs, answers questions from AFs.	HMRC exchanges knowledge with CT though notes, guidelines, articles, publications, seminars, DTI, case studies, Internet, manuals (for tax experts), tax bulletin (for those with less tax expertise), press releases (for those with little tax expertise), training events, visits on demand, etc.
Accounting firms	Feedback to HMRC though representation of the Big 4, regular meetings, and by pushing CIT and the (ICAEW) Tax Faculty.	Different levels of knowledge are created: awareness (through headlines), working knowledge (through examples), and deep expertise (through training). Self-learning, training, intranet, emails, newsflashes, networks and communities, and end-user submissions (that need to be filtered from client-information). Attention for exploring ideas, creativity, and innovativeness.	AFs share sufficient (free) knowledge to raise CTs' interest, but at the same time making sure they do not give away trade secrets. AFs want and try to be intermediaries between HMRC and CTs.
Corporate taxpayers	CTs contact HMRC for discussion and exchange, and vice versa. Contact is often indirect, through AF, or with presence of AF. HMRC contacts CTs for compliance, to agree on methodologies, give presentations for CT, visits, assessments. CTs lobby by participation in representative bodies, membership consultation bodies, business forums, Big 4, and directly. CT use HMRC manuals/ website; these reflect HMRC's arguments and interpretation.	CTs receive free emails with headlines from AFs. CTs use different AFs for different specialisms or issues.	Most CTs try to handle most tax issues in-house. Internal communication via meetings, database, conference calls, email, intranet, etc. Facilitators: good communication skills, making time for formal appointments (meetings and external sources) , demonstrating significance and benefits of tax internally (eg by inviting HMRC), training, holding on to staff, ICT systems to facilitate knowledge-sharing, push instead of pull tactics, face-to-face meetings, support by management.

Table 4: Barriers to knowledge flows

Views of	On knowledge flows with: HMRC	Accounting firms	Corporate taxpayers
HMRC	Information overload, making sure to treat cases with confidentiality, writing guidance, inadequate IT systems, size, unawareness of issues in marketplace.	AFs are primarily focused on selling; there is a risk of having a different interpretation. If AF has different interpretation, HMRC undertakes enquiry.	HMRC believes that CTs fear that they invite an enquiry or tax bill if they stand out. Non-tax professionals in CTs have lack of time or don't prioritise working on a claim (while they need to convince HMRC of relevance), non-tax professionals need to be identified by HMRC.
Accounting firms	AFs sometimes perceive a major impact of legislation on clients and/or on the economy. In that case, they provide feedback to HMRC.	Lack of time, lack of incentives (rewards and recognition), lack of technical support and resources, information overload.	CTs may think that AFs will attract HMRC for investigations, sensitivity about confidentiality (information about CT may not be shared), limited time that non-tax people in CT have available for AF.
Corporate taxpayers	CTs have lack of knowledge management skills, don't want to express opinions, don't want to encourage HMRC to do enquiry, lack of time, information overload; mainly barriers in terms of ability.	AFs describe too many potential risks (which forces CTs to act on those risks), charge for work that CTs have not asked for, AFs learn more from CTs than vice versa, AFs can sell confidential and sensitive information to competitors, expensive, too focused on selling, over-professional (not flexible, no quick solutions), scaremongering and frightening, AFs are unwilling to communicate (especially when they cannot charge for it), AFs use CTs as guinea pigs (acquiring experience and using that for other clients).	Work overload, lack of prioritising by non-tax professionals, reliance on non-tax professionals (eg tax retention problems by non-tax professionals), knowledge that is based on experience and not documented, lack of knowledge skills, inadequate ICT / infrastructure, budget issues, confidentiality (tax authorities have access to all documents), unawareness of relevance of sharing knowledge.

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