

**Scottish Parliament, Social Security Committee
Benefit Take-up – Call for Views
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 We welcome the opportunity to respond to the inquiry into benefit take-up, launched by the Social Security Committee of the Scottish Parliament.
- 1.2 Based on queries to our website, and the monitoring of benefits-related online forums, we would observe that some of the reasons why benefits are unclaimed include incapacity, ignorance, fear, confusion and reputation.
- 1.3 HMRC have carried out research in relation to tax credits, for example, on why people do not report changes of circumstances on time and correctly. Their findings could be worth reading and taking on board in principle, as they might be useful in informing future benefits system design and processes.
- 1.4 Maximisation of take-up is more likely to occur when benefits are simple to understand and stable in terms of eligibility criteria, etc. It is also helpful if eligibility criteria are objective. This makes it easier for individuals to be sure whether or not they are eligible, what they are able to claim and, whether it is worth their while to make a claim. Child benefit (before the introduction of the High Income Child Benefit Charge) is an example of this.
- 1.5 While there could be improved take up of certain benefits by having automated systems, we have some concerns. Firstly, any error on a previous claim could be replicated. Secondly, some people will remain digitally excluded and it is not clear how this could be applied successfully to them. Finally, we have concerns about the reliability of the data.

- 1.6 We think there are two other areas the committee could usefully consider as part of this inquiry: the interaction of benefits with income tax and National Insurance and the question of the non-take up of benefits and linked (or passported benefits) tax reliefs.

2 About Us

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Introduction

- 3.1 We welcome the opportunity to respond to the inquiry into benefit take-up, which was launched by the Social Security Committee of the Scottish Parliament.
- 3.2 We have a particular interest in the interactions between social security benefits and tax/National Insurance. We have only responded to those questions where we have a particular interest or think we can add value.
- 3.3 We have recently responded to an inquiry into the impact of welfare policy in Scotland by the Scottish Affairs Committee of the UK Parliament. Although it did not consider take-up of benefits, there may be points of interest to the committee in our submission to that inquiry.¹

¹ Scottish Affairs Committee – Inquiry into the impact of welfare policy in Scotland:
<https://www.litrg.org.uk/latest-news/submissions/190730-scottish-affairs-committee-%E2%80%93-inquiry-impact-welfare-policy-scotland>

4 1. What do we know about how much is unclaimed and why?

4.1 We do not have empirical data to prove our comments; rather, we make observations based upon what we see in our day-to-day work. We regularly receive queries relating to tax credits and welfare benefits.² In addition, we monitor chat room posts of forums related to tax credits and welfare benefits.³ From these sources, we would observe that some of the reasons why benefits are unclaimed include:

- Incapacity – people do not claim benefits due to a lack of capacity to do so. This may be due to their level of education or reading ability, or their computer literacy in the case of online forms;
- Ignorance – people do not know they are entitled to something / they do not look or check to see whether they are entitled / it does not cross their minds that they might be entitled to claim something;
- Fear – people look and think they may be entitled but either bad press or bad past experience makes them hesitant to make a claim;
- Confusion – the benefits system is a minefield and the complexity / length of forms are off-putting to many people who do not either have the time or confidence to persevere (for example there may be a choice to make about which of two or three benefits to claim). This is an even greater problem in the current climate with the introduction of Universal Credit (UC) alongside existing legacy benefits;
- Reputation – some people feel a stigma associated with claiming government support.

4.2 In a Scottish context in particular, we would suggest that issues related to confusion may be exacerbated. Due to devolution, Scottish claimants are faced with the choice of contacting a number of different agencies, including, but not limited to the Department for Work and Pensions (DWP) and Social Security Scotland. It is by no means an easy task for a claimant to make the correct selection, nor to find the correct place to go for guidance. There is parallel evidence for this type of confusion, with taxpayers contacting Revenue Scotland erroneously (rather than HMRC) about Scottish income tax, and indeed enquirers to the LITRG website, who sometimes mistake us for HMRC.

² Members of the public are able to ask us queries about tax, tax credits and related issues through the facility on our website at <https://www.litrg.org.uk/contact-us>.

³ For example, the Rightsnet discussion group for advisers (<https://rightsnet.org.uk/>), MoneySavingExpert (<https://www.moneysavingexpert.com/>) and mumsnet (<https://www.mumsnet.com/>).

- 4.3 In addition, there can be confusion in relation to passported benefits, as the rules are not necessarily the same in Scotland as in the rest of the UK. Yet, there is no single port of call for guidance on which passported benefits are available to claimants in Scotland.⁴

5 2. What are the gaps in knowledge/research and how can they be improved?

- 5.1 Those administering benefits should speak to claimants and prospective claimants to find out what they do and do not know, carry out research to understand behaviours and learn from others. HMRC have latterly done some research on why people do not report changes of circumstances on time and correctly. Their findings could be worth reading and taking on board in principle, although there are some inaccuracies in the tax credits decisions referred to in this research.⁵ It is also worth reading through HMRC's research into tax credits over the years too – to inform future benefits system design and processes generally.⁶
- 5.2 For claimants, where there are gaps in knowledge and that is a barrier to take-up, using simple language in any communications would help. Providing better information in plain language and making it accessible for people in different ways would also assist – authorities should not just rely on the internet, should get away from ambiguous messaging and should not exaggerate the good bits and hide the bad bits – they should just be straight with people. In order to make guidance more accessible, it is worth thinking about the times or stages in a person's life when it might be appropriate to claim a particular benefit, and how it might be easiest to reach that person at that time. So, for example, ensuring there is accessible information about disability benefits at various health service providers, such as doctors' surgeries.

⁴ We would refer you to paragraphs 6.3 ff. of our response to the Social Security Committee's inquiry into Social security and in-work poverty in 2018: <https://www.litrg.org.uk/latest-news/submissions/180817-social-security-committee-scottish-parliament-%E2%80%93-inquiry-social>

⁵ Understanding customer errors in tax credits: Research report 547 for HM Revenue and Customs – K Leary, P Pinakova and M Gibson (June 2018): <https://www.gov.uk/government/publications/understanding-customer-errors-in-tax-credits>. Although the research is helpful in understanding why people do not report changes, there are some inaccuracies relating to the tax credits definitions and rules around working hours, which we have raised with HMRC.

⁶ HMRC research into tax credits can be accessed on GOV.UK: https://www.gov.uk/search/research-and-statistics?parent=%2Fwelfare%2Ftax-credits&topic=a7f3005b-a3cd-4060-a127-725accb54f2e&content_store_document_type=research&order=updated-newest

6 3. How can the administration of benefits be improved to maximise take-up? Specific examples would be welcomed.

- 6.1 If benefits are simple to understand and stable in terms of eligibility criteria etc. it is more likely that take-up will be maximised. When there are lots of changes to support schemes or they are very complicated, it is difficult for individuals to be sure what they are able to claim, whether it is worth their while to make a claim, if they have made the claim correctly or indeed, even that there is something new that they can claim.
- 6.2 Eligibility criteria should ideally be objective, so that it is simple for individuals or households to determine whether or not they are eligible. Objective criteria also make it easier for the relevant authority to administer. Grey areas and subjectivity can result in innocent mistakes by claimants. One example of a particularly difficult area is determining whether or not someone is part of a couple for tax credits purposes, and therefore whether a joint or single claim is in point. This also causes problems where the status changes when there is already a claim in place, and deciding the point at which the change has to be notified and a new claim has to be made.
- 6.3 Child Benefit is probably a fairly good example of a benefit where take-up historically has been maximised. It is simple, virtually universal and well-established.⁷
- 6.4 Thought should also be given to how benefits interact – that is where we often see the most complexity. At present, there is no government-provided calculator that helps people understand what they may be entitled to. Creating such a calculator is difficult due to the complexity of the rules, but there are two calculators provided by Entitledto and Turn 2 Us that cover most of the major benefits.⁸ We do think it is important that adequate funding is provided to create a tool that people can use that not only covers all benefits but also includes things such as childcare schemes and passported benefits.
- 6.5 This is particularly important given that people sometimes have to make difficult choices about which benefit to claim as claiming one benefit can impact another, often in ways that are complicated and/or unexpected. These interactions can often be beneficial to claimants – for example, claiming one benefit may increase another benefit by adding a further premium, but that is often not fully understood by claimants.
- 6.6 In view of the complexity involved in benefits claims, there should also be processes in place to ensure that people are always aware how they can get help from someone to make a claim (for example, a legally appointed attorney, a DWP appointee, etc.). In addition, the processes that such helpers have to go through should be consistent across the benefits system.

⁷ Prior to the introduction of the High Income Child Benefit Charge on 7 January 2013.

⁸ These are available online at <https://www.entitledto.co.uk/> and <https://benefits-calculator.turn2us.org.uk/AboutYou> respectively.

7 4. How far is it possible for technology to create a more automated system, that used information gathered for other reasons to award benefits automatically? What would the advantages/disadvantages be of greater automation?

- 7.1 While there could be improved take up of certain benefits by having automated systems, we have some concerns, which we expand on below. Firstly, any error on a previous claim could be replicated. Secondly, some people will remain digitally excluded and it is not clear how this could be applied successfully to them. Finally, we would query the reliability of the data.
- 7.2 The degree of success would very much depend on how robust the automation was and the accuracy of the data and IT involved.
- 7.3 Advantages would seem to be that take-up should be improved, inaccuracies weeded out and ideally a more seamless system of support created.
- 7.4 Disadvantages would include that the more automated and pre-populated a system is, the less involved the individual receiving the benefit is, so the onus for accuracy cannot be laid at their door as behaviours switch to relying on the ‘system’ doing everything for them; any increase in automation and pre-population is only as good as the data being used, so there needs to be a clear and efficient route for individuals to question and correct any errors in the data that feeds through to their payments. By way of comparison, it can be observed that many taxpayers lack awareness and understanding of their tax position and the tax system: this may in part be due to the fact that the Pay As You Earn (PAYE) system, under which employers deduct tax and National Insurance contributions from employees means that tax is largely unseen.⁹
- 7.5 All increases in automation lead people to be increasingly reliant on digital skills – in many cases general digital skills are insufficient to manage crucial personal and financial information – awareness in security needs to be improved and the costs associated with secure digital engagement (and keeping it updated) need to be borne in mind. There also needs to be an alternative route for digitally excluded and for digital interruptions (due to IT breakdowns/house moves/illness, etc.).
- 7.6 We have seen an increased use of automated data in tax credits and other benefits with mixed success. One example of data used to the benefit of claimants can be seen in tax credits. When DWP award a qualifying disability benefit, a process has been set-up so that HMRC should be notified and upon receiving that notification they should add the relevant tax credit disability premium (leading to an increased award in many cases). A similar process is in place when DWP stop the qualifying disability benefit.

⁹ CIOT carried out a poll in Scotland in 2018, the results of which demonstrate the general public’s lack of awareness of the tax system: <https://www.tax.org.uk/media-centre/press-releases/press-release-new-poll-discovers-more-four-fifths-scots-lack>

- 7.7 In principle, it is hard to object to the use of an automated process like this that is intended to help claimants. In reality, it has caused a number of problems. The first is because it is not underpinned by any legislation and so it remains the claimant's responsibility to notify HMRC of the award of a qualifying DWP benefit that might increase the tax credit award (or similarly the stopping of a DWP benefit that might decrease the tax credit award). Yet, the introduction of an automated process leads people to think they no longer need to report changes.
- 7.8 We have also seen the process fail.¹⁰ In 2016 it was discovered that 28,000 families were missing out on the higher level of child tax credit they could be entitled to because of their child's disability as the automated process that was in place had failed and those claimants had not realised the need to tell HMRC when their child had been awarded a DWP disability benefit. The latter point is unsurprising, as the award letters from DWP are several pages long and the message about informing HMRC in respect of tax credits is buried and not explicit. However, tax credits can only be backdated one month and the Government decided to extend this, but only to the start of the tax year (April 2016) because they relied on the fact that it was the claimant's responsibility to inform HMRC of the change.
- 7.9 This highlights the complexity where benefits interact but also the need for any automated systems to be underpinned by legislation to protect claimants when the systems fail.
- 7.10 We have seen numerous cases in both UC and tax credits where Real Time Information (RTI) about earnings is used from the tax system and that data is wrong or incomplete. The process of challenging this is far from clear for claimants and often leads to them bouncing around between their employer, DWP and HMRC.
- 7.11 In addition, we have highlighted to both DWP and HMRC the problems that can occur where data gathered for one purpose is used for another, entirely different, purpose. This is a particular problem with the use of RTI data from the tax system for benefit purposes because you cannot get all of the information you need from the RTI data in order to accurately calculate a tax credit or UC award. In addition, many of the definitions are not aligned across tax and benefits. For example, the RTI data does not show deductions that can be made from income for benefits purposes. This leads to a situation where the data is used and it is then up to the claimant to contact the relevant department to get their award amended.
- 7.12 The problem with this part of the process is that often people are unaware that the figure gathered automatically may be wrong – they assume, for example, that if DWP are getting earnings data from HMRC to calculate a UC award that it must be the data they need. There is currently no published information on GOV.UK that explains to UC claimants that they can

¹⁰ <https://www.litrg.org.uk/latest-news/news/161124-press-release-welcome-news-families-children-disabilities>

deduct unreimbursed work expenses from their earnings figures. This works to the claimant's disadvantage but to the department's advantage.

8 5. What can we learn from previous campaigns to increase take-up? Specific examples of projects or approaches that improved benefit take-up, particularly those that were evaluated, would be welcomed.

8.1 No response.

9 6. Are different approaches required for different benefits and different client groups?

9.1 Some benefits may be easier to 'advertise' than others. For example, parents of young children will often be at doctors' surgeries/local schools so it may be relatively easy to target them as a group. For benefits aimed at working age people, it is more difficult to assess where adverts/literature might be targeted. Further, for some in that category there may be a reluctance to claim benefits on the basis they are not available to all. So sensitive 'marketing' is needed. HMRC introduced the marriage allowance with the ability to claim online only. This proved unsuccessful and it was necessary to enable claims made by phone or hard copy. This was partly attributed to many of the claims being made by pensioners who were not digitally enabled. Another lesson to be learnt from marriage allowance is to make it very clear who should make the claim. The guidance on GOV.UK was originally oversimplified, meaning that some individuals eligible to make a claim received the impression that they were not able to or that it would not be beneficial to them.

10 7. What kinds of eligibility criteria ensure better take-up?

10.1 We refer you to our comments in response to question 3.

10.2 The following criteria are likely to ensure better take-up: clear rules whatever the eligibility criteria – to ensure people can easily determine whether or not they meet them; clear targeting; clear payment regime; clear information about relevant changes or maintenance requirements for the individual and clear information about any interaction with other systems (other benefits/payments/tax/National Insurance).

11 8. How might the development of Scottish social security impact on take-up of both reserved and devolved benefits?

11.1 We refer you to our comments in response to question 1.

11.2 The two administrations need to work closely together and cross-refer cases to ensure people claim the most appropriate benefits.

- 11.3 The answer may depend to a large extent on what is desirable. Care should be taken to ensure reserved and devolved benefits (and taxes) do not unwittingly distort each other – for instance, a UC claimant with higher net income due to lower Scottish tax rate can see this filter through to result in a lower UC award. Whilst there is potentially still some benefit to the claimant (due to tapering), the second beneficiary is the UK Government paying lower UC awards. Consideration must be given to any additional support through devolved benefits to identify how it would interact with reserved benefits, in line with the relevant policy aim.
- 11.4 One risk is that people are confused about what they can claim and how devolved and reserved benefits work together. This could lead to them misunderstanding whether they can claim one or both and then cause ongoing issues in terms of keeping the claim up to date.

12 9. Are there other questions you think the Committee should consider as part of this inquiry?

- 12.1 The interaction of benefits with income tax and National Insurance always needs to be considered. This is a complex issue in any case, but for Scottish claimants, more complex, because income tax is a partially devolved tax: the Scottish Parliament sets the rates and bands for Scottish income tax (that applies to the non-savings and non-dividend income of Scottish taxpayers), but the UK Parliament controls all other aspects of income tax, including the personal allowance, the definition of what types of income the tax applies to and all the various reliefs and other allowances, and also income tax as it applies to savings and dividend income in its entirety.
- 12.2 In relation to National Insurance, if people do not claim Child Benefit at all, as a result of the High Income Child Benefit Charge, and they do not otherwise pay National Insurance contributions or receive National Insurance credits, because they do not work or are on a low-income, their National Insurance record is likely to be incomplete for the years in question. This is likely to affect their future entitlement to state benefits, such as the state pension.
- 12.3 The question of the non-take up of benefits and linked (or passported benefits) tax reliefs also needs to be considered. The committee may be aware that the current UK Finance Bill contains provisions that will reduce the period for which principal private residence relief is available from 18 months to nine months. (It had previously been reduced from 36 months.) There remains a final period exemption of 36 months for certain people who are disabled or long-term resident in a care home.¹¹ The meaning of ‘disabled’ for this purpose is set out in Finance Act 2005 and is fairly restrictive in that other than in respect of someone who falls

¹¹ S.225E Taxation of Chargeable Gains Act 1992:
<http://www.legislation.gov.uk/ukpga/1992/12/section/225E>

within the Mental Health Act 1983 provisions, it depends on the person being in receipt of particular benefits, such as disability living allowance.¹² This means that some individuals may be missing out on other significant reliefs because of a failure to take-up a benefit to which they are entitled.¹³

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¹² Schedule 1A Finance Act 2005: <http://www.legislation.gov.uk/ukpga/2005/7/schedule/1A>

¹³ In this regard, we would refer you to our submission to the UK Government in respect of the draft Finance Bill legislation: <https://www.litrg.org.uk/latest-news/submissions/190904-capital-gains-tax-private-residence-relief-changes-ancillary-reliefs>