Older people on low incomes

The case for a friendlier tax system

Low Incomes Tax Reform Group

of

THE CHARTERED INSTITUTE OF TAXATION

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OLDER PEOPLE ON LOW INCOMES
THE CASE FOR A FRIENDLIER TAX SYSTEM

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Executive summary

Background

This is the first report of the Low Incomes Tax Reform Group (LITRG) of the Chartered Institute of Taxation, which was established

> *"To target for help and information those least able in the community to afford tax advice and make a real difference to their understanding of taxation and to work to make the tax system more friendly to their needs."*

We chose older taxpayers as the priority group to review, because those on low incomes:

– Have less access to support, such as a payroll department or a professional tax adviser
– Are more likely than younger people to suffer from physical disabilities impeding their ability to deal with their tax affairs
– Often have to cope with tax issues, for the first time, following bereavement
– Face a tax system that is particularly complex for those aged 65 or over
– Must deal with PAYE and tax withholding systems which are not geared to their needs

The number of older taxpayers as a proportion of the total population is set to rise into the new millenium at a time when the resources of the Inland Revenue are set to decline and where older people, as a group, may not be viewed as a priority when assessing customer service needs. However, we were encouraged by the Prime Minister's commitment to help the very old or frail to obtain an excellent service from government departments in the recently-launched *Better Government for Older People* programme.

We believe that meeting the needs of older people on low incomes should be a priority for both government and the Inland Revenue, and also believe that a considerable difference can be made to their understanding and comfort with the tax system at little or no overall cost.

We have spent nine months reviewing the tax regime facing older people on low incomes, drawing upon the knowledge and experience of our members and of their organisations (see Appendix A), while a member of the group visited North America to study tax volunteer schemes. We also invited comments from members of the public, through several requests in the media, and received close to 300 letters detailing some of the difficulties experienced in practice.

The report

In this report we explore, in some detail, a range of problems that older taxpayers on low incomes experience with the tax system. Our recommendations for achieving significant improvements for them are covered under the headings:

* Law and policy issues
* Tax administration
* A volunteering scheme

Law and policy issues

We recommend

- Automatic uprating of tax allowances before the start of the tax year (page 16)
- Reversing the prospective abolition of a non-taxpayer's right to reclaim dividend tax credits (page 16)
- Providing helpful tax information for recipients of welfare benefits (page 16)
- Rationalising the rules for deduction of tax from pensions income (page 17)
- Widening the brief of personal advisers currently being trained by the DSS to include taxation (page 17)
- Establishing a group to examine the introduction of longer term changes to benefit older people on low incomes including a tax exemption certificate (page 17)

Tax administration

We recommend

- A range of changes to ensure better customer service from the Inland Revenue (page 37)
- Greater help for people with disabilities (page 38)
- A revival and improvement of the Tax Back campaign (page 39)
- A range of measures to exclude older people on low incomes from the Self Assessment regime (page 39)

A volunteering scheme

We recommend the establishment of a review committee to examine the scope for the creation of a publicly supported tax volunteer scheme to serve the needs of older taxpayers on low incomes (page 45).

1 Introduction

Background

The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom for tax advisers. Beyond supporting the practical needs of its members, the CIOT has always taken a wider interest in tax issues and in early 1998 it established the Low Incomes Tax Reform Group (LITRG) with the objective:

> *"To target for help and information those least able in the community to afford tax advice and make a real difference to their understanding of taxation and to work to make the tax system more friendly to their needs."*

The LITRG comprises some paid individuals funded by the CIOT but, in the main, consists of volunteers.

It first met as a group in Spring 1998 and acknowledged that the scope of its task was potentially so vast that priorities had to be established. It identified that individuals on low incomes with tax difficulties were typically found within three groups of the Inland Revenue's "customers":

Older taxpayers – those 65 and over

Ins and Outs – those moving regularly between employment, self-employment and unemployment

Students

In each case the tax issues are somewhat different, and so separate sub-groups were established. The composition of the Older Taxpayers Sub-Group, responsible for this report, is set out in Appendix A.

> *"I fill them in to the best of my ability, but always they send them back – incomplete!! I am so very worried about them, they really scare me …"*
>
> Letter from daughter of 99 year old widow from London who has income below the tax threshold, including some untaxed interest. Her income has been constant for years, but she has received a Self Assessment form which the Inland Revenue insists she must complete.

Older taxpayers

The Older Taxpayers Sub-Group concluded at the first of its meetings that the underlying legislation applicable to older taxpayers had grown up in a piecemeal fashion and was now extremely complex. It was therefore necessary to ensure that Ministers and members of Parliament appreciated where that complexity lay and to suggest areas for priority review.

> *"I find it quite a worry to fill in my tax assessment form. I am 72 years old, live OK on my own. My husband used to fill in my Tax Form for me which then was quite straightforward … I pay tax on superannuation and on a little pension my late husband's firm give to me but I still keep getting different tax claims from Inland Revenue … So difficult to follow assessment forms."*
>
> 72 year old widow from Wolverhampton

It was also acknowledged that the Inland Revenue had undergone substantial changes in the last ten years with significant reductions in staffing, the development of the practical implementation of the Taxpayer's Charter, moves to more extensive computerisation, and the introduction of the most radical change to the tax system in 50 years – Self Assessment. With this background it was concluded that the resources available to the Inland Revenue seemed to be inadequate to enable it to provide a consistently high standard of customer service to poorer, older taxpayers. It would therefore be helpful to highlight what could be improved, not necessarily, in our view, at an overall additional cost.

> *"I was widow Feb 95 and was told by a person at the tax office I would not pay tax for 2 years. Since then I kept getting letters from the tax people telling me I still own them money … I am 74 years of age and all this bother is making me very ill … I also suffer badly from Rheumatism."*
>
> 74 year old widow from Stepney, London

It was also decided to review whether "volunteering" schemes, combining resources from the private and public sectors, might have a part to play in helping to educate or to assist older taxpayers, as happens in some other countries.

The sub-group started with some ideas of the problems facing older taxpayers from members' own experiences. However it sought further evidence from older taxpayers themselves through appeals in national newspapers and through contacts with other organisations working with them. The LITRG is grateful to Age Concern, Help the Aged, the National Association of Citizens Advice Bureaux, the Royal National Institute for the Blind, the Royal National Institute for Deaf People, the Institute for Fiscal Studies, TaxAid and others for their own contributions to its knowledge base. It also sought help from the Inland Revenue and the Adjudicator's Office, both of which were extremely helpful. A member of the group visited the USA and Canada to research tax volunteering schemes in those countries and received considerable help from the IRS, Revenue Canada and local tax professionals.

This report could not have been completed without the generous financial support of Solution 6, a leading tax software supplier, and the production facilities of PricewaterhouseCoopers and CCH Editions Ltd. We extend our grateful thanks.

The LITRG cannot pretend that what follows is an exhaustive study with an accompanying solution for every problem that it has identified. It hopes, however, that this report will be a catalyst for change so that hundreds of thousands of poorer pensioners may very soon begin to benefit from its efforts.

> *"We fined the self assessed form complicated and stresful, why is it up to us to deal with such forms we are not trained to deal with such forms as we get older its harder to have to cope with life let alone this form."*
>
> Pensioner from Burnley, Lancashire

2 Why do older taxpayers need special consideration?

> *"For too long the interests of older people have not been a high enough priority for government. I want that to change. People are living longer, and enjoying many more years of active life after retirement. We need to plan for this. But we must also make sure that excellent services are there for those who need them, especially the very old or frail."*
>
> Rt Hon Tony Blair, in his Message to the Better Government for Older People programme (5th June 1998)

Many people of all ages experience difficulties in managing their tax affairs – so why has the LITRG decided to focus its initial work on the problems of older taxpayers?

There are several reasons for treating older people as a priority, which we examine in this chapter:

* Practical difficulties facing older people in dealing with their tax affairs
* Life events that make older people more vulnerable
* Particular complexities in the tax regime affecting older people
* Further complexities arising from post-retirement financial arrangements
* Future trends

We should stress that older people on low incomes are not an insignificant group. There are over 10 million people in the UK who are over state pension age. Of these, more than 1,830,000 have net incomes below 50% of average household income, which is a commonly accepted measure of poverty.[1]

Practical difficulties facing older people in dealing with their tax affairs

Older people have a number of particular practical difficulties in dealing with their tax affairs.

The majority are no longer in a workplace and do not have access to payroll or personnel departments where staff might be able to clarify problems regarding their PAYE codes, payslips or other tax issues. If they are in receipt of an occupational pension, it is quite likely that the pension administrator will be some distance away from where they live.

One obvious solution for someone having difficulty in managing their tax affairs is to seek professional advice from a Chartered Tax Adviser or a Chartered Accountant. However, this can be unaffordable for those on lower incomes, and income levels tend to be lower among older people.[2]

Free help is offered by the Inland Revenue, but here again there are particular difficulties for older people. The tax affairs of most occupational pensioners are handled by the large PAYE offices, inaccessible to most of their customers. Many older people have physical disabilities[3] and cannot even reach a local tax office or Tax Enquiry Centre, of which there are just over 300 spread across the UK. Although the Inland Revenue will visit those who are housebound, this service is not widely publicised.

It might be thought that this difficulty could be resolved by greater use of the telephone, which would tie in conveniently with the Inland Revenue's own preference for telephone communication which is cheaper to provide than other forms of individual help. But older people are often deterred by the cost of national calls which can be prohibitive for those on lower incomes, while it creates special problems for those with hearing difficulties. The Royal National Institute for Deaf People estimates that 55% of people over 60 are deaf or hard of hearing, making telephone communication difficult, while 570,000 of them have severe or profound deafness which may need communication by textphone or videophone.

> *"I regret you have found it necessary not to accept my reason of not being able to complete the self assessment form. This I regret very strongly after all my previous Returns have satisfied you without comment...."*
>
> *"My sole reason is that I cannot read through the mass of small print … I have already lost the sight in my left eye and do not intend to do the same with my right one …"*
>
> Extract from letter to the Inland Revenue from a pensioner in Newton Abbott, aged over 75 and in residential care

There are other disabilities which afflict a disproportionate number of older people. The Royal National Institute for the Blind (RNIB) reports that in 1996 there were estimated to be approximately 950,000 people in the UK over 60 suffering from blindness or partial-sightedness which makes it difficult for them to read tax forms and guidance. This number is expected to increase to 1,030,000 by the year 2005.

A further practical issue affecting older people on low incomes is that, in addition to the Inland Revenue, they may have to deal with the Department of Social Security in relation to welfare benefits and with local authorities for social services. It is only rarely that an adviser within one of these agencies will be competent to advise on issues falling outside their field, and so the individual may have to visit a number of different agencies to sort out their financial affairs. A related problem is that definitions of income used by the different authorities may differ.[4]

Life events that make older people more vulnerable

Many older taxpayers have no contact with the tax system until after the loss of a husband, wife or partner who handled the couple's financial affairs. They must then learn to deal with the tax authorities at a time when they are also having to cope with bereavement.[5]

> *An 87 year old widow from Hull, who has not worked for 60 years, received Self Assessment forms in 1997 and 1998. Her total income is a state pension of £3,600, a widow's pension of £1,700 taxed under PAYE and some £1,700 interest from National Savings Income Bonds (this arises as she had to sell her bungalow for £25,000 to move into rented accommodation). The Inland Revenue is aware of the untaxed income source and, notwithstanding its ability to collect the tax during the year through her PAYE code, it insists upon completion of a Self Assessment form for 1998.*
>
> To quote the widow's daughter, "I do hope you can sort something out for her as the sight of this enormous form has frightened the living daylights out of me never mind my mum."

Others have no contact with the tax system until the time when they move from their own home into a care home because they are no longer able to live alone. The proceeds of their tax-exempt house sale is typically invested to generate the income on which they must rely for the rest of their lives. But this income will often render them liable to tax and/or the need to complete a tax return for the first time.

Another event which may trigger new tax responsibilities is the receipt of a new occupational or state pension, either upon retirement from work or upon reaching a certain age. This may necessitate contact with the tax authorities to obtain the appropriate tax code or to complete a Self Assessment tax return. For many people, this is the very first time that they will have any direct dealings with the tax authorities, having previously had their tax deducted by an employer under Pay As You Earn (PAYE). And, of course, the Self Assessment system has been specifically designed to place on taxpayers greater responsibility for ensuring that their tax is correct and up to date.

Particular complexities in the tax regime affecting older people

The tax system contains a number of provisions that cause particular difficulties for older people, even though some of these are actually intended to reduce their tax burden.

The Taxes Act provides that people aged 65 or over, who are on low or average incomes, may enjoy certain tax allowances at a higher level than younger taxpayers. While clearly beneficial in principle, the provisions cause difficulty in practice. For example[6]:

– The procedures relied upon by the Inland Revenue for identifying taxpayers who have reached 65 are not very reliable and our evidence suggests that a significant number of individuals do not receive their entitlement.
– The provisions for withdrawing the higher allowance, once income exceeds a specified level, are very complicated and appear to necessitate the completion of a Self Assessment tax return in circumstances where such a form would not otherwise be required.
– The Married Couple's Allowance is available at higher levels to those aged 65 or over, but the provisions are particularly complex.

Criticisms have also been levelled at the Widow's Bereavement Allowance. There is no equivalent for widowers, it is given as a tax credit which is poorly understood, and claimants do not always appreciate that entitlement lasts at most for two years.

> *"My late husband worked for fifty years and never missed one stamp so why are we pensioners being penalised. I am nearly 70 years old and it would be great if things weren't made so hard for us to understand."*
>
> Widow from Exmouth, Devon, who was incorrectly advised by the tax office that, because her husband died just before the end of the tax year, she was entitled to Widow's Bereavement Allowance for only one year

Further complexities arising from post-retirement financial arrangements

Over the years the tax system has been progressively streamlined with the view to minimising the number of employees and pensioners who are required to complete tax returns, by arrangements to collect tax through PAYE from earnings and occupational pensions, and by deductions and credits at a flat rate (normally 20%) from most investment income.

This system works relatively well for individuals in a single employment or who have a good occupational pension, where income is sufficiently high so that the full benefit of their tax allowances may be given through the PAYE scheme. If they also have investment income, then the tax liability on this should be matched by the amount deducted or credited at source. Consequently, few such individuals need complete tax returns or indeed have much contact with the Inland Revenue at all.

> *"I have always presumed that my tax bill is correct, not having any means of checking. However on the very few occasions when I have had a need to contact Worthing they have always been most patient."*
>
> 74 year old widow from Crawley, West Sussex. In fact, tax had been deducted from her pensions at the basic rate and she has now received a refund for the last six years.

However, the system works less effectively for large numbers of older taxpayers. If they have two or more occupational pensions, the PAYE system is less likely to grant the correct allowances without careful monitoring, and errors seem quite common.

Many older taxpayers have little or no income from pensions, but are reliant upon income from savings and investments. With certain exceptions, this income will normally be taxed at source, necessitating positive action by the taxpayer to reclaim the tax overpaid or take advantage of provisions enabling them to receive bank and building society interest gross. These provisions are poorly understood and the Inland Revenue believes that up to six million people are overpaying tax through failure to act appropriately. It is likely that over one million of these individuals is over 65.

Future trends

We have mentioned at page 3 that older taxpayers, and those on low incomes, are a significant proportion of the population and this group is expected to grow rapidly in future. Currently one in five of the population is aged 60 or over. This will rise to one in four by 2010 and to one in three by 2025.[7] So the number of people affected by the problems described in this report will inevitably increase.

The reducing value of the State Earnings Related Pension Scheme, official encouragement of greater private saving for retirement and the growth of a wide range of investment products to meet the resulting demand, the trend towards earlier retirement accompanied by part-time working or self-employment, and plans to introduce Citizenship and Stakeholder Pensions, are all likely to increase the complexity of individuals' post-retirement financial and tax affairs in the coming decades. This will require the tax system to be more responsive to the needs of older taxpayers, both in terms of less complexity and better customer care.

Unfortunately there is no sign that complexity will be reduced. The last few Finance Acts have been of record lengths and have contained no simplifying provisions for older taxpayers on low or modest incomes, while the long term Tax Law Rewrite project is unlikely to improve the lot of the average taxpayer who would never normally have recourse to the actual legislation which is being rewritten.

Also, it is difficult to see how the Inland Revenue can possibly provide the extra customer service necessary without changing its priorities. It has made severe staff cuts over the last five years – from 67,000 in 1993 to around 50,000 today, with plans to cut numbers by a further 3,500 in the next four years. The adverse impact is already clear in the plans to move towards telephone advice, which the Inland Revenue says is welcomed by most taxpayers but creates new difficulties for older taxpayers (page 4). Plans announced by the Inland Revenue in 1992[8] to provide every taxpayer with "a single point of contact" in dealing with their tax affairs, have quietly been shelved. And with these cutbacks and the pressures of Self Assessment, the Inland Revenue acknowledges that it is failing to meet its own current performance targets.[9]

> *"My complaint is that I am apparently answerable to three tax offices but when I have a query it is passed on to my main tax office which I find very confusing."*
>
> 73 year old pensioner from Surrey

All this needs to be viewed in the light of the launch of the Cabinet Office's programme – Better Government for Older People – launched in June.[10] In his foreword to the programme directory, the Prime Minister Tony Blair stressed the importance of Government departments offering an excellent service to older people (see page 3). The LITRG endorses this view and hopes that its work on older taxpayers will help the Government and the Inland Revenue to achieve this shared objective.

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1. Department of Social Security, Households Below Average Income 1979 – 1996/97. For this purpose, a pensioner is defined as an individual over state pension age living alone, or a member of a couple living together where the man is over state pension age (state pension age is 65 for men and 60 for women). Incomes have been adjusted to reflect differences in household size.
2. Proportion of pensioners within each quintile of the overall population income distribution

Lowest quintile	27%
2nd quintile	30%
3rd quintile	20%
4th quintile	14%
Top quintile	9%

   Department of Social Security, Pensioners Incomes Series, 1995/96 Revised Edition
3. 17% of pensioner households are in receipt of some form of disability benefit. Department of Social Security, Pensioners Incomes Series, 1995/96 Revised Edition.
4. For example, the rules for determining the income from savings are quite different. Income tax is normally charged on the amount of interest received. In contrast, for the purpose of determining entitlement to welfare benefits or local authority residential care, the actual income from savings is ignored and the individual is simply deemed to be in receipt of a certain fraction of the capital invested; typically £1 per week for every £250 invested (which represents a deemed return of 21.8% per annum)!
5. At a conference on 5th June 1998, to launch the Cabinet Office's Better Government for Older People programme, it was observed that a newly-widowed person might have to visit up to 28 different contact points to sort out their financial and other affairs following the death of a spouse!
6. The provisions are described in Chapter 3
7. Cabinet Office, Office of Public Service, Press Release, 4th June 1998
8. Inland Revenue press release, 6th March 1992
9. Inland Revenue press release, 12th June 1998
10. The tax authorities are to play an active role in one of the Pilot Projects established under the Better Government for Older People initiative. We were pleased to participate in the initial meeting and have offered to remain involved in this project.

3 The law and policy issues

There are key aspects of tax law and policy which cause particular difficulties for older taxpayers:

* The structure of allowances and tax rates
* Tax exemptions and the differing arrangements for deduction of tax at source

In this chapter we examine the rules, describe the problems that arise, and make proposals for reform.

The structure of allowances and tax rates

The present system

The following paragraphs summarise very broadly the rules applicable to older taxpayers.

Personal Allowance (PA)

Each individual is entitled to a personal allowance whereby no tax is charged on the first part of their income.

The Personal Allowance for 1998/99

Age at the end of tax year	PA
Under 65	£4,195
65 to 74	£5,410
75 and over	£5,600

The higher allowances for those over 65 go some way towards recognising the special difficulties facing older taxpayers, as described in the previous chapter. They are "means tested" in the sense that the extra allowance over the standard figure of £4,195 is progressively forfeited if the individual's income is over £16,200. For every £2 of income over that limit, £1 of allowance is relinquished. This is known as 'tapering'.

The PA is given in full for each tax year, and is not transferable between spouses.

Married Couple's Allowance (MCA)

A married man whose wife is living with him is entitled to the MCA. Until 1993/94 the MCA was effected in the same way as the PA; it increased the amount of income receivable by an individual on which tax would not be charged. However, since 1994/95 the MCA is described as an allowance given against tax at a specified rate, and has effectively been converted into a fixed sum – or tax credit – which reduces the individual's tax liability but is not repayable.

Like the PA, the higher MCA for those over 65 is "means tested" in that the extra credit over £285 is progressively forfeited if the *husband's* income is over certain levels.

A married woman may claim to receive £142.50 (i.e. half) of the tax credit due to her husband, and a couple may jointly claim for her to receive the full £285. Where, on grounds of age, the credit available is more than £285, the excess over that figure is transferable only to the extent that the husband does not have a liability against which it may be set.

The Married Couple's Allowance for 1998/99

Age of older spouse at the end of tax year	Nominal value of allowance	Rate of relief	Effective tax credit
Under 65	£1,900	15%	£285.00
65 to 74	£3,305	15%	£495.75
75 and over	£3,345	15%	£501.75

Widow's Bereavement Allowance (WBA)

The WBA is available to a widow in the year of the husband's death, and for the following year provided she has not remarried. Like the MCA, the WBA is now in effect a non-repayable tax credit and is currently £1,900 @ 15% = £285. Unlike the PA and MCA, there is no increase for those over 65.

Blind Person's Allowance (BPA)

An individual who is registered as blind is entitled to an allowance of £1,330 for 1998/99. This is an allowance given in the same way as the PA.

Entitlement to the BPA is determined by registration as blind under section 29 of the National Assistance Act 1948 and related Acts, which does not require that the individual be totally blind. However, it is not sufficient to be registered 'partially sighted'.

The allowance is transferable, in certain circumstances, between spouses.

Tax rates

To the extent that an individual's income exceeds their entitlement to the PA and the BPA, it is chargeable to tax.

Tax rates for 1998/99 applicable to those on lower incomes

Income chargeable to tax	Rate applicable
First £4,300	20%
Above £4,300	23%
Most savings income is normally taxed at just	20%

Annual changes

All the allowances and rate bands described above are required by statute to be increased in line with any rise in the Retail Prices Index (RPI) for 12 months to the September immediately preceding the tax year. Parliament has the power to override this statutory indexation, by freezing allowances or increasing them by a different amount, which it has exercised on a number of occasions. Accordingly, the Inland Revenue does not issue PAYE coding notices to take account of rises in allowances and rate bands until after the Budget statement in March, and these are then implemented two or three months into the tax year.[1]

What are the objections to this structure?

The system is too complex

It is a common complaint that tax law is "too complex" and we do not intend to enter the general debate in this report. Our concern is that the system as it affects many older people on lower incomes is actually more complex than that applying to younger people on higher incomes. Historically the provisions that create complexity have often been introduced in order to reduce the tax burden on older people, but piecemeal reforms combined with changes affecting all taxpayers – and then trying to squeeze these modifications into the rigidities of the PAYE system – have taken the system to a point at which most of those affected by it cannot understand it.

> *"Why is it that the Married Couple's Allowance needs to be as complex as the Laws of Relativity?"*
>
> A pensioner from Horsham, West Sussex, sums up a commonly held view

Examples that affect older taxpayers only are:

– *The rules for "tapering" of the PA and MCA*. Although tapering should not affect those on the lowest incomes, the policy decision behind setting where the tapering threshold starts (currently £16,200) has knock-on effects. Because this threshold is not very high, it is necessary for the Inland Revenue to enquire into most individuals' total income in order to ascertain whether or not they are entitled to the age-related allowances, and requests for the necessary information can cause confusion and distress.

– *The higher age-related MCA*. Entitlement is determined by reference to the *age* of the older spouse, but the *income* of the husband.

– *The rules for transferring the age-related MCA to a wife*. This may require the operation of two separate statutory provisions (and the consequent completion of two separate forms).

– *Withdrawal of the WBA*. This allowance is withdrawn after a fixed period (normally two years) even though the widow's personal situation may not have changed.

– *Eligibility to the BPA*. Older people are more likely to suffer from blindness or partial-sightedness[2], and the requirements for the BPA are cumbersome. Furthermore, eligibility is dependent upon the individual being registered as blind which is voluntary and the RNIB estimates that as many as two-thirds of people eligible to register do not do so.

These complexities must then be considered in the light of others affecting taxpayers generally:

– *Allowances are not effected in the same way*. The PA and BPA are given as deductions while the MCA and WBA are given as tax credits. This creates particular problems with PAYE codes which require specific adjustments which it is impossible for the Inland Revenue to explain to taxpayers in a simple way.

– *Different rules for transferability*. The PA cannot be transferred; the MCA can be transferred (with special difficulties for older taxpayers, see above); while the BPA is transferable only in certain circumstances.

- *The different tax rate bands applicable to income from savings as opposed to other income.* Most savings income is taxed at just 20% even if the taxpayer's total income is sufficiently high to render them liable to tax on other income at the basic rate (23%).
- *Lack of stability in the fiscal regime*. Annual changes in rates and allowances, which may or may not follow the RPI, are implemented part of the way through each tax year. This necessitates adjustments which are very difficult to understand and creates considerable scope for errors and omissions.

In consequence, older people are faced with a system of rates and allowances requiring specialised training for tax advisers and Inland Revenue staff, and therefore well beyond the understanding of most older, unrepresented taxpayers. Indeed, in its booklet "Check your tax" (1998/99), Help the Aged advises older taxpayers to acquire calculators and to use complex formulae to check their tax! The practical results borne out by letters we have received are that:

- *Tax coding notices are incomprehensible* to many taxpayers, because they must incorporate allowances effected in two different ways. This makes it well-nigh impossible for many people receiving occupational or personal pensions to check whether they are receiving the right allowances.
- *Mistakes are understandably made by the Inland Revenue* which are not identified by the unrepresented taxpayer.
- *An individual may overpay tax* through failure to claim an allowance due, or failure to claim back tax deducted at source (see our comments on Tax Back in the next chapter).
- *It can be very difficult for an older person to plan their savings* if they cannot determine their own top rate of tax.
- *An individual will be at a distinct disadvantage in communications with the Inland Revenue* and may be deterred from pursuing rights to which they are entitled.

Unfairness

There are several aspects of the system outlined above which are discriminatory or otherwise perceived as unfair.

Sex discrimination. In a society which has outlawed most forms of discrimination on grounds of gender, examples survive in the tax system[3]:

- There is no widower's equivalent of the WBA.
- A wife may not claim half of the uplifted age-related MCA as of right.
- The "means tested" tapering of the MCA takes account of only the husband's income.

There is discrimination as between people with different disabilities:

- For reasons of administrative convenience and certainty, the BPA is available only to those who are registered blind. If they are not registered, or are registered as partially sighted, there is no relief.
- There is no relief for people with other disabilities.

The tax regime for older taxpayers still proceeds on the assumption that retirement starts at 65, so that the higher PA and MCA come in at that age. Many women feel that the tax regime should recognise the reality of retirement occurring for them at 60 with the commencement of the State Pension. It is also increasingly common for men to be obliged to retire at 60 or even earlier.

The scale of tax rate bands does not follow a rising progressive pattern

Because the PA and MCA taper when income rises above £16,200, combined with the differing types of allowances, a married man between ages 65 and 74 may face the following scale:

On the first £7,889 of chargeable income at 0%[4]

On the next £1,821 of chargeable income at 20%

On the next £6,490 of chargeable income at 23%

On the next £2,430 of chargeable income at 34.5%[5]

On the next £2,810 of chargeable income at 30.5%[6]

On the next £9,855 of chargeable income at 23%

Any remaining income at 40%

It is clearly illogical that a person with an income of £18,500 should face an effective marginal tax rate 11.5 percentage points higher than another person receiving £3,000 more.[7]

Tax exemptions and the differing arrangements for deduction of tax at source

Our work has highlighted the wide variety of tax regimes applicable to income typically received by older taxpayers on low incomes. These break down into

– Exemptions available for certain types of income

– Widely differing arrangements for deduction of tax at source

The present system

Much of the variety arises through Government sponsored investment which is attractive to the older taxpayer through the security of capital that is offered.

Tax exempt
Premium Bonds
National Savings Certificates
National Savings Bank Ordinary Account (first £70 of interest)

Taxable but paid without tax deduction at source
National Savings Bank Ordinary Account (over £70 of interest)
Investment Account
Income Bonds
Capital Bonds
Pensioners Bonds

Taxable and paid with tax deducted at 20%
First Option Bonds

This variety extends into the general investment market place, for example:

Taxable and paid with tax deducted by PAYE code number
Personal pensions and occupational pensions

Taxable and paid with tax deducted at the basic rate of 23%, but with non-taxpayer option to be paid gross upon submission of form R89 (In practice the Inland Revenue may permit such income to be taxed by PAYE code number instead)
Retirement annuities

Taxable and paid with tax deducted at 20%, but with non-taxpayer option to be paid gross upon submission of form R89
The income element of the return from purchased life annuities

Taxable and paid with tax deducted at 20%, but with non-taxpayer option to be paid gross upon submission of form R85
Building society and bank interest

Taxable and paid with a repayable credit of 20%
UK company dividends

Taxable but received without tax deduction at source
Many overseas pensions and interest from overseas deposits

Not taxable
PEPs, TESSAs, ISAs and part or all of certain overseas pensions

Similarly various State provided benefits have differing tax regimes applied to them. For example:

Taxable	*Not Taxable*
Retirement pension	War disablement pension
Widow's pension	War widow's pension
Invalid care allowance	Attendance allowance

It should be added that, under provisions reforming corporation tax introduced in 1997, the tax credit attaching to UK company dividends will be reduced to 10% from April 1999 and will no longer be repayable to non-taxpayers. Taxpayers will have no liability to pay anything on top of the 10% credit unless their income is sufficient to take them into the higher rate.[8]

> *"We looked forward to receiving the small amounts of reclaimed tax from HM Taxes. It is not as if we were wallowing in cash as we do not pay tax. What was the Chancellor thinking about taxing, for that's what it is; people who cannot pay tax."*
>
> Two 77 year old pensioners from Bridgnorth, Shropshire who are both physically disabled and whose incomes, including small holdings of privatised industry shares, are well below the tax threshold.

What are the objections to the above arrangements?

Our work has revealed a number of objections:

– The older taxpayer has difficulty in understanding how to calculate their marginal rate of tax so as to make sensible decisions as to where to place their savings capital.

> *"I rang the Inland Revenue explaining that my wife was not able to understand this seeming never ending form … The person I was speaking to was quite helpful saying that if I filled in the basic facts he would do the assessment which I was advised on her income she would not have to pay any tax …"*
>
> *"Near the end of the tax year my wife was subject to further worry when she received a 'Self Assessment, Statement of Account' for a nil balance. I had trouble convincing her that it did mean she had nothing to pay, she did not believe that the Revenue would sent out a nil return. She had not long got over this when another Self Assessment Tax Form arrived and her worrying started again. I again contacted the Revenue to ask how long this was going to go on for only to be told that as long as she held these bonds she would continue to receive Self Assessment forms."*
>
> *"I have told my wife that she must cash in her bonds which she done, and put the money into another form of savings I completed and signed on her behalf her form and attached to it a note advising the person concerned this was what she had to do and not to send her any more forms."*
>
> 69 year old pensioner from Plymouth, on his wife aged 67 receiving a Self Assessment form for 1996/97, having invested in National Savings Pensioners Bonds

– The variety of tax regimes applicable to simple investments adds to their dilemma.

– Having made their investments, the myriad of taxing arrangements makes it difficult to know how to deal with the tax aspects. For example, the recipient of a personal pension may understand that, as their income is being taxed under PAYE, it is probably correctly taxed at source. Such an individual might easily assume that the same provisions apply to the income that they receive from a retirement annuity policy, but in fact the flat rate of deduction at 23% would necessitate a refund claim by a 20% taxpayer, and give a non-taxpayer the option to be paid gross.

– The differing forms for taxpayers to opt for gross payment give rise to extra confusion.[9] We merely observe here that the Inland Revenue itself acknowledges that tax is being overpaid on a significant scale, and that the R89 procedure for non-taxpayer recipients of retirement and life annuities appears to be not widely known.

– The Inland Revenue's practice allowing some retirement annuities to be paid through PAYE seems an admirable attempt to resolve some of the difficulties described in the previous two paragraphs. However, the danger of relying upon an administrative practice is that it may be overlooked and our work indicates that several life assurance companies and some tax office staff are not aware of it and automatically apply the legislative provisions.

– The regime for taxing some welfare benefits, and not others, is often not very clear to recipients. Very similar benefits may be differently treated for tax purposes, which means that individuals in very similar circumstances may receive significantly different levels of after-tax benefit. This can seem unfair, and is also confusing to the recipients and to Inland Revenue staff.

– We also note that the Department of Social Security does not make it clear to all benefit recipients how their payments will be treated for tax purposes, nor does it always provide year end certificates for recipients of taxable benefits. This makes it difficult for such individuals to report details to the Inland Revenue when asked to do so. It contrasts sharply with the significant obligations placed on employers and financial institutions to provide tax-related information to employees and savers.
– There has already been much comment about the changes due to affect company dividends from next April. Age Concern and other organisations have objected that these will penalise the poorest shareholders, and in May 1998 the Paymaster General, Mr Geoffrey Robinson, undertook to review the matter. The LITRG offered to assist the Inland Revenue in this review but this has not been taken up and, at the date of writing this report, Mr Robinson had not announced the outcome of his review.

> *"as far as I know we are non taxpayers … to be on the safe side I have requested one [a tax return] … this year again no form. I presume I am no interest to them [Cardiff Tax Office] … I am baffled by the tax allowances, a figure given in one instance is not the amount one is allowed at all … I have to resort to low interest building society interest to keep us below the tax bracket."*
>
> 87 year old pensioner from Reading with terminally ill wife aged 85

Next steps

We hope that this report offers convincing evidence that the tax regime affecting older taxpayers is unacceptably complex and that this needs to be tackled by the Government as an issue of considerable importance.

We find support in the statement by the Prime Minister, Tony Blair in his message to the Better Government for Old People Programme (page 3), acknowledging that the interests of older people have not been a high enough priority and expressing his own belief that this should change. In relation to the tax treatment of savings, his view was followed by the Economic Secretary to the Treasury, Patricia Hewitt, who said, when launching standards for ISAs in October 1998:

> *"Consumers, especially those new to saving, need help in this jungle, and as a Government we need to find a way of shedding some daylight."*

The problems that have been described in this chapter cut across the whole tax system. Many of the necessary changes could only be effected by a root and branch reform of the tax system, which would need very careful consideration and would take time to put in place. However, there are other positive reforms that could be made in the short and medium term.

In framing our proposals we are conscious that any reform is most likely to be acceptable if it:

– Is broadly 'revenue neutral', i.e. involves no overall cost to the Treasury.
– Involves a minimum number of 'losers', i.e. leaves few, if any, individuals worse off.
– Creates the least possible disruption for those responsible for administering the tax system.

We have borne these principles in mind in the following paragraphs, although in some cases we believe that the Exchequer ought to be ready to bear some cost to remedy long-standing injustices to some of the very poorest members of our community.

Changes that might be made in the short and medium term

We should state at the outset that we are wary about the introduction of piecemeal changes designed to help those on low incomes if they would have the effect of making an already complicated system even more complex.

However, we have identified certain reforms which we believe could be carried out in the short or medium term to address certain pressing problems or injustices, or materially simplify the present regime.

Automatic uprating of tax allowances before the start of the tax year

Our work has identified that considerable confusion is caused by delaying PAYE coding adjustments until part of the way into each tax year. Since allowances are normally uprated in accordance with the increase in the RPI to the previous September, we recommend that the necessary Statutory Instrument be laid early enough to enable the Inland Revenue to issue PAYE codes before the start of the tax year, as was the case before 1997 when the Budget speech was delivered in November. Parliament would still retain power to adjust these figures in the March Budget resolutions, if it wished to deviate from statutory indexation.

Reversing the prospective abolition of a non-taxpayer's right to reclaim dividend tax credits

We are very concerned that the abolition of the right of non-taxpayers to reclaim dividend tax credits from April 1999 represents an effective transfer of the tax burden to those on the lowest incomes who will lose the right to a tax refund, while the position of those on middle or higher incomes is unaffected. We propose urgent legislation to revoke the forthcoming change so that non-taxpaying individuals will remain entitled to reclaim the current 20% tax credit. If the Government is considering allowing a refund of the new notional 10% credit, we would observe that this would represent a 50% cut in the current entitlement and would be seen as a miserly compromise. We reiterate our offer to help to devise a legislative solution.

Providing tax information for recipients of welfare benefits

We recommend that the Department of Social Security should be legally obliged to advise recipients of all welfare benefits how their payments are regarded for tax purposes, and to provide year end certificates of all taxable benefits received.

> *"Last year we did try to fill it in but we ended up taking it to an accountant, the Inland Revenue owed us £500 but we had to pay £83 to have it done."*
>
> Pensioner couple over 75 with total income of £11,000 – comprising State retirement pensions and several retirement annuities with tax deducted at 23% – who have received Self Assessment forms

Rationalising the rules for deduction of tax from pensions income

It seems wrong in principle that the taxes legislation requires retirement annuity income to be taxed at a flat rate, instead of under PAYE as applies to income from other pensions. The Inland Revenue practice of sometimes permitting the operation of PAYE to retirement annuity income has not resolved this problem. We recommend that the law be changed to make the application of PAYE mandatory for retirement annuities. At the same time, we propose that a similar provision should be introduced for the income element of purchased life annuities.

Personal advisers

In the next chapter we address the fact that many older taxpayers wrongly pay too much tax or are troubled by their tax affairs because they have insufficient access to free help and advice from the Inland Revenue. In that chapter we put forward various administrative remedies that might be effected by the Inland Revenue. Here we should like to put forward a proposed policy change that would require government initiative.

On 17th July the Secretary of State for Social Security announced the recruitment of thousands of personal advisers who will be approaching the poorest pensioners to help to ensure that they are claiming the welfare benefits to which they are entitled.[10] We propose that these advisers be briefed to check that their clients' tax affairs are in order and to put them in touch with appropriate Inland Revenue officials or provide other basic advice where things appear to be wrong.

The establishment of a review group to consider major changes

The final short term measure that we propose is the establishment of a review group to consider root and branch reforms to the tax system as far as it impacts on the older taxpayer. This group would comprise civil servants from various Departments as well as individuals from outside organisations with relevant knowledge and experience. In the next section we outline some ideas for consideration by this group.

Longer term changes that might be considered by the review group

Tax rates and allowances

One of the major causes of confusion is the fact that some tax allowances are given as deductions and others as credits. Proposals have been advanced for rationalising the system or making it more transparent[11], perhaps by effecting all allowances in the same way – either as deductions or as tax credits.

However, a fundamental reform to achieve a more rational structure would be difficult to devise if it is to achieve the usual official preference for broad tax-neutrality, fewest possible losers and minimum administrative disruption (mentioned at page 15 above). While these might seem impossible obstacles to overcome, there are developments that might help to force the pace.

The Inland Revenue's computerised PAYE system (COP) is thought to be approaching the end of its useful life, and its replacement might be considered an opportunity to introduce a structural change to the scheme of rates and allowances, with relatively little additional administrative disruption.

The integration of tax and benefits will also provide a thrust towards change (see below). The Government has indicated support for greater integration[12] and delivery of the Working Families Tax Credit (WFTC) by employers with effect from April 2000 represents a first step in this direction. However, the fact that it will not be possible to deliver the WFTC through PAYE codings, and that it will have to appear as a separate item on the payslip, indicates that fundamental changes will be needed before further tax and benefits integration is possible. This too should provide the opportunity to rethink the underlying scheme of tax rates and allowances.

We have explained that the PA and MCA are subject to 'tapering' once chargeable income exceeds £16,200. The complexities and inequities that may arise are not the primary concern of our group, as the impact is aimed at those on average and higher incomes. However, because the £16,200 threshold affects a significant body of taxpayers, there is evidence that the Inland Revenue sometimes denies the higher PA or MCA available to those on low incomes because it has no evidence of their financial situation. Unless the Inland Revenue is able to devise a more effective administrative remedy to ensure that the higher PA is not inadvertently denied, we would recommend that the threshold for tapering be raised – perhaps to align with the top end of the basic rate (23%) tax band – so that it may fairly safely be assumed that the higher PA and MCA are available unless there is evidence to the contrary.

If the MCA and WBA are to be abolished

In the past, governments have often achieved 'simplifications' by just abolishing tax allowances, as occurred in 1988 when the dependent relative relief and other minor allowances were scrapped. There are signs that this may happen again with the MCA, the WBA and other reliefs currently given as tax credits at the rate of 15%. This rate of relief will drop to 10% in 1999/2000 and some speculate that this is a precursor to complete abolition.[13] While this might be seen as a positive simplifying reform, we would oppose such a measure, as piecemeal, in the absence of a complete review of tax rates and allowances for older taxpayers.

If the Government is determined to abolish these reliefs without such a review, then there must be compensating measures so as to ensure that the tax liabilities of low income older taxpayers are not increased. This might be done by way of an increase in the higher age-related PA 'worth' perhaps one-half of the present benefit provided by the MCA. This will be non-transferable, avoiding all the current complexities arising from the transferability of the MCA. Although this might be perceived as more expensive because the benefit will go to taxpayers who are not married, such individuals may often be in the greatest need.[14] The details including transitional provisions to protect 'losers' would need to be worked out, and we offer to contribute to the necessary consultations, but in the longer term this approach is thought to have the merits of simplicity and equity.

Tax and benefits

We have identified difficulties caused in practice by the fact that some welfare benefits are taxable and others are not, and good reasons may be advanced for distinguishing the different types of benefit for different tax treatment, although these are not always clear to claimants. This issue may well be addressed by the Government as part of its own benefits review and we would urge that any changes introduced in consequence of this review will produce a system which is more transparent. It is recognised that, if there is to be any reform, it is likely that there will be some 'losers' and we ask that the matter be considered carefully to ensure that those on the lowest incomes will be protected from the adverse effects of any change.

There is also the separate issue of the high marginal rate of tax/benefit withdrawal, and the loss of entitlement to local authority residential care, that may face individuals who take steps to increase their incomes by rearranging their investments or taking part-time work. This subject is beyond the scope of this report, but we may return to it as the Government's policy on welfare reform becomes clearer.

A tax exemption certificate

Our work has confirmed that there are a significant number of older taxpayers on the borderline of tax who have considerable difficulty dealing with their tax affairs, ranging from misunderstandings about allowances, to confusions about exemptions, to incomprehension of the multiplicity of arrangements for deduction at source, to misunderstandings about mechanisms for opting to receive income gross.

If such individuals are to be liable – or potentially liable – for tax, we see it as the Inland Revenue's duty to ensure that they receive sufficient help. In the following chapter we make various recommendations for the provision of a better service which may, in part, be achieved without extra cost to the Inland Revenue and may even involve some savings. However, other recommendations would involve extra costs which we believe are necessary to ensure a level of service consistent with that given to taxpayers on higher incomes under the Taxpayer's Charter promise of 'equal fairness'.

However, we should like to see the Review group consider a policy change which would avoid administrative costs and help older taxpayers. This would be the introduction of *a tax exemption certificate* available to those aged 65 or over whose income is below a certain level. Individuals holding such a certificate would be exempted from having any contact with the tax authorities or the tax system. In particular:

- They would be entitled to receive all income 'gross' with a minimum of form-filling.
- They would not be required to fill in tax returns or deal with any other Inland Revenue correspondence apart from that specifically relating to their exemption, which would be clearly marked as such.

An individual would be able to apply for such a certificate if their income was currently below a specified figure and was not expected to exceed that figure in the future. There would be provision for the Inland Revenue to check income levels at appropriate – perhaps four-yearly – intervals.

Apart from the obvious advantages to individuals on low incomes, there would be significant administrative benefits to the Inland Revenue. It has long acknowledged that it is not cost-effective to pursue individuals for small amounts of tax and the Inland Revenue commonly forgoes collection of amounts below £100.[15] It would be saved from maintaining possibly large numbers of detailed records, and from considerable correspondence with older people about sums which are trivial to the Exchequer but material to the individual. The risk to the Treasury – that an exempt older person's income might suddenly rise without this being identified by the Inland Revenue – should be small because, at the bottom end of the scale, income tends not to rise in real terms after retirement age. There is also an existing precedent – a self employed person on low income may apply to be 'excepted' from Class 2 national insurance contributions.

If such an idea is broadly attractive, the key question will be the annual income limit for qualifying for this exemption.

One possibility would be to start from the current PA for those aged 65 or over – £5,410. Increasing this to reflect current 'tolerances', one arrives at a figure of approximately £6,000.

However, we believe that the Government might set the figure even higher. Many of the prospective claimants would be married and therefore also entitled to at least half of the MCA, and many would be entitled to the higher allowances for those aged 75 or over. We would add that many older people on incomes over £6,000 are in receipt of means-tested welfare benefits[16] and that taking them out of the tax system will have knock-on social security expenditure savings while ending the situation that they are both taxpayers and welfare recipients.

Taking these matters into account, we propose that the tax exemption certificate be available to those whose incomes are certified to be below a figure set somewhere between £8,000 – £10,000, statutorily indexed for inflation.

This proposal would be seen as putting into effect an undertaking given by the Government recently. In his statement on the Comprehensive Spending Review on 14th July 1998, the Chancellor of the Exchequer, Gordon Brown, said:

> *"We shall also set a tax guarantee that no pensioner will pay income tax unless their income rises above a specified level"*[17]

We believe that in principle a tax exemption certificate could provide a fair and cost-effective solution to many of the problems identified in this report. Clearly the details of such an arrangement will need to be ironed out, for example:

– What would be done about those individuals who have been claiming the exemption and whose income then rises above the exemption threshold; we need to ensure that there is a smooth entry into the tax system.[18]

– There would clearly need to be penalties for abuse but sensitive treatment of innocent mistakes.

The appointment of attorneys

Our work has identified that there are many older taxpayers who are physically or mentally unable to cope with their tax affairs, but the existing provisions make it difficult for a relative or friend to assume complete responsibility on their behalf.

The present legislation recognises that an individual may be 'incapacitated', and requires that any person who has control of their assets must file a tax return and be assessable to tax on their behalf, and be answerable to the Inland Revenue generally. However, the legislation is archaic, defining an incapacitated person as 'any person of unsound mind, lunatic or insane person'. It also fails to provide the necessary framework for the statutorily-designated attorney to carry out their duties, for example it does not provide all the powers necessary to obtain the information needed to complete a tax return.

A separate issue concerns the status of those appointed under powers of attorney, both enduring or otherwise. The Inland Revenue has published non-statutory guidance which asserts that a taxpayer has a personal and non-delegable obligation to make their own tax return, but allows returns to be made and filed by attorneys under enduring powers of attorney if they have been registered (and in other cases where the disability is physical). However, even where the practice applies, difficult questions arise, for example:

- What are the consequences where a return is submitted which would be incorrect or incomplete to the knowledge of the taxpayer, if they had all their faculties unimpaired, but it is true and complete as far as the attorney is aware?
- How far is an attorney subject to personal obligations to make detailed enquiries about the taxpayer's affairs?
- If a penalty is incurred, is the attorney entitled to recoup it from the taxpayer if it is due to the latter's own act or neglect?

We propose that the law and practice in this area should be reviewed with the object that older people who are no longer capable of handling their affairs should be free, by a power of attorney or other simple procedure, to delegate their tax compliance obligations. Under such arrangements, the rights and obligations of the taxpayer, the attorney and the Inland Revenue should be established on a clear and sympathetic basis.[19]

1. Although tax offices will already have issued coding notices before the start of the tax year to reflect announced rises in state retirement pension income.
2. See statistics at page 4
3. Sex discrimination in the UK tax system may be a breach under the European Convention on Human Rights. Recently the Commission of Human Rights has declared admissible a complaint that denial of the additional personal allowance was a breach of Article 14 which prohibits discrimination on sex or other grounds (MacGregor (Helen) v UK (3 December 1997) (No 30548/96)). The offending provision was amended by Finance Act 1998, but no other examples of discrimination were tackled.
4. Up to this figure, income is fully covered by the PA and age-related MCA
5. This is the income band within which the PA is being abated
6. This is the income band within which the MCA is being abated
7. We acknowledge that individuals on incomes which are high enough to fall within tapering are not on 'low' incomes, but we mention this here as another complexity specifically affecting older people who are not wealthy. We would add that these marginal rates may differ according to the balance between income from savings and other income.
8. There are currently 2.4 million taxpayers liable at the higher rate; or 9.2% of all taxpayers (Inland Revenue Statistics 1998). It is estimated that just 2% of people aged 65 or over have incomes high enough to be liable at the higher rate. (House of Commons Written Answer, 17th February 1998.)
9. This is described more fully in chapter 4
10. This initiative was reiterated in the Chancellor's Pre-Budget Report on 3rd November 1998:
    "The Government has introduced a national programme of personal advisers for pensioners on income support. Taking effect from April 1999, the programme will get help to pensioners who are entitled to income support, but not claiming it. The Government estimates that almost one million pensioners are not getting what they are entitled to and this programme should help bring the guaranteed minimum income to them."
    Pre-Budget Report, page 71, paragraph 5.6
11. For example *Simplifying the formal structure of UK income tax* – Fiscal Studies, Vol 18 No 3 August 1997
12. The Modernisation of Britain's Tax and Benefit System – Number Three – The Working Families Tax Credit and work incentives, published by HM Treasury, March 1998.
13. We would note that the Government is committed to protecting the value of the MCA credit for those aged 65 or over by an extra increase in the nominal value of the MCA when the rate of relief falls to 10%. But there will be no scope for such a compensating adjustment if the MCA is abolished.
14. Proportion of pensioners within each quintile of the overall population income distribution:

	Pensioner Couples	*Single Pensioners*
Lowest quintile	27%	26%
2nd quintile	26%	34%
3rd quintile	21%	20%
4th quintile	15%	13%
Top quintile	11%	7%

    Department of Social Security, Pensioners Incomes Series, 1995/96 Revised Edition

15. Although once a taxpayer is within Self Assessment, which allows no tolerances, there is a very rigid approach.
16. 140,000 pensioner households, with at least one person over 65, are receiving a means-tested benefit while also paying income tax. (House of Commons Written Answer, 5th November 1997)
17. Mr Brown provided no further explanation, but presumably he meant something more than retaining the existing system of allowances at current levels, otherwise the undertaking would have been meaningless. It may be noted that the Liberal Democratic Party has proposed a £10,000 tax threshold.
18. One possibility would be to introduce a special marginal rate of tax, somewhat above the 20% or 23% bands that would otherwise apply. While such special arrangements may appear to fly in the face of simplicity, there should be relatively few cases if the income limit for the exemption is indexed.
19. The need for such arrangements may also arise within the context of a volunteering scheme, discussed at Chapter 5.

4 *Tax administration issues*

Background

Much effort has been expended by the Inland Revenue over recent years to encourage voluntary compliance with the law and to instil the culture of customer service amongst its staff.

It has, quite rightly, also had to focus its scarce resources upon areas presenting the greatest risk of tax leakage (i.e. evasion and avoidance). In these circumstances it can be seen that there is a dilemma for the Inland Revenue.

On the one hand, the Taxpayer's Charter requires it:

> "To be fair by expecting you to pay only what is due under the law"
>
> "To be fair by treating everyone with equal fairness"
>
> "To help you by providing clear leaflets and forms"
>
> "To help you to understand your rights and obligations"
>
> "To provide an efficient service by keeping to a minimum your costs of complying with the law"

On the other hand it has been required to be businesslike and operate within resources provided by successive governments, and the older taxpayer population with which we are concerned does not represent a likely source of tax leakage. Indeed, as we point out later (page 34) there is every likelihood that this taxpaying population is, overall, owed money by the Inland Revenue.

It is with this background that we now review how, in practice, the Inland Revenue looks after the millions of older people on low incomes. It likes to stress that all taxpayers are its customers, and this group is particularly in need of the support and guidance that the term "customer" evokes.

In the paragraphs that follow we examine how successfully the Inland Revenue's systems manage the older taxpayer, how these systems cope with those whose incomes are so low that they should not be liable for tax, and offer our suggestions for reform.

Older taxpayers who are Inland Revenue customers

As will be clear from the last chapter, an older person does not have to receive much income in addition to the state retirement pension in order to become a taxpayer. And it is evident from the work that we have done that most taxpayers on low incomes typically have one or more of the following income streams:

* A state retirement pension
* An occupational pension or pensions
* Untaxed investment income (typically National Savings)
* Taxed investment income (typically building society or bank interest)

Where there is an occupational or personal pension – or, less often, some income from employment – the PAYE system will be the main vehicle for the Revenue to collect the right amount of tax during the tax year from those older taxpayers whose incomes exceed the tax thresholds.

The PAYE system

Over the 50 years of its operation, the PAYE system has proved its worth as an efficient collection mechanism, both for most employees and for the Inland Revenue. The position for the older taxpayer on a low income is less clear-cut. There is no helpful payroll department close at hand to help out with queries, the amounts of tax at stake are small for the administrative effort involved, the tax allowance/credit/rates position is more complex and the older taxpayer may have difficulties which the PAYE system was not designed to address and has not been adapted to meet that need.

One of the more unsatisfactory features for older taxpayers is having to be in contact with more than one tax office. This happens because each source of pension will have its own tax office and reference. Added to which is the likelihood that one or all of those tax offices may be located several hundred miles away from where the taxpayer lives.

The relocation of tax offices to locations distant from their customers has taken place over many years on grounds of cost, or as part of the decentralisation of the Civil Service. The Inland Revenue has made efforts to mitigate the adverse effects through the creation of over 300 Tax Enquiry Centres and the work of mobile enquiry centres, but older taxpayers, in particular, remain disadvantaged.

We accept that holding a taxpayer's records at the tax office nearest to the taxpayer's home, when there is no other connection with that tax office, is unlikely to be practicable on cost grounds to the Inland Revenue, even though that might be the best solution for the customer. We also accept that the existence of multiple tax offices communicating with a taxpayer may, again on cost grounds, be viewed as necessary, although again it is undesirable from a customer perspective. Indeed back in 1992 it was the Inland Revenue's own aim to introduce a single point of contact for each taxpayer (page 7). Our postbag indicates that it is not always clear to older taxpayers why they are dealing with a particular tax office, or what the internal rules are for determining the main tax office, where a number of offices are involved.

> *"My private pension (as opposed to state benefits) comes in three parts, arranged through three different insurance companies. This means three different tax offices to deal with, and none of them in my home town."*
>
> Pensioner from Keighley, Yorkshire

Clearly, face to face or personal contact is important for many older taxpayers if they are to understand and manage their tax affairs, and so it is instructive to consider how the Inland Revenue has adapted to the present situation.

If the taxpayer's tax office is some distance from their home the Inland Revenue will, although sometimes only when pressed, suggest that the taxpayer has a discussion about their tax affairs in a local tax office. Papers will be sent on loan, if necessary, for that purpose. Additionally, home visits will be made where travel to a local tax office is impractical or difficult.

Our correspondence shows that such services are greatly appreciated whenever they are provided, but it appears that they are not well-publicised nationally. For example, the most common leaflet sent to pensioners (*P3 – Understanding your Tax Code*) makes no reference to either of these possibilities.

Personal help can be offered by telephone but, although the Inland Revenue's *helplines* are often provided at local charge rates, this does not apply to the tax *offices* which have responsibility for managing taxpayers' affairs. As tax offices have been centralised and dispersed about the United Kingdom to improve Inland Revenue efficiency and reduce costs (making it a lottery where an individual's tax office is situated), it seems anomalous that the costs of some of its most vulnerable customers have been forced to rise.

> *"I never received a reply to my letter, but a letter of 'threat' penalties … They [the Inland Revenue helpline] said get on to Cardiff. I have no intention of spending £3 or more telephoning …"*
>
> 73 year old cancer sufferer from Lincoln

> *"I was completely bewildered by the new self assessment form. I rang my Tax Office in Manchester twice to ask for their help, they then went through the entire form with me over the telephone which took, maybe an hour or more. I dread to think the cost of the call … I dread receiving the same treatment next year, as I shall be even older."*
>
> 78 year old widow from Hertfordshire who had not received a tax return since her husband died 5 years ago and whose pensions are taxed under PAYE

Also, the increasing use of the telephone must also take into account the 570,000 people over 60 who are severely or profoundly deaf (page 4). It was clear to us from a small sample of a number of tax offices that they were not adequately equipped or trained to deal with these individuals, for example by way of Typetalk facilities. One large Enquiry Centre, which advertised that it had installed a Minicom textphone, had actually disconnected the facility as there were insufficient resources to staff it adequately.

With the move to more telephone communication, it should not be forgotten that many older taxpayers prefer to communicate in writing – as it may be more familiar to them, it allows time for careful consideration of the issues, and it allows them to discuss issues with relatives or friends – and the volume of correspondence with tax offices generated by some of the older taxpayers in our case studies was significant. Until about ten years ago, the Inland Revenue routinely issued reply paid envelopes when asking for information but this practice was abolished to achieve relatively small administrative savings (and pass costs over to taxpayers) and there appears to be no discretion to provide help even to the poorest taxpayers in this way.

There is evidence from our postbag to show that not enough effort is made to:

– Explain to older taxpayers the overall effect of the coding notices, where these are given by secondary tax offices.

– Collect the total tax due for the year by deduction from just one source of income, rather than from several (for example, where there is more than one source of occupational pension).

– Explain why changes are made to notices of coding (it is not uncommon for two or three changes to be made in as many weeks).

– Consider, when there is an overpayment of tax in the current year, whether there could be overpayments in prior years, rather than place the onus on the older taxpayer to realise that there could be a repayment due for earlier years.
– Explain the nature and effect of the Married Couple's Allowance (and a range of leaflets and factsheets are used for this purpose – not all of them being consistent in their explanation – see page 30).

> *"I just kept going to our local tax office for help. One young lady did say to me that they had made real mess of our tax … I am really at my wits end. Please help."*
>
> Pensioner couple from Cheadle, Stoke on Trent who received 11 different coding notices for 1998/99 in the period from February to June 1998. Between them, their total income was just under the threshold for paying tax in the current year.

It is also clear that there are occasions when:

– The Inland Revenue makes mistakes in dealing with the interaction of the higher age-related Personal Allowance, the Married Couple's Allowance and the lower and basic rates of tax; this is especially so where there is more than one PAYE source involved.
– The interaction between two or more tax offices lengthens the chains of communication and increases the risk of mistakes and delays.
– The interaction between the DSS and the Inland Revenue fails to ensure that information concerning new sources of state benefits are consistently actioned by tax offices.

There is also evidence that Inland Revenue errors are frequently undetected, as older taxpayers on low incomes are generally reliant upon the Inland Revenue getting it right first time.

> *A 72 year old married pensioner from Doncaster has a total income of £10,000 which is derived from the State pension and four occupational pensions. This requires him to correspond with four different tax offices, none of which is close to his home. The Inland Revenue insists on collecting tax from three of those pensions (the smallest of which is £55 per annum, tax deducted £11). He has requested that all the tax be deducted from one source but was told by his main office in Cardiff that this was not possible.*

The Self Assessment overlay

If the difficulties of the allowance/credit regime linked to the PAYE system were not enough, the older taxpayer may now have to cope with a Self Assessment return with the accompanying 'zero tolerance' penalty regime.

It is surprising that so many older pensioners on low incomes seem to have been brought within the Self Assessment net, despite the stated official intention that these new provisions should apply only to "pensioners with more complex affairs" (*SA/BK8 Self Assessment – Your Guide*) and the fact that the PAYE system is designed to collect the right amount of tax from their pensions without the need for a formal tax return.

"Briefly I live in a council flat, am single born in 1916 and have three pensions. I have saved all my life and have no living relatives … Owing to my annual age allowance … I do not pay tax.

I am making a plea … to stop tax forms being sent to us. In my case, as old age increases Alzheimers disease may set in; the tax forms will have to be dealt with by solicitors, who will have to be paid from my savings, if any."

82 year old woman pensioner from Braintree, Essex, who received a Self Assessment form

*"Self-assessment system: terrible for the older person to complete. Why can't we state our income and subtract the allowances on **one page**."*

Pensioner describing himself as "just an old OAP"

"I am just over 72 years of age, from overwork I have had three heart attacks and a mild stroke. Which affects my thinking. How can I assess my own income tax."

Pensioner from Brighton

From our postbag we have taken a typical example of an older taxpayer within both the PAYE and Self Assessment regimes. It can be seen that an extraordinary amount of work is imposed on both the Inland Revenue and the taxpayer in order to collect a very small amount of tax (see Appendix B).

A pensioner in residential care and not able to look after her affairs was sent a Self Assessment form and subsequent penalty notice for £100. Information had been provided to enable the tax office to issue appropriate codings for 1996/97, including a deduction for fixed interest Government Stocks. A niece explained the situation to the tax office, which still required completion of the Self Assessment form. This showed that the coding was correct and produced an underpayment of £2. The Inland Revenue then issued a demand for £2 with an interest charge for 2p!

It is clear that the programming of the Inland Revenue computer, or Head Office instructions, for the selection of Self Assessment cases have produced in 1998 some inappropriate cases amongst older taxpayers on low incomes. Selection appears to have been triggered by the existence of features such as:

* The receipt of untaxed interest over £500
* Overseas pension sources
* Income close to the taper threshold for the higher personal allowance
* Several pension sources

Such features are not uncommon amongst older taxpayers on low incomes.

"Subsequently I received the dreaded form for individual assessment which I could not understand as I already had the usual form … I filled it in … and I duly received back a lot of figures including the wrong assessment for my age and a request to pay in two amounts during the year (I am on monthly PAYE)".

86 year old widower from Reigate with a State pension, an occupational pension and national savings investments who has been told that he will receive a Self Assessment form every year because he receives over £500 interest

"… who understands booklet SA150 [the tax return guide] with extras?"

70 year old married pensioner with three stable sources of income – bank interest with tax deducted at source, a State pension and an occupational pension – who was sent a Self Assessment form because, he was told, he fell within the age allowance taper relief provisions

Our concerns about Self Assessment returns are, in part, due to the difficulties that the regime (which is specifically designed to place on taxpayers greater responsibility for ensuring that their tax is correct and up to date) imposes, for example:

– The form runs to at least eight pages, with at least 30 pages of guidance, which can be difficult or stressful for an older taxpayer on a low income to complete.
– Tax offices have no discretion to withdraw the requirement to complete a return once the form has been issued.
– If, upon reviewing a tax return, the tax office finds that it contains a material omission or error, it is normally obliged to return the form to the taxpayer. The Inland Revenue only has limited powers to amend the form by reference to information held elsewhere, or by checking the position with the taxpayer on the telephone.
– There is also provision for random audits of Self Assessment returns; a very stressful event for an unrepresented taxpayer.

An 80 year old pensioner from Northampton who has not worked for many years, and whose income has been below the tax threshold, received Self Assessment forms in 1997 and 1998. He had written back explaining that he should not receive such forms, but had received no response.

When contacted by us the tax office explained that the form had been issued because, some four years earlier, his wife had worked and his allowances had been transferred to her at that time. It acknowledged that it had received the pensioner's letter, to which it had not replied. It still insisted upon the return being completed for 1998, but agreed to mark its files so as not to issue a form in 1999.

To quote the pensioner, "It is all so upsetting".

A pensioner's wife from Broadstairs, whose income from Pensioners' Bonds had always been less than her tax allowance, was initially threatened with a £100 fine for not completing a Self Assessment form for 1997 that she had never received. Then, after providing a full explanation of her unchanging income pattern, she was still required to complete the 1997 form leading to a tax refund of 49p. A return for 1998 has been issued.

A pensioner from Hertfordshire wrote to tell us that he is in his 80's with almost 100% arthritis and lives with his wife who is 77 and has Alzheimer's disease. He had asked to be exempted from completion of the Self Assessment form as the Inland Revenue knew of all his sources of income, i.e. an overseas government pension, a small UK occupational pension, the State retirement pension and building society interest. The tax office in Salford merely responded that the Self Assessment form had to be completed (as he had sufficient income to be in the taper relief provisions) and asked him to contact them if he had any difficulties!

The pensioner wrote *"This is a cry for help."*

"... I received a demand for £100. I finally telephoned the IR, who at once admitted the error, and wrote to apologise. What amused me in their letter was, that they had to tell me that since it was now too late to correct the double mailing, I would receive double documents for the 1997/98 exercise."

Pensioner who received two Self Assessment forms for 1996/97

Availability of relevant and accessible information

We have indicated earlier that many older taxpayers have good reasons for preferring communication in writing, and that the tax allowance/credit rules for those on lower incomes can be particularly complex which makes written communication indispensible.

In these circumstances one would expect that the written help in the form of leaflets and forms would be a priority for the Inland Revenue, but regrettably this is not so. In the following paragraphs we consider how the leaflets measure up for being up to date, coherent, geared to those with disabilities, and comprehensive.

Up to date?

The main leaflets recommended for reference to older taxpayers by the Inland Revenue are:

IR34	*PAYE*
IR80	*Income Tax and Married Couples*
IR90	*Tax Allowances and Reliefs*
IR91	*A Guide for Widows and Widowers*
IR110	*A Guide for People with Savings*

with the key leaflet being *IR121 Income Tax and Pensioners*.

The last revision of IR121 was issued while we were compiling this report (September 1998) with the previous revision having taken place in May 1995. So a pensioner looking for guidance during the period from April 1996 to August 1998 would be referred to a leaflet where main examples and figures relate to the tax year 1995/96.

The IR34 (published January 1996) has examples using figures for the tax year 1996/97. The IR91 (published October 1995) uses no numerical examples, but is still in need of updating. IR80, IR90 and IR110 were last updated in November 1997, and so reflect rates and allowances which are now a year out of date.

A 91 year old pensioner from Llandrindod Wells, confined to a wheelchair through a stroke, has a total income of less than £4,000 and there has been no change in his financial circumstances for the last six years. He was sent Self Assessment forms in 1997 and 1998.

His nephew wrote: “On 1 January 1998 he received a Self Assessment final reminder and pay slip which worried him enormously.”

A 76 year old pensioner from Kidderminster with a disabled wife, whose income was below the tax threshold, was fined £100 for not filing his Self Assessment form on time. When the return was eventually completed (with the Inland Revenue acknowledging that it knew there would be no liability) the fine was held by the Inland Revenue pending a written claim for it to be repaid.

As the pensioner’s wife wrote: “What a way to treat the elderly.”

Coherent?

What makes comprehension particularly difficult is the number of cross references between leaflets that are necessary to obtain a full understanding of an important subject such as the Married Couple’s Allowance. From the IR121 one is referred “for more details” to leaflet IR90, and “our leaflet IR80 … gives more details”, while IR90 requests that you “see our leaflet IR121 for more details”. Indeed it is arguable that, taken together, these three leaflets are more likely to confuse than to enlighten.

The coding notice P2 instructs the taxpayer to “check that the details [of allowances given] are correct” and refers the taxpayer to leaflet *P3 Understanding your Tax Code*. It is understandable that the leaflet P3 must necessarily become out of date shortly after it is issued, due to the necessity to issue it with coding notices sent out shortly before the start of the tax year but requiring it to cover rates and allowances still to be announced in the March Budget.[1] Indeed the cross-reference failings identified earlier are repeated in the P3 through using references to IR34 where “PAYE is explained in more detail” (arguably not so and using 1996/97 as the tax year) and, of course, to IR121.

There are also significant inconsistencies between leaflets as to what is regarded as correct reading for older taxpayers, for example the P3 refers to a fact sheet leaflet FS1 which explains the Married Couple’s Allowance restriction, but IR121 does not refer to this fact sheet at all.[2] P3 does not recommend IR110 as a useful leaflet although in our view the latter is vital reading for an older taxpayer.

In the Inland Revenue’s Catalogue of Leaflets and Booklets (*IR List* published in December 1997) it claims that all the leaflets and booklets (including those applicable to older taxpayers) are written in plain English, which implies the absence of unexplained tax jargon. However, our postbag casts doubt on this claim.

“I am almost 70 and have had a working lifetime of Accounts Offices but this situation has confused me. How much more will it confuse or worry elderly people who have not had even my level of experience?”

Pensioner from Ferndown, Dorset commenting on the Inland Revenue’s explanation of MCA

Geared to those with disabilities?

In the previous sections we identified seven leaflets of particular importance to older taxpayers. As we have explained earlier (page 4), eyesight difficulties become increasingly common with age, and so it is important to consider how the Inland Revenue's leaflets address those problems.

We were informed by the Inland Revenue that IR110 and IR121 are available in Braille, audio and large print. This is not publicised in the ordinary print versions of either leaflet, or in the Catalogue of Leaflets and Booklets. Furthermore they were not available from a number of the tax offices that we rang at random, nor were they able to supply them within a reasonable period of time, while the Inland Revenue's centralised forms orderline (0645 000404) does not hold them in stock.

It was also surprising that the key leaflet *IR121 Income Tax and Pensioners* makes no mention of the Blind Person's Allowance, while this allowance is inconsistently explained in other leaflets. For example, Tax Return Guide (SA150) gives much more detailed treatment than other leaflets (but, even here, the signposting of the relevant sections could be improved).

Probably the most astonishing fact is that the audio cassette and Braille versions of IR121 – which were developed specifically for people with sight problems – do not cover the Blind Person's Allowance at all!

We are also concerned that the audio and large print material is no more up to date than the ordinary printed versions and contained frequent cross referrals to other leaflets for which no audio tape or large print versions are available.

We are concerned that the lack of "marketing" of the Blind Person's Allowance means that there will be many potential claimants who are unaware of their entitlement. We have already identified that it is not necessary to be totally without sight in order to qualify for the Blind Person's Allowance[3]; indeed many people who are registered blind are nevertheless capable of reading the top line of an eye test chart from a distance of six metres.

We also have concerns about the suitability of a range of forms and leaflets going to older taxpayers for completion. Having studied the RNIB Clear Print Guidelines it was very obvious that the Self Assessment tax return form was unsuitable for those people with visual impairment. We asked the RNIB if they could give us an initial reaction to four "must read" forms and leaflets for the older taxpayer: *SA150 Tax Return Guide*, *P3 Understanding your Tax Code*, *R40 Repayment Claim* and *P2 Coding Notice*. In summary, their view was that all the forms could be improved significantly in style, size of print, layout, contrast and type of fonts used.

For those with hearing deficiencies, there is little coverage in the leaflets aimed at older taxpayers of the special help that might be available to them, but in view of our short survey (page 25) that may not be a surprise.

For those with other physical disabilities which prevent a visit to a local tax office (if there is one) there is no significant reference to the possibility of home visits.[4]

> *"The Revenue Office is aware of this. Why do I have to tell them year after year what they already know?"*
>
> A 68 year old widow, diabetic and partially sighted, who receives a State retirement pension, private pensions totalling £25 per week and has small building society deposits.

Comprehensive?

It is evident from our earlier comments that there is no comprehensive booklet addressed to the older taxpayer on lower income covering, in sufficient depth, all the topics that are likely to concern them.

Furthermore, the information that is available tends to be targeted at individuals whose income is sufficient to make them liable for tax; it is difficult to access any information for those below tax thresholds who may have suffered tax and be due a repayment.

We would also observe that the leaflets that are available may not comprehensively cover their stated topic, for example:

- The latest edition of *IR121 Income Tax and Pensioners* omits any reference to capital gains tax, or where advice on this might be found, even though many older taxpayers will have concerns about capital gains tax if they are selling their home or other assets.
- The leaflet *P3 Understanding your Tax Code*, although issued to hundreds of thousands of pensioners, gives scant coverage to the particular issues that are likely to concern them.

Older taxpayers who are not liable to tax

Our postbag has included many letters from individuals whose incomes are so low that they are not liable to tax, but who nevertheless have encountered difficulties in managing their affairs.

We might illustrate the typical problems by considering the case of Mrs Y, a 79 year old widow, whose income for 1998/99 is as follows:

State retirement pension	£3,365	
Building society interest	1,000	(tax deducted at source of £200 (20%))
Company dividends	800	(including a tax credit of £160 (20%))
Widow's retirement annuity	200	(tax deducted at source of £46 (23%))
Total income	£5,365	

Mrs Y is entitled to a Personal Allowance of £5,600 and therefore does not have any liability to tax. She is therefore entitled to a repayment of £406 which, in the context of her total income, could make a significant difference to her lifestyle. However, the Inland Revenue is unlikely to be aware of her situation, because she has no sources of income that would ordinarily trigger its attention (for example, an occupational pension requiring the issue of a PAYE code).

The first issue is how Mrs Y might become aware that a repayment is due to her and what actions should she take to improve her position? Possible sources of information include:

* The Inland Revenue's Tax Back campaign
* The building society
* The life assurance company paying the retirement annuity

The Inland Revenue's Tax Back campaign

Mrs Y might learn of her right to reclaim tax through the Inland Revenue's Tax Back campaign, which arose from changes in tax law introduced on 6th April 1991. Since that date, depositors with UK banks and building societies have had the right to claim back the tax deducted at source from interest that they receive, to the extent that this income is covered by their tax allowances. And if they are non-taxpayers – i.e. their total income is such that they should not be liable for tax – they may avoid the need to reclaim tax by registering to receive their interest gross. This is done by completing a form R85.

Initial research commissioned by the Inland Revenue suggested that there were 15 million people in receipt of interest who were non-taxpayers – including 4.75 million pensioners – and in January 1991 it launched a £7 million campaign to encourage such individuals to register to receive their interest gross. This included extensive media publicity and the delivery of leaflet IR110 to every household in the country. By February 1992 the Inland Revenue had opened 24 new tax offices to cope with the expected flood of tax refund claims and there have been a number of further attempts to raise public awareness by way of press releases and media briefings, the last of which was in September 1995. There have also been many publicity initiatives by local tax offices, including Mobile Enquiry Centres, stands in shopping areas and libraries, and joint initiatives with charities including Age Concern.

It is difficult to gauge the success of these campaigns. By September 1995 – almost five years after the first campaign – the Inland Revenue estimated that "up to six million people may be eligible for a refund and £500 million could be waiting to be claimed"[5]. While this may suggest considerable success in reducing the numbers from 15 million, the wide variations in estimates published in Inland Revenue press releases between 1991 and 1995 casts some doubt over the earlier estimates, which is not surprising since they related to individuals who were, after all, not on the Inland Revenue's files. Whatever the true position, 19 of the 24 offices specially opened to process tax refunds were closed within a year or two.

Our discussions with the Inland Revenue indicate that there is a strong desire on the part of both senior and local office staff not to overtax those on low incomes. At present the Inland Revenue is unable to provide a more refined or up-to-date estimate of the number of individuals who have overpaid tax on interest from bank and building society accounts than that published in September 1995. As already mentioned, it has no way of identifying non-taxpayers and others who may be entitled to claim tax back, so it relies upon evidence from household surveys of accounts held by people with low levels of income. So far, results from these surveys have not proved very reliable and the Inland Revenue has confirmed that it will undertake further research to see if improvements can be made. It is also considering what it might do next year to increase the number of repayment claims from eligible savers.

It is therefore possible that there are still as many as six million people overpaying tax in this way. Indeed, if we make the cautious assumptions that the figure is actually five million of whom over one in five is above the age of 65[6], it would appear that more than one million older taxpayers are overpaying tax on interest received on bank and building society accounts.

Our postbag and other anecdotal evidence suggests that there are three reasons for this:

* Ignorance
* Resistance to contact with the tax authorities
* Reluctance to deal with paperwork to reclaim smaller sums

We would add the following observations:

– Ignorance about the right to register gross, or to claim refunds of tax deducted at source, is partly due to the sheer complexity of the tax system. In particular, the conversion of the MCA and other tax allowances into tax credits in 1994/95 makes it impossible to explain, in simple terms, the threshold below which an individual is a "non-taxpayer". But ignorance is also attributable to poor taxpayer education on the part of the Inland Revenue.

– The Inland Revenue has made considerable efforts in recent years to reduce public apprehension about entering into contact with it, and the Tax Back campaigns were a welcome innovation. However, the build-up of trust requires clear and consistent messages, and the publication of a press release on 13th August 1992 warning of the penalties that might be levied on those who wrongly registered for gross interest cannot have assisted in this process.

– We are also concerned that there has been no national Tax Back publicity for over three years.

The building society

Mrs Y could well be alerted by her building society or bank to the opportunity to have the interest paid to her without deduction of tax. This is achieved by completing a form R85 on which she would confirm that her total income is below the tax threshold.

Many pensioners, in her position, are not aware of the level of exemption due, particularly if they are widows who have not been involved in tax matters prior to the death of their partner. The building society or bank is therefore a key source of information.

We decided to test this by conducting a random sample of the information provided to their customers by building societies and banks. In doing so we acknowledged that these institutions, except through their specialised tax staff, do not set out to give tax advice. Indeed we were advised that most staff coming into contact with the general public are commonly forbidden to offer any tax assistance.

We visited 40 different branch offices of 13 different institutions and requested forms on which to apply to have interest paid without tax deduction. Two branches would not provide any information or forms without provision of a specific account number. The remainder provided the Inland Revenue form R85 or a substitute customised by the particular institution being visited. This is the appropriate document on which an individual may apply for gross interest payments, and the back of the form contains details of tax allowances to enable them to ascertain whether they are entitled to apply. As allowances change annually, the form is updated each year.

The visits were carried out in August and September 1998, almost half way through the 1998/99 tax year, so we were concerned to see how up to date and helpful the information would be. We were disappointed.

Out of the 38 branches offering forms R85, not one provided a form with current year tax allowance information for 1998/99. Half of the branches provided forms which set out tax allowances for 1997/98. The other half gave out even older forms, generally from 1995/96 or 1996/97, although one branch of a well-known High Street name provided a form from 1991/92!

This "help" on its own would not have enabled Mrs Y to come to a judgement as to whether she might be entitled to receive her current interest without deduction of tax. Had she not been put off by the out of date nature of the information provided, she would have seen that she still had to apply to the Inland Revenue for further leaflets to understand her position.

We also reviewed a small sample of the information provided by building societies and banks which could have told Mrs Y that she might be entitled to receive her interest without tax deduction and so prompt her to ask for a form R85:

* Promotional literature about savings accounts
* The application form to open an account
* The current interest rate summaries
* The annual certificate of interest paid and tax deducted at source (which institutions are required to provide to customers for tax return purposes)

There seems to be no consistency between institutions as to what information is provided and how helpful that would be to Mrs Y. Some are silent; some are minimalist ("If you are eligible to receive your interest without deduction of tax you should register") and some are confusing or misleading ("Non-UK taxpayers may register to receive their interest gross by completing the R85 registration form").

It is clear to us that banks and building societies could do a lot more to help older taxpayers understand the opportunities for gross interest payments. We have initiated discussions with the British Bankers Association and the Building Societies Association with this in mind and have received a positive response. They, in turn, will need further help and cooperation from the Inland Revenue.

A 95 year old woman from Newport has been widowed for eight years and has an income of less than £100 per week. She has had £3 per week in tax deducted at source from her building society interest, on an account originally opened jointly with her husband. She had been overpaying tax for the last 8 years and should receive a repayment from the Inland Revenue of around £900.

The life assurance company paying the retirement annuity

Mrs Y could well have received advice about receiving her retirement annuity gross – by making a claim on a form R89 – when payments originally commenced, but this would have been relevant only to her tax position at that time. It is very unlikely that she will have received any further communication from her life assurance company on this issue subsequently.

Having received the annuity net of tax, Mrs Y will have to follow a rather cumbersome repayment procedure in order to recover the £46 tax deducted from the Inland Revenue. To receive the annuity gross in future, Mrs Y should ask the life assurance company for a form R89, but it is difficult to see how she will learn of this opportunity.

Company dividends

It will be noted that Mrs Y has a repayment due of £160 from the credit attached to her company shares (which might have arisen from privatisation issues inherited from her husband and/or building society mutualisation 'free' shares); this is more than 3% of her spendable income. Again, it is not clear how she will learn of this entitlement, which requires a cumbersome claim procedure, and there is no facility to receive dividends gross.[7]

> *"I'm approaching the age of 76, a none tax-payer, until the year of 1999, when I start paying income tax again, after about 14 years … with my redundancy and overtime money I invested it honestly and wisely into various investments, such as Gas, Electricity, BT … etc.*
>
> *I expect I shall be able to claim back the tax for 1998/99 but not after that. I invested my money for my family and self so that we should not be a burden to the state, to prevent me having to claim on the state for anything at all."*
>
> A pensioner from Cambridge with income below the tax threshold

Complaints procedures

The Inland Revenue has been at the forefront, among government departments, in setting standards of service. It published its first Taxpayer's Charter in 1986, and now operates a well-established complaints procedure right up to an independent Adjudicator. These standards and procedures are publicised in various leaflets, e.g. *IR120 You and the Inland Revenue*.

However, our work indicates that many older people find the complaints procedure rather daunting, and so may not complain even when very dissatisfied with, or upset about, the service that they have received. Furthermore, our postbag includes a number of cases where:

– Tax offices have failed to identify letters describing dissatisfaction or unhappiness as complaints.

– There have been delays of several months in dealing with letters of complaint.

– Letters have simply gone missing within the Inland Revenue.

"A notice of coding was sent to me saying I had underpaid tax to the extent of £513.50 … This I could not understand … I therefore wrote asking for an explanation …

No written explanation or apology was received but I did receive a new notice of coding showing there was now no underpayment of tax."

Pensioner from Lowestoft

Even where a complaint is received and properly identified, the response by the tax office is often inappropriate. A typical example is a pensioner who complains that the Inland Revenue has failed to issue the correct PAYE code, despite several requests from the taxpayer, and who then writes to complain. The tax office then reviews the case and issues the correct PAYE code, but provides no further explanation or information. So it is not clear to the pensioner that the matter has been comprehensively dealt with, and they receive no apology for the trouble or distress caused.

"I mentioned your article [about the problems of older taxpayers, published in The Mail on Sunday] and his exact words in reply were "I don't give a monkey's for the Mail on Sunday". So now you know how you stand in this neck of the woods. He admitted that he hadn't seen the letter they sent me dated 31 July 1997 so I suggested he should look it up before going any further, he promised to ring me back in half an hour but I am still waiting."

Pensioner from Exeter describing his latest call to his tax office in April 1998

The Inland Revenue's work in this area is reviewed each year in the report of the Adjudicator and, although she has noted year-on-year improvements in customer service and complaints-handling, her latest report published in September 1998 indicated further room for improvement. Our own work indicates that there are still too many cases where tax office performance in handling the affairs of older taxpayers does not reflect best practice in customer service.

Recommendations on tax administration issues

It is clear that the support given to older taxpayers on low incomes is in need of review and improvement. Our recommendations are as follows:

Customer service

1 A senior Inland Revenue official, just below Board level, should be appointed as the Older Taxpayer Customer Service Director with a remit to address all the issues affecting this group of taxpayers (and non-taxpayers). In addition, every tax office dealing with older taxpayers should have an individual "badged" as the Customer Service representative for older taxpayers.

2 The main tax office responsible for each older taxpayer should be required to take a proactive role in coordinating the work of all tax offices dealing with that individual's affairs so that, as far as possible, it becomes unnecessary for the taxpayer to be in contact with any other tax office.

3 Special training should be given to staff dealing with older taxpayers to enable them to use the PAYE procedures to produce the simplest and clearest tax position appropriate to the older taxpayer's circumstances.

4 Some additional discretion should be given to tax offices in day to day matters so as to improve customer service, for example, in relation to what may or may not be coded out through PAYE or what helpful information may be conveyed on coding notices.

5 Leaflet *IR121 Income Tax and Pensioners* should be completely overhauled and revised so that it covers exhaustively the issues facing the older taxpayer with limited resources. This leaflet should be distributed annually to all those aged 65 or over, possibly through liaison with the DSS.

6 Calls to tax offices should all be charged at local rates (or be free), or an immediate call-back system should be introduced for older taxpayers.

7 More use should be made of reply paid envelopes for correspondence with older taxpayers.

8 Information flows between the Benefits Agency of the DSS and the Inland Revenue should be reviewed to establish whether improvements can be made to achieve more timely and accurate PAYE codings of state benefits.

9 All leaflets and forms likely to be used extensively by older taxpayers should be:

* Advertised clearly in all appropriate leaflets and catalogues
* Available from all tax offices and orderlines
* Reviewed in order to eliminate the uncoordinated repetition
* Brought up to date
* Reviewed from a Plain English perspective

10 Procedures in local tax offices for dealing with correspondence and telephone calls from older taxpayers should be improved so as to ensure proper identification of complaints, and that these are always comprehensively processed and concluded in accordance with best customer service practice.

Disability issues

1 A greater emphasis should be given to home visits for those with disabilities and greater publicity should be given to their availability.

2 All leaflets and forms likely to be used extensively by older taxpayers should:

* Meet RNIB recommendations as to style, size of print, layout, contrast and type of fonts
* Be available in Braille, audio and large print
* Adequately describe the help available for those with disabilities

3 All tax offices should be familiar with Typetalk facilities and have the equipment to deal with those with hearing disabilities.

4 The Blind Person's Allowance should be more widely publicised to older taxpayers.

Tax Back

1 The Tax Back campaign should be revived by Hector and this should be combined with discussions with the British Bankers Association, the Building Societies Association and the Association of British Insurers to establish how they could contribute to its success.

2 Form R85 should be simplified[8] and should be issued in updated form at the start of each tax year.[9]

3 Independently, the banks, building societies and insurers should review all their own literature so as to provide a more proactive service to this group of their customers.

Self Assessment

1 Starting from April 1999, no older taxpayer with income below the taper threshold should be sent a Self Assessment return, unless there are exceptional circumstances.

2 No enquiry (i.e. audit) should be carried out into a Self Assessment return submitted by an older taxpayer with income below the taper threshold, unless the Inland Revenue has reason to believe that there may be some wrongdoing.

3 Staff should be given discretion to ignore the non-completion of a Self Assessment return where it was clearly inappropriate for an older taxpayer on a low income to have been issued with the return in the first place.

4 Staff examining this year's Self Assessment returns, for older taxpayers on low incomes, should be given instructions to be as helpful as possible and should only send back returns, which are technically incomplete, as a last resort.

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1. We have already discussed this problem at page 9 and related footnote 1.
2. Our postbag indicates that the Married Couple's Allowance, with its related complexities (page 8), is one of the single biggest issues troubling older taxpayers.
3. See pages 9 and 10
4. See also page 24
5. Inland Revenue press release 25th September 1995
6. This would seem justifiable given the Inland Revenue's estimate at page 33 and our comments on page 3 with related footnotes.
7. See page 13 regarding the prospective abolition of the right to reclaim tax credits attaching to dividends.
8. The form R89 which is used to achieve much the same purpose is much simpler.
9. The early uprating of tax allowances recommended on page 16 would facilitate this administrative reform.

5 *Volunteering – the case for review*

In this Report we have suggested various ways in which the tax system might be made simpler for older taxpayers on low incomes, both by addressing the underlying law and policy and by improving tax administration.

But given that there will inevitably be a degree of complexity in any system, and that the tax authorities will always have finite resources to assist older people on low incomes, it might be constructive to explore other ways of helping members of this group to fulfil their obligations, and receive the service to which they are entitled, without demanding substantial extra resources from the public purse.

In some other countries, a large part of the answer has been found to lie in volunteering. In the belief that this could also provide a viable solution for the United Kingdom, we have researched the use of volunteers in those countries to help taxpayers on low incomes, and particularly older people, in coping with the tax system. We have examined in some depth, and visited officials responsible for administering, the *Volunteer Income Tax Assistance* (VITA) and *Tax Counseling for the Elderly* (TCE) programs in the United States, and the *Community Volunteer Income Tax Program* (CVITP) in Canada. We have also conducted limited research into *Tax Help*, the equivalent scheme in Australia.

In North America, the volunteer programs are supported by a sophisticated network of information technology designed to give general information about the tax systems, to speed up processes and to provide individual taxpayers with details about their tax status. This includes a range of toll-free telephone facilities, informative internet sites and facilities for electronic and telephone filing, which exist in addition to the over-the-counter help provided by the walk-in centres in the USA and the tax services offices in Canada.

As will be seen, the participation of volunteers is seen as reducing the need for personal involvement by the USA's Internal Revenue Service (IRS) or Revenue Canada staff in helping individual taxpayers, freeing up valuable resources for other tasks. In both Canada and the USA, we have heard the volunteer programs described as 'the human face' of the Revenue authority; over the years, a good one-to-one relationship is often built up between client and volunteer, and the volunteer comes to represent the friendly tax-gatherer in the mind of the client.

In the remainder of this chapter, we examine the Canadian and USA schemes in turn, and then endeavour to draw appropriate lessons for the United Kingdom, bearing in mind that differences between the tax systems and cultural mores on either side of the Atlantic will mean that what is appropriate for one jurisdiction is not necessarily appropriate for the other.

Indeed, a comparative study of the American and Canadian approaches has revealed differences between the two, which are reflected in their respective programs. What they have in common, though, is a commitment to the role of the volunteer.

Canada: the Community Volunteer Income Tax Program (CVITP)

The mission statement of Revenue Canada shows that the client services ethos in general, and the volunteer programs in particular, are an established feature of the Self Assessment environment, have been consistently pursued over the years, and arise from the belief that education, quality service and responsible enforcement are the key to compliance.[1]

The volunteer scheme CVITP has a mandate to help people who are unable to complete their income tax returns by themselves and cannot afford to pay for professional assistance. The help is provided free of charge. The tax return must be simple. The scheme works through partnerships between Revenue Canada and other organisations, typically charities and non-profit making bodies but also other government departments. Revenue Canada sees itself as the facilitator; the participating bodies themselves structure their own programs and recruit their own volunteers. The program has become quite widespread, with over 70 organisations participating in the Ottawa area alone.

Revenue Canada will train the volunteers, whether to provide the actual form-filling service, or to train other volunteers to do the training themselves. Revenue Canada will also monitor the incoming returns; there is a space on CVITP-prepared returns to identify the form as one prepared by a volunteer, and Revenue Canada scrutinises these returns to identify prevalent errors and provide feedback in the next year's training package. There is a toll-free hotline for North Ontario district which volunteers can use to get immediate assistance on any difficult technical problems that they encounter in helping clients, and this service is being extended to other regions.

In addition, Revenue Canada pays for training materials and limited publicity, provides a training room and allocates staff in the client services directorate in Ottawa, as well as in each of the six regions and 45 district tax services offices, to the program.

The program has been sponsored by Revenue Canada for the past 27 years, and has proved increasingly popular. According to statistics provided by the volunteers and their organisations, in the 1998 filing season 15,932 volunteers completed 352,356 returns.

The taxpayers helped under the scheme include senior citizens, low-income individuals, students, and new Canadians. The seniors' programs are supported typically by professional bodies such as the CGA (Certified General Accountants) and voluntary organisations such as the Association of Non-Profit Seniors' Homes and retirees' associations. Health Canada is currently partnering with Revenue Canada as part of the United Nations 1999 initiative International Year of Older Persons (IYOP). Seniors are often net recipients; CVITP volunteers will help them file in order to receive their Old Age Guaranteed Income Supplement and the various allowances and tax credits available to them.[2]

There is no universal definition of low-income individuals. In practice, the ceiling of total family income is established by each of the tax services offices throughout Canada, taking into account the regional demographic differences. Also, the participating bodies tend to apply their own criteria; for instance, the Ontario CGA specifies a qualifying upper income limit of $25,000 (Canadian) per annum.

Because in Canada welfare benefits are administered through the tax system, people on low incomes often have to file returns in order to get their benefit entitlement. A successful "joined-up government" initiative was run in 1998 between Revenue Canada and Ontario municipalities under which social workers received training from Revenue Canada on the new child tax benefit, and thus equipped were able to help their clients to file returns under CVITP so as to secure their entitlement.

Some educational and professional participating organisations give credit towards diplomas or qualifications for time spent volunteering with CVITP, and indeed the CGA credit their professional members and students with Continuing Professional Education points for time so spent.

In short, the volunteers are Canadians who give their time and energy to help others. They are individuals of all social classes and age groups, representatives from community organisations and from different cultural communities, professionals, teachers and students. Even senior Revenue Canada officials become volunteers. But volunteers do not have to be tax experts, or even interested in tax – there is always publicity, site administration or even baking of donuts! Nobody is turned away.

The United States: VITA and TCE

In the USA there are two significant long-standing taxpayer assistance programs: Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE), which form part of a wider taxpayer education initiative.

These volunteer programs have grown in popularity and there is no doubt at official level that having some 70,000 volunteers providing a form-filling service takes a lot of pressure off staff at 400 walk-in centres operated by the IRS nationwide.[3] We were told by the Chief of the Volunteer and Education section in the IRS that, if all the work done by volunteers had to be done by paid staff, "it would cost $billions".

Many returns filed through the work of the volunteers are forms which would not otherwise have been filed; and the involvement of the volunteers ensures high levels of accuracy.[4] Even where the person assisted is a net recipient of the system, the programs can be used to bolster take-up.[5]

The programs

The VITA program originated in the Tax Reform Act of 1969 and came into being the following year. It is aimed at particular groups of low income taxpayers: those with special needs, including persons with disabilities, non-English speakers and older people.

Assistance is generally provided at community centres, libraries, church halls and other central places, although volunteers may also visit the homebound. In the financial year 1998 (October 1997 to September 1998), 1,852,048 taxpayers were assisted under the VITA program.

The TCE program was set up under the Revenue Act of 1978 following lobbying of Congress by the American Association of Retired Persons (AARP) which remains the moving force behind the program. Unlike VITA, TCE is funded by Congress, which authorises the IRS to enter into 'co-operative grant agreements' with non-profit making bodies to provide tax assistance to older taxpayers. These bodies have to apply or re-apply each year for admission to the program, and once selected, they are responsible for all aspects of operating the program, including publicity, recruitment, site selection and management of volunteers. In 1998, some 1,679,400 taxpayers were assisted by 32,425 volunteers at 10,554 sites.

The government provides training materials for both VITA and TCE for which the direct cash costs are about $500,000 per annum. The IRS has three analysts (i.e. officials) at national level who are responsible for administering the VITA and TCE programs and a network of analysts nationwide who manage and administer the programs in the districts, but who are not dedicated to them full-time.

Volunteers must undergo training and pass a test set by the IRS if they wish to be assistors (i.e. advisers), but if they prefer (or if they fail the test) they may instead perform one of the other tasks. Volunteers are typically retired people, members of professional business or accounting organisations, and members of retirement, religious, military and community groups. Some sites are able to provide volunteers who speak languages other than English, or interpreters to sign for people who have impaired hearing.

Apart from instructors and training materials, the IRS also provides technical assistance, forms and publications, and advice on publicity efforts. As in Canada, returns prepared by volunteers are marked for identification purposes so that the IRS can provide statistical information to Congress, and also spot and give feedback on any common mathematical or procedural errors. In addition, a toll-free technical hotline is dedicated to the use of volunteers. IRS employees also visit sites to observe activity, discuss needs and progress and offer technical assistance.

These programs show that it is possible to operate a volunteer system at limited cost, with few overheads because most sites are in places such as public libraries and church halls, and little expenditure on publicity because newspaper advertising and other such facilities are usually procured at no cost. The overall saving to the public purse, taking into account the accuracy of returns filed through the volunteer programs, the number of returns which would not otherwise have been filed, and the lifting of the burden on paid IRS staff in walk-in help centres, is reflected in the following extract from the IRS Manual:

> *"The effect of involving the volunteer community will be a continued expansion of the scope of taxpayer education. There will be no limit to our ability to increase taxpayer awareness of their liabilities and responsibilities. This will, in turn, improve compliance, returns processing and decrease our dependency on taxpayer service one-on-one assistance thereby reducing our costs."*

Next steps

The lessons learned from North America

Our study of the volunteer programs in Canada and the USA provides a number of positive lessons which may be relevant if considering the introduction of such schemes in the UK:

- The programs demonstrate that it is possible to establish vigorous nationwide schemes for tax volunteering.
- Such programs provide a 'human face' to the tax regime, helping people who may be nervous about approaching the tax authorities directly for help. This in turn has improved public perceptions about the tax authorities themselves.
- The programs have raised levels of tax compliance by securing submission of tax returns, while encouraging some individuals to make themselves known to the authorities.

- The programs have improved the quality of tax compliance by improving the accuracy of returns provided by individuals on low incomes to the tax authorities, through the opportunity for prior review by a trained person.
- Such programs have produced fruitful partnerships between the Revenue authorities and voluntary sector organisations and professional bodies, which take responsibility for organising and supervising volunteers.
- The programs have also been used to ensure greater 'take up' of welfare support where this is provided by way of tax credits.
- There does not appear to be any need for the national authorities to impose overall means tests for clients; it may be left to participating organisations and volunteers to set criteria appropriate to local conditions and demographic differences.[6]
- There are significant cost-benefits. The direct cash outlay by the authorities towards the programs described above are very modest. For example TCE, which helps over 1.6 million taxpayers, receives an annual Congressional grant of $3.7 million to cover administrative costs of the sponsoring organisations and volunteers' out of pocket expenses, with a further $500,000 spent on training materials for TCE and VITA together. There are also the indirect costs of the toll-free lines, and of staff who are dedicated full-time and part-time to oversee the scheme. However, since the real value of the programs lies in the free time given by volunteers, it has been suggested that it would cost the IRS "$billions"[7] to provide the same service as that provided by VITA and TCE.

The UK context

Clearly all this would need to be considered within the UK context. There are several factors that would need to be taken into account before considering whether to introduce a similar program here, and if so how it should be designed. Some important issues are:

- The tax regimes are rather different. The programs discussed above operate in jurisdictions which have almost universal Self Assessment; whereas the UK system relies upon the PAYE system to collect tax from two-thirds of taxpayers without the need for tax returns. So people on lower incomes in the UK are more likely to request help in sorting out their PAYE codes or tax overpaid on investment income, than in completing a tax return. And this help may be required throughout the year and not within a 'season' of a few months.
- At present, our Inland Revenue already provides considerable free face-to-face help through its network of over 300 Tax Enquiry Centres, which might imply that there is little need for extensive volunteering. But in relation to the older taxpayer population, our Report indicates that Tax Enquiry Centres are only a partial solution, and to our knowledge some Tax Enquiry Centres are already hard-pressed to provide the level of customer service that they would wish. A volunteer scheme may well reduce some of those pressures.
- If a UK scheme were to involve voluntary organisations and/or professional bodies in a similar role to those in North America, there are a number of organisations which might be invited to play a role, for example the Chartered Institute of Taxation, Age Concern and the National Association of Citizens Advice Bureaux might all be interested in promoting such a scheme and would bring considerable organisational expertise. The charity TaxAid,

which for six years has relied upon volunteers to offer free tax advice to individuals in financial need, might provide some very useful lessons from its own experience.

- The North American schemes play a positive role in advising on welfare payments or credits delivered through the tax system, and encouraging take-up. The impending introduction of the Working Families Tax Credit and Disabled Person's Tax Credit due to be delivered by the Inland Revenue from October 1999, and through the payroll from April 2000, and possible further mergers of tax and benefits in the future, suggest that similar advantages could be derived in the UK.[8] This would tie in with the move towards 'joined-up' government being promoted under the Cabinet Office's *Better Government for Older People* initiative.
- In the UK, we now live in an age of public-private partnerships, encouragement of volunteering, promotion of the Third Way and a greater reliance on information technology. A volunteer scheme would apply these underlying principles to the provision of tax advice.

Our recommendations

We believe that the time has come for Government to consider seriously the introduction of a publicly supported tax volunteer scheme in the UK. Taking account of the particular difficulties faced by older taxpayers identified in earlier chapters of this report, we suggest that consideration be given to a scheme which is addressed to serving older taxpayers, to supplement improvements to the administration of the tax system that we have recommended.

As this would be a major project we recommend the establishment of a review committee comprising Revenue officials, representatives of the tax profession and of voluntary organisations to examine the scope for the creation of one or two local pilot schemes which, if successful, may be extended across the UK. We should be keen to participate in this work.

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1. The mission statement of Revenue Canada reads: 'Our mission is to promote compliance with Canada's tax, trade and border legislation and regulations through education, quality service, and responsible enforcement, thereby contributing to the economic and social well-being of Canadians.'
2. We have noted, that as a separate client services initiative, Revenue Canada supplies a simpler return form for seniors in large print.
3. This compares with over 300 Tax Enquiry Centres in the UK, which has a considerably smaller population.
4. 95% in the case of manually filed returns, and 99 per cent for electronically filed returns.
5. This is particularly important in the case of payments such as the earned income tax credit, a work incentive designed to help people off welfare, for which Congress looks to the IRS to ensure proper take-up. The IRS, in its turn, looks to VITA and TCE volunteers to make their clients aware of it, when they might otherwise have remained in ignorance.
6. It is considered important that any arrangement established in the UK should focus its work on those unable to pay for professional advice, as volunteers may become demotivated if they felt that they were helping clients who could well afford to pay a professional adviser and were 'exploiting' a voluntary scheme established for the benefit of individuals on lower incomes.
7. See page 42
8. The Government's concerns about the failure of pensioners to take up welfare benefits is mentioned at page 17.

Appendix A Members of the Low Incomes Tax Reform Group who participated in producing this report

John Andrews (Chairman)	President, Chartered Institute of Taxation 1997/98
David Brodie (Co-ordinator)	Director, TaxAid
Caroline Cecil	Public Relations Consultant, Caroline Cecil Associates
Keith Deacon	International Tax Policy Adviser. Retired Director of Operations, Inland Revenue
Hywel Jones	Technical Officer, Chartered Institute of Taxation
Roger Mortimore	Finance Policy Adviser, Local Government Association
William Norris	Barrister, 9 Old Square, Lincoln's Inn. A former Chairman of the Revenue Committee of the Law Society
Sally West	Policy Officer, Age Concern England
Robin Williamson	Consultant Editor, Tax and VAT Publishing Centre, CCH Editions Ltd

Appendix B A composite example from our postbag

How an extraordinary amount of work may be imposed on both the Inland Revenue and the taxpayer in order to collect a very small amount of tax

Mr X is a 73 year old married pensioner with income in 1998/99 as follows:

State retirement pension	£5,300
Occupational pension – Company A	1,200
Occupational pension – Company B	1,100
National Savings Pensioner Bonds	750
Building Society interest	100
	£8,450

The tax liability for 1998/99 will be as follows:

Income	£8,450
Less: Higher Personal Allowance	5,410
	£3,040
Tax at 20% on £3,040	£608.00
Less: Married Couple's Allowance	
£3,305 @ 15%	495.75
Tax due	£112.25

Of the £112.25, £20 will have been deducted at source by the building society, leaving £92.25 to be collected during and after the tax year. The procedures to collect £92.25 for the tax year 1998/99 could have been as follows.

Before the start of the tax year start the Inland Revenue would probably have issued a form (P161 or P810) in order to obtain from Mr X details of his likely income for 1998/99. On receipt of this form, the tax office responsible for Mr X's tax affairs (probably the tax office that looks after Company A pensioners) would have decided how to collect the tax due.

This is likely to be collected in part by asking the pension administrators for both former employers – Company A and Company B – to operate PAYE in such a way that tax is deducted from both pensions (although Inland Revenue practice in this regard varies so that only Company A's pension administrators may be asked to deduct tax).

In any event, in the period January to March 1998, the tax office responsible for Mr X's tax affairs would have sent Mr X a notice of coding informing him of the allowances that had been given, and the income that had been taken into account, in arriving at the PAYE code number for his Company A pension for 1998/99.

A short while later (after receiving a communication from the tax office dealing with Company A pensioners) the tax office dealing with Company B pensioners would have sent Mr X a further notice of coding informing him of the allowances that had been given, and the income that had been taken into account, in arriving at the code number for his Company B pension for 1998/99.

Both of these notices of coding would have needed to be checked by Mr X (and they could not be checked in isolation as Mr X would not have the whole picture until both are held by him).

The administrators of the pension plans of both Company A and Company B would have been sent notifications of the codings to be operated from 6 April 1998. These codings would not collect the right amount of tax for 1998/99 as they would not contain the right allowances for the year 1998/99 as these would only be known following the Budget Statement in March 1998 (though the codings would probably contain approximately the right amount of income as estimated by Mr X).

When the new allowances were known the same procedures would have had to be completed in around May 1998, and Mr X would have received revised PAYE codings affecting at least one, but possibly both, occupational pensions. This would mean that tax would have been overdeducted from the payments made to Mr X in April and May 1998, and in June these overdeductions will have been repaid to him. From July his net pension receipts will have been correct.

A married pensioner from Bromsgrove has three sources of income – a State retirement pension and two occupational pensions – totalling £10,500 per annum. He has had to communicate with three tax offices (one local, one in Edinburgh and one in Cornwall) in order to get the appropriate allocation of Married Couple's Allowance. There were at least ten items of correspondence and numerous telephone calls in the first six months of this year.

The complexity is compounded by the fact that tax is being deducted under PAYE from both of the occupational pensions, which the Inland Revenue says is in accordance with its internal guidelines for cases where pensions exceed £1,000. The pensioner has written to the Inland Revenue and requested that the guidelines be disregarded, and that all the tax be deducted from one pension so as to make his life simpler.

It is unlikely that Mr X will have heard further from the Inland Revenue until shortly before the start of the next tax year when he will be asked to estimate his income for 1999/2000.

In April 1999 Mr X will be sent a full Self Assessment tax return. He will be required to complete (say) 8 pages of the return and potentially read the accompanying notes of probably 30 pages.

The return will be issued centrally by the Inland Revenue's computer. The existence of his National Savings interest, unless tolerance levels are raised, will trigger its issue.

In May 1999 Mr X will be sent statements P60 by the administrators of Company A and Company B pension schemes setting out the income from these sources and the tax deducted. The Inland Revenue will also be sent this information.

Before September 1999, Mr X will probably complete his tax return and send it to his tax office. This will be processed in due course. Mr X will then be sent a tax calculation for the year 1998/99 which will need to be checked by him. If there is tax to pay, Mr X will await a statement of account and a request for payment being sent to him. If there is a repayment it will be sent with the tax calculation.

The amounts either way will be small as the total tax to be collected is £92.25 and if Mr X's estimates of interest and state pension were correct before the start of the tax year, the tax codes should, in any event, have collected the right amount from the two pensions.

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