



House of Lords, Call for Evidence

The Impact of Demographic Change on Public Services

Joint response by the Low Incomes Tax Reform Group ('LITRG') of the Chartered Institute of Taxation and Tax Help for Older People ('Tax Help')

1. Summary

- 1.1. To keep to a concise submission, we do not give full background for each point, but can provide more information on request. We answer only those questions of relevance to our work and experience.
- 1.2. Together, LITRG and Tax Help have significant experience in the problems encountered by older people in dealing with public services – most specifically, HM Revenue and Customs (HMRC). From this and other experience with tax, national insurance, tax credits and benefits system we offer thoughts in response to the call for evidence.
- 1.3. We cover the following:
 - 1.3.1. Caring for other family members in various ways needs to be recognised as 'work' and such work is making a valuable contribution to society. Tax, national insurance and benefits rules for carers (whether paid or unpaid) could benefit from a thorough top down review.
 - 1.3.2. Self-employment should be recognised under Universal Credit as equally valuable as employed work, thus encouraging people to contribute to society both now and to save for their future.

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- 1.3.3. Tax reliefs can incentivise saving for the future. It is critical to consider tax rules early in the scoping of any new products and as such to design a system for the long term. Changes to the pension rules in recent years have regrettably bred mistrust in the system, discouraging people from saving in products for which the rules might change later. This creates uncertainty which should be avoided.
- 1.3.4. Tax reliefs could also be used to incentivise other potentially beneficial changes, for example: to increase flexibility of working from home to help employees balance work with family care needs; to help maintain the skills and qualifications of professionals who have retired from paid work but who continue to serve society as volunteers; and to increase saving by those who need to make up a shortfall in retirement funding.
- 1.3.5. Other population trends, such as changes in the permanence of personal relationships (marriage, civil partnership and divorce trends) need to be considered alongside the 'ageing population'. Government policy needs to be reviewed in the context of how couples are treated in the tax and benefits systems.
- 1.3.6. Government needs to be wary of excluding some service users from engagement with the system by moving too fast on its 'digital by default' strategy. It must be remembered that a person's ability to keep pace with technological change might, and almost certainly will, diminish as they get older (both for health and financial reasons).
- 1.3.7. Tax issues should be considered early in any change of service delivery to avoid unforeseen problems of the type we have witnessed with Direct Payments scheme users becoming 'accidental employers' of care staff.
- 1.3.8. Government should capitalise on the use of agents for efficient delivery of public services. End users can be better served by making it easy for agents to help them.
- 1.3.9. Services should always be simple to use and accessible, with communications and processes designed to be as easy as possible to follow. This is critical with an ageing population and increased numbers potentially being in need of additional support. The establishment of the Office of Tax Simplification (OTS), which is conducting a review of pensioner tax, is a helpful step towards overall tax simplification.
- 1.3.10. The Government could stimulate further debate by capitalising on consultations. This could be achieved by not necessarily sticking to their sometimes too-narrow scope if respondents feel strongly that a wider debate of the issues is needed or is in fact essential in order to obtain a better understanding.

2. Question 2 – Do our expectations and attitudes about work, savings, retirement and independence need to change, and if so, how?

2.1. *The definition of 'work' and how it is treated in the tax and benefits systems*

- 2.1.1. We think there is a strong case for reconsidering and debating what constitutes 'work' for the purposes of the tax and benefits systems. This would likely prove to be very worthwhile.

- 2.1.2. There are many different tax and benefits rules depending on the type of work that a person does which can give the impression that certain types of work are more valued than others. For instance, certain types of carer have a specific treatment within the tax system, such as foster carers, yet there seems to be no coherent strategy more generally for recognising of the services to the state of those who care for other family members without payment.
- 2.1.3. It is only recently and in response to sustained pressure from LITRG and others that certain carers have been given specific exemptions from the normal working hours requirements in the tax credits system¹.
- 2.1.4. In the context of the ageing population, we also have to consider that there are various 'in-family' care arrangements in place which mean that other family members can go out to work. For example, a grandparent might look after a grandchild which in turn enables the child's parent to return to work. But the system does little to recognise their significant contribution (except that, from 6 April 2011, some grandparents can qualify for national insurance credits where they care for a child under the age of 12²).
- 2.1.5. Carer's allowance, although taxable, is not taxed at source and is therefore a potential source of confusion for its claimants and easily gives rise to unnecessary correspondence with HMRC when there is a failure to declare the receipt.
- 2.1.6. Interaction with the tax system needs to be considered carefully in any review of care provisions. Over the years, there have been many variants of tax reliefs and benefits to recognise certain family situations – for example married couples and those bringing up children – and it would be useful to have a debate as to whether these are better situated within the tax or benefits system. Indeed, with child benefit, there is now an overlay of the two – a benefit paid to the main carer of a child but with a very complex claw-back via the tax system where one or both of a couple is a higher earner³.
- 2.1.7. But why recognise someone bringing up children differently than someone who is caring for another, such as an elderly parent? Or indeed differently than someone who is providing care for payment rather than the unpaid care provided for a family member? Tax law currently gives tax-free allowances to shared lives carers⁴, so why not give similar relief to children looking after their own parents – such as by making carer's allowance tax-free? Or by giving them an additional personal tax allowance to compensate for this?
- 2.1.8. At present, there are myriad rules for different types of carer – tax, national insurance contributions, national insurance credits, tax credits and other benefits. A simplification review could have the

¹ See <http://www.litrg.org.uk/News/2012/carers-tax-credits>

² See The National Insurance Contributions Credits (Miscellaneous Amendments) Regulations 2011, SI 2011/709 <http://www.legislation.gov.uk/ukSI/2011/709/made/data.pdf>

³ This is where 'adjusted net income' (as defined in tax law) exceeds £50,000 a year.

⁴ 'Qualifying care relief' provisions are found in Part 7, Chapter 2 of Income Tax (Trading and Other Income) Act 2005

benefit of consistency and fairness of treatment across the board at its core, together with clarity and certainty as further key objectives.

- 2.1.9. There is perhaps no clear answer as to whether additional tax allowances and reliefs or benefits are the better solution. Much depends on the situation. But often tax allowances and reliefs are complex in their design which can lead to poor understanding of entitlement and therefore failure to claim them. Clear communication and ensuring take up are therefore essential for any tax 'incentive' strategy. This can be helped by having simple rules (for example a universal allowance rather than one which is withdrawn by reference to thresholds) and automatic awards (rather than having to claim).

2.2. ***Attitudes to work – self employment and Universal Credit***

- 2.2.1. LITRG is very concerned that the Government is not currently recognising self-employed work as being as important to society as employment, with its plans for Universal Credit¹. Yet self-employment is a vital option for people getting into work and being able to support themselves both now and in terms of saving for the future. The system therefore should not discourage it.
- 2.2.2. The lines between working and pension age are also becoming increasingly blurred and therefore it would be helpful for the Government to have a clear strategy on benefit entitlement in this 'crossover' period.

2.3. ***Volunteering***

- 2.3.1. Many older people also continue to make a valuable contribution to society after they have retired from paid employment by using skills gathered in their working life. Tax Help for Older People has some 550 active volunteers, a good number of whom fall within this category.
- 2.3.2. There is a peculiarity in the tax system in that, during their working life, employees can claim a deduction against taxable employment income for the cost of professional membership fees and subscriptions necessary to do their job²; yet if the same individual wishes to continue to use those skills on a voluntary basis post-retirement, no such deduction can be claimed against other income, such as pensions. This seems to be counterintuitive and a damaging disincentive to people maintaining their skills set and also making a contribution to society

2.4. ***Savings***

- 2.4.1. The tax system can be used to influence behaviour. If the tax system is to be used as a means of encouraging savings by providing certain tax reliefs, those reliefs need to be clear and well understood. For example, the working population is unlikely to appreciate the contribution that is made via basic rate tax relief to their pension fund when all they see is the 'net' pension contribution on their payslip.

¹ See <http://www.litrg.org.uk/News/2012/uc-draft>

² Sections 343 and 344 Income Tax (Earnings and Pensions) Act 2003

- 2.4.2. If tax incentives are given, offering tax-preferred products (such as pensions and ISAs), they need to be designed and implemented for the long term and not changed as part of short-term government policy. Making continual changes to the system leads to mistrust. For example, the rules changed in 2006 to raise the minimum age for accessing pension funds from 50 to 55 and as such people will be dissuaded from using such products if they perceive that the Government can move the goalposts at short notice.
- 2.4.3. Pension tax reliefs could be made more attractive – for example, for those in the latter stages of their working lives (in their fifties and sixties, say) who need to make up a shortfall in their retirement fund. It is perhaps only at that stage, when other financial responsibilities may be easing, that people can afford to save more for retirement; yet by that stage they would have to invest proportionately more to make up for lack of earlier funding.
- 2.4.4. It is important to consider tax rules when designing any new incentives, schemes or products. In March 2011, LITRG responded to a consultation about Simple Financial Products with that very message¹. It is therefore disappointing that a further consultation has now been published which says that the tax status of proposed Simple Financial Products has yet to be considered in detail².

2.5. ***Employment flexibility***

- 2.5.1. Care is one of the main problems discussed in the call for evidence and thought needs to be given as to how care is viewed and provided in future. Flexible working patterns could help those who have family members with low to moderate care needs or for those who are looking after someone with a degenerative condition. Some tax reliefs are available for employees working at home, but these are very limited. For example, HMRC guidance allows for a flat rate expense of £4.00 per week to cover the additional costs of working at home. The Government could consider whether there is any room for further incentives within the tax system to allow individuals to work from home more flexibly around the care requirements of other family members. This could allow those who care for a relative both to continue to work and to provide care, obviously depending on the intensity of care needed.
- 2.5.2. Flexible working should indeed be a more general theme in catering for the needs of an 'ageing' population and a world in which many people may have to continue working until at least their late sixties. Inevitably, people's ability to continue working will vary according to health, with manual workers perhaps most at risk. Again, tax incentives could be considered as a means of encouraging employers to cater to individuals' needs.

2.6. ***Recognising other population trend changes, alongside the 'ageing' population***

- 2.6.1. It is also important to consider population trends other than the ageing population.

¹ See <http://www.litr.org.uk/submissions/2011/Simple-financial-products>

² See http://www.hm-treasury.gov.uk/d/sergeant_review_simple_financial_products_interim_report.pdf (para 6.8)

- 2.6.2. The Government recently consulted on changes to the bereavement benefit system. LITRG responded¹ to this consultation pointing out that the tax considerations of any redesigned benefit should be considered early on in the process. Whilst the Government's response² acknowledges the point, it has yet to be resolved and has been referred to HM Treasury for full consideration.
- 2.6.3. Alongside the tax considerations, LITRG also commented that the Government had seemingly not taken account of the increase in the number of couples living together as if they are husband and wife or civil partners without having made that legal commitment. Bereavement benefit (both currently and as is proposed under the new rules) is paid only to widows, widowers and bereaved civil partners and not to anyone who has lost a de facto spouse or civil partner.
- 2.6.4. This does not seem to recognise that bereavement is likely to impact similarly on a household regardless of the legal framework of the relationship and it contradicts many other benefits which are assessed on a couples basis, regardless of marriage or civil partnership. It also interestingly contradicts the new High Income Child Benefit Charge, i.e. the claw back of child benefit, in whole or in part, when one of a couple is a high earner, again regardless of marriage or civil partnership.
- 2.6.5. These conflicting rules for couples between tax and benefits and even between different benefits seem to us to be an obvious problem in the current system and one which is likely to be compounded in the future, as more de facto couples age and encounter bereavement.

3. Question 4 - Do we need to redesign and transform public services for these challenges? If so, how?

3.1. *'Digital by default' and the impact of 'digital exclusion'*

- 3.1.1. There has been a radical shift in service delivery in recent years, both in the private and public sector. HMRC has moved from localised services to an increasingly impersonal model of call centres and online channels; and the Government generally is now adopting a 'digital by default' strategy which is certainly worrying for those less computer literate or worse still unable to access IT at all due to their location.
- 3.1.2. As clearly stated in a recent LITRG report³, this shift has made access to services harder for some, with a significant and disproportionate impact on older people and some people with disabilities. There are various reasons for the problems, including: fear of change or making mistakes; affordability; and lack of IT access or capability.
- 3.1.3. With an ageing population, it is possible to foresee problems from the increase in online services coming into sharper focus. For instance, if everything is online and password-protected, how are

¹ See <http://www.litrg.org.uk/submissions/2012/bereavement-21cent>

² See <http://dwp.gov.uk/consultations/2011/bereavement-benefit.shtml>

³ See 'Digital Exclusion – a research report', April 2012
http://www.litrg.org.uk/Resources/LITRG/Documents/2012/05/digital_exclusion_-_litrg_report.pdf

others to step in and help if a person lacks capacity (for example, due to sudden ill-health or gradual loss of memory in older age)? This is a major concern which ought to be considered.

- 3.1.4. The arrival of a piece of paper by post – a bill or notice, say – alerts a helper such as a friend, family member or social worker that action is required. Intangible, electronic, mail does not do this in the same way as it may well be hidden. Many private sector services are already delivered exclusively online such as some banks no longer sending out statements and certain utilities providers sending bills by email alone. If public services are similarly ‘hidden’ online, within the Government Gateway, how will people cope? If in future a notice to file a self-assessment tax return were to be served by email, how would a helper know that such a return is required if they cannot access the online service?
- 3.1.5. On the back of recent developments in registration of births and deaths, there should be a general move to a joined-up ‘Tell Us Once’ service for other life events – a single notification of both private and public sector services that a person has, for example, retired or that the management and control of a person’s financial affairs has been transferred to another through grant and registration of a Lasting Power of Attorney (or similar). This would save time and effort of older people and those who are helping them, and reduce error rates in complying with official obligations. For example, if such a notification were to be sent to HMRC on registration of an attorney, this would help in some situations outlined in the paragraph above, as HMRC could then notify the representative that the taxpayer’s return is outstanding.
- 3.1.6. There also seems to be a perception that as people who are currently more digitally aware move towards older age, they will be more willing and able to access services online. We would register a note of caution in accepting this premise. Whilst there might be a smaller proportion of technology novices in future, it does not necessarily follow that the numbers of people keeping themselves informed of communications technologies post-retirement will increase. Indeed, if the rate of change in communication technologies continues apace, it is quite possible that the drop-off rate will increase rather than decrease. This point is likely to be exacerbated in older age as pensioners often have fixed incomes but increasing outgoings (with care needs and so forth) such that keeping pace with technology is likely to be less affordable, even if they would otherwise be willing to remain so engaged.
- 3.1.7. We therefore recommend that the impact of changing the way services are delivered continues to be monitored to ensure that no-one is left behind. This must include taking into account whether or not people are able to keep up with technology as it moves forward.
- 3.2. ***Redesigning public services – always consider the tax issues***
 - 3.2.1. The tax issues of any policy change need to be thoroughly thought through at an early stage. Over recent years, we have witnessed the tax problems encountered by those living independently who

are in receipt of direct payments which are then used towards their care needs. Such people can become what we would term 'accidental employers', with accompanying legal and tax obligations.¹

3.2.2. Therefore any other scheme of caring for disable/older people in future needs to learn from this experience and consider any tax implications from the outset.

3.2.3. VAT, with its array of provisions for disabled people² and mobility aids for those aged 60 or over can also cause confusion³. Zero rates and reduced rates may go unclaimed as the consumer has to identify themselves as being entitled to them.

4. Question 5 – What should be done now and what practical actions are needed?

4.1. *Use of agents*

4.1.1. The Government should build on the use of agents to provide efficient public services. For example, recently HMRC has been developing an agent strategy, which includes considering how HMRC interacts with various types of unpaid or tax agent, such as voluntary sector organisations and friends and family helpers.

4.1.2. In our experience, services are likely to be more efficient for all concerned if it is easy for individuals to be helped by others where necessary. Older people who are starting to lose their capacity to deal with things for themselves often need to involve another family member or friend to help them.

4.1.3. Efficiencies could be found at quite quickly in this area. For example, by giving voluntary sector organisations more security of funding and in so doing those organisations could concentrate on service delivery rather than spending huge time and effort in fund-raising.

4.2. *Simplification*

4.2.1. Much of the problem with service delivery rests with the massive complexity of the system. We therefore welcome the Government's focus on tax simplification, with the establishment of the Office of Tax Simplification (OTS).

4.2.2. But to be successful, simplification needs to be seen through to completion and for instance, although the OTS is still engaged in its review of pensioner taxation⁴, changes were made to the tax allowances for older people in the March 2012 Budget. It would be very much better to design the tax policy in the light of a full review.

¹ LITRG published a detailed report on the issues in January 2008 – 'Independent Living, Direct Payments and The Tax System': <http://www.litrg.org.uk/reports/2008/independent-living-direct-payments-and-the-tax-system>

² LITRG published a detailed report in 2007 – 'VAT and disabled people – the case for removing the barriers': <http://www.litrg.org.uk/Resources/LITRG/Migrated%20Resources/Documents/untitled1.pdf>

³ LITRG commentary on the reliefs can be found on the Group's website: <http://www.litrg.org.uk/Disabled/buying-goods-service>

⁴ See http://www.hm-treasury.gov.uk/ots_pensionerstaxreview.htm

4.2.3. Nonetheless, there are still plenty of areas for debate and movement in terms of simplifying the system for pensioners and we hope that the further work of the OTS will lead to a comprehensive strategy for making pensioner taxes simpler – both as they reach retirement, and in future if they become less capable of dealing with officialdom.

4.2.4. All parts of government should commit to ensuring that all communications and processes are as simple as possible for older people to understand and comply with.

5. Question 6 – How can we stimulate a national debate about these issues?

5.1. *Capitalising on consultation responses*

5.1.1. Further debate on areas of policy discussed above could be stimulated if government Departments such as HMRC were to take on board comments that are submitted in response to consultations which, although outside the core issue under consultation, are nonetheless relevant. Those comments could then be fed back to the public and debated further.

5.1.2. But often, consultation documents are narrowly focused and can give the impression that a course of action has already been decided upon rather than first stimulating wider debate. Also, there can be too long a period between the consultation deadline and the Government's (or Department's) response, thus losing continuity and momentum¹.

5.1.3. A good point at which to debate the future of service provision and the ageing population was at the time when the first call for evidence was made on possible merger of income tax and national insurance contributions administration². LITRG had felt that a deeper look at the issues would be worthwhile, for example whether to integrate income tax and national insurance contributions more closely or to consider the possibility of having a more structured contributory principle and ring-fenced funds for provision of care and financial support to people in older age. But such fundamental debate appears to have been bypassed in favour of a narrower, administrative review.

LITRG and Tax Help
1 September 2012

Appendix: *About us*

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes.

¹ For example, the response to HMRC's 'Relief for Income Tax losses' consultation was published in July 2012, the consultation period having closed in September 2011.

² See LITRG's response to that call for evidence, September 2011
<http://www.litrg.org.uk/submissions/integrate-tax>

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it - taxpayers, advisers and the authorities.

Tax Help for Older People (Tax Help), an original pilot service by LITRG but a separate charity since 2004, provides UK-wide free, expert personal tax advice to some 24,000 older people on lower incomes annually by telephone and face to face. It also provides educational material and training courses for its client group and other advice agencies in the voluntary sector.

Neither LITRG nor Tax Help is politically driven. If this evidence appears to stray into 'policy' matters, we emphasise that we do not intend to make recommendations of that nature. They are ideas to contribute to the debate using the benefit of our experience and expertise, from which we have been able to spot general trends and themes.