

**The Income Tax (Pay As You Earn) (Amendment No. X) Regulations 2014  
Response from the Low Incomes Tax Reform Group (LITRG)**

**1 Executive Summary**

- 1.1 We are disappointed that these proposals, stated to be designed to better manage the service provided by HM Revenue & Customs (HMRC), actually remove basic rights from taxpayers.
- 1.2 For low income and vulnerable taxpayers, it is essential that they are given the opportunity to query any change to their Notice of Coding both timeously and without feeling pressurised by someone on the telephone.
- 1.3 We provide some suggestions at the end of this paper that might reduce customer contacts to HMRC, thus enabling them to better manage their service, while still providing essential information to taxpayers.

**2 About Us**

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

### **3 Comments on the specific proposals**

#### **3.1 *Media for Notices of Coding (Reg 19)***

- 3.1.1 While we accept that the Government wishes to pursue its digital strategy as far as possible, we have strong reservations about the proposal that Notices of Coding might be advised to a taxpayer solely by telephone.
- 3.1.2 Provision of the coding notice by telephone only has potential difficulties:
- the taxpayer may mishear the information;
  - the taxpayer may not have any means to hand on which to make a record of the conversation;
  - any record taken will be on an ordinary piece of paper that could be much more easily mislaid than a document that clearly came from an official source such as HMRC;
  - the taxpayer has no opportunity to properly consider any other information that may be relevant;
  - disputes about what was said and agreed might arise.
- 3.1.3 For many taxpayers, particularly those on a low income who are not part of the self assessment process, the PAYE system is their only contact with the tax authorities. Their Notice of Coding determines the amount of income tax to be deducted from their pay by their employers. As such, it is crucial that taxpayers have the opportunity to query their coding notice as any error will result in a tax over or underpayment, either of which might have catastrophic consequences for the taxpayer concerned, quite apart from undermining HMRC's objective of collecting the right amount of tax first time.
- 3.1.4 Thus we consider that such an important document should always be passed to the taxpayer in writing. This enables it to be properly considered by the taxpayer – or by any other person with whom the taxpayer wishes to consult or get to help them with their tax affairs. The

Voluntary and Charitable Sector (VCS) “agents” would find it extremely difficult to deal with a rough note about a code number, written down by a taxpayer with little or no understanding of the tax system. Further, by not issuing a written copy of the form, there is the possibility of further disengagement from the taxpaying public, creating mistrust of the tax authorities.

- 3.1.5 We believe the comment at 10.2 in the Explanatory Memorandum that there will be no impact on voluntary organisations is incorrect. Firstly, the VCS agent may have to spend time ascertaining the code number applied and the composition of that code (since no hard copy has been issued). Secondly, taxpayers will have less information on their own tax affairs and are more likely, therefore, to seek assistance.
- 3.1.6 We note that HMRC also propose that Notices of Coding might be sent to taxpayers electronically. We can see the potential benefits in this, but reiterate that the taxpayer must always have the choice of opting in to receipt of electronic communications and, in any instance, the choice also to receive a corresponding hard copy. Further, having opted to receive electronic communications, there must be a clear mechanism for opting out again at a later date. There are significant numbers of individuals who are unable to engage digitally and a relatively high proportion of those individuals are likely to be pensioners, a group of taxpayers for whom Notices of Coding are likely to be more complicated because of the different sources of pension income they may have. Further, even some taxpayers with computers do not have printing facilities at home. The costs of home broadband and/or home printing facilities can be significant, particularly for the low income taxpayer, and such taxpayers may find that their access to such services ceases abruptly due to financial difficulties.
- 3.1.7 Many taxpayers who choose to interact with HMRC online may, in fact, be doing so via a mobile device rather than a computer. Accordingly any systems developed by HMRC must be designed with this in mind. Of course, that may also mean that those users are less likely to have printing facilities – and so will continue to require paper copies of any coding notices.
- 3.1.8 Besides, taxpayers may frequently change their telephone numbers and/or internet providers so that corresponding with them in that way may also bring increased risks of the document not getting through to the intended recipient. We accept that taxpayers (especially, perhaps students and itinerant workers) may also change their postal address regularly. Accordingly we note that a ‘one size fits all’ service may not be appropriate.
- 3.2 ***Timing of Issuing of Notices of Coding to Taxpayers (Reg 19)***
- 3.2.1 Currently Notices of Coding are issued at the same time to both employers and employees, although because they may be sent electronically to the employer, they may be received at different times.
- 3.2.2 These regulations suppose that a delay of 30 days in issuing the Notice of Coding to the employee might be permissible. We have already noted that the Notice of Coding instructs

the employer as to the amount of tax to be deducted from an employee's earnings. In a period of 30 days before receiving their copy of such a Notice of Coding, an employee might have been paid five times, if paid weekly. For a low income worker, even relatively small changes in take-home pay can cause real hardship, especially if the reduction is unexpected. In addition, they may well find that their benefit payable under universal credit changes due to any new code number being operated.

- 3.2.3 Further to the above, we are aware that the date shown on the coding notice may not be the date that the document is actually despatched from HMRC. Sometimes, therefore, mail can take a significant time to reach the recipient. Delaying issue of such coding notices for up to 30 days will only exacerbate this issue.
- 3.2.4 We can understand that there may be peaks and troughs in the levels of contacts made to HMRC, but withholding information from the taxpayer does not seem like an appropriate way to handle this issue and may indeed create greater contact as taxpayers call to query their tax code as they have had no sight of it.
- 3.2.5 In the absence of any notification from HMRC, the employee is likely to query the position with their employer, causing additional costs for employers. Indeed we understand that HMRC recognise that this is likely to be the case. But the employer is not privy to the entries that appear on the Notice of Coding, being told only which code number to apply and not how this was arrived at.
- 3.2.6 Providing the employee with the information that is being issued to their employer, and which directly affects the employee's take-home pay, must surely be a basic right for all. Indeed Your Charter requires HMRC to 'treat you even-handedly' and 'provide a consistent service'. Deliberately delaying the provision of information to taxpayers is neither. Nor does it 'help and support the taxpayer to get things right'. Further, it is removing transparency from the taxpayer's relationship with HMRC.

### 3.3 ***Stopping notification of tax codes to employees who pay no PAYE tax (Reg 17)***

- 3.3.1 A fundamental part of the UK tax system is communication between HMRC and taxpayers. A Notice of Coding contains various reliefs, benefits and other adjustments as well as reminding the taxpayer of their obligations to advise HMRC of any changes in their personal circumstances.
- 3.3.2 A taxpayer who currently pays no tax through PAYE will receive notification of a change to their Notice of Coding when, for example, their state pension changes or they receive other taxable benefits.
- 3.3.3 Consider such a taxpayer who commits to working extra hours. They will have their most up to date code number applied to their earnings. Under these proposals they may not know what that is. That is unsatisfactory –it is neither treating taxpayers even-handedly nor helping and supporting them to get things right.

- 3.3.4 At the moment, a tax code may be appealed by a taxpayer when they think it is incorrect. There is no other right of appeal in the PAYE system for the employee. If the taxpayer is not provided with a tax code, their right of appeal has been eroded – although they may still appeal against the coding notice, the fact that they have not been provided with a copy of it means they are much less likely to do so. Indeed they are not being provided with a document that explains to them how they may appeal against HMRC's decision. Accordingly the first time they may be aware that they should have taken action may be the arrival of form P800 – a document against which there is no right of appeal.

#### **4 Suggestions**

- 4.1 As noted above, we recognise that HMRC may receive a large volume of calls in relation to Notices of Coding. In addition, we recognise that HMRC have had to make significant cuts in staff numbers over the past few years, resulting in the desire to streamline some of their processes.
- 4.2 Rather than stopping sending notifications to taxpayers, though, we would suggest that if the forms were designed better, with clearer explanations, then fewer contacts might be made by taxpayers.
- 4.3 For example, we have long argued that having one composite Notice of Coding for each taxpayer would simplify the system dramatically, particularly for pensioners who might receive small pensions from a number of different sources. Indeed the same proposal was made by the Office of Tax Simplification in their report<sup>1</sup> of January 2013. The present situation of multiple coding notices means that very few pensioners understand them, even if they have a "full set". By having one composite document, with clearer explanations, some taxpayers might, at last, understand how their code number is made up and so be able to identify any errors for themselves. Tax Help for Older People advise us that over 40% of their work relates to incorrect or misunderstood Notices of Coding.
- 4.4 Where code numbers are amended for taxpayers who pay no PAYE taxes, a simple message on the Notice of Coding indicating that the code number will make no difference to their pay on the assumption that their circumstances have not otherwise changed would reduce any contacts from that taxpayer group while still keeping them fully informed and alerting them to the fact that they may require to notify HMRC of a change in their circumstances.

LITRG  
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<sup>1</sup> See page 6

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