

**All-Party Parliamentary Group on Financial Education for Young People: Call for Evidence
(November 2015)**

Response from the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

- 1.1 We consider financial education to be an essential part of the national curriculum and this should include a basic understanding of how tax is calculated.
- 1.2 Recently proposed developments to the tax system such as digital tax accounts suggest that there is a far greater need for young people to be confident in their understanding of their own tax affairs. Financial education in tax matters should help engage young people with the tax system generally and increase their confidence and awareness in dealing with simple tax issues.

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 and Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not

designed with the low-income user in mind and this often makes life difficult for those we try to help.

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

3 Introduction

- 3.1 We welcome the opportunity to respond to this call for evidence. One of the objectives of both the CIOT and LITRG is to educate people to have a better understanding of the tax system and their tax responsibilities. We consider it imperative that young people are given the opportunity to be taught the general principles of how tax works so they are able to understand their own tax position before they start working.
- 3.2 As our experience is limited to tax education we will be responding only to relevant questions in the consultation.

4 Question 1– How does your organisation support financial education for young people, in particular within schools?

- 4.1 We have been developing a lesson plan for secondary school pupils called 'Your payslip'. The objective behind this lesson plan is to provide a tool for teachers to use when teaching the general principles behind typical deductions that young people would see on a payslip when they start working. These deductions include income tax, National Insurance contributions (NIC), pension contributions and student loan repayments.
- 4.2 To date, we have trialled this at one state secondary school and received positive feedback. We are currently deciding how to develop this tool further.
- 4.3 LITRG have also developed a free independent website called 'Tax Guide for Students'¹ which provides tax information to students and their advisers. We cover areas such as tax refunds, understanding tax allowances and how income tax is calculated, NIC and how student loan repayments are deducted. We often receive questions from website users; these queries indicate that many young people have little confidence in their understanding of the tax system and trying to sort out any personal tax problems they may have.

¹ www.taxguideforstudents.org.uk

5 Question 2 – Has the need for young people to understand how to handle money changed over the past four years?

- 5.1 Our comments relate to changes in the tax system only. The working environment has changed and the tax system has become increasingly complex and therefore there is more information and scenarios for young people to try to comprehend. Examples include the introduction of pension automatic enrolment, working in multiple part-time jobs whilst studying is more common, the increased use of zero-hours employment contracts, the encouragement of self-employment by the government and the popularity of internships and volunteering to gain relevant work experience.
- 5.2 We expect more significant changes in the near future which will affect most young people after they leave school. These changes include the introduction of digital tax accounts, new types of student loans which will be collected by HMRC (including postgraduate loans and loans for STEM degrees) and the continued roll-out of Universal Credit.

6 Question 6 – How can teachers be best supported in delivering engaging and effective financial education in schools?

- 6.1 We have limited experience in providing financial education within schools, however we are concerned that not all teachers are confident in explaining basic tax calculations and issues. Therefore, there may be a reticence to deliver lessons focusing on tax. We think this problem could be solved by providing comprehensive materials which contain full explanations and examples which would assist in delivering an engaging lesson on tax.

7 Question 8 – How can we ensure that all young people – regardless of social, economic or cultural background – leave education with the ability to understand how to budget?

- 7.1 We consider it vital that a basic understanding of how tax works is included in any education on personal budgeting and that this should be part of the national curriculum. For example, all young people should understand the difference between gross pay and net pay, and that self-employed workers must put aside enough earnings to cover income tax, NIC and possibly VAT and account for these taxes to HMRC.

8 Question 9 – Do you have suggestions for how government policy could help ensure that all young people leave education financially capable?

- 8.1 We believe that financial education should be included as an independent part of the national curriculum and not as part of another subject such as PSHE or maths. It should form part of a set of basic life skills enabling young people to feel confident to understand their own financial affairs and make good choices to avoid unnecessary debt or financial expense. We consider that any financial education should include a basic understanding of tax not

only on a broad scale such as the role of HMRC but also in how an individual's own tax position may be calculated. This area is currently not covered by the recently launched HMRC videos.

9 Question 10 – What is the impact on financial education on later life and ability on young people to fulfil their potential?

- 9.1 Tax will become a part of all young people's lives through paying VAT or excise duties, having tax and NIC deducted when starting work, using their digital tax account, paying stamp duty land tax when purchasing a property and if they study for further education repaying their student loans through the tax system. We consider that a general awareness and understanding of how tax works, what a taxpayer's rights and responsibilities are and where to go for additional guidance will assist in greater compliance and engagement in the tax system. Also an understanding of how to build up entitlement to the state pension can assist young people in later life. Little financial education can lead to accumulating unexpected debt which can have a very negative impact on later life and the ability to fulfil an individual's potential. At a time when more onus is being placed on individuals to understand their own tax position (for example checking P800s and the introduction of digital tax accounts) it is imperative that young people are given the right tools to be confident to handle their own simple tax affairs.

LITRG
12 January 2016