



Low Incomes
Tax Reform
Group

A voice for the unrepresented

Social Security Committee – The role of Scottish Social Security in Covid-19 recovery Response from the Low Incomes Tax Reform Group (LITRG)

1. Executive Summary

- 1.1. LITRG welcomes the opportunity to make a submission to this inquiry published by the Social Security Committee of the Scottish Parliament. The inquiry seeks to understand how Scottish social security, and its part within the broader context of all UK social security, should contribute to the social and economic recovery from Covid-19 through support to those in or out of, or seeking, work with a focus on deliverable change from 2021 onwards.
- 1.2. Whatever changes are made, early efforts must be made to identify and address any unintended consequences – for example, how social security and welfare benefits interact with the tax system. Close attention also needs to be paid to the interactions between devolved and reserved parts of the welfare benefits and tax systems. Failure to do this can result in well-intentioned policy not achieving its desired result.
- 1.3. Accurate and detailed guidance is essential so that people understand their rights/entitlements and obligations. There is significant room for improving current guidance – in relation to devolved social security and especially in relation to passported benefits.

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

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benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

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

3. Introduction

- 3.1. The Covid-19 pandemic is likely to have long-term economic effects on Scotland. We welcome the opportunity to make a submission to this inquiry published by the Social Security Committee of the Scottish Parliament.
- 3.2. We are specialists in tax and related welfare benefits for people on low incomes. We provide online guidance on these matters which, in the 12 months to 30 June 2020, received 5.7 million unique visitors.¹ We are regularly contacted by members of the public via our websites with questions about their tax affairs. These enquiries give us valuable insight into how low-income people interact with the tax and benefits systems.

4. What will the economic downturn look like for different people in Scotland and how should Scottish social security support people through it? In the context of UK social security and of other ways of providing support, what role should Scottish social security have in an economic recession?

4.1. Support

- 4.1.1. The situation continues to evolve, but it already appears fairly clear that a significant number of employees have either lost their jobs, seen their hours reduced or face the prospect of losing their job during the course of the next few months. In addition, there are self-employed individuals whose work has reduced or dried up, and take-home profits might have been reduced due to increased costs (for example, extra cleaning requirements or provision of protective equipment). This inevitably means that significant numbers of

¹ Our main website for the general public is www.litrg.org.uk

individuals and households are already experiencing financial hardship and many more are likely to do so as a result of the coronavirus pandemic.

4.1.2. Although the UK and Scottish governments have introduced support measures, many of these are only short term.

4.1.3. There is likely to be increased demand on Social Security Scotland (and indeed on the Department for Work and Pensions, HM Revenue & Customs, Revenue Scotland and local authorities) in terms of contact from individuals. It is important that the Scottish government provides adequate funding to Social Security Scotland, Revenue Scotland and local authorities so that they are in a position to cope with this demand.

4.2. **Devolution**

4.2.1. It is important that full consideration is given to the way in which devolved and reserved social security interact with one another, and in addition, to the way in which both of these interact with devolved and reserved taxes. In our experience, tax and social security devolution have, in addition to providing an opportunity for devolved governments to be more generous to particular claimants (such as carers in Scotland), created more complexity for those individuals who are directly impacted by these changes.

4.2.2. It is therefore essential that administration is simplified for people in Scotland. The social security system should be clear in terms of who is supposed to do what and when. Where there are choices for an individual in terms of what benefits are available, guidance and tools need to be available (and these must be accurate), to assist claimants in making the choice that is most appropriate for their circumstances. In addition, it also needs to be clear who people should contact in relation to an issue with their social security and where they need to look for guidance – whether it is the Department for Work and Pensions, Social Security Scotland, their local authority or even HM Revenue & Customs.

4.2.3. In particular, we think one thing that could be done to assist Scottish individuals at a practical level is to improve the available guidance in relation to passported benefits. The rules are not necessarily the same in Scotland as in the rest of the UK. There is, however, no single port of call for guidance on which passported benefits are available to claimants in Scotland.

4.2.4. We would also point you to paragraphs 6.3ff of our response to the Social Security Committee's call for evidence on Social security and in-work poverty in 2018.² The point made in paragraph 6.6 of that submission still stands in September 2020, over two years following that submission: "As of August 2018, the document relating to NHS patient travel

² <https://www.litrg.org.uk/latest-news/submissions/180817-social-security-committee-scottish-parliament-inquiry-social>

costs to which the UC (Scottish choices) webpage links does not refer to UC, even though this is listed on that page as being a passported benefit for UC claimants.”³

4.2.5. Likewise, the point about the guidance on the Scottish government and GOV.UK websites each needing to be complete is also still valid today. The Scottish government website lists only those passported benefits that are actually managed and paid by it, while GOV.UK provides a list that may be comprehensive for an English universal credit claimant, but creates problems for the Scottish claimant.⁴ As we said at the time: “It is necessary to visit a further page for each benefit to double-check whether or not each item on the list applies to a Scottish UC claimant; moreover, it does not include all of the passported benefits that are available to Scottish UC claimants. While we accept that there may be a reluctance to list benefits which are either reserved or devolved (respectively), in the interests of claimants, we think both the Scottish websites and GOV.UK should provide comprehensive information, accompanied by appropriate signposting.”⁵

5. Can, and should, Social Security Scotland do more than meet the expected increased demand for benefits and deliver on existing policy commitments? What should its ambitions be? Within the social security and borrowing powers available to Scottish Ministers what could be achieved and delivered?

- 5.1. In addition to meeting demand for benefits and delivering on existing commitments, it would be helpful if Social Security Scotland provided some direct, tailored communication aimed at specific sectors of the Scottish economy that are most hard-hit by the economic downturn. Such guidance could be targeted, for example, at: workers in the tourist industry, both employed and self-employed; self-employed people required to self-isolate and suffering temporary loss of income; workers in the hospitality industry. The guidance should aim to tell them what benefits are available to them, how to claim them, what passported benefits there may be, etc.
- 5.2. Another option might be to look at ways in which it can target support at young people, who are also particularly affected by the pandemic. Within the universal credit powers available to the Scottish government, it might be worth exploring what modifications can be made that might assist young people, such as increasing the work allowance – this might ease

³ The webpage <https://www.gov.scot/policies/social-security/universal-credit/> links to <https://www2.gov.scot/Resource/0039/00393022.pdf>

⁴ <https://www.gov.scot/policies/social-security/universal-credit/> and <https://www.gov.uk/universal-credit/other-financial-support>

⁵ Thought could also be given to including information about passported benefits on <https://www.mygov.scot/>

participation for young people without dependants. There might also be non-social security options, such as the creation of training schemes and other back-to-work assistance.

- 5.3. It is likely that more work coaches will be required, in order to provide sufficient capacity to cope with the expected sharp rise in unemployment.
- 5.4. It is important that any new payments or funding schemes are carefully worked through, to check, and possibly mitigate, interactions with other systems, including tax, whether reserved or devolved. In relation to this, it should be made clear to recipients/potential claimants how any new support will interact with other systems, so that they are not taken by surprise by the consequences of claiming and do not accidentally fall foul of the various rules.

6. If we look to do more, or differently, what are the relatively easier changes that could be made to Scottish benefits that would not require significant additional capacity in Social Security Scotland?

- 6.1. We note that the Coronavirus (Scotland) (No. 2) Act 2020 provided for an additional amount of £230.10 to be added to awards of Carer's Allowance Supplement for the period from 1 April 2020 to 30 September.⁶ We welcomed this measure, as it went some way to recognising financially the important role carried out by unpaid carers, and supported both the carers and (indirectly) the people they are caring for.⁷
- 6.2. This appears to have been a relatively simple change, both in terms of the drafting of the required legislation and administration. The key issue we identified was to ensure good communications with recipients of the additional payment. This was not only to make sure they understood why they were receiving the additional amount, but also to remind them that the payment is taxable, but not taken into account when determining entitlement to other benefits.
- 6.3. Provided there is the funding available, further additional payments of this type in relation to existing Scottish benefits might be relatively easy to implement, in that they would simply utilise data already held by either Social Security Scotland or the Department for Work and Pensions and operate through the administration and payment systems that are already in place.
- 6.4. Other options might relate to free school meals/vouchers, and whether there is scope to extend their value to cover more than just a weekday lunch meal, or whether it might be possible to introduce an additional tier of enhanced value for those on the lowest incomes.

⁶ <https://www.legislation.gov.uk/asp/2020/10/schedule/1>

⁷ <https://www.litrg.org.uk/latest-news/submissions/200519-consultation-coronavirus-scotland-no-2-bill-carer%E2%80%99s-allowance>

It might also be possible to introduce an equivalent for certain adults, although this would perhaps require additional data from the Department for Work and Pensions, and would have to be targeted to fit within the devolution settlement. The devolved powers in respect of education, training and housing might provide options for targeting support.

7. What changes could be made that would not require significant input from the Department for Work and Pensions (UK)?

- 7.1. See response to previous question.
- 7.2. In addition, it might be worth considering how Social Security Scotland and social security powers in Scotland can assist in ensuring the recovery is also green. The environment and internal transport are within Scotland's devolved powers, so subsidies for low-income individuals and households in respect of say public transport, energy efficient home improvements and broadband connections (to support home-working) might offer opportunities.

8. What are the constraints and barriers to doing more in Scotland?

- 8.1. It should be noted that Scotland's particular combination of funding sources may place constraints upon some of its options that may not be faced by the UK as a whole. This is because the UK government has monetary sovereignty, i.e. the exclusive authority to designate the legal tender forms of payment, and to control the issuance and retirement of the legal tender. Scotland does not have this ability. Instead, it is funded by a combination of revenues from Scottish taxes,⁸ the block grant and limited borrowing.⁹
- 8.2. Due to the requirements of the fiscal framework, if top-up benefits are introduced, complexity may arise. This might be because the benefits require to be treated (for tax and benefits purposes) in a manner that diverges from that generally in the rest of the UK, in order to uphold the terms of the fiscal framework. By way of example, a Scottish tax credit claimant in receipt of Carer's Allowance and Carer's Allowance Supplement must include their Carer's Allowance as income when determining their entitlement to tax credits, but not their Carer's Allowance Supplement. Both Carer's Allowance and Carer's Allowance Supplement are taxable however.

⁸ The phrase Scottish taxes includes the fully devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax), the shared taxes (Scottish income tax) and local taxes (Council Tax and Non-Domestic Rates).

⁹ The borrowing (capital and resources) available to Scotland is set out in the Fiscal Framework Agreement, which is due to be reviewed in 2021: <https://www.gov.scot/publications/agreement-between-scottish-government-united-kingdom-government-scottish-governments-fiscal/pages/1/>

- 8.3. As noted above, it is important that full consideration is given to the way in which devolved and reserved social security interact with one another, and in addition, to the way in which both of these interact with devolved and reserved taxes. This is an important consideration when looking at options for social security policy in Scotland, but also when looking at the use of Scottish income tax powers. We recommend that these are looked at holistically to ensure any policy changes do not have unintended consequences. Failure to do this can result in well-intentioned policy not achieving its desired result.
- 8.4. By way of example, we note that in response to the Covid-19 pandemic, the Welsh government has made provision for a one-off flat rate payment to social care staff. The payment is £500. However, the payments are to be treated as earnings for tax purposes. This means that recipients will be liable to income tax and National Insurance contributions on the payments. As noted in a LITRG news article, a social care worker who earns above the personal allowance threshold, is not claiming any benefits, does not make student loan repayments and is a basic rate taxpayer, will likely receive £340 net of income tax and Class 1 National Insurance. If they are in receipt of universal credit, that £340 will reduce to £125.80 – significantly less than the £500 initially announced.¹⁰
- 8.5. We have already mentioned passported benefits in relation to the need for improved guidance in this response. A related constraint is that of linked tax reliefs. Finance Act 2020 provided for a reduction in the period for which principal private residence relief is available from 18 months to nine months.¹¹ (It had previously been reduced from 36 months). There remains a final period exemption of 36 months for certain people who are disabled or long-term resident in a care home.¹² The meaning of ‘disabled’ for this purpose is set out in Finance Act 2005 and is fairly restrictive in that other than in respect of someone who falls within the Mental Health Act 1983 provisions, it depends on the person being in receipt of particular benefits, such as personal independence payment or attendance allowance.¹³ This means that some individuals may be missing out on other significant reliefs because of a failure to take-up a benefit to which they are entitled. It is therefore important that any changes to social security policy are made with an understanding of how these might affect someone’s entitlement not only to passported benefits but also to tax reliefs that might be linked to receipt of a particular benefit.
- 8.6. Another constraint is the current resource and capacity of Social Security Scotland. If significant changes were made to social security and there was a desire for Social Security Scotland to deliver, administer, pay and provide guidance on additional benefits, there

¹⁰ <https://www.litr.org.uk/latest-news/news/200811-press-release-bravery-bonus-deductions-likely-irk-carers>

¹¹ <https://www.legislation.gov.uk/ukpga/2020/14/section/24/enacted>

¹² <https://www.legislation.gov.uk/ukpga/1992/12/section/225E>

¹³ <https://www.legislation.gov.uk/ukpga/2005/7/schedule/1A>

would need to be appropriate recruitment and training of staff and development of IT systems.

9. Should the main focus be on discretionary funds or on entitlements? In terms of recovery from Covid-19, is it more effective to provide support through discretionary funds allocated to local authorities or through demand led benefits delivered through Social Security Scotland?

- 9.1. This is not a LITRG area of expertise, but in general we note that local authorities may have more ability to identify particular areas of economic need. Discretionary housing grants, for example, may be more effective at relieving temporary lack of accommodation than the housing benefit successor element within universal credit. In addition, local authorities may be better placed to spot issues as they develop, whereas waiting to spot trends in demand-led benefits may mean an issue has already developed into a serious problem. It is essential that there is sufficient awareness-raising of discretionary funding among target groups, to ensure good take-up.
- 9.2. Another possibility for discretionary funds allocated to local authorities would not be to make support payments, but to provide support for other initiatives that would improve quality of life, and might be used to provide opportunities for people to learn skills, maintain health, build community links and work (maintenance of areas used for the initiatives).

LITRG
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