



**Treasury Committee: Call for evidence on Government's coronavirus financial package
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Submission

- 1.1 The current situation is unprecedented and represents a significant challenge for the government. We welcome the government's commitment to do 'whatever it takes' to support individuals, families and businesses through the COVID-19 pandemic.
- 1.2 The situation is evolving on a daily basis. We limit our comments in this submission to some high-level thoughts about how best the tax and benefits system can provide support for the lowest paid.
- 1.3 It is now evident that many businesses have suffered loss of revenue and it is inevitable that some will not be sustainable through this difficult period. As a result, some employees have already had their hours reduced, been asked to take unpaid leave or lost their jobs. We are starting to see cases like this coming through our websites from members of the public who find themselves in worrying financial situations.
- 1.4 The retention support announced on Friday 20 March, along with the other support offered to individuals and businesses is substantial, and should significantly help this situation. However, we are also hearing from low-income self-employed individuals, who are finding their income reducing or work drying up completely and so are worried about imminent financial difficulties.
- 1.5 There is no doubt that the steps already taken by the government are very helpful, however there does seem to be a gap in support for self-employed individuals, particularly for those (typically sole traders) who do not operate from business premises as such, but from home and so will not qualify for the cash grants of £10,000 for those who qualify for small business

rates relief or rural rates relief. We acknowledge that it is not as easy to devise a scheme similar to the coronavirus job retention scheme (announced on Friday 20 March 2020 for employees) due to the variation in income of the self-employed. We discuss this further below.

Existing support

- 1.6 There are a number of existing entitlements/options available to people that could help them financially in the short term, however for these to be effective people need to know about them and they need to be delivered quickly.
- 1.7 HMRC must ensure that they are providing clear guidance to individuals and businesses that explains the options available to them to improve cashflow in the short term. This might include things such as reducing payments on account, reducing pension contributions, stopping budget payment plans and requesting refunds of advance payments, claiming tax refunds and reversing elections in place to stop receiving Child Benefit payments because of the High Income Child Benefit Charge.
- 1.8 There is likely to be an increased demand on HMRC in terms of contact from worried individuals and businesses but also to process claims to help improve cash-flow. It is important that the government recognise this and provide adequate funding to both HMRC and DWP so that they can resource this increased demand. It may also require HMRC and DWP to make difficult decisions and to divert resource from existing work to where it is needed most to support people through the current situation – especially as they are going to face the same staffing problems as a result of protecting their own workforce from the coronavirus as the wider world.

Tax credits and Tax-Free Childcare

- 1.9 Although tax credits will eventually be replaced by universal credit (UC), many low income workers are still in the tax credit system pending migration to UC. The announcement of an increase to the basic element of working tax credit (WTC) is welcome, however urgent guidance is needed from HMRC about how the tax credits system will deal with some of the scenarios that are emerging. We have already indicated our willingness to help HMRC think through these issues and to communicate changes via our LITRG websites (which last year attracted over 5.5 million visitors).
- 1.10 Entitlement to WTC is dependent on meeting certain working hour conditions (either 16, 24 or 30 hours a week). Many people are understandably concerned about their ability to continue claiming WTC if their hours are reduced or they are temporarily laid off. We think the existing tax credit rules are flexible enough to allow HMRC to disregard any temporary changes to hours and effectively treat claimants as working their 'normal' hours. Existing guidance allows a temporary disruption to hours over 4 weeks before it becomes a reportable change, but this could be extended and we hope HMRC will issue guidance shortly on this both for employees and the self-employed.

- 1.11 Childcare is another area where we are seeing concern expressed. Some parents are still being required to pay for childcare provision even though the children can't attend and are concerned about whether they can continue to claim their childcare support through tax credits and tax-free childcare (TFC) as well as other government childcare schemes. Their question here is essentially whether the cost of the childcare being incurred meets the scheme eligibility rules, as the child is not actually attending the setting. In addition, childcare support under government schemes is usually provided so that people can *work* while the child is being cared for. Therefore, a parent might be incurring the cost of childcare for a setting that the child cannot attend and in addition the parent is themselves working fewer hours so this might mean they no longer meet the conditions for childcare support. As in 1.10 above, we think the existing rules could be flexed enough to deal with these scenarios, but urgent guidance is needed – not least because this will hopefully reduce demand on phone lines.
- 1.12 We are also likely to see a greater movement of people from tax credits to UC – for example, if people have a fall in income they may need help with rent which means they will have to claim UC (which will terminate their tax credit claim). There is likely to be a greater demand on voluntary sector welfare rights advisers to advise on the complexities of 'better-off' calculations and moving between the systems.
- 1.13 There are other changes that could be made to tax credits on a temporary basis that could provide much-needed support for low-income workers – for example, the first £2,500 of any fall in current year income (compared to previous year) is disregarded. This was introduced in 2013 and could be reduced to £0 so that tax credits awards are adjusted immediately for any estimated fall in current year income.
- 1.14 The second change that could be made is to suspend or reduce recovery of overpayment debt in tax credits and UC. This would increase cash-flow for people in the short term.

Gaps in the current support for the lowest paid

- 1.15 At the time of writing this submission, the group that don't seem to benefit from the significant package of support already announced are the self-employed who see their work dry up or their income reduce.
- 1.16 They cannot claim contribution-based jobseeker's allowance and so their only option is to claim UC (if they are not already in the tax credits system). We welcome the announcement that the minimum income floor in UC has been suspended for all self-employed claimants, but we are concerned that many of those affected will not be able to access help from UC because they have a partner with earnings which means any award would be nil. However, the loss of one wage may mean the household cannot meet their outgoings.
- 1.17 We recognise that it is not as straightforward to introduce a scheme for the self-employed equivalent to the coronavirus job retention scheme for employees. However, it does mean that there is a wide gap between the support offered to employees and that offered to the self-employed. Whilst this may require more work in devising a suitable scheme and

mechanism for delivery, we do think it is possible and have seen a number of ideas put forward by members of the tax community that merit further, urgent, exploration – for example by implementing something similar to Norway who are offering temporary income protection to the self-employed, equivalent to 80% of their average profit over the past three years from day 17 of loss of income.

- 1.18 Finally, we would like to highlight that many of the lowest paid are not earning enough to qualify for statutory sick pay if needed (because they earn under the £118 a week threshold). Although they are told that they can claim new style employment and support allowance (ESA) instead, they are unlikely to meet the contribution requirements to do so. Similarly, the self-employed are unable to access any sick pay and again may not be able to access ESA. For both groups, this leaves UC as their only option but for similar reasons to those set out in para 1.16, they may not qualify for any support from UC. A number of suggestions have been made around extending sick pay to those earning under the relevant threshold and even to the self-employed. These suggestions are certainly worthy of further consideration.
- 1.19 The government face an unprecedented situation that is changing day by day. Finding the right balance and response is not an easy task – we recognise this and stand ready to support HMRC and DWP in any way we can. In particular, our websites have a large reach (over 5.5 million visitors in 2019, with early indications of visitor numbers climbing since the coronavirus outbreak) which we can use to help HMRC and DWP deliver authoritative and appropriate messages. This is particularly important at the present time, when there are countless rumours, misleading information and scams circulating, for example via social media.

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.

