LITRG Press Release – 10/01/01

Fairer tax for old and young campaign

Millions of pounds are overpaid, claims the Low Incomes Tax Reform Group

A government-appointed "pensioners' champion" at the Inland Revenue and a fairer tax deal for students are two changes the Low Incomes Tax Reform Group will campaign to bring about during the coming year.

John Andrews, chairman of the group, says:

> *"At both ends of the age spectrum - among pensioners and students - we have identified pressing needs for special recognition within the tax system."*

The Low Incomes Tax Reform Group of the Chartered Institute of Taxation claims in its latest report that too many pensioners on low incomes face what it calls "the nightmare of tax self-assessment". The group is pressing for "better joined-up processes" between the Department of Social Security and the Inland Revenue. The Revenue is being urged to appoint an official pensioners' champion to ensure that departmental procedures are geared to the needs of pensioners rather than to administrative convenience.

At the other end of the age spectrum the group describes students as:

> *"a neglected group of taxpayers who overpay millions of pounds of tax every year which they can ill afford"*.

In a new report called '*Students: the Case for Making Life Easier'*, the group claims that students face financial hardship, are unfamiliar with the tax system, and receive no special help from the Inland Revenue.

The LITRG reports that:

> *" too many older people on low incomes still face the nightmare of self-assessment"*.

The group wants to see thousands more pensioners removed from the system by a combination of the Revenue keeping to its own promises and sensible programming of the Revenue's computers in 2001. The group also suggests that life insurance companies operate PAYE on all annuity income so that poorer pensioners do not face complex procedures to claim back tax deducted at source. Both matters are understood to be under review by the government.

Next April the LITRG will launch a new service called TOP (Tax-Help for Older People). TOP will be the first volunteer tax advice service in the UK geared especially to the needs of older people. Manned by tax professionals who will give their time free of charge it will also have the support of the Inland Revenue. The first two pilot schemes will be in West Dorset and Wolverhampton.

Issued 10 January 2001

REPRESENTING THE UNREPRESENTED

A report by Robin Williamson

of

The Low Incomes Tax Reform Group

January 2001

TABLE OF CONTENTS

Executive summary	3
Introduction	6
Pensioners	7
‘Ins and outs’ and tax benefit reform	21
Stakeholder pensions	28
Students	30

EXECUTIVE SUMMARY

This Report gives an account of the activities of the Low Incomes Tax Reform Group (LITRG) since the publication of ‘The Taxman’s Response’[1] in July 1999, and adumbrates the Group’s hopes, fears and intentions for the next few years.

When the LITRG first came together to take the part of the unrepresented taxpayer, we accorded priority to three groups: pensioners, ‘ins and outs’ (those whose work patterns alternate between employment, self-employment and unemployment), and students. Our aim has been to identify those areas of the tax system where changes in law, policy or administration would eliminate an injustice, or remove a source of unnecessary confusion, worry or distress.

It is a crowning achievement for any entity dedicated to bringing about change to precipitate a reversal of government policy that operates to the disadvantage of their interest group. When in March 1999 the Chancellor brought in the 10 per cent starting rate of tax, but only for earned income, many representative bodies criticised the exclusion of savings income on the grounds that it was discriminatory to those – such as older people – who depended upon their savings. It was partly in response to the LITRG’s campaign to highlight that injustice, and also the technical anomalies inherent in the proposal, that the Chancellor announced in November 1999 that the starting rate would retrospectively be extended to savings income.

It is not often that we secure such major victories, although our work has yielded lesser changes which nevertheless have enduring effects. A small technical reform for which we have campaigned, and which will make life simpler for pensioners, came about when the Chancellor announced the age-related allowances for 2001—02 in his pre-Budget report in November 2000. Until then, the age allowances were not announced until the March Budget immediately preceding the start of the tax year to which they applied. Accordingly, they were not reflected in the PAYE coding notices sent out at the start of the calendar year. Later notices of coding, showing the updated amounts of the allowances, corrected any over-deduction of tax, but confused low-income pensioners who could not understand why they were getting multiple coding notices, each showing a different amount.

Another of our recommendations, the revival of the Taxback campaign, has shown what can be achieved by effective consultation and working together between the Revenue and taxpayers’ representatives. The object of this campaign was to alert non-taxpayers to their right to have bank and building society interest paid gross, and to encourage those who pay tax at the starting rate of 10 per cent to reclaim a proportion of the tax deducted at 20 per cent from such interest. A large proportion of beneficiaries will have been pensioners and students. Together with Age Concern and Help the Aged, we were able to assist with the

[1] ‘Older People on Low Incomes – The Taxman’s Response’ (LITRG, July 1999), the second Report published by the LITRG in which we showed how the recommendations made in the first Report in December 1998 had been received by Government and the Inland Revenue.

design of the campaign literature and the Taxback page on the Revenue's website, and – with the help of our 'pensioners' panel' – to recommend the recent improvements to the R85 form and procedure.

Our work on behalf of 'ins and outs' has focused mainly on the new working families' and disabled person's tax credits, the successors within the tax system to the former social security benefits, family credit and disability working allowance. Here, the self-employed who are eligible to claim the tax credits have been put at a disadvantage for two reasons. First, the application forms and procedures for them are even more bureaucratic than for employed claimants. Secondly, the clash between inherited social security concepts and income tax rules mean that the self-employed have to compute their income twice, once for self-assessment purposes, and again for tax credit purposes. It was a welcome step, therefore, when the Revenue announced (following a campaign by the LITRG and TaxAid) that from October 2000 self-employed tax credit claimants would be able to account for their business profits by submitting three-line statements, as they can for income tax self-assessment.

Sometimes, worthwhile improvements can be brought about without any specific change in law, policy or procedure. We believe that the Revenue leaflets and publications addressed to pensioners and tax credit claimants on which we have been asked to comment have benefited from our input. And following our intervention, the official literature on the 'Getting Britain Giving' measures contains prominent warnings to donors who are non-taxpayers against unwittingly exposing themselves to a tax liability by signing the Gift Aid declaration.

There remains, however, much to be done. Still, too many older people on low incomes face the nightmare of self-assessment. We were pleased when the threshold of untaxed income was raised from £500 to £2,500 in July 1999, but would prefer to see thousands more pensioners removed from the system by a combination of the Revenue keeping to their own promises and sensible programming of the Revenue's computers in 2001. We would like the life companies to operate PAYE on all annuity income so that poorer pensioners do not face complex procedures to claim back tax deducted at source. We are assured that both these matters are under review, and we shall continue to press for a resolution.

As we approach the era of the pension credit, and more tax benefit integration, we shall press for better joined-up processes between the DSS and the Revenue. We shall also continue to urge the Revenue to appoint a 'pensioner's champion' to ensure that their procedures are geared to the needs of pensioners rather than to administrative convenience.

Our work on the new tax credits has so far been to little avail in persuading Government of the need for better integration between income tax and the evolving tax credit regime, and between the new tax credits and existing social security benefits. There are signs, however, that these issues will be addressed more decisively in preparing for the integrated child credit and employment tax credit, due to be implemented in the year 2003. In the intervening two years, we plan to contribute our research to date, and our pool of tax and benefits expertise, to the consultation process, and to help point the way to the 'seamless' system which is the goal of the policy makers.

In this Report we also discuss our work on the consultation leading up to the stakeholder pension regime, and our findings on students, a neglected group of taxpayers who nevertheless overpay millions of pounds of tax every year which they can ill afford.

Finally, in April 2001 we intend to launch the first volunteer tax advice service in the UK, manned by tax professionals, since the formation of TaxAid in 1992. In our December 1998 Report[2] we recommended that consideration be given to establishing a nationwide, publicly funded volunteering scheme, similar to those which operate successfully in the USA, Canada and Australia, to help older people on low incomes meet their obligations and secure their entitlements under the tax system. The Revenue have now been persuaded of the potential benefits of such a scheme both to them and to their customers, and will support – though not fund – the two pilot schemes to be run in Dorset and Wolverhampton under the aegis of the Chartered Institute of Taxation. Funding from the Nuffield Foundation has been instrumental in enabling us to proceed with this venture. We expect this initiative to show us much about the types of services that older people need, and to provide lessons that will be of use in the design and implementation of a wider nationwide scheme if the need for one is demonstrated. If the pilots are successful in this, it could prove a watershed in the way in which the requirements of unrepresented taxpayers are recognised within the system.

The LITRG has shown in its short existence that it is possible to work in partnership with the Inland Revenue and to achieve change for the benefit of the unrepresented taxpayer. The group is optimistic that 2001 will see further co-operation from the government and its agencies and more of the group's recommendations put into practice.

[2] 'Older People on Low Incomes – the Case for a Friendlier Tax System', LITRG December 1998.

INTRODUCTION

In December 1998, our Report ‘Older People on Low Incomes: the Case for a Friendlier Tax System’ put forward a number of recommendations to make the law, policy and administration of tax more sensitive to the needs of the poorer pensioners who were caught up in its complex workings. In July 1999, our follow-up Report ‘The Taxman’s Response’ showed that some of our recommendations had been acted upon, and some cited with interest in official circles, but the great majority had simply been ignored. Since then, pensioners have come into the spotlight to an extent that we could then hardly have foreseen. In this Report we combine an account of our continuing activities on behalf of low-income pensioners with a reminder of the issues that are still causing distress, but where the wheels of change are slowly turning.

We also report, for the first time, on our attempts to represent the interests of claimants of the new working families’ and disabled person’s tax credits. Our tax credits focus grew out of the work being done on the problems of ‘ins and outs’, people of working age whose work patterns alternate between employment, self-employment and unemployment. The Government has set some challenging targets for the process of tax benefit reform which it instigated in October last year – to tackle child poverty, and to make work pay. Our work in this area has both shown how the implementation of the reform programme falls short of delivering those objectives, and persuaded us of what must be done to get the process back on course.

Other areas in which we have been active during the year have included stakeholder pensions and students. On the former, we responded to the Government’s consultation paper and are continuing to assess just how suitable private pension provision is as against state provision for the target earnings range. Our work on students gathered momentum during the year, and a report is due to be published in January 2001.

PENSIONERS

In our December 1998 Report[3], we noted how the tax system as it affected older people had grown up piecemeal and had become very complex. Many of the complexities resulted, rather perversely, from attempts by successive governments to benefit poorer pensioners by lower tax rates, and extra reliefs and allowances. This has led over time to complications in the structure of the married couple's allowance, in the complexities of lower and starting rates, and in the many different tax regimes applicable to the different forms of savings typically used by older people.

We also noted the special difficulties faced by older people in coping with the tax system generally. Often, an older person's first ever contact with the Inland Revenue accompanies a life event which makes them particularly vulnerable. For instance, on retirement they lose the support of their employer's payroll department, or on bereavement they might find themselves having to deal for the first time with tax and financial affairs which their deceased spouse used to manage. Or, with the onset of creeping disabilities, they may be less able to read and complete standard forms, to visit tax offices, or to use the telephone.

The broad picture that emerges from the many hundreds of letters that we receive from pensioners is of a tax system which uses inflexible, unwieldy bureaucratic procedures to collect trifling amounts of tax, or even to establish that no tax, or a refund, is in fact due. We could not believe that it was in the interests of the general taxpayer to fund such expensive machinery for so little result. It certainly causes disproportionate bewilderment and distress to the low-income pensioners who cannot afford to pay a professional adviser to help them. Although we do not set out to help individual pensioners with their tax problems, in practice we have been pleased to help significant numbers of individual pensioners and have received many touching letters of thanks.

In this part of the Report, we look at the quality of customer service offered by the Revenue to their older customers. We include here a discussion of one area where the Revenue have consulted well in order to deliver a better customer service: the Taxback campaign. We then report on the technical matters which we have brought to the attention of the Revenue and Government, and conclude with a look at progress on a key recommendation of our December 1998 report: a tax volunteering programme for the UK.

CUSTOMER SERVICE ISSUES

How the Revenue serve older people

The LITRG was set up in the early Spring of 1998 to help people who are caught up in a very complex tax system but unable to pay for professional advice, and therefore highly dependent

[3] 'Older People on Low Incomes – the Case for a Friendlier Tax System'.

upon the service which the Revenue provide. In our December 1998 Report, we recommended that the Revenue should appoint an Older Taxpayer Customer Service Director with a remit to address all the issues affecting older customers, and that every tax office should have an individual 'badged' as the Customer Service Representative for older taxpayers[4]. We were encouraged to think that this might draw a positive response, in view of the Prime Minister's speech at the launch of the Better Government for Older People programme, at which he said:

> 'For too long the interests of older people have not been a high enough priority for government. I want that to change . . .'

However, the response we received from the then Director of the Personal Tax Division at the Revenue, in a letter to John Andrews dated 21 June 1999, was:

> '. . . a key aim [is] to raise our customer service standards across the board rather than to focus available resources on any particular group. Older people should, of course, see the benefit of general improvements which we are able to make.'

This policy was endorsed by the Paymaster General, Dawn Primarolo MP, in an adjournment debate on low-income pensioners and the tax system, in the following terms[5]:

> 'I agree with the director of personnel in the tax division [sic] that these are issues not just for pensioners, but for all taxpayers. If we can get it right for all taxpayers, pensioners will benefit.'

And yet, in another area of government, the DSS have announced the creation, from April 2001, of a new Pensioners' Directorate. In the press release of the announcement, the Secretary of State for Social Security, the Rt Hon Alistair Darling MP, is quoted as saying[6]:

> 'In the past, the department has not always been focused on the people it was supposed to serve - both today's and tomorrow's pensioners. . . . Pensioners deserve a modern, integrated service designed to meet their needs, one that is convenient for them, rather than what is easiest for the Government.'

There is evidence here of some confusion at the policy-making level as to just what priority is to be assigned to pensioners.

The Revenue have told us that they now have a representative on the cross Government service action team looking at retirement, whose aim is to make contact with Government departments easier for older people. The Revenue also say that they are working closely with the DSS on wider issues relating to pensioners. It could be that the forward-thinking approach of the DSS on customer service to pensioners will in time influence policy at the Revenue. In

[4] See 'Older People on Low Incomes: the Case for a Friendlier Tax System' (LITRG, December 1998), p. 37.

[5] Hansard, 9 June 2000, col. 616.

[6] 'New pensions organisation to deliver services to older people', DSS, 15 March 2000.

the meantime, we have recommended to the Treasury Sub-Committee inquiring into the Revenue and Customs and Excise, that they urge the Revenue to follow the lead of the DSS and accord the same priority to pensioners as they do[7].

Complaints

While the Revenue internal manuals on complaints handling are a model of good practice, instructing staff to treat any expression of dissatisfaction as a complaint and to put themselves in the taxpayer's position when assessing a complaint, our correspondence with pensioners indicates that all is not well on the ground. This impression is borne out by the fact, revealed in the last Report of the Board of Inland Revenue, that their 'customer service performance indicator' has hovered around the unsatisfactory level of 66 per cent for some years. In our view this is partly due to tax offices failing to meet the high standards set out in the official guidance. Many expressions of dissatisfaction with Revenue service are not identified as complaints, so that the taxpayer does not receive the proper treatment laid down in the guidelines for responding to complaints. Even where complaints are properly identified, they do not always receive the proper treatment. For instance, tax offices might respond in a hostile or adversarial manner, or deal with only part of the problem, or sort out the problem but fail to inform the complainant, or fail to offer compensation where according to the guidelines it would be appropriate to do so.

The failings of tax offices are compounded by ignorance on the part of many older people of the standards of customer service they are entitled to expect from the Revenue. Equally, many older people will be put off making a complaint for fear that it will damage their own relationships with the Revenue.

Accordingly, we issued a press release with simple advice on how to complain, what levels of service to expect, and what further avenues are available when the complainant feels that their complaint has not been satisfactorily dealt with[8]. This received fairly wide coverage in the national press, with a substantial piece in the Daily Express.

Leaflets

The LITRG have offered, along with Age Concern and Help the Aged, to play a constructive role in improving all leaflets relevant to older people. In the event, we have been invited to contribute (and have contributed) to IR110 (A Guide for People with Savings) and IR121 (Income Tax and Pensioners), sometimes to a very tight deadline. Better coordinated has been the consultation with the Revenue over Taxback, where we have been able to contribute to the design of the web page and other campaign literature, and (with the help of our pensioner panel) to influence the design of the new form R85 (see below).

[7] LITRG Evidence to Treasury Sub-Committee Inquiry into the Inland Revenue, 12 October 2000 (TDC 94/00).

[8] ''Raw deal' for older taxpayers: people must complain, tax experts urge', TIR 11/00, 30 August 2000.

Points raised by the LITRG have been reflected in current versions of IR170 – on blind person's allowance, which now explains more clearly that those with impaired vision may qualify for BPA as well as the blind – and in the forthcoming Gift Aid booklet, which emphasises the need for low-income donors to check that they pay tax at least equal to the amount of the tax on their gift.

Notices of enquiry under self assessment

In a letter in The Times[9], the LITRG joined with those putting pressure on the Revenue to revise the unnecessarily aggressive standard wording of notices of enquiry under self assessment, particularly where these went to pensioners.

In response to the general demand, the Revenue circulated new guidance to staff, including revised standard wording of such notices. We would be interested to hear from readers of this Report if they feel there has been any noticeable improvement in the meantime in the wording of such notices.

Taxback

We conclude this section with an account of a successful joint LITRG/Revenue venture which shows what can be achieved through good consultation and by working together effectively.

Since April 1991, depositors with UK banks and building societies have had the right to claim back the tax deducted at source from the interest they receive, to the extent that it is covered by their tax allowances. And if they are non-taxpayers, they can register to receive their interest gross by completing a form R85. But ignorance of the right to claim tax back, or to register for gross interest, is still widespread, particularly among pensioners, despite the Revenue's attempts to publicise it through running Taxback campaigns throughout the 1980s and early 1990s.

In our December 1998 Report[10], therefore, we called for a new Taxback campaign, and in May 1999 the influential Treasury Select Committee repeated that recommendation[11].

In consequence, the Revenue engaged the LITRG, Help the Aged and Age Concern, along with the British Bankers' Association (BBA) and the Building Societies Association (BSA), in planning a new Taxback campaign. This began in March 2000 with the launch of a Taxback page on the Revenue's website, and culminated in a 'high profile week' from 30 October to 3 November 2000, designed to give wide publicity to the rights of low and non-taxpayers. We have helped with the design of posters, advertisements, the website page and other campaign literature, and the Revenue were particularly appreciative of the input of our pensioner panel in the re-design of form R85. In view of some of the points made by our pensioner panel, the

[9] John Andrews, The Times, 16 September 2000.
[10] Pp. 33—35.
[11] Sixth Report of the 1998—99 Session, recommendation (h).

Revenue have expressed their willingness to undertake a more radical re-appraisal of the whole R85 process when the campaign is over.

The Revenue have been pleased with the contribution made by the LITRG to the 2000 Taxback campaign, and those members of the LITRG who have worked with the Revenue on it have been impressed by their willingness to consult effectively. Much headway was made on improving form R85 and LITRG contributions to the website page and campaign literature were largely accepted. In the press release heralding the major event of the campaign, John Andrews was quoted alongside the Paymaster General as follows:

> ‘Dawn Primarolo, Paymaster General, said:
>
> ‘Taxback Week could make a lot of difference to millions of savers who could be eligible for tax back - no matter how large or small the amounts. I would encourage people to contact the Inland Revenue, who are there to offer guidance and to help with working out the sums.’’
>
> John Andrews, Chairman of the Low Incomes Tax Reform Group, said:
>
> ‘This is an important initiative which should be widely supported. The amounts of tax may be relatively small individually, but the fact that they are generally owed to the poorest in our community means that they have a greater impact when reclaimed. We are pleased to have been involved in the development of the campaign.’’

The press release went on to explain:

> ‘In its report issued in December 1998, Older people on low incomes, the Low Incomes Tax Reform Group recommended that there should be another Taxback campaign, and that the registration form R85, that savers sign to get their interest paid without tax taken off, should be simplified. Both these recommendations have been implemented. (A new version of the registration form R85 was produced last year, with a clearer layout, and revised text.)’

The influence of the LITRG on the Taxback campaign was apparent at local level, too. In Dorset, the Revenue asked our local co-ordinator of the Tax-Help for Older People pilot (under which tax professionals will give their time to help older people on low incomes – see below) for help in reaching the target audience, which we willingly supplied.

When we reported in December 1998 we found that the banks and building societies could do more to help inform their customers of the R85 procedure. We opened discussions with the BBA and BSA at that time and since then have seen some improvement, although – as we have found from ‘mystery shopping’ exercises carried out by members of the LITRG – outdated literature is still being handed out by some branches.

TECHNICAL ISSUES

The starting rate of income tax

In 'The Taxman's Response', we showed how the introduction of a 10 per cent starting rate on earned income, but not on savings, and the withdrawal of the married couple's allowance for those born after 5 April 1935, had led to extraordinary complexity, and were generally perceived as unfair. The 10 per cent rate also entailed covert discrimination against pensioners who in general are more reliant on savings income than the rest of the population, and this was widely viewed as unjust.

In time, there emerged an interesting interaction between the new starting rate, the personal allowance and another, half forgotten, provision of the tax statutes[12] which enabled a taxpayer to set off the personal allowance against 'income of different descriptions in the order which will result in the greatest reduction of his liability to tax'. In practice, this provision enabled a taxpayer with a pension taxable at 10 per cent, and some savings income taxable at 20 per cent, to set their personal allowance against their savings income so as to make the most of the starting rate. Led by John Andrews, the LITRG began to draw the Revenue's attention to this anomaly, and to give it wider publicity in frequent appearances on Radio 4 Moneybox, and in the national press. At the time, there was general confusion within tax offices, with some taxpayers being told that they could not offset their personal allowance against their higher taxed income in that way, even though Head Office acknowledged that they could. An administrative nightmare had started. Finally, in an abrupt volte face, the Chancellor in his November 1999 pre-Budget statement extended the 10 per cent rate to savings and back-dated the change to April 1999. This was the first time, to our knowledge, that a Chancellor had retrospectively reversed a Budget decision on a tax rate half way through the year. The LITRG was widely credited by the BBC and in the wider press for having spearheaded the movement for change.

We were encouraged by the Chancellor's eventual readiness to accept the need for change, but disappointed that those who in the meantime had suffered deduction of tax at 20 per cent from their savings income were given little help to claim back the 10 per cent they were now owed. All that happened was that the Revenue put out a press release alerting people in this situation to the fact that they were entitled to claim back the difference by writing to their inspector of taxes or by completing a self assessment form (neither of which processes is easy). Nevertheless, the Taxback campaign has made specific reference to this point, for the benefit of 10 per cent taxpayers who have bank and building society income.

[12] ICTA 1988, s. 835(4)

The PAYE trap

A consequence of the move back to a March Budget in 1998 was that the level of personal allowances for the coming year was announced in March rather than November, even though announcements about national insurance matters – such as the state retirement pension – continued to be made in November. Then, in 1999, the uprating of the basic personal allowance for the non-pensioner population was announced in November, but the age-related allowances were still not known until March 2000. Thus while most of the population had their coding notices changed in time for the new tax year in April 2000, based on the new personal allowance, the same was not true for pensioners.

Instead, a highly intricate procedure applied to those entitled to the age-related allowances. In January and February, notices of coding would be sent out to pensioners showing the retirement pension already announced for the following year, and setting it against the age allowances for the current year. A temporary over-deduction of tax would result. Then in March and April, revised notices of coding would be sent out, showing the increased amount of the age allowances for the new tax year, as announced in the March Budget. The over-deduction would thus be corrected three months or so after it first arose. Pensioners were at first confused by the mechanism, then annoyed at being compelled to make an interest-free loan to the Exchequer, while their younger counterparts had the correct amount of tax deducted at the outset.

We argued that that system not only discriminated against pensioners, but was also a breach of the Revenue's service commitment to taxpayers as set out prominently on the back cover of booklet P3(T) 2000 'Understanding your Tax Code' – 'we want you to pay or receive only the right amount due'. We asked that the Chancellor should announce the age allowance for 2001—02 in November 2000, at the same time as the basic personal allowance, given that the law says both should be increased by the September to September rate of inflation, unless Parliament otherwise determines[13].

The LITRG discussed this issue with Inland Revenue officials, had it raised in Parliament, and publicised it in other ways[14]. By the summer, it seemed that the authorities had begun to acknowledge that there might be a problem. When the Liberal Democrat Treasury spokesman Edward Davey MP was granted an adjournment debate on the tax problems of low-income pensioners, he drew a fairly encouraging response from HM Paymaster General[15]:

> 'The hon. Gentleman asked me two other specific points. One was with regard to allowances, the coding notices and pre-announcing those; he is talking about pre-announcing them in November. I will not delay the House on that, because I know that he is knowledgeable about how the coding notices are issued in relation to the Budget and when things are announced, but, again, I recognise that there is an issue there. It is something that I should like to address. Equally, I recognise – I'm sure that he will –

[13] ICTA 1988, s. 257C.

[14] See, inter alia, John Andrews, 'Revenue harass retired partner shock', Tax Adviser, May 2000.

[15] Hansard, 9 June 2000, col. 617-8.

> that the Chancellor of the Exchequer makes announcements in March. It would be a bit odd to send out coding notices that made all sorts of announcements in advance of a March Budget. There are some problems with how that works, but, again, I am looking at that matter.'

We therefore very much welcomed the Chancellor's announcement, in his pre-Budget report on 8 November 2000, of the age-related allowances for 2001—02, as he said 'to simplify the system for older taxpayers'.

The continuing self assessment saga

In July 1999, the Paymaster General announced that from the following April, people with income up to £2,500 which was not taxed at source but was dealt with through PAYE would no longer be asked to complete a self assessment return because of that income[16]. This was prompted by one of the recommendations in our December 1998 Report, and we welcomed it in our subsequent report 'The Taxman's Response'. However, the measure only benefited older people with a PAYE source, such as an occupational pension. A person with no more than the basic state pension, and a nest-egg of savings yielding untaxed income of just over £2,500 a year, would still have to come within self assessment, although their income was still little more than half the national average.

In September 1999, the LITRG wrote to the Revenue with examples of typical pensioner situations, based on our own postbag. Each pensioner in the illustrations had income of just over £6,000 a year drawn from different sources. We asked for confirmation that pensioners in those circumstances would not be sent self assessment forms in April. In February 2000 we met with the Revenue, who initially expressed surprise that people such as those profiled should be within self assessment at all.

Following that meeting, the Revenue wrote to explain their position as follows. Where there is a Schedule E source, the state and occupational pensions can be dealt with through the PAYE system, and the untaxed income set off against personal allowances. Where there is no Schedule E source, PAYE cannot be operated, and the only legal way in which an individual's liability can be established in those circumstances is through self assessment. There are in fact two other mechanisms by which the Revenue can make assessments, but neither is appropriate in cases where there is no irregularity or wrongdoing.

Turning then to the typical pensioner situations set out in the LITRG's examples, the Revenue confirmed that four out of five of them would not be within self assessment. The fifth, however – a 64-year-old widow with a state pension of £2,100 and pensioner bonds of £4,000, total income of £6,100 – would be caught because she had income above her personal allowance, and there was no other means of collecting the tax she owed on her state pension and pensioner bonds. The Revenue emphasised, however, that 'we will provide as much support as possible to a taxpayer to help them through the procedure'.

[16] Inland Revenue, 'Over 400,000 people will no longer receive a tax return', 5 July 1999.

We asked the Revenue if they would consider introducing, for people with simple affairs, a simplified return such as exists in certain other jurisdictions (cf form 1040EZ in the United States) and indeed used to exist in the UK (form P1). The Revenue agreed to consider what more might be done. The matter was again raised by Edward Davey MP in the 9 June 2000 adjournment debate referred to above. He elicited the following response from the Paymaster General:

> 'We . . . have a continuing review on self assessment, which will help to ensure that the system's impact on pensioners is minimised. I should tell the hon. Gentleman that changing the self assessment systems is not quite as easy as reprogramming the computer. It is a very large computer, with a very complex programme, and it is not that easy to intervene in its operation. None the less, I accept his general point about trying to remove responsibility for complying with self assessment from those people.[17]'

In a letter to John Andrews dated 18 August 2000, the then Director of Personal Tax at the Revenue confirmed that they were putting in hand some research on low-income pensioners within self assessment who had no link to PAYE. However, they were unlikely to be able to raise the threshold beyond the £2,500 announced in July 1999. And there the matter rests for the time being, but we are continuing to press for change, most recently in our comments on the pre-Budget report in which we called for virtually all pensioners with incomes below £17,000 to be taken out of self assessment[18].

PAYE on life and retirement annuity income

In our December 1998 Report, we recommended that the law should be changed to oblige life companies to operate PAYE on retirement annuities and the income element of purchased life annuities[19]. At present, tax is deducted at a flat rate from retirement annuity income, which causes poorer pensioners to overpay tax which they then have to reclaim by completing form R89. Other pension income is taxed under PAYE, and indeed some life companies are already operating PAYE on life and retirement annuities.

The Revenue's initial response was that they did not wish to impose disproportionate burdens on the life companies, but that they would explore the possibilities with them. Edward Davey MP, at the adjournment debate on 9 June 2000, was told by the Paymaster General that:

> '. . . we are investigating ways of making progress on that matter. We are also in discussions with the industry on how to simplify the system and make it much more responsive to pensioners'[20].

We look forward to hearing whatever proposals emerge from those discussions.

[17] Hansard, 9 June 2000, col. 618.

[18] TIR 14/00, 8 November 2000.

[19] P. 17.

[20] Hansard, ibid.

Gift Aid

When the Chancellor first announced his 'Getting Britain Giving' measures, it became clear that these generous proposals nevertheless contained a snag for low-income givers. Under the new Gift Aid scheme, the Government will top up every charitable donation by the basic rate of tax, but only if the donor signs a certificate to the effect that he or she has, during the tax year in question, paid sufficient in tax to cover the amount of tax on the gift.

If non-taxpayers mistakenly signed such a declaration, they would be required to repay the tax reclaimed by the charity. Clearly, therefore, it was necessary to warn people on low incomes who habitually give to charity (predominantly older people) against signing such a declaration. Charities had to be encouraged to formulate their declarations so as to incorporate a prominent warning to non-taxpayers not to sign, and the Revenue needed to emphasise the point in their official literature on the new Gift Aid scheme. At the same time, we received an assurance from the Revenue that when they found that a non-taxpayer had made a declaration, their general practice would be to invite the charity to repay the tax.

The matter was discussed in some detail by Leonard Beighton, formerly Deputy Chairman of the Board of Inland Revenue and now a member of the LITRG, in an article in Tax Adviser[21] which then provided material for the debate in Standing Committee H on the relevant clause of the Finance Bill[22].

We were also able to contribute to a draft of the new Gift Aid leaflet for donors, in which the point was made very clearly that Gift Aid was inappropriate for non-taxpayers.

At the end of the tax year we shall urge charities to warn donors who have given a timeless gift aid declaration to review it next year if their circumstances change and they cease to pay tax.

The tax-exemption certificate

We have continued to press our arguments for dispensing with the variety of forms low-income pensioners have to use to establish their non-taxpayer status, in favour of a single certificate which would take them out of contact with the tax system where they were found to have no liability[23]. The distress which older people experience at having to go through the current Revenue procedures, only to find at the end of the day that they have no tax to pay, cannot be over-emphasised. A tax-exemption certificate (or TEC) would also benefit the Revenue. It would enable tax offices to avoid having to repeat the self assessment process year by year; it would save administration as older taxpayers with little or no liability

[21] 'Tax and the Widow's Mite', Tax Adviser, May 2000.

[22] Clause 39 (now section 39 of FA 2000).

[23] See December 1998 Report, pp. 19, 20.

currently take up a lot of Revenue time; and it could be presented as a way of helping an older person who, for whatever reason, has been distressed by an encounter with the tax office.

At present the Revenue's view remains that the effort involved, for the Revenue, for pensioners themselves and for financial intermediaries, would outweigh any benefits.

Joined-up working with the DSS

One of the problems with the current system of the State using one arm of government to give out welfare benefits and another to claw back tax on those same benefits is that the officials of one department have little idea of the rules applicable to the other. Hence, the DSS say practically nothing in their official literature about the tax status of benefits, while the Revenue officers who handle the tax affairs of pensioners on low incomes often do not know whether or not benefits are taxable and sometimes make mistakes. A common error is for pensioners to include non-taxable income support in their self assessment, and for the Revenue to tax it in ignorance of its correct treatment. For example, TaxAid reports the case of an older couple who had visited their tax office for advice on working out their provisional liability for 1999—2000. Their aim was to reduce their payments on account in respect of a small business which was in trouble. The Revenue officer who assisted them mistakenly included non-taxable income support in the tax computation.

We believe that, by working together, the Inland Revenue and the DSS can make life easier for pensioners caught in the tax/benefits trap. It is particularly important that they should do so in view of the current drive towards more 'joined-up government' and delivery of co-ordinated services for older people under the Better Government for Older People initiative. Also, the impending formation of the Pensioners' Directorate in April 2001 presents an ideal opportunity to tackle this issue. We have held discussions with both DSS and Revenue officials on ways in which this can be done[24], and in our evidence to the Social Security Select Committee's inquiry into Pensioner Poverty in June 2000 we set out the following proposals:

- The DSS could provide year-end certificates of all taxable benefits received, so that both the recipients and their tax offices could be in no doubt as to their correct tax treatment. In addition the DSS could identify on uprating communications the tax status of the various benefits received.
- DSS personal advisers could be briefed on tax matters at least to the extent necessary to identify where there is a tax problem (e.g. incorrect taxation of a benefit) and to refer it to the appropriate tax office.
- Similarly, Revenue customer service personnel could be trained to identify cases where benefits are not being taken up and to alert colleagues in the Benefits Agency.

[24] The Revenue have confirmed that they have a representative on the cross Government service action team looking at retirement. Its aim is to make contact with Government departments easier for older people. The Revenue say they are 'working closely with DSS on wider issues relating to pensioners'.

- Where each Department is planning a campaign directed at the low-income pensioner, they could consult with one another to examine the scope for co-operation, both to save costs and to tackle related problems in a coordinated manner. It is worth reflecting on what costs might have been saved, and what extra impact might have been achieved, by linking the DSS minimum income guarantee take-up campaign with the Revenue's Taxback campaign in this way.
- Skills developed by each Department could be pooled for the benefit of both in their efforts to provide an excellent service to their pensioner customers. For instance, the expert use by DSS staff of the telephone to help MIG claimants to complete the paperwork, could be beneficial to the Revenue in assisting their older customers with repayment claim forms and self assessment returns which they find difficult.
- The mention of the children's tax credit (CTC) in the new version of IR121 'Income Tax and Pensioners' shows that the Inland Revenue expect older people to be included among the claimants of the CTC, and the point made in our later discussion of the CTC (see page 24) is equally pertinent to pensioners.

It seems likely that some degree of joining-up will be forced on the two departments with the advent of the pension credit in 2003. As we have remarked in our evidence to the Social Security Select Committee cited above, both our own research and the findings by the DSS in their research on MIG take-up have shown that having to fill out extensive and complex paperwork is particularly unwelcome for pensioners. As a result, where the object of the paperwork is to claim entitlement to a benefit, take-up is adversely affected, and the measure conferring the benefit fails to achieve its purpose, or does so incompletely. We have therefore recommended to the Committee that the new pension credit should be accompanied by simple forms, with adequate explanatory material (in large print and braille for those with impaired vision). The lessons of the MIG campaign should be used to provide support through telephone helplines, and home visits for older people unable or unwilling to use the telephone or to visit Revenue or DSS offices. We have also urged full consultation with groups representing pensioners. And if the pension credit is to be a step in the process of bringing together the tax and benefit system for pensioners, as stated in the consultative document[25], it is important to start now to resolve outstanding issues about integration between social security and tax law.

VOLUNTEERING

A key recommendation of our December 1998 Report was that the Government should seriously consider the introduction of a publicly supported tax volunteer scheme in the UK for the benefit of older people on low incomes. We drew on the examples of such schemes in North America and Australia, in which tax professionals and others from the wider community give their time to help vulnerable groups of fellow citizens meet their obligations and secure their entitlements under the tax system. We argued that a tax volunteer scheme would help many people who might otherwise be nervous of approaching the Revenue authorities for help. It would also improve compliance by producing more, and more

[25] Cm 4900.

accurate, returns and repayment claims; and it would provide opportunities for partnerships between Government, the tax profession and the voluntary sector.

At first, despite an early promise to ‘open discussions around Whitehall’, the Revenue were reluctant to commit themselves to supporting such a scheme. Accordingly, we resolved to run our own pilots to show whether the concept would work in the UK. During the past year, we have made preparations for pilots in a rural and an inner city area, West Dorset and Wolverhampton, under the name of Tax-Help for Older People, or TOP. We felt that the authorities would be better persuaded of the merits of a nationwide scheme if the pilots represented as large a cross-section of the population as possible. This is reflected in the choice of a rural county with small, widely dispersed agricultural communities and poor transport facilities, to set against a fairly deprived urban area in an industrial setting. We shall also be studying the logistical and administrative differences in running schemes in two very different locations with contrasting topographical and demographic features. The West Dorset pilot has been made possible by a grant from the Nuffield Foundation, and we are applying to the Active Community Unit of the Home Office to fund the Wolverhampton pilot.

The assistance offered by TOP will take the form of ‘surgeries’ where volunteers will help clients face to face. In Wolverhampton this will be the main form of assistance, at least initially, while in Dorset a telephone helpline and outreach service will be available from the outset. In time the pilots might also offer advice by correspondence. We aim to launch in March or April 2001, in time for the new tax year.

Both pilots have elicited considerable interest and support from the local communities. In Dorset, a local older people’s charity called Help and Care has joined with the local authorities, Age Concern, Help the Aged and the Citizens Advice Bureaux (CABx) in backing the scheme. In Wolverhampton we are being supported by Age Concern Wolverhampton (who are providing us with premises and administrative facilities), the local CAB, the local authority, and the new Bereavement Centre. The local tax offices are also on board, particularly in Wolverhampton where the Revenue’s support is linked to its participation in the Better Government for Older People (BGOP) programme. The BGOP itself has signified its endorsement of TOP.

And by midsummer, the Paymaster General was herself evincing a keen interest in what could be learned from the pilots. In reply to Edward Davey MP during the debate on low-income pensioners mentioned above, she said:

> ‘I welcome the idea that people with the necessary skills and time should volunteer to help in that area . . . We are keen to participate in the pilot in particular, because that will show us a lot about the types of services that we might need . . . the concept is positive. I want to take it forward.’

In the wake of that ministerial show of support, the Revenue at Head Office level have recognised the contribution that TOP can make in breaking down barriers between them and their customers, and in offering choice. They have also identified services which the pilots will be able to offer but which tax offices cannot provide so effectively, such as help in completing self assessment returns. Accordingly, we are now supported by the Revenue at all levels – local, regional, and at Head Office.

We are also linking with the Benefits Agency offices in both Wolverhampton and Dorset, in order to provide a more coherent service for older clients for whom a need for benefits advice becomes apparent. As the Benefits Agency in Wolverhampton run a weekly surgery at the premises of Age Concern, it might be possible there (and would certainly be desirable) to offer a tax and benefits one-stop-shop where clients could have both their tax and benefits queries resolved before they leave the building.

We shall assess the results of each pilot as we progress by using various monitoring systems. Primarily these will consist of client advice records, on which we will record client data, and details such as the type of advice given, and how the client heard about TOP. We shall also draw up questionnaires on which the clients will be invited to say what they feel about the service. These documents will be based on the models that have been used successfully by TaxAid in the past eight years, and the results will be fed into computer programs from which statistical information can be drawn. Ultimately, the performance of the pilots will be a decisive factor in whether the case for a nationwide, publicly funded tax volunteer scheme is proved.

‘INS AND OUTS’ AND TAX BENEFIT REFORM

The other main area in which the LITRG has been active is in representing, at a policy level, the interests of ‘ins and outs’ – those of working age whose employment patterns are variable, alternating between periods of employment, self-employment and unemployment. In this area, we have targeted the developing tax benefit reform programme, making representations on behalf of claimants of the working families’ tax credit (WFTC) and disabled person’s tax credit (DPTC). More recently, we have alerted the Revenue to problems with the children’s tax credit (CTC) due to start in April 2001, and have submitted evidence to the Social Security Select Committee on the reform of housing benefit, and to their inquiry into the integrated child credit.

WORKING FAMILIES TAX CREDIT (WFTC) AND DISABLED PERSON’S TAX CREDIT (DPTC)

The Government’s twin objectives in re-badging the two in-work benefits, family credit and disability working allowance, as tax credits, transferring them from the DSS to the Revenue, increasing the levels of payment and childcare provision, and delivering them through the payroll, were to tackle child poverty and to make work pay.

When the WFTC and DPTC were in the process of being launched, the International Monetary Fund (IMF), in their November 1999 Report on the UK economy, observed that:

> ‘The Government’s welfare reforms, including the New Deals and the WFTC . . . hold great promise for combating poverty and reducing the number of jobless households.’

There were, said the IMF:

> ‘considerable possibilities for achieving the principal goal of breaking the intergenerational cycle of poverty perpetuated by the relatively high incidence of households with no working adults. . .’

Broadly, the LITRG was in full agreement with this assessment. But how successful the new tax credits would be in fulfilling their promise would depend upon how well they were implemented. As they were being targeted at a sector of the population who tend in the main to be financially unsophisticated, and yet unlikely to seek or be able to afford professional advice, it seemed to us vital that the rules and processes should be both simple and accessible. Undue complexity would lead to lack of comprehension, and lack of take-up, and yet it seemed that was precisely the way things were going. This was the substance of the LITRG press release which heralded the start of the new regime on 5 October 1999[26].

[26] ‘A second class delivery for a first class product?’, TIR 26/99, 4 October 1999.

The LITRG take scant satisfaction in the fact that our predictions seem so far to have proved correct. The latest figures still show a shortfall of more than 40 per cent in the hoped-for increase of WFTC applicants over family credit claimants[27], although the gap is narrowing. It is, however, possible that this shortfall can be accounted for in another way, so we have recommended to the Treasury Sub-Committee's inquiry into the Inland Revenue and Customs and Excise that the Revenue be asked to give their explanation in their response to the Sub-Committee[28].

We discuss below the ways in which we feel that the implementation of the new tax credits has been lacking, and the representations that LITRG have made on each point.

The self-employed – discrepancies between income tax and tax credit rules

There are many ways in which the self-employed are put at a disadvantage within the new tax credits system.

First, the manner in which the self-employed have until recently been obliged to make a claim has been unnecessarily complex and prolix in comparison even with the obligations placed on them under income tax self assessment. In October 2000, in response mainly to representations from the LITRG and TaxAid, the Revenue agreed to allow self-employed people with a low turnover simply to send in a three-line statement of account, showing receipts, expenses and profit, in line with the requirement for self assessment. Before then, they had to send in a full set of accounts, or work through more than 30 boxes on the application form, to claim their entitlement. This significant improvement was solely due to the efforts of Keith Deacon who has been leading on this issue for the LITRG.

Even after that relaxation, the self-employed still face the hurdle of computing their income twice, once for self-assessment, and again for WFTC/DPTC purposes. This is because the central concept of 'income' is defined one way for income tax, and another for WFTC, purposes, and there is also misalignment in the periods on which the computations are based (broadly, a year for income tax, six months for WFTC).

Other problems of integration

A further discrepancy relates to the unit of assessment. While income tax has regard to the individual taxpayer, the social security system focuses upon the family as a whole – a couple, married or cohabiting, or a lone parent, and their children. The attempt to merge these two

[27] The number of families in receipt of family credit in August 1999 was 817,000. By August 2000 the number of families receiving WFTC was 1,123,000 (Hansard, 26 October 2000, col 196 WA). The Government initially estimated that about 1.5 million working families would be entitled to WFTC (Hansard, 7 May 1998, col 1784). This estimate was subsequently reduced to 1.4 million families (Hansard, 16 December 1999, col 380). Hence, as against an estimate that 583,000 more families would be entitled to WFTC than were entitled to family credit, the actual increase was 335,000 – only 57.5%.

[28] TDC 94/00, 12 October 2000.

concepts in the WFTC has led to some unfair results, particularly in the treatment of couples. For instance, the basic and child tax credits for a lone parent with, say, two children of a certain age are no different from those for a couple with two children of the same age and with the same after tax income. Hence the children of a couple in work are less likely to be taken out of poverty by the WFTC than are the children of a working lone parent.

We have made recommendations as to how the two systems can be more closely integrated, and tax credits made more friendly to claimants, but many of our proposals have been rejected on the grounds that the computer system inherited from the DSS would not be able to cope with the resulting changes. We can only hope that it will be possible to solve the problems of computer incompatibility before the advent of the integrated child credit (ICC) and employment tax credit (ETC) in 2003. The Treasury seem to recognise the extent to which the present structures have constrained development, and to acknowledge the need for 'a radically new system' to be in place in time for 'the next generation of tax credits'[29]. And yet the practical problems in such a timescale are immense. It is quite possible that the computer system to support both ONE (the new agency for people of working age to be formed through a merger of the Benefits and Employment Agencies) and the ICC will not be completed until 2006[30]. But without compatible computer systems, we fear that the Government will be seriously hampered in their laudable attempts to tackle child poverty, and make work pay, through the process of tax benefit reform. We have made this crucial point in our evidence to the Social Security Select Committee's inquiry into the ICC[31].

Tax credits – the sources of law and practice

Our representations have also focused on the need for the law underlying the tax credits to be accessible, if not to the general public who might apply for them, at least to their advisers in CABx and similar agencies. The law as it stands falls into two categories: primary and secondary. The main piece of primary legislation is the Tax Credits Act 1999, which renames the former benefits as tax credits, and proceeds mainly by amending the Social Security Contributions and Benefits Act 1992 and various tax enactments in order to extend the administrative machinery of tax to the renamed benefits. It is therefore incomprehensible without recourse to the enactments which it amends. The secondary legislation, crucial to claimants in understanding the legal basis of their entitlement, is a jumble of amendments to some very old family credit and disability working allowance regulations, which by the time WFTC and DPTC were introduced had already been heavily amended since first coming into force in 1987 and 1991 respectively.

Despite the hotch-potch of old amended regulations, the updated versions recently displayed on the Stationery Office website are a step in the right direction. Before they were posted, the law was barely accessible even to those with the skills and the time to piece together near-

[29] 'The Modernisation of Britain's Tax and Benefit System', 'Tackling Poverty and Making Work Pay – Tax Credits for the 21st Century', HM Treasury, March 2000, para. 2.21.
[30] Evidence by Rt Hon Alistair Darling MP to the joint meeting of the Social Security Committee and the Education and Employment Committee (Employment Sub-Committee) on 3 July 2000, Q30.
[31] TDC 92/00, September 2000.

obsolete materials in a law library. Sadly, though, the editors of the Stationery Office version have only managed to update the regulations as at 5 October 1999, so it was already a year out of date by the time it was posted. That in itself might not have been so bad, but for the fact that the levels of credit have been uprated at least twice since then. So now we have the underlying law still in a jumbled mess, and the most up-to-date official version itself a year out of date.

By contrast, the law underpinning the role of employers in administering the tax credits through the payroll is contained in a neatly drafted set of regulations, made under clear, substantive powers in the Tax Credits Act 1999. We believe that claimants and their advisers deserve no less. The importance of the legislation in determining entitlement is recognised in the preamble to the Decision Maker's Guide (the internal Revenue guidance manual which is in the public domain). This warns that the Guide is no substitute for the legislation, and should not be relied upon as such in any proceedings before a Court or tribunal. That is small comfort for those who cannot find their way to, or through, the legislation for lack of time and the appropriate expertise.

With this in mind, we are calling upon the Board to make it a priority to draft the new law on ICC and the employment tax credit from scratch, using up-to-date drafting techniques pioneered by the Tax Law Rewrite Project. In this way at least the language, if not the underlying concepts, will be comprehensible to most. While we would not expect them to waste time redrafting the already obsolescent WFTC and DPTC regulations, the ICC and ETC will be new law and therefore the use of the new drafting style will be appropriate.

CHILDREN'S TAX CREDIT

During the summer of 2000 the Revenue sent out the new children's tax credit (CTC) application form and booklet to those of their customers who they reckoned might be eligible, without prior consultation with any professional body, including the LITRG. The CTC will have a limited shelf life, as its destiny is, together with the child-related elements of WFTC, income support and jobseeker's allowance, to merge into the ICC in April 2003. Nevertheless, the design of the credit, compounded by flaws in the application form and accompanying literature, will further exacerbate the inconsistencies in a process of tax benefit reform which is still very far from integrated.

We have drawn attention in discussions with the Revenue to the many anomalies in the CTC, particularly in its interaction with the WFTC. Below is a selection.

- An award of WFTC is based upon the claimant's net income, which after April 2001 will include the CTC which, according to the Chancellor's pre-Budget speech, will be given at the rate of £520 a year. Consequently, at the level where the WFTC is tapered away at a rate of 55 per cent, the corresponding value of the CTC to the WFTC claimant within that bracket will be no more than 45 per cent of £520, or £234. As far as we are aware, the Revenue do not disclose this interaction in any of the official literature.

- The basis of assessment of the WFTC is the few weeks leading up to the date of claim, and the award, once made, generally remains fixed for six months thereafter. By contrast, the amount of the CTC to which a claimant is entitled may not be known, or capable of being self-assessed, until after the end of the year to which it relates. During that time its amount may fluctuate as the claimant's circumstances change.
- The CTC is a genuine tax credit, a creature of the income tax system, and yet basic entitlement to it is based upon a unit of assessment derived from social security law – the family. It then departs from the principle that the family is a unit to the extent that the credit is clawed back if one of the parents is a higher rate taxpayer. The result is that the credit will be progressively withdrawn from a one-earner couple where the earning partner's income exceeds £32,000 a year, while a two-earner couple whose income is equally split can earn as much as £64,000 a year before the credit is tapered away. This is not strictly a 'LITRG issue', as it affects people on relatively high incomes, but is cited here as an example of the practical injustices to which confusion in policy making, and lack of properly thought-through integration of the income tax and social security systems, can lead.

We have emphasised, both privately and in our submission to the Social Security Committee's inquiry on the ICC[32], the need to ensure these anomalies are not repeated in the 'new generation of tax credits', the ICC and the ETC.

There is also the question of targeting and publicity. Those responsible for administering an entitlement in the nature of a benefit or tax credit should endeavour to achieve as high a take-up as possible. The delivery of the CTC in April 2001 will be greatly enhanced if the Revenue and DSS pool information on those likely to be entitled, as ascertained from the records of both departments. So far, the Revenue have said that they cannot match their records with people who claim child benefit, and therefore only intend to send out claim forms to those who had either the married couple's allowance or the additional personal allowance in their 1999—2000 code number[33]. The problem with this approach is that those most in need of the new tax credit are unlikely to hear about it from the Revenue. This could be averted if, in a joined-up government exercise, DSS records were used to identify child benefit recipients who might qualify, and claim forms and explanatory information sent to them too.

DISABILITY ISSUES

An additional credit for a disabled child was introduced into the WFTC in October 2000. There has already been a disabled child credit in the DPTC since October 1999, and its extension to the WFTC recognises that having a child with special needs entails additional expense whether or not the parents are themselves disabled. We were pleased when this happened, as the LITRG had been lobbying for it from the outset. Other benefits for disabled people were announced in the pre-Budget report in November 2000, and these we welcome.

[32] TDC 92/00, 29 September 2000.
[33] IR Tax Bulletin, February 2000.

The DPTC ‘fast-track gateway’ was introduced at the same time as the WFTC disabled child credit, in October 2000. This reform is well-intentioned but presents some formidable obstacles to the potential claimant, who has to stay off work sick for 20 weeks or more before returning to work, getting validation of their disability from a doctor, and claiming the credit through the ‘fast-track’ procedure. The leaflet that explains this new extension of DPTC is itself confusing, a disappointing setback after the recent simplification of the forms for self-employed WFTC claimants (see above), and the change was not formally announced by press release. So the chances that the new procedure will encourage a higher take-up of DPTC are, in our view, fairly slim. This is doubly unfortunate in view of the disappointing take-up figures – 25,400, as compared with 18,469 receiving Disability Working Allowance a year earlier[34].

Throughout the past year, the impression has been given – probably unintentionally – that the DPTC was conceived as a kind of afterthought to the WFTC. Decisions are taken affecting the WFTC, then some time later consideration is given to their implications for the DPTC. So far, nothing has been said about the future of in-work tax credits for those with disabilities post-2003. But disabled people face great financial hurdles in continuing in work and returning to work, and we have urged on many occasions that their needs ought to be tackled as a specific issue, rather than being stampeded in the rush to reform the WFTC[35]. We have put to the Revenue many suggestions as to how this can be done, but these have yet to be acknowledged, let alone discussed with us or acted upon. The needs of the disabled must be given a much higher priority within the new tax credits.

HOUSING BENEFIT (HB) AND COUNCIL TAX BENEFIT (CTB) INTERACTION

The interaction of HB and CTB with WFTC is an area which is neglected in most official consultative documentation, certainly that emanating from the Treasury[36]. Where Government do take it into account, for instance in the Housing Green Paper ‘Quality and Choice: A decent home for all’, there are signs of divergence from Treasury thinking. For example, the discussion in that Paper of fixing awards of HB for a set period[37] contrasts with the Treasury proposal to fix awards of ICC for twelve months[38].

[34] See Hansard, 26 October 2000, col 196 WA.

[35] LITRG evidence to Social Security Committee’s inquiry into the ICC, TDC 92/00, 29 September 2000.

[36] For instance, in the Budget 2000 Red Book ‘Prudent for a Purpose; Working for a Stronger and Fairer Britain’, a table purporting to show the combined effect of the Government’s reforms on high marginal deduction rates ignored altogether the impact of HB and CTB and so gave a wholly misleading account of the numbers of people actually suffering marginal deduction rates exceeding 70 per cent (paras. 4.66, 4.67). This has been repeated in para 4.85 of the Pre-Budget Report, November 2000: by contrast Box 4.3, Housing as a barrier to work, does recognise that the interaction of the HB and WFTC tapers can mean that the gains from work are small.

[37] Para. 11.26.

[38] ‘The Modernisation of Britain’s Tax and Benefit System’, ‘Tackling Poverty and Making Work Pay – Tax Credits for the 21st Century’, HM Treasury, March 2000, para. 4.9.

Housing benefit (HB) and council tax benefit (CTB) are administered by local authorities, while the other in-work benefits and tax credits are administered centrally. This may be the reason for official neglect of these two benefits. Yet, the interaction of HB and CTB with WFTC can sometimes produce marginal deduction rates of up to 95 per cent, and is therefore of considerable practical importance to claimants. Another area of confusion is in the threshold level for savings for HB (£16,000) which is the same as it is for DPTC, but different from WFTC (£8,000), and there is no clear rationale for the difference. There are signs, however, that the Government recognises the need to resolve the conflicts inherent in targeting different benefits and tax credits, administered by different agencies, at the same groups of people: hence the proposal to move to a seamless system of benefits for children through the ICC[39]. There are also signs that the 'nightmare' caused by HB and CTB is acknowledged by at least some ministers[40].

Against that background, it is reassuring that the Social Security Committee, in its Report on HB[41], showed itself to be fully aware of the extent of the interaction between HB and CTB and the tax credits. The Committee recommended that consideration be given to a housing credit, a proposal which we very much welcome as an important step towards achieving a more integrated and transparent system of in-work benefits, and one in which there are fewer opportunities for error and fraud to proliferate. The question arises, who should administer it? The Committee regards the arguments against administration of HB by a central agency as persuasive. For our part, we have expressed the view that the skill and experience residing in the Inland Revenue makes it the most appropriate agency to bring together all the various elements of the in-work benefits and tax credits[42].

Whatever the future of HB and CTB, we have emphasised the need to link changes to them with the progress of tax credit reform, in order to ease access for claimants and to make the whole system easier for them to understand. Only then will take-up be maximised and delays and frustration minimised. Fraud and error, which proliferate where there is system complexity, are also likely to be reduced by a more coherent approach. It is essential for the Government to tackle the whole question of tax benefit integration in a cohesive manner if the tax and benefit system is to play an effective part in eliminating child poverty and making work pay. The Pre-Budget Report (November 2000) suggests that the Government may have recognised the need to act on the overlap between HB and WFTC and, if it has, the LITRG will be ready to take part in any consultations which there may be.

[39] Ibid., para. 4.11, 4.17.

[40] See David Blunkett's and Alistair Darling's evidence to the joint meeting of the Social Security Committee and the Education and Employment Committee (Employment Sub-Committee) on 3 July 2000, Q42 and 43.

[41] Sixth Report of the 1999—2000 Session.

[42] LITRG response to consultative paper 'Quality and Choice, a Decent Home for All', TDC 73/00, 28 July 2000.

STAKEHOLDER PENSIONS

When the Government brought forward its proposals for pension reform, we felt it appropriate to comment on the tax proposals on the grounds that the new stakeholder pensions would be targeted at those earning between £9,000 and £18,000 a year, and were therefore within the LITRG's sphere of interest. Accordingly, we responded formally to the joint Inland Revenue and DSS consultation brief, welcoming the broad thrust of the proposals, in particular to abolish the link with earnings so that private pension provision could be placed within the reach of non-earners such as carers and students.

We expressed some reservation about the proposal to abolish the carry-forward and carry-back rules rather than to simplify them, as a simple mechanism for moving contributions between fat and lean years was invaluable for those on fluctuating earnings, such as the self-employed. However, the ability to contribute from unearned income and capital sources would provide some recompense.

We also expressed concern that the opportunity was not taken to look again at the requirement to purchase an annuity. The sharp decline in annuity rates in recent years has reduced the value of many people's pension, and the system of income draw-down is complex and little understood. One possible solution is to require the purchase of an annuity equal to the minimum income guarantee, to counter the Government's fear that pensioners might dissipate their fund and become dependent upon the state, then allow other options to be exercised over the rest of the fund.

Our other proposal was designed to balance the needs of people on low, or unpredictable, incomes with the understandable reluctance of pension providers to permit too low a minimum rate of contribution. A system of 'pension stamps' would enable people to invest sums lower than the minimum contribution of £20 (perhaps even £10 or £5 a time) by buying pension stamps at the Post Office, then sending the book to the provider when it was full. The provider would then reclaim the tax. We saw it as vital to encourage the young to start saving early for their pension and to show them that small contributions made now could be worth as much, if not more, than larger contributions made later on.

In the event, we received no feedback on our suggestions, and none of them featured in the legislation that was eventually drafted. Indeed, perhaps as a function of the decision to merge the stakeholder and personal pension tax regimes, the whole focus has shifted to the higher paid - those who can afford to contribute more than the tax relief threshold of £3,600 per annum, or who can run a stakeholder pension alongside a standard occupational scheme.

We are now examining the extent to which stakeholder pensions really will be suitable for those low to modest earners for whom they were originally intended, and how the interaction with the second state pension, and the minimum income guarantee, is likely to affect the position. The Institute for Fiscal Studies has observed that many low earners would be better advised not to save for old age at all, as that will simply displace government support[43]; the combined effect of the second state pension, minimum income guarantee and the recently-announced pension credit reinforces that view.

[43] Disney, Emmerson & Tanner, ‘Partnership in Pensions: An Assessment’ (IFS, March 1999).

STUDENTS

When the LITRG was founded in Spring 1998, we chose to concentrate on students, along with older people and ‘ins and outs’, because of their growing numbers, their low incomes, and the lack of thought being given to their tax education. We soon found that the underlying tax processes applicable to students had been allowed to remain untouched for many years and now did not adequately reflect the needs of the student population.

During the past year, we have researched the tax problems of students with the help of members of the student population, and have prepared a Report – ‘Students: the Case for Making Life Easier’ – which describes our findings and recommendations. Our work, which was generously funded by the Association of Taxation Technicians, has convinced us that students are a group of people who need special recognition within the tax system for three main reasons.

First, they face financial hardship. Because a substantial number now rely on income-contingent loans to fund their living costs, and have to make a means-tested contribution towards their tuition fees, many need to work the whole year round to make ends meet.

Secondly, nothing in their school curriculum has helped them become familiar with the tax system, and yet because so many combine study with part-time work, they have to deal with tax and national insurance matters for the first time while still in education.

Thirdly, because the Inland Revenue assign no particular priority to students, old procedures survive untouched, the literature designed for them is outdated and poorly focused, and the lack of any support focused on students means it is difficult for them to get access to the right information.

Because of their low incomes, students suffer disproportionately if tax is deducted unnecessarily from their wages, yet few employers know about the form P38(S) procedure which allows a student to be paid tax free during vacation working. That procedure is itself overdue for review, and we recommend in our Report that it be extended to term-time working. It is also poorly publicised, with the result that many students and their employers are unaware of it, and working students overpay millions of pounds of tax every year.

We have identified two other areas where students unwittingly overpay tax because there is little information to assist them. These are the tax exemption for certain bursary awards made by employers to employees attending full-time education courses, and the tax advantages available to students from overseas.

Students also suffer from lack of co-ordination between the government departments they have to deal with – the customer service staff of the Inland Revenue, the DfEE and the Benefits Agency are generally unaware of issues relating to each others’ functions. In addition, there is misalignment between income tax and the evolving tax credits as they affect students. The need to tackle these problems in the long term has already been identified by government; in our Report, we urge that they be given more immediate priority.

Our Report concludes by recommending a set of measures geared towards treating students as a separate category of customer within the Inland Revenue, updating and revising current Revenue literature and processes, and improving the publicity directed towards students and their employers.

In 2001 we intend to look at the tax issues facing the mature student.