

## South Hams Citizens Advice Bureau

### HMRC Project

SOCIAL POLICY issues found with HMRC project relating to tax credits:

It is far too easy for Overpayments to arise:

- Tax Credit annual income estimates are causing overpayments . since the annual review does not need to be returned until 31<sup>st</sup> July, people who had a higher annual income in 2010-11 than in 2009-10 will not have their 2011-12 award adjusted until August. This will generate 4-5 months worth of overpayments.
- Likewise, the fact that underpayments will no longer be paid *in arrears* means that if income has *gone down* the person/family will lose out on essential income to cover the cost of living and very likely be pushed into poverty.
- The increase in the disregard from £2,500 to £25,000 was a genius stroke that overnight ended the mad situation of endless unnecessary overpayments that had gone before. That this figure had now dropped to £10,000 means that these overpayments will again become a headache for everyone involved and **destroy the effect of being better off in work for people who have previously been unemployed**. (Further drop to £5,000 will of course make this even worse).
- Tax Credits refusal to process future dates causes overpayments because sometimes several payments at the old rate went into an account before they could stop them *despite recipients attempt to prevent this by reporting the change in time to make adjustments*. If a person knows in advance that they are going to, for example, change their job there is no logical reason why the tax credits systems can't be programmed to deal with this information.

What they do instead is tell the clients that have the foresight to try to prevent this that they should hold onto the money and then pay it back later. **This is totally irresponsible**. For clients who only report the change when it happens (within the one month time limit) and don't go out of their way to think about the consequences and practicalities, they are told several months or even years later that an overpayment arose that they have to pay back. **They are not told how, when and why the overpayment arose**.

Changes of circumstance generating overpayments (see above). **If a client has complied with all the rules and reported all changes within the time given there should not be resulting overpayments**. Tax credits **must** devise a way

of preventing this situation. It is unacceptable and very bad administration. The money spent in administrating all these overpayment stories surely outweighs any loss that would be incurred if HMRC just had, for example, an 8 week extension period.

- When tax credits notify people that an overpayment has occurred they do not state **how and when it arose**. This makes it difficult for clients to work out if the overpayment is legitimate. Often when they try to find out by phoning the helpline they are given confused and misleading explanations.
- If the overpayments are being reclaimed in future tax years, award letters don't make it clear which year the overpayment arose and how much has been repaid in previous tax years.
- If after consulting the project, the adviser has tracked the overpayment back to an error of the tax credit office in a previous tax year the client is told it is too late to appeal a wrong decision because too much time has passed. But at the time the person did not have the necessary information to make the appeal . *because* the tax credit helpline did not give them this info when they tried to find out within the time limit.
- When clients are told they have no right to appeal an overpayment it is *not clear* that they do have the right to *dispute the recoverability* of the overpayment. TC846 forms are being sent out to clients who complain without the clients understanding how to fill them in.
- TC846 (overpayment dispute) forms are being sent out without the accompanying COP26 (guidance on how to fill it in).
- Supporting information or letters posted to the tax credit office are frequently never recorded or returned. Too many clients have reported this for it to be likely that they are all lying.
- Clients struggle to understand tax credits award notifications. Although the letters are written in plain English and can actually be understood if one reads them very carefully, so much of the info is obscure and requires in depth knowledge - for example: since the tax credits are paid by HMRC, they follow HMRC practice of working with information relating to the previous tax year. This is information that the average PAYE earner is not familiar with and means nothing to them. To require this degree of expertise just to understand how the tax credit system works is surely unnecessary. Either a person qualifies for an award or not, that is all they generally want to know.

- People don't understand that when they go from a single to a joint claim (or vice versa) this means one claim ends and another begins. The fact that the long letters explain this does not help because there is too much and too complicated information for people to take in.
- Many overpayments have arisen because a client has responded to the annual review letter in relation to one of the claims but not both. *Their impression has been that they have received two identical letters.* HMRC has then recorded that the client did not return the annual review and therefore owe back money for the entire tax year. These are in reality *false* overpayments. They could be avoided if the award system was more direct and continuity between single and joint claims was maintained. There is no excuse not to do this. Both DWP benefits and housing/council tax benefits systems manage to cope seamlessly with these kinds of changes of circumstance.
- People don't understand why they receive two identical letters when they have joint awards.
- Adviser has seen several award letters that have (it seems accidentally) omitted the essential information relating to the amount of income the award notice is based on. It is impossible figure out if an award is accurate and if an overpayment is legitimate if the estimated income used in the calculation is not presented.
- When people receive overpayment notices from the Debt Management department these letters **give no indication of how the overpayment arose in the first place.** When clients have tried to uncover the origins of these so called overpayments it has been nearly impossible for many of them to find out by questioning the help centre staff.
- Overpayments department refuse to send out written confirmations of action agreed, for instance when some one has been promised their account will be put on hold for 6 months due to inability to pay, the Overpayments dept. refuse to confirm this agreement in writing.
- Through working with the children's centres many parents have been helped to have their tax credit awards increased as well as discovered eligibility for other non-HMRC benefits. **There is a huge amount of error in the tax credit awards new parents are getting during the maternity period that needs to be addressed.**
- Some women on maternity leave have not been getting Working Tax Credits despite entitlement, due to writing on the application form that they are not in work.

- Many parents during the maternity leave period have not reported change in income to the tax credit office and not been aware of their right to housing and council tax benefit. They live off savings or in poverty without accessing available help. **When the underpayments rule changes these young middle income families will be seriously deprived.**
- Child benefit and tax credits start an award not from date of first contact (as is the case with DWP and council benefits) but from the time it gets logged on their computers. This is alleviated somewhat by the 93 days backdating but Child Benefit (CB) warn that a new claim can take up to 10 days to arrive in the post and then up to 21 days to get logged on the system.
- Apart from one incident of suspected discrimination against a non- EEA applicant, there has not been any problems with Child Benefit and Child Trust Fund. Both systems have appeared to run smoothly and through the midwives, health visitors and children's centres parents are accessing these benefits without difficulty.
- The only people who may be missing out on this support are migrant workers who return to their own country to give birth and then come back to the UK to continue work . if these people have not registered with the GP they might not be aware of their rights too CB, Child Tax Credit (CTC) and other help.
- Many of the people needing specialist advice about tax credits do not fit neatly into the target groups . they are single working people with no children on low incomes, working couples with no children on low incomes & middle income families. But low and middle income working people cannot afford to pay solicitors and accountants to look after their affairs.
- Older clients have rarely needed referral to the project . although some older people may have the wrong tax code due to multiple sources of income those on low incomes are unlikely to have this problem.
- VAT is not an issue for people in any of the target groups. Some travellers may have businesses that require payment of VAT, for example through running a festival café etc., but the project has not accessed them. (See below).

**Due to all the problems with the tax credits system and urgent need of the general public to have their tax credit problems addressed there has been little time to advise on the other products from HMRC.**

SOCIAL POLICY issues found with submitting self employment and self assessment tax returns:

- The region has a lot of self employed people on low incomes and this project has targeted them, with the intention to help them to understand their responsibilities in keeping accounts, how to present tax returns and how to maximise income when self employed.
- Initially this was intended to target the extensive traveller community in the area but since many travellers are isolated and some insecurely housed people move in and out of the traveller community it was not thought helpful to just target one specific site which was originally intended.

The people on the site in question, although welcoming to a CAB service in principle, wanted to choose what they sought advice for and did not want to be advised about declaring their income when one of the reasons for that choice of lifestyle (for some of them) was a desire to avoid the complication of keeping records and choosing a simple life, often working seasonally and from day to day. Others found it unrealistic to keep records due to cramped living space, exposure to weather and lack of facilities such as land lines and internet. Others object to paying tax for political reasons, for example objection to it being spent on imperial warfare.

Some of these travellers did visit the project as individuals, but when filling in equal opportunity questionnaires, people rarely identify themselves as gypsies or travellers.

- Many people in Devon live in mobile homes due to poverty, lack of social housing and lack of affordable private accommodation. Many of these people do not identify themselves as travellers. Many of these people are not in the other target groups because they are working people without children but they are forced into self employment due to lack of PAYE job opportunities.
- The project has also advised parents who have had their Income Support stopped and been advised by the job centre to start self employment or PAYE and receive WTC for the first time.
- The prospect of working tax credits does allow some people to scrape by on very meagre incomes who would otherwise be increasing unemployment or disability statistics.
- The project has helped people in these groups access free training and support provided by the Inland Revenue and Business Link and made them aware of their right to weigh permitted expenses against income, reducing the amount of tax to pay.
- Many self employed people on low incomes have been recording income but not profits as if they were on PAYE. This is particularly true for

hairdressers. These people have been missing out on tax credits and housing benefit and living below the poverty limit due to not reporting permitted business expenses.

- Many self employed people have not realised they are working 16/30 hours *“for payment or in expectation of payment”* because they have not known that all work related activity counts towards those hours. They have therefore not been receiving working tax credits despite qualifying.
- Some self employed people with very low incomes have not been aware of their right to the NIC small earnings exception. The project has informed these people of the advantages and disadvantages of paying class 2 NIC.
- Several people have come to the project with tax debt which arose due to not filing self assessment tax returns. **Every time** the reason has been because they had no self employed earnings but had not understood the need to un-register as self employed, or that even random income now and then needs to be reported also when they would have to pay tax. These clients were referred to Tax Aid and informed that once they filed their returns the tax debt would no longer exist.
  - **The new fines being introduced in 2011 will aggressively penalise these people who have not had enough income to owe any tax. It will force people who are already struggling to survive and cope into unearned debt and create enormous hardship.**