

# Tax Credits: Looking Back, Moving Forward



*A report by advice<sup>ni</sup> on advice  
workers experiences of Tax Credit*

*April 2004*



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## Foreword

This Report marks the conclusion of advice<sup>ni</sup>'s second online e-consultation exercise within the 'advicenet' project. We welcome the support provided by the Inland Revenue and the Community Foundation Northern Ireland. This report has produced valuable information and insight into operational and strategic issues surrounding the impact of tax credits.

advice<sup>ni</sup> members have highlighted the significance of the tax credits initiative (both positive aspects and less positive aspects) and have also used their position in working with some of the most socially excluded people and groups in Northern Ireland to relay the intended and unintended impacts of the tax credits initiative.

We welcome the contributions made by members who participated in this e-consultation which reinforces the value of the 'advicenet' project as it aims to give a voice to advisers by enabling them to highlight issues of concern; participate in social policy debate and build their capacity and skills as regards using new information communication technologies.

I would like to take this opportunity to thank all those who participated in this e-consultation exercise in particular Brenda McTaggart who was seconded to advice<sup>ni</sup> over the past year to develop relationships between the sector and the Revenue. We look forward to receiving feedback from the Inland Revenue on the issues raised.

Bob Stronge

Director

## 1. Introduction

advice<sup>ni</sup> launched a second e-consultation on 1<sup>st</sup> March 2004. The e-consultation gathered the views of advice<sup>ni</sup> members on tax credits. The e-consultation focused on issues such as:

- what can be done to improve the relationship between the independent advice sector and the Inland Revenue;
- the impact of tax credits on advice<sup>ni</sup> members and their clients;
- what changes are necessary to improve the tax credits system;
- publicity and awareness raising issues;
- overpayments and compliance issues;

Tax credits are administered by the Inland Revenue. There are two elements to tax credits: Child Tax Credit (CTC) and Working Tax Credit (WTC). CTC is a means-tested tax credit paid to people who have responsibility for a child or young person. WTC is a means-tested tax credit paid to certain groups of people who are on a low income and in full time work.

These replace Children's Tax Credit; Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC).

During 2004 / 2005 it is planned that tax credits will replace the amounts which, in relation to income support and income-based jobseeker's allowance, are prescribed as part of the applicable amount in respect of a child, the family premium, the enhanced disability premium in respect of a child and the disabled child premium,

CTC and WTC were introduced to improve the way the Government supports families with children and working people on low incomes.

## 2. General

The general consensus from participants was that tax credits are essentially a positive development. As one participant commented, “*Generally clients are better off (financially)*”. However, participants raised serious concerns over tax credits in relation to:

- the complexity of the tax credits system;
- overpayments and recovery procedures;
- increased workload for advisers;
- communication of information between the Inland Revenue and the independent advice sector.
- the impact of tax credits on other benefits;
- the public’s awareness of tax credits;

There was widespread acknowledgement that the Inland Revenue is having to adapt to a new role as “*a body that pays out money*” and that this “*culture shock*” goes some way to explaining some of the difficulties that advisers and claimants are experiencing.

Below is a summary of the main points and recommendations raised by advice<sup>ni</sup> members during the e-consultation.

## 3. Complexity

There was concern about the overall complexity of the tax credits system, not only when applying but also when processing applications and dealing with overpayments. Questions were raised by participants about:

- the ability of the tax credits system to react to changes in circumstances;
- the ability to accurately calculate tax credits entitlement.

### 3.1 Complexity of Tax Credits system

One participant commented that, *“In general I have found it to be a confused and confusing system where the client appears to be actually taking a risk by applying for a benefit.”* Another participant noted that clients have, *“difficulty understanding the system, unsure how much they will actually get.”* An adviser also commented that tax credits use *“overly complex application forms”*.

#### **Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue introduce more transparency within the tax credits system – to allow people to see how the system works; how awards are calculated; where to find help and clarification about awards and who to contact for further help and assistance.
- ‘advicenet’ recommends that the Inland Revenue review the application process with a view to making the process more straightforward.

### 3.2 Accuracy of calculations

Participants voiced concerns over the inability to carry out an accurate calculation. One participant expressed particular concern that, *“an accurate calculation this time last year has become a rough prediction”*. The participant then continues that *“nobody really knows what they’ve been awarded until the ... award notice falls into the letterbox”*.

Another participant raised the point that, *“There appears to be no guarantee that your benefit will be calculated accurately”*.

#### **Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue send tax credit claimants a complete calculation regarding how any tax credit award was calculated.
- ‘advicenet’ recommends that the Inland Revenue makes better and timely use of information already held about client income.

### **3.3 Method of processing applications**

One participant raised concerns that the Inland Revenue don't ask for verification of a claimant's income. The participant felt that the lack of a "*safety net in terms of verification of ... income*" can cause problems regarding overpayments.

One adviser was also concerned that the method of processing claims on a yearly basis is "*inappropriate in relation to tax credits*".

The e-consultation raised concerns that the method of calculating a claim was unnecessarily complex. One participant felt that there is a problem using, "*previous years income to decide on awards [when] trying to ensure accuracy of payments.*" The participant continues that this would have a particular impact on claimants who return to work after claiming benefits for a number of years and therefore don't have employment income against which an award can be made.

#### **Recommendations:**

- 'advicenet' recommends that the Inland Revenue ask claimants for verification of their income before awarding tax credits, perhaps seeking current wage slips as a means of making a correct tax credit award.
- 'advicenet' recommends that the Inland Revenue review the tax credit 'claiming cycle', with a view to introducing a six monthly cycle of reviewing tax credits awards.

### **3.4 Change of circumstances**

The e-consultation highlighted the problems surrounding claimants notifying the Inland Revenue of a change in circumstances. In the words of one participant, "*the difficulty for claimants lies in the fact that certain changes in circumstances must be reported virtually straight away but, for the most part, the reporting of a change in income can be delayed until the end of the tax year.*" The participant then continues that, "*If claimants are told that they can delay reporting a change in income then a lot of people will do just*



*that, or when the time comes to report the change, they will have forgot. Hence the major problems we now see with overpayments.”*

Another adviser raised the issue that the tax credits system is not able to react if *“there is variation in income”* leading to an increase in overpayments or underpayments.

**Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue ensure that claimants are aware of the need to highlight changes of circumstances, including changes of income. Thought should be given to making this process as straightforward as possible.
- ‘advicenet’ recommends that the Inland Revenue introduce a standardised system for reporting changes of circumstances and change of income.
- ‘advicenet’ recommends that the Inland Revenue switch to a six monthly review of tax credits awards to ensure that the system becomes more flexible when dealing with variations in income.

## **4. Overpayments and recovery procedures**

Overpayment was seen as a *“big problem”* amongst participants. Advisers are concerned that the tax credits system allows significant overpayments to build up. Concern was also expressed at the Inland Revenue’s recovery procedure. Advisers had varying knowledge of the Code of Practice relating to overpayments. There was support for the Child Poverty Action Group amnesty on overpayments on tax credits.

### **4.1 Tax Credits system is contributing to the overpayment problem**

One participant felt that the *“way the Revenue deals with tax credits claims contributes to the overpayment and even underpayment problem”* due to the calculation of income on an annual basis. The participant continued that the introduction of a six monthly cycle *“might reduce the overpayment problem, and stop it reaching the current proportions”*.

Another participant suggested that the Inland Revenue request verification of income at the start of the application process. The participant suggested that the Inland Revenue could use the P60 to assess the income of working applicants while *“claimants of Social Security benefits usually receive something similar to a P60”*. The participant continued by suggesting that the Inland Revenue could shift the ‘tax year’ for tax credits to September in order to give claimants a chance to demonstrate their current income.

### **Recommendations**

- ‘advicenet’ recommends that the Inland Revenue consider introducing the review stage in September of any given tax year, when a claimant will be able to provide verification of income within that current tax year.

### **4.2 Inland Revenue recovery procedures**

Advisers were concerned with the Inland Revenue recovery procedure, as one participant stated, *“one of the biggest problems with regard to overpayments is the stopping / reduction of tax credits without notice.”* The participant then commented that, *“There is usually no explanation about the availability of Hardship payments or that some overpayments may not be recoverable if the mistake was made by the Revenue.”*

### **Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue become more proactive in explaining to claimants what their rights are when an overpayment arises.

### **4.3 Hardship payments**

Advisers expressed concern that although Hardship payments were being used to elevate claimants to Income Support levels, these can add to the overpayment.

### **Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue review the operation of Hardship payments to monitor the effectiveness of this scheme.

#### **4.4 Effect of overpayments on public confidence in Tax Credits system**

The e-consultation included comments from advisers that some of their clients had lost confidence in the tax credits system, with some clients *'afraid to spend what they are awarded'* because of worried about overpayments.

##### **Recommendations:**

- 'advicenet' recommends that the Child Poverty Action Group proposed amnesty on tax credits Overpayments be implemented in order to allow the Inland Revenue to focus on ensuring the smooth running of the scheme in the future.
- 'advicenet' recommends that there be legislation introduced to clarify the rights of tax claimants, similar to the legislative framework for social security benefits.

### **5. Advisers experiences**

Advisers feel that the introduction of tax credits has increased their workload, especially with the problems surrounding overpayments. Participants also raised concerns about increasing access to information both online and through regular forums. Contributors to the e-consultation are aware that the introduction of tax credits is a culture shock for the Inland Revenue, but there is an understanding that the Inland Revenue is attempting to introduce a *"customer focus"*.

#### **5.1 Increased workload**

The e-consultation raised the issue that the complexity of the tax credits system adds to the workload of an advice agency. As one participant noted, *"when compared to Working Families Tax Credit or Disabled Person's Tax Credit ... the system is much more complex for both claimants and advice workers"*. The participant continues that there is a *"burden on the advice sector ... to unravel the whole mystery and bring some kind of sense and understanding to the proceedings"*.

There was also a feeling that the overpayments issue is starting to increase the workload.

**Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue work in partnership with the advice sector to monitor the impact of tax credits on the workload of advice agencies with a view to providing support for the work of advisers in assisting tax credit claimants.

**5.2 Communication of information**

Participants generally felt that the secondee from the Inland Revenue to the advice sector had helped break down barriers and “*carry forward the concerns of the advice sector*”.

The e-consultation also found support for the establishment of a regular forum to discuss matters with the Inland Revenue. However, it was felt that this forum would need to have agreed “*terms of reference, representation, communication of information, frequency of meetings, roles and responsibilities, monitoring and evaluation*” in order to be effective.

One participant also felt that the provision of information in the form of “*an e-zine, similar to that provided by the Pension Service in England*” would be useful. The participant continued that an advantage of an e-zine over forums or circulated minutes is “*that it can incorporate quick links, and you choose whether or not they are of sufficient interest to explore further, so it works a bit like an executive summary.*”

A notable feature of the consultation was that some participants were more aware than others of information relating to tax credits, especially the Code of Practice. Participants without access to the Code of Practice were understandably keen to obtain a copy.

**Recommendations:**

- ‘advicenet’ recommends regular structured forum meetings between representatives of the advice sector and the Inland Revenue.
- ‘advicenet’ recommends secondments from and to the Inland Revenue and the advice sector.

- ‘advicenet’ recommends the introduction of an e-zine to allow advisers to keep up to date with the latest developments.
- ‘advicenet’ recommends that the Inland Revenue make the Code of Practice and all other relevant information more readily available to claimants and frontline advice staff.

### **5.3 Relations between the Inland Revenue and the independent advice sector**

The e-consultation discovered that advisers felt that the Inland Revenue had experienced a *“dramatic shift in [its] position when dealing with the public.”* As one participant stated the advice sector’s relationship with the Inland Revenue *“will always be “challenging” due to the two different viewpoints that they and us come from”*. The participant also commented that the Inland Revenue had introduced a *“somewhat flawed customer focus”* within a relatively short space of time compared to the current approach adopted by the Social Security Agency.

There was support for secondments from and to the Inland Revenue .

One participant noted that the Inland Revenue could *“be more co-operative in dealing with advice workers given verbal authority by the client”*. It was also noted that *“Inland Revenue staff need to be more customer friendly and more understanding of the needs of the claimant”*.

#### **Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue continues to improve and develop dedicated contact points for the advice sector.
- ‘advicenet’ recommends exchange visits for Inland Revenue staff and advice sector staff at both local and regional level.

## 6. Impact of tax credits on other benefits

Participants were concerned about the impact of tax credits on clients receiving other benefits, especially Housing Benefit and Income Support.

### 6.1 Relations between Inland Revenue and other statutory agencies

E-consultation participants felt that some clients were losing out because of the lack of joined up working between the Inland Revenue and the Social Security Agency. One participant when commenting on the impact of tax credits and Income Support stated, *“There needs to be better cooperation between Inland Revenue and the Social Security Agency”*.

Participants views on the relationship between the Inland Revenue and the Social Security Agency included:

- *“the Social Security Agency should be making more effort to inform people on Incapacity Benefits of their right to claim by sending existing and new Incapacity claimants individual letters giving them clear information on [the right to claim Child Tax Credit]”*.
- *“Incapacity benefits [branch] should make claimants aware that they may be eligible to claim Tax Credits for dependent children.”*

Participants also wanted clarification over who is responsible if tax credits result in an overpayment of another benefit if the Inland Revenue doesn't notify the Social Security Agency of a change.

#### **Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue liaise with the Social Security Agency to ensure that claimants are made aware of the right to claim tax credits.
- ‘advicenet’ recommends that the Inland Revenue clarify the situation regarding overpayments and interaction with other statutory agencies.

## **6.2 Impact of tax credits on Housing Benefit and Income Support**

As one participant noted, *“For the most part tax credits have had a negative impact with regard to other benefits, particularly Housing Benefit and Income Support.”* The participants went on to outline the fact that although tax credits may take a claimant over the limit for Income Support, the claimant lost the benefits associated with Income Support, *“school meals, health service charges, Social Fund”*. This scenario will become all the more prevalent when tax credits take over responsibility for child additions to income support and income-based jobseeker's allowance in the 2004 / 2005 year.

### **Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue and the Social Security Agency review the impact of the Inland Revenue taking over responsibility for the payment of child elements of IS/JSA; publish figures as to the number of people who will be ‘floated off’ IS/JSA and highlight what action will be taken to alleviate any hardship felt by those people affected.

## **7. Awareness of tax credits**

There was concern over the lack of awareness of tax credits among students and single people. The e-consultation also raised issues about clients not spending their tax credits allocation because of the overpayments issue.

### **7.1 Lack of awareness of tax credits**

Participants noted that *“more publicity is needed for working tax credit”* as single people think only families are entitled to tax credits. One participant also noted that *“many students are still not aware of the fact that they can claim tax credits”*.

**Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue monitor the take-up of tax credits, identify geographical areas or social groups where there is a problem with take-up and take steps to resolve this situation.
- ‘advicenet’ recommends that the Inland Revenue produce a ‘take-up’ strategy in relation to tax credits.

**7.2 Clients not applying for tax credits**

One participant noted that *“the client appears to be actually taking a risk by applying for a tax credits”* due to the considerable problems surrounding overpayments.

The e-consultation also raised the fact that the word ‘Tax’ is *“frightening people off and in some cases is stopping people from enquiring further”*.

**Recommendations:**

- ‘advicenet’ recommends that the Inland Revenue make it easier for clients to calculate their entitlement to tax credits. This would ensure that clients would not feel as worried about the possible repercussions of applying for tax credits.

**8. Conclusion**

In the course of the e-consultation participants have identified a number of problems relating to tax credits, especially regarding overpayments. However, participants have also noted that claimants are generally better off financially and the Inland Revenue is attempting to deal with the transition from a tax collection organisation to a payment organisation. An important consideration for the participants is the maintenance of the links already established with the Inland Revenue.

We trust that this e-consultation report will help focus attention on some of the problems and help the Inland Revenue provide a better service for tax credits claimants.



### **Information sources**

Code of Practice on Overpayments [www.inlandrevenue.gov.uk/leaflets/cop26.pdf](http://www.inlandrevenue.gov.uk/leaflets/cop26.pdf)  
Tax Credit Claimant Compliance Manual  
<http://www.inlandrevenue.gov.uk/manuals/ccmmanual/index.htm>

### **List of participants**

Advice workers from the following advice centres took an active role in the e-consultation:

- Churches Advice Centre
- Age Concern Northern Ireland
- Omagh Independent Advice Service
- Civil Service Benevolent Fund
- Rosemount Resource Centre
- Lurgan Independent Advice and Information Services
- Help the Aged
- Housing Rights Service
- advice<sup>ni</sup>

advice<sup>ni</sup> also gathered views from participants with little or no access to the e-consultation at workshops in Belfast and Derry. Organisations who took part in the workshops were:

- WAVE
- University of Ulster Students Union
- Newtownards Road Women's Group
- Blind Centre for Northern Ireland
- NIACRO
- Omagh Independent Advice Centre
- Consumer Credit Counselling Service
- Rosemount Resource Centre
- Galliagh Residents Ltd

### **e-Moderators of this e-consultation**

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