Tax credits: Improving delivery and choice – a discussion paper

A response from Citizens Advice Scotland

Based on the evidence of CAB clients across Scotland

by Lindsay Isaacs
Social Policy Officer

September, 2008

citizens advice scotland

Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux

Tax credits: Improving delivery and choice – a discussion paper

A response from Citizens Advice Scotland, based on the evidence of CAB clients across Scotland

By Lindsay Isaacs, Social Policy Officer

Citizens Advice Scotland and its 71 CAB offices form Scotland's largest independent advice network. CAB advice services are delivered through 199 service points throughout Scotland, from the islands to city centres.

The CAB service aims:

to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively

and equally

to exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB service is independent and provides free, confidential and impartial advice to everybody regardless of race, sex, disability or sexuality.

Citizens Advice Scotland
Spectrum House, 2 Powderhall Road
Edinburgh EH7 4GB
Telephone: 0131 550 1000
Fax: 0131 550 1001
Email: info@cas.org.uk
Web: www.cas.org.uk

The Scottish Association of Citizens Advice Bureaux - Citizens Advice Scotland (Scottish charity number SC016637)

Introduction

1. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 71 Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services throughout nearly 200 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.
2. CAS welcomes the opportunity to respond to the HMRC and HM Treasury document *Tax credits: improving delivery and choice – a discussion paper*.
3. Our response is based on the actual experiences of CAB clients, anonymised and presented as case evidence. This is made possible by the CAB service's social policy feedback mechanism. Bureaux throughout Scotland highlight the problems in their area by sending in specific case examples that are indicative of wider issues. This information is collated and analysed by CAS in conjunction with social policy statistics from each bureau.
4. CAS is well placed to comment on the consultation paper proposals due to the sorts of issues our clients bring to bureaux, and the make-up of our client group.
5. In 2006-07, nearly one third of all enquiries – 30.6% - related to social security benefits, which remained the largest broad area of enquiry for bureaux. Within this category, bureau advisers handled 11,940 enquiries about tax credits. This represents a 2.1% increase on 2005-06, even though benefits enquiries as a whole fell by 1.8% compared with the previous year.
6. Last year, advisers also handled 3,570 enquiries about overpayments of benefits/tax credits. This represents a huge 41.9% increase on 2005-06, again in the context of slightly reduced benefit enquiries across the board compared with the previous year. Although our statistics do not provide a more detailed breakdown about the specific benefits/tax credits that clients had been overpaid, analysis of our social policy case evidence reveals that the majority of overpayment cases submitted by bureaux over the last few years have related to child tax credit and working tax credit.
7. The policy drivers underlying the introduction of tax credits were: tackling worklessness by ensuring work paid more than welfare; targeting financial support at those needing it most; and ensuring as many people as possible took up the support to which they were entitled. Again, CAS is well placed to comment on how far these goals have been met by the current tax credit system, due to the make-up of our client group. Enquiries to bureaux are dominated by issues which arise from, or contribute to, poverty. Whilst anyone can use their local CAB, in general, bureau clients are:
    - More likely to live in council housing (32.8% compared with 20.6% of the population) or other rented accommodation (21% compared with 10.1%)
    - Less likely to be in full time employment (20.7% compared with 45.5% of the population)

- Significantly more likely to be unemployed (21.2% compared with 4.5%)[1].

8. We are keen to engage as fully as possible with HMRC and HM Treasury's review of the tax credit system, as we believe that our evidence of clients' experiences is of significant value and should help inform current and future policy direction. In addition to this written response, we attend Tax Credit Consultation Group meetings run by HMRC in London on an ongoing basis, and also recently hosted a meeting to allow HMRC and HM Treasury officials to discuss the policy proposals with Scottish intermediary organisations.

9. In compiling our response, we have broadly followed the structure of the consultation document, but have not limited our comments to the specified consultation questions. We also start by highlighting the sorts of issues that our clients have been experiencing over the last year in relation to the current system of tax credits.

[1] Social Profile of CAB clients, CAS, May 2005

The current tax credit system

10. In order to put the consultation questions in context, our response starts by outlining some of the key tax credit issues that CAB clients and advisers have reported over the course of the last year. In doing so, we aim to highlight those areas of the tax credit system which are still not working well for many claimants. We would contend that an understanding of the shortcomings of the current system – and, allied to this, an understanding of how existing policies and practices might be improved – is critical before considering the wholesale changes proposed in the consultation document. In other words, it is important to frame the proposed changes in the context of how the current system is actually working, rather than how it is intended to work.
11. We then go on to look briefly at recent and forthcoming changes to the tax credit system, and the impact of these on the key problems we have outlined. Again, we would contend that an understanding of the impact of existing changes is essential in allowing a critical assessment of the new raft of changes contained in the current consultation.

Tax credit issues: Recent CAB client evidence

12. The following case evidence provides a summary of the key tax credit issues reported by bureaux between July 2007 and July 2008. It focuses on:
    - Entitlement and take-up
    - Making and managing a claim
    - Delays and errors
    - Overpayments
    - Communications
13. Critically, our evidence demonstrates that ongoing problems with the tax credit system mean that for many vulnerable CAB clients the stated tax credit policy objectives are not being met. Indeed, delays in payments, the instability of tax credits as an income source and harsh recovery of overpayments all mean that work does not always pay more then welfare, financial support is not targeted at those who need it most, and some people are not taking up the support to which they are entitled.

Entitlement and take-up

14. Despite HMRC's advertising and take-up campaigns, some clients are not aware of their entitlement to tax credits and are therefore losing out financially. Other clients are aware that they are entitled to tax credits, but have made a conscious decision not to claim as the result of a previous poor experience, hearing the problems that family and friends have faced, or negative media coverage. It is important to note that the case evidence below is recent, and cannot therefore be attributed to clients affected by the early 'teething problems' of the tax credits system. Furthermore, our case evidence is supported by recent research conducted by Citizens Advice England & Wales,

which found that 25% of clients interviewed were less likely to claim tax credits again based on their experiences, and 24% would definitely not want to claim again[2].

> A West of Scotland CAB reports of a Polish migrant worker client, who lives with her partner and young baby. They were in receipt of working tax credit and she wanted to find out more about claiming child tax credit. She had not known anything about their entitlement to tax credits until she had attended a presentation for migrant workers held in the local community by the CAB. Case ID: 37896
>
> A West of Scotland CAB reports of a client with two children. He works full-time and his wife works part-time. They had previously received a child tax credit overpayment of £2,000 – repaying this had caused significant hardship. The client was advised by the CAB that they were now entitled to child tax credit payments of approximately £16 per week, but he was so worried of incurring another overpayment that he did not want to make a claim. Case ID: 36385

Making and managing a claim

15. For many CAB clients, the process of making and managing a claim is difficult, time-consuming and confusing. Case evidence demonstrates that clients experience difficulties at each stage of the process, from making their initial claim, through understanding award notices and reporting changes of circumstances, to finalising and renewing claims at the end of the year. In many cases, these problems arise from the sheer complexity of the tax credit regime, which clients can find overwhelming and impenetrable.

16. Many CAB clients require support making an initial claim, because they find the forms and information requirements intimidating and lack the confidence to tackle this on their own. Clients report that the claim forms are hard to understand. Additionally, CAB advisers report that the supporting materials are too long and complicated for many clients, and not well-designed for their target audience. Similarly, many clients continue to have problems understanding their award notices. This has been less of a problem since the changes introduced to award notices in 2006, but many clients still find them difficult to understand, particularly establishing how the final award figures have been arrived at. This is backed up by recent research from Citizens Advice England & Wales which found that 58% of respondents felt that their most recent award notice was hard to understand.

[2] Tax credits: The current picture, Citizens Advice England & Wales, September 2007

A West of Scotland CAB reports of a client who came into the CAB with her tax credits award notice. She did not understand what it meant and wanted someone to explain it to her. The CAB was able to inform the client that the notice was informing her that she would be receiving a tax credit payment of £186 on a specified date. They also checked that all the client's details on the award notice were correct. The adviser notes that this is not unusual, and comments that claimants would not need to seek clarification if tax credit award notices were simpler and better explained. ID 36319

17. Reporting changes of circumstance over the course of the year can pose problems, with some clients not understanding what information they have to report to HMRC. Keeping a claim up to date can be particularly problematic for clients whose circumstances - such as working hours and earnings - are variable.

A North of Scotland CAB reports of a married client with one school-age child, in receipt of working tax credit and child tax credit. The client works part-time and her husband works full-time, both with variable hours. As a result, their earnings are unpredictable. The client has kept the tax credit office informed about all the ongoing changes to their earnings, which has required a lot of contact with HMRC. The client still has concerns that, despite her best efforts, her estimates will be wrong and they will have to repay a tax credit overpayment. Case ID: 38165

18. Other problems arise as a result of the finalisation and renewal process that takes place at the end of the tax year. A commonly reported issue is HMRC's claim that clients have failed to complete and return their annual declaration on time, which results in overpayments. Some clients state that they have not received the relevant documentation from HMRC, whilst others report that they have in fact completed and returned the form by the deadline and that the forms must have been lost or misplace by HMRC. The following case shows how severe an impact this can have on clients.

A West of Scotland CAB reports of a client with rent arrears who had almost been evicted from her home. The CAB had managed to get the eviction stopped and a repayment plan in place with the local authority. The client was then informed by HMRC that her tax credits award – of over £150 a week -had stopped as she had not returned her annual declaration. As a result of the drop in income, the client can not now maintain the agreed repayment plan and is once again in danger of being evicted. The client is adamant that she did return her annual declaration on time. Case ID: 36395

Delays and errors

19. Clients report significant delays in the processing and payment of their tax credit awards, both on initial application and upon reporting a change of circumstance. These delays are compounded by the fact that HMRC can fail to record information accurately and makes administrative mistakes such as losing applications or supporting documents. Delays and errors in tax credit awards can have a significant negative impact on other benefits to which a client might be entitled. Overall, problems with delays and errors can lead to significant financial hardship and stress for already vulnerable clients and families.

> A West of Scotland CAB reports of a client who had terminated his tax credit claim as a single person, and made a new claim as part of a couple. Seven weeks after making the new claim, they still had not received any tax credit payments and were struggling financially. The client contacted the tax credit helpline and was told that they have no record of the claim, but that the helpline staff can only see records of claims after they have been processed. The client felt that the helpline staff were very dismissive, regarding enquiries over receipt of a claim as nothing to do with them. Case ID: 36834
>
> A West of Scotland CAB reports of a client who experienced a delay in tax credit payments caused by reporting a change in circumstances. She had received bank charges as a result, and wanted to know how she could seek redress. ID: 37511
>
> An East of Scotland CAB reports of a client with two children whose working tax credit claim had been in the system for six months. HMRC had initially requested the birth certificate of only one of her children and then, months later, requested the other birth certificate. The CAB assisted the client and advised her on the complaints procedure. ID 38810

Overpayments

20. Over the last year, problems relating to overpayments have continued to be a significant area of concern. Clients and CAB advisers report that it is often impossible to understand overpayments, as award statements and letters do not detail either how the alleged overpayment has arisen or to which financial year it relates. Our case evidence is again supported by recent research which found that 81% of respondents who had been overpaid tax credits said they did not find it easy to understand why and that, furthermore, explanations were difficult to get from HMRC, or they were given conflicting reasons each time they contacted the helpline[3].

[3] Tax credits: The current picture, Citizens Advice England & Wales, September 2007

A North of Scotland CAB reports of a client who had received a letter from the Tax Credit Office requesting a payment of over £1,800 to recover a tax credit overpayment. The letter did not adequately explain how the overpayment came about or in which year it arose. The client called the number on the letter, and was directed through to a call centre. She tried twice, but on neither occasion could the call centre staff member provide any explanation about why a repayment was due. The CAB helped the client to dispute the overpayment. ID 37027

21. Clients can face financial hardship as the result of recovery of overpayments, which can occur for various reasons. Often tax credit payments suddenly drop without any warning or explanation from HMRC, meaning that clients have no time to budget for this drop in income. Clients whose overpayments are being recovered from an ongoing award are afforded some protection, as the rate of recovery is dictated by the level of their award (ie 10% if they are in receipt of the maximum award; 100% if they are only in receipt of the family element; and 25% for all other claimants). However, problems arise for clients from whom HMRC is recovering a debt directly, as there are no limits protecting them from harsh recovery. Case evidence shows that for some of these clients, HMRC is making unrealistic and unsustainable repayment demands. Other clients face ‘double recovery’, whereby they are repaying two debts simultaneously – one from an ongoing award and one directly - meaning that, in practice, they are not actually protected by the 10/25/100% recovery rules.

An East of Scotland CAB reports of a lone parent client who had accrued a tax credit overpayment. HMRC stated that she had not returned her renewal form, although the client claims that she did. The client decided to make a complaint via her local MP, as she was very unhappy about both the tax credit system and administrative incompetence of HMRC that had caused her to fall into debt, when she is a lone parent on a very low income. She commented that stopping the award had had a huge impact on her ability to make ends meet, and recovery of the debt will cause further hardship. ID 37287

A South of Scotland CAB reports of a client whose tax credit award had recently been reduced. She had not had any warning about this from HMRC, and did not know why her payments had been reduced in this way. ID 38827

A North of Scotland CAB reports of a client who had received a tax credit overpayment of £2,500. HMRC have demanded payment within a maximum of one year. The client offered a monthly payment of £50, which they felt was sustainable and realistic, but HMRC responded saying that they want £200 per month. ID 39001

22. Clients report that dealing with HMRC in relation to an overpayment can be confusing and upsetting, and for some clients this leaves them feeling less confident about challenging the overpayment. A related concern is that tax credit claimants who have been overpaid have no right to an independent appeal hearing, something for which CAS has been calling for a number of years.

> A West of Scotland CAB reports of a client who they had been assisting to dispute two alleged tax credit overpayments. The bureau had been involved for 10 months, but reported a frustrating lack of progress. They had written a letter and completed the necessary form, but the client was continuing to receive demands for repayment. The CAB adviser notes that they had been telephoning and writing at least once a month – firstly to the Tax Credit Office and then to the Disputes Overpayment Section – but had not received any replies in this time. In addition, repeated calls to the helpline have proved ineffective in progressing the case or being given useful updates. ID 36933
>
> An East of Scotland CAB reports of a disabled client who came to the bureau for assistance in disputing an alleged overpayment. The client was accompanied by her mother in law, as she finds verbal communication difficult. The mother in law reported that her son – the client's husband, and also disabled - had previously incurred an alleged tax credit overpayment of approximately £15,000. They had written several times to request a form for disputing the overpayment, but not had been forthcoming. She and her husband eventually decided to pay the debt on his behalf, as this was preferable to living with the ongoing stress and worry whilst trying to dispute it. ID 37306

Communications

23. Many of the issues reported by both clients and advisers relate to poor communications from HMRC. One of the most frequently reported problems is that promised letters and phone calls fail to materialise or else are significantly delayed, often by many months. Other clients are confused by receiving multiple communications – frequently contradictory – within the space of a few days. Many clients and advisers report barriers when they are trying to communicate with HMRC. The helpline can be difficult to get through to and, when clients do get through, they can be given conflicting or incorrect information and advice.

An East of Scotland CAB reports of a migrant worker client. He was eligible for child tax credit but had faced significant difficulties with his claim due to a range of communication issues. When the client phoned the tax credits helpline his English was not good enough to understand what was being asked of him. The CAB was able to help the client using Language Line. Shortly afterwards, the client's award was stopped and, when the CAB adviser contacted the helpline on the client's behalf, they were incorrectly informed that the client was not eligible for child tax credit. When the CAB adviser tried to explain why he was eligible, the helpline staff member hung up on them. The CAB notes that it has been in constant communication with HMRC to try and resolve the issue, but letters have either produced no response at all or unsatisfactory explanations. ID 37063

A North of Scotland CAB reports of a client who had received a variety of confusing and conflicting communications from HMRC. One stated that she had no children, when in fact she has three qualifying children. Another informed her that she was no longer entitled to tax credits, although she did not understand why and was continuing to receive payments. She had also received demands for repayment of overpaid tax credits, ranging from just under £100 to over £5,000.

An East of Scotland CAB reports of a client who approached the CAB for assistance in resolving an alleged overpayment. She had made multiple calls to the tax credit helpline, but had been unable to resolve the situation. The CAB wrote to HMRC on the client's behalf to request details of how the overpayment had arisen. It took seven months for HMRC to respond and when they did, the information they provided was insufficient. ID37569

24. Another set of communication problems arises from the fact that HMRC does not have in place accessible and effective routes to resolution when problems do arise. This can make tax credit problems very frustrating and labour intensive to resolve, for both CAB clients and advisers. In some cases, HMRC helpline staff are simply unable to resolve the query and there is no escalation route to senior staff. In addition, clients are frustrated by the fact that resolving issues often requires multiple phone calls, and that they rarely speak to the same person twice. This means that they frequently have to start from the beginning each time they make contact, and do not have any continuity of care in resolving their claim.

A West of Scotland CAB reports of a client whom they have been assisting with a tax credit problem for well over two years. The client's problem arose in the year 2004/05, when HMRC later disputed that she had qualifying children, after paying child tax credit and childcare costs. The dispute rolled on and affected her 2005/06 claim. Following a great deal of contact with HMRC from the client and CAB, HMRC contacted the client in February 2006 to say her account was balanced. A few months later, she was contacted again by HMRC, this time claiming she had been overpaid over £13,000. The CAB wrote to the Adjudicator in November 2006, who replied referring the case back to the Tax Credits Office in Preston, to follow the internal dispute procedure. Nearly two years later, the matter is still ongoing. ID 38678

An East of Scotland CAB reports of problems resolving an overpayment issue for a client. 'M' from the helpline had not called her back as promised, or even noted the conversation on the computer. The CAB adviser contacted the debt recovery team and spoke to 'S', who said he would check the figures and send an explanation to the client. When this did not happen, the CAB adviser called back and asked for 'S' as instructed, and was told there was no way she could be put through to him. The CAB adviser then had to explain the problem from the beginning to 'D', who put a temporary hold on further action, and phone 'G' in another section to request again an explanation of the calculations. The CAB adviser notes that asking for the name of the HMRC representative on the helpline or in the debt recovery section is pointless as you can never speak with them again. This means they are not accountable, and allows them to ignore the commitment to take action or even record the content of the conversation. ID 37755

25. CAB advisers also report problems with HMRC staff not accepting their authority to act as intermediaries for clients. This can happen despite HMRC having signed mandates, and the CAB advisers being able to answer a range of security questions. This can have a serious impact on the speed and ease with which CAB advisers are able to progress their clients' cases.

A North of Scotland CAB reports of a case in which they had made multiple calls to HMRC about one client case over the course of a single afternoon, and on each occasion answered the security questions successfully. On the fourth call, the CAB adviser was refused any further access and information on the grounds that she did not know the client's middle name. She made a complaint to HMRC, who contacted her to say the staff member in question had been a bit over-zealous. ID 39324

A South of Scotland CAB reports of a client who wanted assistance establishing why her tax credit award had been reduced. The CAB is the client's authorised appointee – HMRC has a signed mandate, and all the client's correspondence from HMRC is sent to the CAB office. The adviser called the helpline and was able to provide the client's name, address, NIno, and date of birth. However, HMRC refused to speak to the CAB adviser because she did not know the client's employer details. The bureau notes that they do not have this information on file as they do not need it. As a result, they have had to put the query in writing and note that this is frustrating as HMRC is taking upwards of six months to respond to written correspondence from the CAB. ID 38827

26. This analysis of recent evidence points towards a number of improvements in the tax credit system that would bring significant benefits to CAB clients and advisers. These include:

- Improved communications, particularly in relation to award notices and explanations of overpayments
- Simplification of the system to reduce complexity
- Better debt management when overpayments do occur
- Improved training of tax credit helpline staff
- Accessible and efficient routes to resolution when things do go wrong
- Face to face support for those claimants who need it
- More effective appeal rights
- Reduction in administrative errors and mistakes

Recent and forthcoming changes to the tax credits system

27. Since tax credits were launched in 2003, a number of significant changes to policy and practice have been introduced. In addition, more are currently being piloted and implemented as part of the *Tax Credits Transformation Programme* set up in 2006 to help claimants navigate a complex system, and with the specific goals of: tailoring support to customers' needs; making the process of claiming and receiving tax credits easier; and reducing errors and overpayments. CAS welcomes many of these changes, which have resulted from feedback from tax credit claimants and their representatives, and which attempt to address the most deleterious elements of the system.

28. Changes that have already been introduced include:

- Increasing the income disregard to £25,000 from April 2006
- Reducing the renewal window
- Applying the same rules to recovery of in-year overpayments

- Introducing new reporting arrangements, such as a reduction in the time allowed to report changes and an increase in the number of circumstances that it is mandatory to report
- Introducing a four-week run on of entitlement for claimants whose working hours fall below 16
- Introducing a new more objective test in relation to tax credit overpayments

29. Changes that are currently being piloted and introduced as part of the ongoing *Tax Credits Transformation Programme* include:
    - Piloting face-to-face advice in children's centres
    - Developing a case-worker approach, to allow more 'continuity of care'
    - Introducing more targeted support for managing claims, aimed at vulnerable groups
    - Introducing more proactive contact with claimants
    - Running 'in and out of work' pilots in conjunction with Jobcentre Plus and local authorities
    - Developing improved communication products eg a newly designed website

30. So, it is clear that the tax credit system has undergone significant levels of change since its introduction in 2003, and the change continues apace. Some of these changes have not yet bedded in – or indeed been introduced yet - so we have not yet seen their full effects and are therefore not in a position to analyse the full extent of their impact. However, CAS believes that many of the existing changes have the potential to deliver very noticeable improvements to the tax credits system, targeted at many of the specific problems we highlighted in the opening section of our response. We would therefore urge the UK Government to allow these changes to take effect, and for their impact to be monitored and analysed properly, before introducing such wholesale changes as those proposed in the current consultation paper.

Chapter 6: Giving customers more choice and certainty

31. Chapter six of the consultation paper contains proposals designed to give tax credit claimants more *certainty* over their awards, by amending the way the system responds to a) changes in income and b) changes in non-financial circumstances. It also contains proposals designed to give claimants more *choice* over their tax credit awards, in terms of how they repay overpayments and the option of part-deferring some of their payment to the end of the tax year.
32. Overall, in this chapter, the questions and trade-offs surround the issue of whether the pros of giving customers more choice are outweighed by the risk of increased complexity in the system.

Proposal: Adopting an income bands system in the UK

33. Many tax credit claimants have difficulties in accurately estimating rises or falls in their income, leading to overpayments in the current tax year and in the renewals window of the following tax year.
34. Consequently, the paper suggests adopting an ‘income bands’ approach in the UK, similar to that in operation in New Zealand. Under the proposals, each claimant would be placed in an income band determined by their estimated income. Their award would then be calculated based on their having the income at the very top of their band, rather than their actual estimate. So, for instance - based on bands of £500 as adopted in the paper - a claimant with an actual estimated income of £1,100 would have their award based on an income of £1,500, as would a claimant with an actual estimated income of £1,400.
35. These proposals would mean that the majority of claimants who have accurately estimated their income will actually be underpaid their tax credits during the year and would thus accrue an end-of-year one off top up payment. Those claimants who estimate their income incorrectly or report a change of circumstance late would have their end of year top up payment offset against any potential overpayment, thus reducing the amount of overpayment incurred.
36. As noted previously, in 2006/07, the UK tax credit system introduced a £25,000 income disregard, which has significantly reduced the impact of overpayments resulting within the tax credit year. As a result, an income bands system in the UK would have its main effect in reducing overpayments in the renewal window. Indeed, the paper notes that with income bands of £500 (and taking into account the impact of the £25,000 disregard), overpayments would be reduced by about £10 million in the current year. Whilst this is not an insignificant sum, it does represent only a tiny fraction (1%) of the overall level of tax credit overpayments, estimated to be £1.0

billion in 2006/07[4]. CAS is therefore concerned that this proposal would lead to a significant increase in complexity, whilst delivering only a relatively modest reduction in overpayments. We are also concerned that many claimants would essentially be underpaid over the course of the tax credit year, which would have a big impact on their ability to manage financially,

37. We also seek clarification from HMRC and HM Treasury about the impact of this proposal on other benefits. Specifically, many claimants would be receiving less on a week to week basis over the year than the amount to which they are actually entitled. Our understanding is therefore that those tax credit claimants who are *also* in receipt of housing benefit should receive more housing benefit, as it is a means-tested benefit which should increase as their income from tax credits decreases.

Proposal: Introducing further run-ons to entitlement

38. HMRC recently introduced a run-on of entitlement for working tax credit claimants whose working hours fall below 16 hours a week. In these cases, claimants continue to be eligible for their working tax credit award for four weeks. This helps claimants to experience a smoother financial transition when hours of work drop, and also helps prevent claimants from incurring an overpayment if they are late in reporting the change.

39. The paper proposes introducing a similar four-week run-on for claimants whose working hours fall below 30 per week, and CAS supports this proposal. However, we would urge HMRC and the DWP to ensure that procedures are agreed and understood by staff, to ensure that clients claiming Jobcentre Plus do not face problems as JCP staff are uncertain how to treat their tax-credit run-on.

40. We would also recommend that HMRC considers run-ons in those situations in which a tax credit claimant has four weeks to report a change in circumstance, such as a child leaving home or leaving education. By aligning run-ons with existing reporting requirements in this way, HMRC would reduce overpayments in circumstances where the claimant waited a month to report the change.

Proposal: Greater choice for claimants about how overpayments are recovered

41. The consultation paper notes that the UK Government is now in a position to trial recovery of tax credit overpayments through the PAYE system. We understand from HMRC that this is intended for small debts only, and the pilot it is running has an upper limit of £500. CAS broadly welcomes this proposal, as it seems to increase customer choice without greatly increasing complexity. However, we would urge that HMRC staff are thoroughly trained and able to provide claimants considering this repayment option with full advice about

[4] *Tax credits: National Statistics 2006-07*, HM Treasury press release, 20 May 2008

what it would mean. For instance, the sort of information we would like all clients to be made aware of is that, having chosen this repayment option, they would not then be able to opt out unless their circumstances changed.

42. We also understand that the PAYE repayment option is only designed for people in stable employment. However, due to the structure of the tax system, claimants would not start repaying their overpayment until nine months after it had been identified, at the start of the following tax year. Nine months is a long time – consequently, claimants who were in stable employment and who selected this repayment method at the time the overpayment was identified, may no longer be in stable employment at the start of the next tax year. CAS therefore seeks clarification from HMRC about how this circumstance would be managed, and how such claimants would be identified and alternative repayment methods offered.

43. The consultation paper also proposes offering *all* claimants the option of repaying an overpayment as a lump sum. This represents an extension of the current system, in which only claimants who are no longer in receipt of tax credits are routinely offered this as a repayment option.

44. CAS broadly supports this proposal, which would increase the options open to tax credit claimants in terms of how they manage an overpayment in the context of their overall financial situation. However, we would stress the need for HMRC to manage very carefully the way this option is presented to claimants, so that no pressure is brought to bear on vulnerable claimants who might feel that repayment of a lump sum was their only option. We also highlight the need for HMRC staff to receive thorough training in this area, so they are able to offer consistent and accurate support to all claimants about their options and the effects of choosing different repayment methods. As noted above, CAB clients and advisers consistently report receiving inaccurate and contradictory advice from HMRC staff. If increased claimant choice is to be meaningful, it is vital that it is accompanied by effective support mechanisms that will allow claimants to make full and informed decisions about their choices.

Proposal: End of year top-ups

45. The consultation paper contains a proposal to introduce reforms that would allow tax credit claimants to part-defer receipt of their award until the end of the tax year. For instance, people could choose to defer receipt of some or all of the family element of their award. HMRC's IT system does not currently possess the necessary flexibility to support this change, and so the UK Government is seeking views as to whether this is the right direction of travel in the longer-term.

46. Again, CAS is broadly supportive of these plans to increase customer choice. However, again, it is absolutely critical that this remains a real option, and that claimants are not pressurised – either overtly or covertly – into making a choice that might not be right for them and their families. Once more, we would also highlight the need for HMRC staff to provide an exemplary level of

advice and support to claimants, in terms of explaining the options and their impact.

47. We would also like clarification from HMRC on the impact that part-deferment would have on housing benefit. As with the example outlined above, claimants who chose to part-defer some tax credit payments would receive less on a week to week basis over the year. Again, we seek clarification from HMRC about the impact that this will have on housing benefit, as we would expect any housing benefit award to increase as income from tax credits decreases.

Chapter 7: Reforming the delivery of childcare support through tax credits

48. The current system of childcare costs via working tax credit is based on a system in which claimants must estimate their annual childcare costs for the coming year. The amount of childcare support received is then based on *average* weekly costs. Problems arise because, whilst childcare costs can vary quite significantly over the year (for instance during school holidays), the childcare payments are averaged over the year, and actual payments do not therefore reflect actual costs. Additionally, claimants can face real difficulties in estimating the childcare costs they will accrue over the coming year. In some cases, this is because the calculation is complex and hard to work out accurately. In other cases, it can be virtually impossible for claimants to predict accurately what costs they will incur, because, for instance, they work flexible and unpredictable hours.

> A North of Scotland CAB reports of a client couple with one child, who came to the CAB for assistance with their tax credit application. The husband works full time with variable hours and the wife works part time with variable hours. They were not sure how to estimate their childcare costs for the coming year.

49. Chapter seven of the consultation paper outlines various options for simplifying the delivery of childcare support via the childcare element of working tax credit, intended to tackle the problems inherent in the existing system. It contains proposals intended to make childcare support easier to calculate, a proposal to provide claimants with greater certainty over their childcare support, and proposals to amend the way in which the childcare element is paid to claimants.

50. As with the previous chapter of the consultation document, the proposals contained in chapter seven present complicated trade-offs in terms of their pros and cons. However, CAS would assert that in assessing the merits of the various proposals, tax credit awards should not be regarded as one monolithic payment. Tax credit awards comprise numerous different elements, each of which is designed to fulfil a separate function. Consequently, those proposals relating to childcare should be assessed against a different set of criteria than the proposals relating to other aspects of the tax credit system.

51. Specifically, whereas for other elements of tax credits stability of income might be considered more important than responsiveness, we would assert that responsiveness is key in the area of childcare costs. This is because childcare costs are externally dictated, and so the income received needs as closely as possible to match the expense incurred.

Proposal: Calculations of childcare based on actual costs

52. The consultation document contains a proposal to move to a system of childcare payments which would involve claimants informing HMRC of their *actual* childcare costs, *after* they had been incurred. This proposal is intended to help those claimants who find it hard to estimate average weekly childcare costs, because their childcare needs change over the year or are unpredictable, with the ultimate goals of making the process easier for claimants and reducing error.

53. We recognise that this would bring some benefits to claimants, as there would be no need for a complicated calculation. In addition, it would mean that claimants would be receiving support for the actual costs they had incurred. This is particularly important in relation to childcare costs where, as we note above, it is critical that entitlement is closely in step with actual expenses.

54. However, these benefits need to be considered against the potential downsides of the new system, and we do have a number of concerns in this regard.

55. Most critically, the new system has the potential to create significant cash-flow problems for claimants, as they would only receive the childcare element of their award a month in arrears. As the consultation paper itself notes, "One of the most significant costs of entering and remaining in employment faced by families with children is the cost of childcare"[5]. As a result, any delay in this significant and critical source of income could make it very difficult, or in some cases simply impossible, for claimants to take up employment opportunities.

56. An additional concern we have is that, although this new system would reduce complexity in terms of predicting weekly childcare costs, it increases complexity in terms of the ongoing contact required with HMRC. CAS has concerns about how HMRC, claimants and childcare providers could manage and respond to such a significantly increased level of contact.

57. In particular, we have significant concerns about HMRC's ability to respond to this increased level of data handling in a timely and efficient manner. The paper does not indicate what the impact would be if HMRC failed in its responsibilities, but it has the potential to be catastrophic if it resulted in a delay in childcare payments. We understand from HMRC and HM Treasury that, if this system were introduced, it would not be expected to operate within the constraints of the current tax credits infrastructure, but that additional dedicated resources would be introduced to enable the additional reporting requirements. CAS welcomes this, and would consider that additional, dedicated resources would be absolutely essential to the system's effective operation. However, without further details being available about the scale and allocation of any additional resources – as well as more information about the logistics of the monthly reporting - it is currently impossible to comment about their adequacy or otherwise.

58. The paper indicates that this new system could involve either claimants or childcare providers themselves making the monthly reports to HMRC. We are

[5] Tax credits: Improving delivery and choice – a discussion paper, HMRC and HM Treasury, May 2008, p45

concerned that certain groups of claimants – particularly the more vulnerable of CAB clients - might find the requirement to report to HMRC on a monthly basis onerous or difficult. Again, if failure to comply with the reporting requirements resulted in delayed childcare payments, this could potentially hit the most vulnerable claimants the hardest. The system would also need to include a quick and easy reporting method for those claimants whose childcare costs essentially remain fairly stable month to month, to avoid lengthy and unnecessary contacts between claimant and HMRC. We would also expect alternative reporting methods to be easily accessible for those claimants for whom the telephone is not suitable or accessible.

59. Finally, if the responsibility for reporting fell on childcare providers, we have concerns that they might be reluctant to take on tax credit claimants as customers, due to the additional administrative burden they would bring with them.

60. As this proposal currently stands – particularly because of the problems created by a delayed cash-flow - we do not believe that its pros currently outweigh its cons. However, we do acknowledge the value of its responsiveness in better matching childcare award payments with actual childcare costs. We would be interested, therefore, in hearing from HMRC and HM Treasury about possible amendments to this proposal that might preserve its benefits and mitigate its drawbacks. For instance, it is possible that HMRC could protect claimants from this initial 'payment gap' by introducing a system of loans to cover the first month's childcare payment. However, we recognise that this loan would then have to be recovered from a claimant's ongoing tax credit award, thus introducing additional complexity and uncertainty into the system.

Proposal: Calculations of childcare based on income bands

61. The second proposal designed to make the childcare element more transparent and easier to calculate involves moving away from a system based on exact income estimates within which support is gradually tapered away, to one in which claimants are put into a 'band of entitlement'. Entitlement to the childcare element would thus depend on the band in which the family's income fell, and would not be recalculated on a different basis at the end of the year.

62. CAS acknowledges that this system would have some advantages. In particular, it would lead to increased transparency, with claimants having a far better understanding of what level of support would be paid at different income levels. Transparency would also be increased as, in essence, this proposal means 'de-coupling' the childcare element from other tax credit elements, so it would be calculated and paid independently of the other elements of the award.

63. However, we do have a number of concerns about the proposal. In particular, the replacement of a smooth taper with cliff edges will essentially mean that families in very similar circumstances would end up receiving quite different levels of support.

64. We would welcome additional modelling from HMRC and HM Treasury regarding how many claimants would be worse off under the proposed banding system, and how these figures would be affected by a different structures of income bands (ie ranging from many bands with a small income range, to few bands with a wide income range). We would particularly welcome this additional information, as we have concerns about the accuracy of the analysis in the consultation paper, given the diagram used on p49 and p56, which inaccurately indicates the stage at which the childcare element of tax credits is tapered away.

65. Overall, whilst we broadly support the notion of separating out the childcare element, we are not currently convinced by this proposal as it stands, and do not believe that the gains in transparency outweigh the costs in terms of potential loss of income.

Proposal: Establish entitlement to the childcare element for the whole of the school year ahead

66. The third proposal in chapter seven is designed to provide claimants with greater certainty over their childcare support. The proposal involves establishing entitlement to the childcare element for the whole of the school year ahead, based on the income figure used to finalise the claimant's award for the tax year that has just ended.

67. CAS has serious reservations about this proposal. As the consultation paper itself notes, this increase in certainty for claimants would come at the expense of the system's ability to respond to in-year drops in income. In effect, this would mean that claimants whose income dropped would not see an increase in the level of childcare support they received. We do not believe that this is a worthwhile trade-off. As we noted above, responsiveness is of paramount importance in relation to the childcare element of tax credits, and we would be very concerned about the introduction of a system in which responsiveness was considered expendable.

68. If HMRC were to pursue this as a policy option, we would stress the need for 'exceptions' to be built into the system for client groups where it is known in advance that their current year's income is likely to be far less than the previous year's income, such as people going on maternity leave.

69. We also have serious concerns about the increased complexity that this proposal would introduce into the system. The new system would essentially mean that claimants with childcare needs would have two claims running in parallel – the main award from April to April and the childcare element from September to August. We understand that this would mean two separate claim dates and renewal dates, and would thus hugely increase the complexity of a system that many CAB clients already struggle to understand and manage. It is also worth noting that the school year in Scotland starts in August, and not September as in England.

Proposal: Different methods of paying childcare support

70. Two different ideas are mooted in the consultation paper in terms of changing the method of payment for the childcare element of tax credits. The first is payment directly to providers, and the second in payment via a voucher system. Both proposals are designed to ensure that the money ear-marked for registered childcare is spent as intended.

71. CAS has a number of concerns with the proposal to pay providers directly. It would result in a loss of financial control for tax credit claimants, and thus seems to run contrary to other Government policies designed to increase financial control and responsibility of benefit claimants, such as replacement of housing benefit in the private rented sector with Local Housing Allowance, in which payments are made to the claimant rather than the landlord. There would also be a loss of confidentiality, as providers would be privy to information about the financial situations of their customers. Finally, we are concerned that this would lead to an increase in administrative burdens for childcare providers and that, as with the proposal for monthly reporting of childcare costs described at paragraph XX, this could result in providers discriminating against tax credit claimants as clients.

Conclusions

72. There are numerous changes to the tax credits system which HMRC has already introduced or which are planned for introduction which we believe will address many of the most significant problems that our clients and advisers continue to report. This includes, for instance, more tailored support for claiming, the improved overpayment dispute process and the development of more ‘continuity of care’ through a more case-orientated approach.

73. In addition, there are many other changes that CAS believes HMRC should consider that are missing both from existing changes and the proposals in the current consultation document. Many of these are relatively simple and straightforward, and would greatly improve CAB clients’ experiences of claiming tax credits without increasing the complexity of the system. This includes:

    - improved training for helpline staff, to ensure they provide consistent and accurate information and advice
    - increasing access to face-to-face advice, particularly for vulnerable claimants for whom the phone is not a suitable method of communication
    - further improvements to award notices
    - the routine provision of clear and accurate explanations of how an overpayment has arisen
    - the routine provision of information to claimants that overpayment recovery can be suspended, or even written off, on the grounds of hardship
    - greater consistency in HMRC’s recognition of intermediaries and signed mandates
    - the introduction of a pause before recovery of an overpayment starts
    - suspending recovery of overpayments from claimants already repaying other tax credit debts
    - responding to contact from claimants and their intermediaries in a timeous fashion
    - greater support for claimants to help them accurately estimate childcare costs, perhaps as part of the existing transformation programme
    - the introduction of a statutory right of appeal on overpayment recovery on the grounds of official HMRC error

74. Overall, CAS believes that the impact of existing and planned changes should be thoroughly assessed and analysed before the introduction of such wholesale changes as those proposed in the consultation document and, consequently, would urge the UK Government to proceed with caution.

75. As noted throughout our response, in many cases we do not believe that the potential advantages of the proposals outweigh the disadvantages, particularly

given the potential scope for some of the changes to introduce significantly more complexity into the system.

76. In addition, the lack of detail surrounding many of the proposals has made it hard to comment in places. We understand that, for many of these proposals, HMRC and HM Treasury are keen to get a sense of overall feeling before working up the specifics. However, for many of the proposals, the devil is in the detail. Consequently, if HMRC and HM Treasury choose to proceed with any of the more significant changes included in the document, we would expect that this would be accompanied by an ongoing process of engagement and consultation to allow for full discussion of the detail of proposals.

Citizens Advice Scotland and its member bureaux form Scotland's largest independent advice network. CAB advice services are delivered using service points throughout Scotland, from the islands to city centres.

The CAB service aims:
to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively

and equally
to exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB service is independent and provides free, confidential and impartial advice to everybody regardless of age, disability, gender, race, religion and belief and sexual orientation.

www.cas.org.uk

info@cas.org.uk

Produced by The Scottish Association of Citizens Advice Bureaux - Citizens Advice Scotland (Scottish charity number SC016637)

1st Floor, Spectrum House, 2 Powderhall Road, Edinburgh EH7 4GB Tel: 0131 550 1000

Large print copies available on request