

# A better deal for the low-income taxpayer

**Practical steps to making the tax and associated welfare systems  
work better for people on low incomes**



# Contents

<b>About us</b>	<b>3</b>
<b>Foreword</b>	<b>4</b>
<b>Who needs help with the tax system and why</b>	<b>6</b>
<b>Principles for the tax system</b>	<b>8</b>
<b>1. Clear and up to date</b>	<b>12</b>
<b>2. Simple</b>	<b>20</b>
<b>3. Equitable</b>	<b>24</b>
<b>4. Just</b>	<b>30</b>
<b>5. Accessible and responsive</b>	<b>34</b>
<b>6. Joined up</b>	<b>40</b>
<b>7. Inclusive</b>	<b>46</b>
<b>Footnotes</b>	<b>50</b>

# About us

## The Low Incomes Tax Reform Group

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated systems<sup>1</sup> for those who cannot afford to pay for tax advice.

We also help this population in other ways, the main one being our provision of free-to-access website guidance on the types of tax and related benefits matters they might come across.<sup>2</sup>

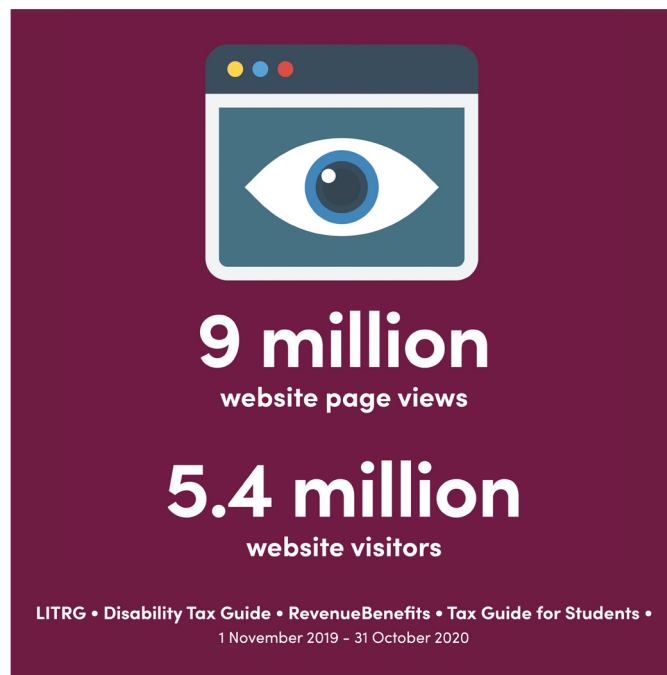
LITRG is comprised of a staff team<sup>3</sup> and a diverse committee of volunteers,<sup>4</sup> including current and former tax practitioners, former civil servants and representatives from other professional bodies together with voluntary and third sector organisations.

## The Chartered Institute of Taxation

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

## Information LITRG provides

LITRG's free guidance is primarily delivered via the main LITRG website, [www.litrg.org.uk](http://www.litrg.org.uk). This is supported by three niche websites<sup>5</sup> aimed at: students;<sup>6</sup> people taking on a carer<sup>7</sup>; and advisers who support people with tax credits, child benefit and tax-free childcare<sup>8</sup>. Although aimed at those unable to pay for advice, the websites are widely used by professional and third sector advisers.



The websites also help to gather feedback and evidence which is used to support LITRG's consultation responses, Parliamentary submissions and raise issues with HMRC.

## Overview of LITRG success

LITRG's success takes many forms.<sup>9</sup>

For example, a small change to GOV.UK guidance might nevertheless be a significant success in that its readers could otherwise have been misled and consequently failed in a tax obligation or would not have claimed all their entitlements. LITRG's engagement with HMRC's employment status tool has been one example of where we have seen such improvement.

In other instances, we have pressed for – and achieved – changes in the law. For instance, when the marriage allowance was introduced, the law did not permit a claim in cases where one member of the couple had died which seemed anomalous. In 2017, following LITRG pressure, the law was amended for this and allowed people in such circumstances to backdate claims to 2015/16 when the transferable allowance was introduced.

Get in touch: [www.litrg.org.uk/contact-us](http://www.litrg.org.uk/contact-us)

# Foreword

The tax affairs of people on low incomes<sup>10</sup> are surprisingly complex, frequently burdensome and often contain traps for the unwary.

Responding to this, in 1998 the Council of the Chartered Institute of Taxation, led by the then President John Andrews, set up the Low Incomes Tax Reform Group, giving it a mandate:

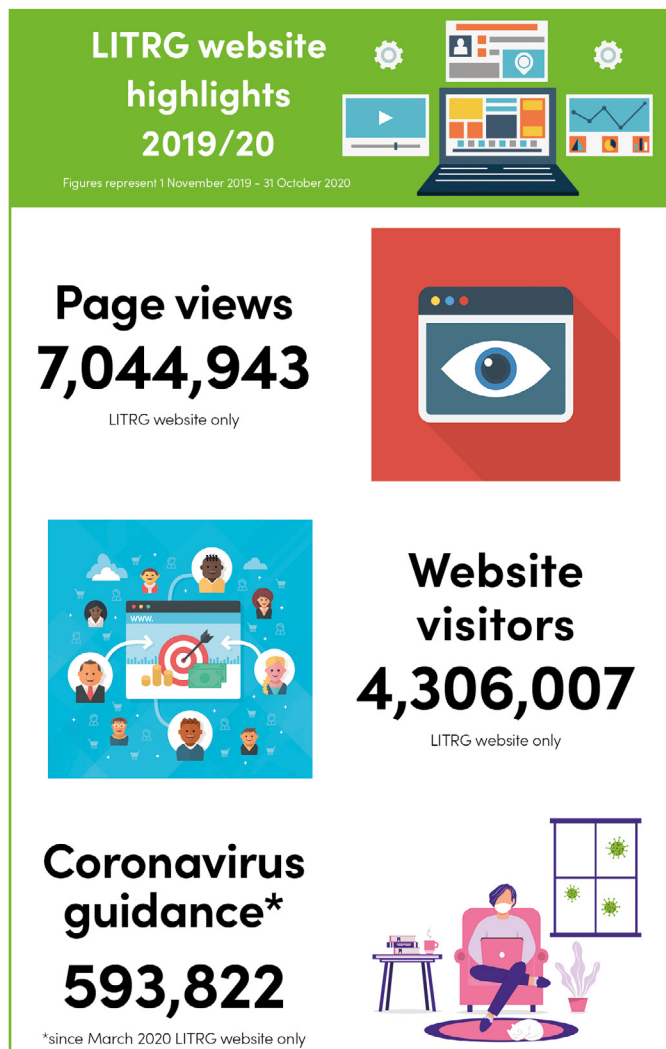
“To target for help and information those least able in the community to afford tax advice and make a real difference to their understanding of taxation and to work to make the tax system more friendly to their needs.”

In the ensuing 22 years, through its dedicated staff and volunteers, LITRG has strived to fulfil both strands of that mandate – enhancing the public understanding of tax by providing free information and guidance; and working with government and others to improve the aspects of the tax system that impact on low-income and vulnerable taxpayers the most.

Both of these strands have been working at full throttle during the COVID-19 pandemic, as LITRG engaged closely with HMRC on the development of support schemes, easements and deferrals, and the processes for accessing them. The COVID-19 guidance on our web pages has been viewed more than half a million times since March.

The pandemic has had, and will continue to have, far-reaching consequences for the UK economy and public finances. Weaknesses have been highlighted in the tax system in areas already in need of reform and the crisis, and the Government’s economic response to it, has brought to the forefront questions about wider reform of the tax system.

In July 2020, HMRC set out their 10-year strategy<sup>11</sup> to build a trusted, modern tax administration system with an aim to create a tax system ‘fit



for the challenges and opportunities of the 21st century’. In their strategy, HMRC highlighted the ‘constraints imposed’ on them in their COVID-19 response ‘by a tax administration system that is badly in need of renewal’.

It is therefore highly likely that we will see significant reform of the tax system over the next few years and LITRG’s continued role will be crucial in ensuring that those changes take into account the needs of low-income, unrepresented taxpayers. That is why we are publishing this paper now which sets out seven core principles which we believe should be firmly lodged in the minds of those designing and managing the tax system.

# Foreword continued

Much of HMRC's 10-year strategy is focused on making the tax system fully digital and having real-time information at its core. The move to a fully online tax system has been a key focus of LITRG's work for some years now, amid concern that those who have difficulty interacting digitally will be left behind. Data may also be exchanged far more easily than in the past, which has the potential to make life easier (e.g. through pre-population), but also poses questions (e.g. how to resolve data gaps and inaccuracies).

Two further overarching themes in this paper have been highlighted during the COVID-19 pandemic. The first is the need for government to be joined up. During the pandemic, we have seen some examples of unfortunate interactions – whereby a positive initiative by one area of government is significantly diminished by a negative interaction elsewhere. It is no good plugging one gap, if another just opens elsewhere. Similarly, policymakers will not achieve their intentions if the full consequences of new policy are not analysed and anticipated problems addressed in advance.

The second theme is the need for government to provide people with accurate, detailed and up-to-date guidance to help them understand their rights and obligations. HMRC have worked at pace to design and implement the various COVID-19 support schemes for individuals and employers which have helped millions of people. However, those who have contacted us have found the guidance difficult to understand and have been left confused about how all of the government offerings fit together.

Each section of this paper covers one of the LITRG principles for the tax system – namely that the tax system should be more clear and up-to-date, simple, equitable, just, accessible and responsive, joined-up and inclusive. The recommendations that sit under each of these principles are not intended to be exhaustive, but merely illustrative

of the types of changes that would benefit low-income taxpayers.

The principles in this paper are primarily aimed at policy-makers – both politicians and civil servants – and those who administer the tax system, in the devolved administrations as well as central government. Some of the associated recommendations require changes to the law, some just changes of practice. Some will cost money, but more often it is simply a case of developing approaches which take account of the needs of low-income, unrepresented taxpayers and thus save both government and taxpayers time and effort.

These are of course challenging principles and on occasion there will be conflicts between them, as well as tensions with the overarching aim of the tax system – to bring in the money that government needs to deliver public services and its other goals. This is inevitable. We will never achieve perfection.

But by keeping these aims in mind as further tax reform is contemplated, and working to implement as many of the recommendations we set out as possible, we believe developing a tax system that works effectively for all – government and taxpayers of all kinds, especially those who are vulnerable or on low incomes – is achievable.



*Moira L. Kelly*  
Moira Kelly  
Chair, LITRG



*Peter Rayney*  
Peter Rayney  
President, CIOT

# Who needs help with the tax system and why

The 'groups' listed below are not necessarily discrete. Individuals may fit more than one description and have multiple barriers to engagement

## Low-income workers

- Pay As You Earn (PAYE) might not deduct the correct tax in-year when working multiple jobs, or when moving jobs frequently
- Taxpayers may not check or understand their tax and might receive unexpected tax calculations



## Self-employed workers

- Must comply with Self Assessment – notifying liability, calculating and paying tax and National Insurance Contributions
- Have to keep records and work out profits, losses and allowances
- Benefits rules add complexity

## Agency/'gig' workers

- Lack of clarity over tax and employment law situation, with workers falling into a grey and complex area between employment and self-employment
- Models of engagement can be confusing and exploitative – in sectors characterised by avoidance behaviour

- Workers in temporary labour market are often those least able to cope with the consequences of distortive hiring practices

## Migrants

- Taxpayers have to deal with unfamiliar systems
- Language barriers can add to misunderstanding
- Residence issues and overseas interests add to tax complexity
- Tax matters must be resolved when leaving the country
- Pensions can be complex, due to accrual of rights and savings in different countries

## Pensioners

- Not understanding the state pension is taxable, and how it is taxed, causes confusion
- PAYE coding can go wrong on multiple sources of income
- Taxable lump sums taken under pension freedom may trigger significant and unexpected tax liabilities



# Who needs help with the tax system and why

## continued

### Disabled people and carers

- Employing personal assistants creates tax, National Insurance and other employer responsibilities
- Carers face difficult interactions between the minimum wage rules, state benefits and tax



### Students

- Part-time and ad hoc work can mean the correct tax is not deducted in-year
- International students might encounter complex interactions with overseas tax rules
- Repayment of different types of student loans via the tax system causes confusion



### Digitally challenged

- Those without the access (perhaps due to affordability or lack of reliable broadband provision), skills (language barriers, learning difficulties, comprehension of the subject, digital inexperience), motivation or trust to interact with the authorities digitally may be unable to cope without help

### Need caused by other circumstances

- Other factors can make individuals vulnerable, unable to cope with dealing with their tax affairs or simply mean that dealing with HMRC is difficult practically. These circumstances may come and go, for example:
  - » Claiming benefits, or changes to such claims (e.g. moving from tax credits to universal credit)
  - » Bereavement
  - » Physical or mental ill-health
  - » Loss of a job
  - » Relationship breakdown
  - » Homelessness

# Principles for the tax system

Our recommendations are primarily aimed at policy-makers and those who administer the tax system. These recommendations are divided between seven principles which we believe should be firmly lodged in the minds of those designing and managing the tax system. The recommendations under each principle are not intended to be exhaustive but merely provide examples of changes that could be made to improve the experience of low-income taxpayers with the tax system.

## 1. Clear and up to date

**To be clear and up-to-date, the tax system requires:**

- **Clear, unambiguously written law that keeps pace with the times**
  - **Clear division of responsibility between the state and the taxpayer**
  - **Accurate, comprehensive and accessible guidance**
- Ensure consistent use of terminology and definitions when making new tax and benefits law
  - Make PAYE coding notices and P800 tax calculations easier to understand
  - Review how Self Assessment, Simple Assessment and PAYE interact
  - Tell taxpayers what data HMRC have, how it is used, and explain taxpayers' responsibility to check it
  - Improve GOV.UK to make it more accurate, more comprehensive and easier to navigate
  - Clearly explain calculators and tools, and use them to supplement (not replace) guidance
  - Provide pensions information and advice which incorporates relevant tax and benefits issues
  - Teach more tax in schools
  - Proactively target certain groups with tailored guidance, and raise awareness of tax law changes





# Principles for the tax system

continued

## 2. Simple

**To make the tax system feel easier, government and tax authorities need to:**

- **Aim for simplicity when writing the law**
  - **Even if the law is complex, aim to reduce this complexity through its administration, so that it is as easy as possible to be compliant**
- Avoid introducing multiple complex mechanisms in tax law
  - Find a way to tax those in the gig economy, other than through Self Assessment
  - Consider an optional default accounting date of 31 March or 5 April for new self-employed businesses
  - Review and simplify the taxation of trusts and estates
  - Consider further alignment of National Insurance and income tax rules
  - Set out plans for improving PAYE and the rollout of Simple Assessment
  - Enhance usability and functionality of digital tax accounts
  - Operate full PAYE on taxable state benefits including the state pension

## 3. Equitable

**To be equitable, the tax system should:**

- **Where possible, aim to treat taxpayers in similar situations comparably**
  - **Avoid injustices and traps for the unwary**
- Extend bereavement support payment to unmarried couples
  - Ensure all low-income earners benefit from tax relief on pension contributions
  - Make it easier for people to raise employment status issues and to report non-compliance by employers and engagers
  - Review fixed amounts in tax legislation and uprate them annually by default
  - Consider whether to increase the universal credit work allowance as well as – or instead of – the personal allowance
  - Explore options for giving relief to non-taxpayers for their travel expenses
  - Amend universal credit rules for the self-employed to better reflect fluctuations in income

# Principles for the tax system

continued

## 4. Just

**A just tax system should feature:**

- **A careful balance between the powers of tax collectors and the rights of taxpayers**
- **Appropriate safeguards and oversight**
- **Availability of justice to all, irrespective of financial means and vulnerability**
- Avoid further erosion of taxpayers' ability to gain certainty over their tax affairs
- Train HMRC staff to make better decisions earlier in the process in common areas of dispute
- Introduce an accessible means of disputing HMRC's use of discretion
- Proactively identify taxpayers who need extra support in HMRC dispute situations and signpost them appropriately to independent help
- Provide a clear mechanism for taxpayers to challenge inaccurate information held by HMRC

## 5. Accessible and responsive

**To deliver an accessible and responsive tax system, it is necessary to:**

- **Capitalise on technological advances appropriately, but ensure no-one is disadvantaged**
- **Ensure resources are available to allow for flexibility and to be responsive to individuals with particular needs**
- **Ensure that HMRC understand external pressures and factors**
- Ensure detailed consultation during the development of the next phase of Making Tax Digital
- Keep easily accessible non-digital channels and provide telephone numbers on all correspondence
- Help advisers to help people, e.g. provide 'dummy' access to HMRC and DWP systems
- Raise awareness of the HMRC Charter, embed its principles across HMRC, and learn from complaints
- Introduce an HMRC overarching extra support strategy and vulnerable customer policy
- Ensure HMRC is adequately staffed, and staff sufficiently trained, to provide consistency and continuity of service
- Ensure HMRC devote the time, effort and resources necessary to fully understand the inner workings of the labour market

# Principles for the tax system

continued

## 6. Joined up

**A joined-up system should ensure that:**

- **Different government departments and devolved administrations work closely together, so that no-one falls into gaps between different arms of government**
- **Data is shared appropriately, and taxpayers are not caught between different arms of government and third parties as regards inaccurate or incomplete data**
- **The tax and benefits systems interact effectively and coherently**
- HMRC should appoint a senior official to take responsibility for agency workers and umbrella companies and work with other government departments on issues arising
- Deliver a holistic service for joint customers of government departments and devolved administrations
- Publish details of any protocols for dealing with matters that cut across government departments and devolved administrations
- Carefully manage the migration of tax credits claimants to universal credit, ensuring it is fully piloted and clearly communicated
- Tackle issues arising out of sharing data across government departments
- Align rules for calculating self-employment profits for tax and universal credit
- Better co-ordinate policy making across government departments

## 7. Inclusive

**An inclusive tax system should mean that:**

- **Policy and legislation are consulted on in a wide and meaningful way**
- **Everyone has a voice**
- **The full impact of proposed changes is considered, including the interaction with non-tax systems such as welfare benefits**
- Consult early on all tax policy, with proactive stakeholder involvement
- Increase parliamentary scrutiny of tax policy, and embed post-implementation reviews in the process
- Introduce a step in the tax policy-making process to ensure all impacts, including non-tax impacts, are considered
- When making tax policy, consider all the interactions between UK government and devolved administrations

# 1. Clear and up to date



UNCLEAR

To be clear and up to date, the tax system requires:

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- Clear division of responsibility between the state and the taxpayer
- Accurate, comprehensive and accessible guidance

# 1. Clear and up to date continued

## Ensure consistent use of terminology and definitions when making new tax and benefits law

If one element of the tax system is described in the same way as another, taxpayers are likely to assume a common meaning. So why are the same terms used for different things?

Let's take the word 'allowance'. Tax legislation uses this term for the following, for example:

- personal allowance
- blind person's allowance
- transferable tax allowance for married couples and civil partners (also known as the marriage allowance)
- personal savings and dividend allowances
- trading and property allowances
- pensions, for example the lifetime and annual allowances

## Case study: dividend allowance

An individual incurred an unexpected tax liability of over £15,500 on his state pension lump sum, having thought he was a non-taxpayer.

In fact, he was a basic rate taxpayer, but his dividend income that fell within the basic rate band was taxed at a nil rate due to the dividend allowance.

His (understandable) mistake was in thinking that the dividend allowance worked the same as the personal allowance – i.e. as a deduction from total taxable income.

## Website query: what is income?

'I just want to know what is considered income. I understand what is and is not taxable but I'm trying to find out what exactly is considered income. I am unemployed because I'm disabled. I'm on PIP, ESA (income based) and housing benefit (paid into my bank account). I do not get interest on anything nor do I own anything.

'I've been told I'm considered low income because the benefits I'm on but not why. They all adds up to over £30k so it doesn't make sense. I don't understand when asked what is my income because if it's based on taxed amount it would be zero.'

All these allowances do not, however, work in the same way. For instance, the personal and blind person's allowances are deducted from taxable income, whereas the personal savings and dividend allowances are in fact nil rates of tax. With the latter, the income remains taxable, which means that a person can remain a taxpayer albeit at a nil rate. By assuming that all 'allowances' work in the same way, serious miscalculations of individuals' tax liabilities can arise.<sup>12</sup> The differences also make the law very hard to explain.

Let's also consider the word 'income'. Doesn't everyone know what their income is? Unfortunately, they do not. Within tax law alone, it can have multiple meanings, for example: gross income, net income, adjusted net income, taxable income, and income net of allowances. The interaction between tax and benefits creates further confusion. Even when people think they understand what 'income' is for tax, they may then discover that different definitions are used for benefits – for example, to establish entitlement to universal credit.

# 1. Clear and up to date continued

It may be difficult to align existing definitions without a great deal of work and evaluation of winners and losers, but it is possible to:

- avoid introducing new or subtly different definitions of the same term, by including a formal step in policymaking to address this
- review how existing definitions might be aligned as and when other changes are made.

## **Make PAYE coding notices and P800 tax calculations easier to understand**

Around 30 million people pay tax through Pay As You Earn (PAYE).<sup>13</sup> It is therefore worth investing effort in making this system as easy as possible to understand, so that people can check their codes and pay the right tax in-year.

For example, it seems unnecessarily complex to continue formulating PAYE codes by calculating a number, dropping the final digit and then adding a letter.<sup>14</sup> This makes codes difficult to explain and makes it harder for HMRC to improve communications such as the coding notice. PAYE codes could be more clearly constructed by using

the full number for net allowances, e.g. 12500L for 2020/21 rather than 1250L. Letters should only be used where absolutely necessary, for example to indicate whether someone is a Scottish or Welsh taxpayer.

HMRC should also improve clarity by showing any estimated figures on coding notices and year-end PAYE tax calculations (P800s). This should include a source-by-source breakdown of any figures that make up a total, what tax year the data was originally for (and so whether it is a carried forward estimate) and what the taxpayer should do to check and correct it, if necessary.

## **Review how Self Assessment, Simple Assessment and PAYE interact**

To run smoothly, the tax system must be clear in terms of who is supposed to do what and when. The current system for individuals is a mix of tax deduction at source (for example PAYE on employment income and pensions) and Self Assessment. Simple Assessment (under which individuals do not have to submit a tax return, but instead HMRC send them a formal calculation of their tax liability) alleviates the full Self Assessment burden for some taxpayers. The basic principle is, however, that the onus is on the taxpayer to take reasonable care to check that their tax affairs are correct. In certain circumstances, people must notify HMRC of a liability to tax.

However, HMRC increasingly gather data that may be used to establish individuals' tax positions without a tax return. This increased data-matching ability, facilitated by digitalisation, brings into question whether the balance of responsibility between HMRC and individuals is correct. In addition, HMRC have set out ambitious plans for the tax system in their strategy document 'Building a trusted, modern tax administration system' which envisages a fully digital tax system with real-time information at the core. Before HMRC embark on implementing their strategy,



# 1. Clear and up to date continued

some consideration needs to be given to whether the onus should shift more onto HMRC to get an individual's tax right. A review of the balance of responsibility between HMRC and taxpayers is required and this should form a key part of their initial work on implementing their strategy.

One example of how the system has fallen down in terms of data use, highlighted by the COVID-19 pandemic, is that it appears some construction workers who have tax deducted under the Construction Industry Scheme (CIS) have mistakenly reported those earnings on the employment pages of their Self Assessment tax returns. This problem has come to light when these workers have attempted to claim a Self-Employment Income Support Scheme grant.

As explained in our submission to the Public Accounts Committee<sup>15</sup>, this situation should not have arisen. HMRC's systems could have flagged up the taxpayer's error, because they would not have had matching PAYE real-time information data for that person. Instead, no corrections were made to these returns and no compliance checks were launched to investigate further – thus allowing the person to perpetually file incorrect Self Assessment returns and effectively disqualify themselves from support they should have been entitled to had they correctly reported their income on the self-employment pages.

## **Tell taxpayers what data HMRC have, how it is used, and explain taxpayers' responsibility to check it**

The more HMRC reinforce taxpayers' perception that they already know everything about them by replaying data through digital, pre-populated systems, arguably the greater the risk of people simply taking the data as read. It also means that people think they do not need to tell HMRC about changes. Therefore, at the very least (that is, even if the review we suggest above is not carried out or does not result in a shift of primary



responsibility from the taxpayer to HMRC), HMRC need first to be clear as to the accuracy and reliability of the data before using it.

They then need to be clear as to:

- the data they have and how it has been used
- what taxpayers need to do to check and correct data, and
- what taxpayers need to do to notify any changes of personal circumstances (for example, a change of address).

A similar concern exists where HMRC introduce processes that aim to improve the taxpayer/ tax credit claimant experience but which are not supported by legislation. For example, HMRC and DWP introduced a notification system between the two departments so that HMRC Tax Credits Office are notified when a qualifying disability benefit is awarded or stopped by DWP for a tax credit claimant. HMRC use this information to add or remove appropriate disability elements in the individual's current tax credit award.

However, when it fails, the claimant has no avenue for redress because the requirement to notify these changes rests with them under the legislation. HMRC need to ensure that any

# 1. Clear and up to date continued

processes like this are supported by legislation which accurately reflects the balance of responsibility.

## **Improve GOV.UK to make it more accurate, more comprehensive and easier to navigate**

The tax system is complex and interacts with other systems such as welfare benefits for those on the lowest incomes. Comprehensive guidance is therefore essential.

GOV.UK is the central point for tax and benefits guidance, as it is for central government information and services more widely. Its simple and heavily standardised editorial style has advantages, but the downside is that information is sometimes omitted or abridged, potentially making it misleading.

Without sacrificing the simple overview, better links could be made to more detail, such as Self Assessment helpsheets and HMRC manuals.

Guidance should keep pace with routine changes in tax law and societal change. For example, despite the fact that the majority of agency workers are now told by agencies to work through umbrella companies, umbrella companies are not mentioned once in the GOV.UK guidance for agency workers<sup>16</sup>. The guidance is largely based on the concept of the old 'tripartite' arrangement,

giving the worker nothing in the form of guidance or assistance that they can use or apply to the circumstances before them.

Guidance should also be joined up across different departments, but this does not always happen. This problem has been exacerbated during the coronavirus pandemic. Accepting that the situation has been fast-moving, the guidance has not at times kept pace with the various changes, has not included detailed information needed by people to understand their position and has not been clearly joined up.

For example, several pages aimed at self-employed claimants seeking financial support during the pandemic directed them to claim universal credit. However, the guidance did not make clear that they might already be existing tax credit claimants and that if they claimed universal credit their tax credit claim would end irreversibly, potentially making them worse off.

GOV.UK needs to clearly show when and how information has been changed, be kept up to date as quickly as possible when there is a change (or flag any pending changes), and users should be signposted to archived pages and documents so that they can see what the law and guidance were at a given point in time.

Revenue Scotland's website ([www.revenue.scot](http://www.revenue.scot)) does this well, in that it is possible to view earlier versions of the same web page simply by clicking on a hyperlink at the bottom, which can be found under the heading of 'Archive'.<sup>17</sup> It also sets out clearly the date of each update and the date of each earlier version.<sup>18</sup>

## **Clearly explain calculators and tools, and use them to supplement (not replace) guidance**

Online calculators and other tools that aim to help users make tax-related decisions are helpful, provided they are implemented wisely.<sup>19</sup>





# 1. Clear and up to date continued

Firstly, the purpose and functionality of the calculator or tool must be clear.

This means that:

- any limitations should be clearly explained
- a list of what is needed to complete it should be provided up-front
- box entries require proper explanation
- users should be able to obtain a copy for their records – e.g. by automatically receiving a copy by email (being prompted to print or save a copy would also be helpful but may not always be possible, e.g. if the form has been completed at a voluntary online centre). This could be important evidence in the event of challenge by HMRC, or in a Tribunal case.
- users should be clear in what circumstances they can rely on the answers from an interactive tool

The above comments also apply to digital forms, such as claims or elections.

Secondly, in several areas, such tools have been launched to replace written guidance rather than supplement it. We do not think this is helpful, particularly where such tools have limited functionality and limited guidance to help users answer the questions accurately.

For example, the GOV.UK guidance on who must fill in a tax return has been abbreviated and a tool added.<sup>20</sup> The guidance itself does not make clear that you must usually complete a return if HMRC have issued one to you, even if you do not otherwise fit the criteria (although it is possible to ask HMRC to cancel the notice to file).

The tool should therefore start with “Have HMRC issued you a tax return or a notice to file a tax return?”, but it does not ask that question at all.

Limited information about how to answer questions risks people making mistakes. For example, in asking “What was your total income for the year?”, the tool, currently, says:

“To work this out, add up all your income – for example, salary before tax, taxable benefits (such as a company car), and income from investments or pensions.”

Up until November 2020, the above was followed by this sentence: “Then take off anything you can claim tax relief on.”

It is not clear why this final statement was removed as it now makes the tool incorrect, as it appears that the question is trying to determine liability to the High Income Child Benefit Charge, which is based on adjusted net income, not gross income.

If you are self-employed, the third question you are asked is ‘Did you earn more than £1,000 from working for yourself?’. It says ‘This is the amount you earned before taking off any expenses’. However, this second line was only added to the tool in mid-November 2020.

Prior to that there was no guidance on what ‘earn’ meant. Did it mean profit? Turnover/sales? Adjusted net income? In reality, we think many people would interpret it as profit as other parts of HMRC guidance refer to the amount someone ‘earns’ as their profit. However, such an assumption would, in some cases, have led the user to be told they didn’t need to file a tax return when in fact they did because it was asking about their turnover.

Although HMRC have now amended this after we brought this issue to their attention, it is not possible to tell when updates to the tool are made. There is also no prompt on this particular tool to save/print and keep copies of the answer given.

# 1. Clear and up to date continued

Perhaps one of the most unhelpful prompts is the question relating to foreign income, which simply asks whether the individual needs to pay tax on income from outside the UK. If an individual has a small amount of foreign income, there is no guidance on how to make this assessment. Many might incorrectly assume that foreign income is not taxable in the UK if it is being taxed overseas, leaving themselves potentially exposed to harsh penalties regimes which do not discriminate between an innocent mistake and deliberate tax evasion.

The user of the tool is, after answering the questions, given an answer as to whether they need to file a tax return. Given the lack of supporting guidance about the questions, it is entirely possible people will answer the questions incorrectly and therefore receive an incorrect answer.

It is not clear what approach HMRC would take in a situation like this where someone (incorrectly) failed to file a tax return in this situation. As more interactive tools are introduced and HMRC move forward in their plans to fully digitise the tax



## Case study: tax on pension withdrawal

'I have received a tax bill for £2,517 which I cannot pay. It is for high income tax on child benefit... I took my pension... which pushed my total income just above £60,000. The money was spent on essential home improvements... we have children to support...

'We feel this is very unfair as in all other years our income is well below the threshold for the high income tax. My wife does not even have a permanent job. Please help as we don't know what to do.'

system, they must be clear about their position and state this at the start of the tool.

### **Provide pensions information and advice which incorporates relevant tax and benefits issues**

Pensions freedom since April 2015 has allowed people to have flexible access to their pensions, but often they do not understand the tax and related benefits impacts.<sup>21</sup> As a result, they make costly mistakes such as triggering the High Income Child Benefit Charge as shown in the case study. Pensions information must therefore be clear in describing these impacts.

Pensions dashboards are to be introduced with the aim of helping people to engage with their pensions. This is a positive step. But developers must continue to consult with experts on the tax and benefits aspects so that the dashboards promote better understanding of those impacts.

In addition, the Money and Pensions Service should urgently consider setting up a free pension freedoms advisory service to help those on low incomes.<sup>22</sup>

# 1. Clear and up to date continued

It is disappointing that the Financial Wellbeing Strategy from the Money and Pensions Service<sup>23</sup> does not mention tax at all, despite our efforts to convey the importance of tax at its 2019 series of listening events.<sup>24</sup>

## Teach more tax in schools

People's lack of knowledge of tax and related welfare benefits is a common theme in our work. The tax system can never be clear to people if they lack even the most basic knowledge about it.

For example, there has been some interesting HMRC research suggesting that most people (54 per cent)<sup>25</sup> who have earned income from the sharing economy (which includes those working in the 'gig economy') do not realise it is taxable. This finding, although worrying, is unsurprising. Given the irregular and often 'on demand' nature of 'gig economy' income, in many cases it does not even occur to many people that their income is taxable, let alone what their obligations are in respect of it. This is down to an overall lack of tax awareness.

We support the Office of Tax Simplification's 2019 Life Events report's recommendations on this theme.<sup>26</sup> Education in finance and tax could be expanded at Key Stages 3 and 4, to ensure all pupils understand 'tax fundamentals' such as the purpose of tax, how a payslip works and employment status, as well as other important aspects of personal finance.

## Proactively target certain groups with tailored guidance, and raise awareness of tax law changes

HMRC should do more to raise tax awareness. For example, HMRC's Grant in Aid funding has, in recent years, focused on provision of frontline services, but in the past has included boosting targeted guidance for certain segments of the population. Funding for educational purposes could help prevent non-compliance.



When tax law changes, HMRC should make efforts to work with relevant third parties to raise awareness among those affected. For instance, case law has indicated that taxpayers were not warned by professionals such as conveyancers and estate agents of changes from 6 April 2015 to reporting requirements for non-residents' sales of property. Unrepresented taxpayers could similarly fall foul of this in relation to the extension to all transactions in UK residential property introduced in April 2020, particularly when coupled with the restrictions to capital gains tax private residence relief.<sup>27</sup>

HMRC could also attempt to raise awareness of tax obligations through matching of data. For example, on introduction of the High Income Child Benefit Charge, HMRC initially wrote to potentially affected taxpayers, warning them of the change. However, this was not repeated year on year, with consequent non-compliance.<sup>28</sup> Statistics published by HMRC<sup>29</sup> show a concerning year-on-year increase in the number of cases reaching the First-tier tribunal relating to the charge. Many of these taxpayers are appealing against the failure-to-notify penalties issued by HMRC on the basis that they were not aware of their liability. HMRC typically takes an unsympathetic view, arguing that ignorance of the law is not a reasonable excuse and issuing nearly £19m in failure-to-notify penalties to date. Many of these taxpayers struggle to settle the debts which have accrued and feel that HMRC should have joined up information sooner.

## 2. Simple



To make the tax system feel easier, government and tax authorities need to:

- Aim for simplicity when writing the law
- Even if the law is complex, aim to reduce this complexity through its administration, so that it is as easy as possible to be compliant

## 2. Simple continued

### **Avoid introducing multiple complex mechanisms in tax law**

In the discussion on clarity, we refer to how the word 'allowance' is, in tax, applied to a variety of mechanisms which aim to achieve similar outcomes.

For both clarity and simplicity, it would be helpful if the government were to aim for as few different mechanisms as possible. Where there is already a model for giving a certain type of relief, careful consideration should be given before introducing a different one.

The transferable tax allowance for married couples and civil partners is one example of seemingly needless complexity.

This is especially confusing as it is a hybrid. One spouse or civil partner gives up 10% of their personal allowance, while the other partner receives a tax reduction equal to basic rate tax (or Scottish basic rate tax, if appropriate) on the allowance given up (i.e. the recipient does not get an increased personal allowance).

Yet in a great many cases, the effect of the tax reduction will be very similar to the recipient receiving an increased personal allowance.

Indeed, when the recipient has a PAYE code, the allowance given up by their partner is commonly shown as an additional allowance on the recipient's Notice of Coding.

The law would be far simpler if policymakers were to avoid introducing multiple complex mechanisms where an existing model would achieve the same or similar aim.

### **Find a way to tax those in the gig economy, other than through Self Assessment**

In 2018, the government consulted on the role

of 'online platforms' in helping to address tax compliance for those working in the 'gig economy'.<sup>30</sup> By 'gig' work, we mean short-term or freelance work which might include for example one-off, irregular, or casual work organised by online platforms such as running errands or making deliveries.

Further serious consideration must be given to how those in the gig economy can be taxed in a way that does not rely so heavily on Self Assessment, which can be complicated for workers to deal with and result in mistakes and 'bunching' of tax liabilities.

One option might be to enable platforms to operate something akin to the construction industry tax deduction scheme, at a rate that would minimise the number of situations in which workers have to claim refunds of over-deducted tax. Final adjustments could be made via a year-end reconciliation. We understand that HMRC will be considering these issues as part of their plan for 'Building a trusted, modern tax administration system' and we look forward to continuing to consult with them.

### **Consider an optional default accounting date of 31 March or 5 April for new self-employed businesses**

New self-employed business owners have a lot of administration to deal with, and the roll out of the income tax phase of HMRC's Making Tax Digital programme means that all but the smallest businesses will be required to report their business income and expenses on a quarterly basis from April 2023 (based on the current timetable).<sup>31</sup>

Many business owners choose to draw up accounts for a 12-month period from the start date of their business, without realising they could choose any date. Choosing an accounting year end other than 31 March or 5 April leads

## 2. Simple continued

the self-employed into significant tax complexity. This is because the correct basis periods need to be established (with 'overlap profits' arising) and the year end is out of step with other reporting that takes place on a tax year basis, for example PAYE.

Introducing a default accounting year end of 31 March or 5 April, unless the taxpayer actively chooses a different date (perhaps for commercial reasons), would therefore reduce complexity and improve taxpayers' understanding of their tax situation. It would also make complying with Making Tax Digital quarterly reporting more straightforward. This approach should harness people's inertia (as has been successful with auto-enrolment into workplace pensions), leading them down a potentially easier path and removing some of the difficulty with having to make an active choice.

### **Review and simplify the taxation of trusts and estates**

While the general public might view trusts as being the prerogative of the rich, they are in fact much more common than many people realise. Unfortunately, trust taxation is extremely complicated and is almost impossible for unrepresented taxpayers to navigate alone. We recommend that work on reviewing the taxation of trusts and estates should continue.<sup>32</sup>

For example, it is sensible for a parent to make provision in their Will for their children. Where these children are still young, it is natural that the parent would seek to protect the child from themselves in terms of profligate spending, and from exploitation by others. A trust is therefore a suitable option. A special inheritance tax regime applies to such trusts until the young person is age 18. However, we suspect most parents would consider that age 18 is very young to be able to handle an inheritance. We recommend that the special inheritance tax regime for bereaved

minors be extended to age 25. Trusts for disabled people are another area of difficulty, with seemingly unnecessary restrictions on payments to other beneficiaries.

Tax complexity may also be encountered when someone dies. We suggest that the taxation of estates could be simplified by treating them as 'look through'. In simpler estates where there is no need to apply for probate (confirmation in Scotland) and no inheritance tax to pay, this would mean reporting the income as belonging to the ultimate beneficiary.

### **Consider further alignment of National Insurance and income tax rules**

Differences between National Insurance and income tax rules create confusion.

One example is the threshold at which contributions and income tax start to be paid. Employees and the self-employed start paying Class 1 or Class 4 national insurance contributions (NIC) when they earn at a level higher than the primary threshold/lower profits limit, but they do not pay income tax until they earn £12,500 (2020/21 rates). Steps have been taken towards equalising these figures<sup>33</sup>, with the primary threshold and lower profits limit being raised from £8,632 to £9,500 for 2020/21.<sup>34</sup>

Another example is that employees may claim tax relief for some unreimbursed employment-related expenses, but no similar claim to relief from NIC is possible.

Further work in this area could build upon the Office of Tax Simplification's 2016 review.<sup>35</sup>

### **Set out plans for improving PAYE and the rollout of Simple Assessment**

HMRC do not make full use of the data they collect. For example, HMRC were attempting

## 2. Simple continued

to increase their use of data via their 'dynamic coding' project, the aim of which was to improve the accuracy of PAYE codes in-year, which would in turn reduce the need for end-of-year reconciliations.

Similarly, HMRC could put data they collect to better use by further expanding the use of Simple Assessment (which removes the burden of full Self Assessment from some taxpayers). We think there are areas in which Simple Assessment could be used to reduce costs for HMRC and alleviate taxpayer burdens – including using it for those with small amounts of overseas pension income, for example.

Work to expand both of these projects was paused in spring 2018.<sup>36</sup> We assume that HMRC will evaluate whether they are to be reinstated as part of the plans outlined in the Department's corporate report 'Building a trusted, modern tax administration system'. It would be helpful to understand where these paused projects sit within HMRC's new strategy and we look forward to working with HMRC on this.

### **Enhance usability and functionality of digital tax accounts**

LITRG supported the recommendation of the Office of Tax Simplification's Tax Reporting and Payment Arrangements Review, that the features of the current personal tax account and business tax account should be combined into a single individual tax account.<sup>37</sup> HMRC have accepted this and included a single digital account as a key component of the government's vision for the tax system.<sup>38</sup>

We think that additional improvements to help tax feel simpler might include more interactive tools. For example, businesses have a plethora of important dates to contend with and can find it difficult to comply with all their payment and reporting obligations. Functionality could be



developed within digital tax accounts to send businesses a personalised timetable of returns and payment dates, together with prompts at appropriate times. This could encourage compliance and reduce costs for HMRC.<sup>39</sup>

### **Operate full PAYE on taxable state benefits including the state pension**

There is currently a confusing array of different rules for the deduction of tax at source from income. For instance, PAYE is applied to employment, and to occupational and private pensions, but not to the state pension. Perhaps partly for this reason, some people mistakenly think that the state pension is not taxable.<sup>40</sup> Instead, the state pension is 'coded out' against other income that is subject to PAYE where possible, but sometimes state pensioners must file Self Assessment returns, or HMRC send them a Simple Assessment.

Other taxable state benefits are also not subject to PAYE, or a modified version of PAYE is applied.

The system could be improved for low-income taxpayers by bringing state pension and benefits properly within PAYE. Indeed, such a move would seem to fit with HMRC's strategy to build a trusted, modern tax administration system – given that leaving state benefits in a separate regime would be out of step with other analogous payments (private pensions and employment income, for example).

# 3. Equitable



To be equitable, the tax system should:

- Where possible, aim to treat taxpayers in similar situations comparably
- Avoid injustices and traps for the unwary



## 3. Equitable continued

### Extend bereavement support payment to unmarried couples

Our report 'Couples in the tax and related welfare systems – a call for greater clarity'<sup>41</sup> illustrated the difficulties of different definitions being used of what is a couple for tax, tax credits and benefits purposes. One blatant unfairness we highlighted was the non-availability of bereavement support for unmarried or non-civil partner couples on the death of their partner.

The non-availability of widowed parent's allowance to an unmarried bereaved partner was found on judicial review in August 2018<sup>42</sup> to be incompatible with the Human Rights Act 1998. A further case in February 2020<sup>43</sup> confirmed a similar position exists for unmarried bereaved parents in relation to the bereavement support payment. Although the government indicated in July 2020<sup>44</sup> that it would make a Remedial Order, it has not yet taken corrective action. Given that many bereaved parents (and children) will have been deprived of such payments and will continue to be deprived until the law is changed, we request urgent action to assist these cases both prospectively and retrospectively.

### Ensure all low-income earners benefit from tax relief on pension contributions

Tax relief on pension contributions is given to individuals in two different ways: relief at source (RAS) and net pay arrangements (NPA).

The difference in operation between the two methods means that an estimated 1.75 million people in NPA schemes are not benefiting from the same government incentive as those RAS schemes.<sup>45</sup> Over 75% of those affected are female<sup>46</sup>, raising equality and discrimination issues.

The individual has no control over which form of tax relief is used – the employer chooses the scheme. For non-taxpayers or those earning



just above the personal income tax allowance in NPA schemes, pension saving is up to 25% more expensive for them as compared to a worker contributing to a RAS arrangement.

This means, for example, that someone earning £11,240 in the 2020/21 tax year would have to pay an extra £50 into an NPA pension than a RAS pension, if their employer scheme bases contributions on the auto-enrolment minimum.

The 2019 General Election Conservative manifesto stated: "A number of workers, disproportionately women, who earn between £10,000 and £12,500 have been missing out on pension benefits because of a loophole affecting people with net pay pension schemes. We will conduct a comprehensive review to look at how to fix this issue."<sup>47</sup> A call for evidence was published on 21

## 3. Equitable continued

July 2020 and we hope that urgent action will be taken to ensure that all low-paid workers get the same pension incentives.<sup>48</sup>

HMRC collect details of employees' pension contributions made under NPA schemes<sup>49</sup>, so they should be able to identify individuals that have missed out on tax relief and make an equivalent payment to them.<sup>50</sup>

### **Make it easier for people to raise employment status issues and to report non-compliance by employers and engagers**

Low-income workers frequently contact us with employment status issues and say

#### **LITRG website enquiry: is my family member employed or self-employed?**

'A family member has taken on a job as a carer for an elderly person. The family holding the power of attorney are refusing to employ my relative and insist that they are self-employed. The HMRC tool says that they are employed. They are desperate and need this money.'

'What penalties can be imposed to them if they register as self-employed and pays tax and NI. I have shown the family the results from HMRC and they agree the questions have been answered correctly, but they say they can't afford to employ my relative and they see no reason why they can't be self-employed and that they didn't need to fill in the tool questionnaire.'

'My main concern is, yes, the 'employer' may be at risk, but so is my family member. They are in such a stressful situation at the moment, and it feels like they are being bullied into doing something dishonest.'

that their engagers are not operating PAYE correctly or at all. This can mean that they are incorrectly categorised as self-employed instead of employed and miss out on a range of employment law rights (such as sick pay) and entitlement to benefits such as Jobseeker's Allowance.

Such individuals may raise the point with their engagers but ultimately they have little ability to influence their terms of work, if it means a choice between that and no work at all. In the current economic situation as a result of COVID-19, people are even more likely to feel unable to query their employment status.

To whom should they complain? HMRC have a general tax evasion hotline, and workers could contact the ACAS helpline for advice about their rights. However, there is no specific pathway to support for people phoning HMRC about false self-employment. A clearer channel for reports to be made needs to be made available, and HMRC should focus more effort on PAYE compliance at employer level.

#### **LITRG website enquiry: employee treated as self-employed**

'I was initially PAYE, but my employer has informed me that I am now self-employed...'

'I have undiagnosed learning disabilities and require step-by-step help with what to do in order to pay tax and National Insurance that is due.'

'My family member is trying to help me, but we really do not know where to start... I do not have a business, but my employer says that I am now self-employed. Am I a business? What form should I be filling out to work out my tax and NI?'

## 3. Equitable continued

### Review fixed amounts in tax legislation and uprate them annually by default

Frequently, tax measures diminish in value, or start to impact on those not intended at the outset, because the government fails to uprate thresholds, bands and allowances by an appropriate factor, such as inflation or earnings. Examples include rent-a-room relief (which, although it was subject to a one-off increase from 6 April 2016 from £4,250 to £7,500 a year, has since remained static), the money purchase annual allowance, the trading and property allowances and the unearned income threshold for student loans.

Whilst we recognise the benefit of having a rounded and static threshold for the purposes of taxpayer awareness, this must be balanced with measures to compensate for fiscal drag.

We believe automatic annual uprating of thresholds, bands and allowances should be put in place, unless, in a specific case, a clear rationale has been set out for not doing so.

### Example: High Income Child Benefit Charge

Although not generally an issue for the low-income population, the HICBC can affect those who are ordinarily on a low income but who, for example, take a taxable pension lump sum.<sup>51</sup> It can also have indirect consequences on the lower-paid partner if child benefit is unclaimed as a result, as they may miss out on National Insurance credits.

HICBC was introduced from 6 April 2013, affecting those with an adjusted net income of £50,000 pa. Had HICBC rules kept pace with inflation, this figure would now be about £58,000.<sup>52</sup>

### Consider whether to increase the universal credit work allowance as well as – or instead of – the personal allowance

It has been a policy of successive governments to substantially increase the income tax personal allowance. This has benefited taxpayers across most of the income range but provides less benefit than sometimes implied to those on the lowest incomes. Firstly, this is because those already earning under the personal allowance – an increasing number – gain nothing from increasing it. Secondly, those in receipt of means-tested benefits such as universal credit see much of the gain clawed back by government.

This is because universal credit is based on net income (after tax and National Insurance deductions). As the amount of tax the claimant pays reduces, the net income increases and the universal credit award reduces correspondingly.



## 3. Equitable continued



Due to the universal credit taper, most claimants therefore only gain 37% of the benefit of any increase in the personal allowance.

If the government want to help those on very low incomes, increasing work allowances in universal credit (the amount that claimants can earn before their benefits start to be withdrawn) would be more beneficial than increasing income tax personal allowances. Such an increase could also provide an additional work incentive.

The same applies to increases in national insurance thresholds, which the government has started making from 2020/21. While this currently kicks in at a much lower point than the income tax personal allowance, making it a better way of helping low income taxpayers than further increases to the personal allowance, without increases to the work allowance most of the benefit to those on means-tested benefits will still be clawed back.<sup>53</sup>

### **Explore options for giving relief to non-taxpayers for their travel expenses**

The rules surrounding employees' travel expenses are complex. Broadly, an employee can deduct from their taxable income travel costs that are not reimbursed by their employer, if they are necessarily incurred in performing their job and are not costs of ordinary commuting. This provides them with tax relief (though not relief from National Insurance), thus saving 20% of the cost for a basic rate taxpayer.

Non-taxpayers obtain no tax relief on such costs. Many care workers – especially those working part-time – find themselves in this situation. Our 2018 report<sup>54</sup> suggests helping such workers by considering carry forward or carry back of tax relief claims in certain circumstances, or by allowing claims to National Insurance relief.

## 3. Equitable continued

### **Amend universal credit rules for the self-employed to better reflect fluctuations in income**

The self-employed must report income monthly for universal credit as against annually for tax. Monthly calculation of income for universal credit can create a distorted view of the profits of a business, particularly for the many traders who have fluctuating income.

Even those with a relatively regular income stream can find themselves caught by universal credit's minimum income floor rules<sup>55</sup> where they have a large expense, such as a tax bill (with universal credit being assessed on net income) or an annual insurance premium, in one month.

We think that the self-employed should have parity with employed claimants and people who earn the same amount over a 12-month period should end up with the same amount of benefit – whether they have income earned at

regular intervals or with large variations during a year.

As more self-employed people move onto universal credit, we believe that evidence will emerge showing the impact of these rules. We understand there is a need to get the balance right between supporting entrepreneurship and not subsidising long term, unprofitable self-employment. As the rules stand, we are concerned that this balance has not been achieved and that people will be dissuaded from becoming self-employed or will give up self-employment unnecessarily in cases where they are caught by the minimum income floor even though, over an annual period, they are earning above it.

We stand ready to discuss further our proposed solutions to the anticipated issues, such as allowing averaging of self-employment income for universal credit, extending the start-up period, removing the complex surplus earning rules and aligning various definitions.<sup>56</sup>



## 4. Just



A just tax system should feature:

- A careful balance between the powers of tax collectors and the rights of taxpayers
- Appropriate safeguards and oversight
- Availability of justice to all, irrespective of financial means and vulnerability

## 4. Just continued

### Avoid further erosion of taxpayers' ability to gain certainty over their tax affairs

One difficult area to balance in terms of tax law and administration is at what point a taxpayer can expect to achieve certainty that their tax affairs are final. To protect the Exchequer, HMRC must have some ability to pursue tax owed for earlier years.

However, we have expressed concern at measures which give HMRC a freer hand to look back – for example, the extension of offshore time limits.<sup>57</sup> These rules allow HMRC to extend assessment time limits to 12 years, even in cases where taxpayers have taken reasonable care.

We queried the rationale for extending the ability to collect tax on innocent mistakes to 12 years for taxpayers with offshore interests (the taxation of which can be extremely difficult to understand), compared to 4 or 6 years for those with purely domestic income. We pointed out that this change affects some low-income pensioners and migrants, not just the wealthy.

### Train HMRC staff to make better decisions earlier in the process in common areas of dispute

Most HMRC decisions are subject to a taxpayer right of appeal, via HMRC internal review and/or an appeal to the independent tax tribunal. Some taxpayers may, however, not get as far as exercising such rights.

Every effort must therefore be made to ensure that HMRC make the right decisions first time. Staff making decisions at first instance must receive comprehensive training, together with feedback from review teams and the Tribunal to learn from other case decisions. For example, HMRC decision-makers could be made aware of reasons why first instance decisions are often overturned, particularly in common situations



such as reasonable excuse, special reduction or classification of behaviour for the purposes of determining a penalty.

This might in time reduce the numbers of review requests or appeals to the Tribunal and result in better-quality decisions in cases which are not internally reviewed or appealed.

### Introduce an accessible means of disputing HMRC's use of discretion

HMRC's exercise of discretion often does not carry a right of appeal – for example, HMRC refusing to agree to a time to pay arrangement where a taxpayer is struggling to pay. Furthermore, while a complaint is a possible way of seeking redress, the Adjudicator's Office is unable to challenge HMRC policy.<sup>58</sup> Given that judicial review is out of reach for most taxpayers (due to its high bar to access, upfront costs and risk of an adverse costs order if unsuccessful), an accessible means of disputing HMRC's use of discretion is needed.<sup>59</sup>

## 4. Just continued



### **Proactively identify taxpayers who need extra support in HMRC dispute situations and signpost them appropriately to independent help**

Help for many taxpayers can be provided by HMRC's extra support team, but the taxpayer first has to get to them. It is therefore important that HMRC staff dealing with internal reviews and appeals are alive to indicators of need (e.g. vulnerability) and refer taxpayers accordingly. This should help prevent seemingly inappropriate cases getting to Tribunal.<sup>60</sup>

We welcome the Government's statement in July 2019 that HMRC's support for vulnerable taxpayers will be improved.<sup>61</sup> As part of this work, it is important for HMRC to recognise when there is a need for independent support. This is particularly relevant in compliance cases, or when the taxpayer is appealing a decision.

For example, in enquiry cases, HMRC can provide some support, such as giving a further explanation by telephone of what information a taxpayer should provide in response to an enquiry letter.

In appeals cases, HMRC might similarly help by providing an explanation of how the internal review process works, what the timescales are, or what forms are needed to appeal to the tribunal. We might term these examples 'administrative support'. HMRC might also be able to provide some technical support by explaining the HMRC position in terms that lay taxpayers will understand.

However, if taxpayers dispute the amount of tax due in an enquiry, or mount an appeal against a penalty for example, HMRC have a conflict of interest and would be unable to provide anything beyond administrative support; HMRC could not help a taxpayer to bring a case against the department itself.



## 4. Just continued

### LITRG website enquiry: PAYE data query

'I was made redundant and left work in the 2017/18 tax year. My redundancy payment was made in the 2018/19 tax year. I have spoken to HMRC regarding getting a refund on the tax I paid on my redundancy payment. They said they had no record of the payment – I have a wage slip and bank statement with the payment.

'Eventually they found the details but it is not reporting in the 2018–2019 tax year. They maintain that it is my ex-employer's issue as they have sent the wrong data through. I have spoken to my ex-employer and they said that everything is correct and that the tax office is wrong and I should speak to someone else as would probably get a different answer. I have done this and got the same answer, i.e. the data sent through by the employer is wrong...

'I feel stuck in the middle and going around in circles. I do not have the knowledge to speak to my employer and they keep fobbing me off. I feel very overwhelmed with this and get upset just thinking about it. I just do not feel able to cope with it.'

At that point, it is necessary to signpost the taxpayer to independent sources of advice, be that a tax professional or, if they cannot afford to pay, to TaxAid<sup>62</sup> or Tax Help for Older People<sup>63</sup>.

In addition, it is important that the separate teams providing extra support (whether in HMRC customer services or compliance) provide a hand-over to their colleagues in debt management where appropriate. Currently, once a taxpayer's dealings with customer services or compliance have ended, if they fail to pay on time, it is necessary for debt management to separately identify the customer as requiring extra support.

#### **Provide a clear mechanism for taxpayers to challenge inaccurate information held by HMRC**

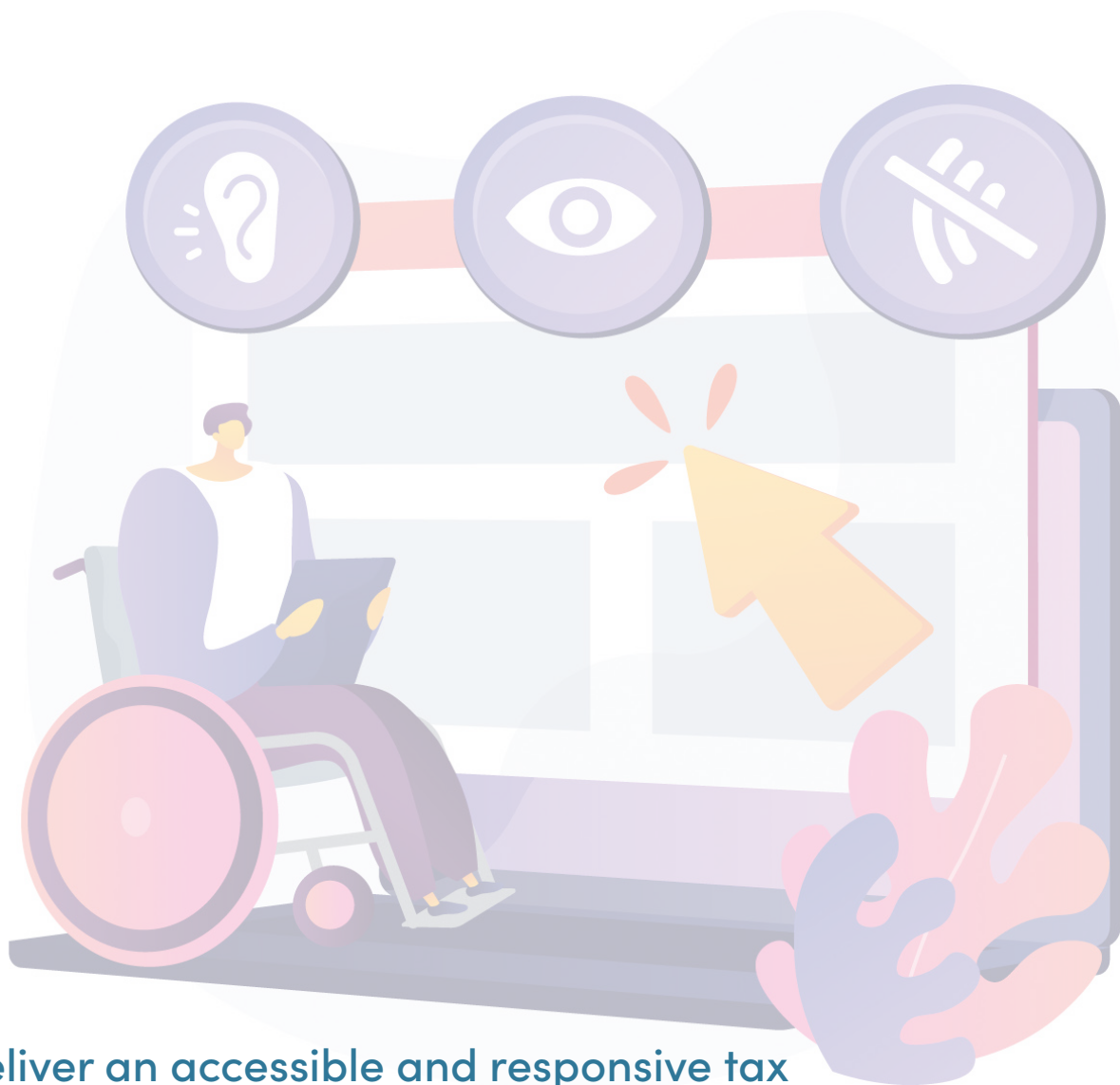
There is no clear mechanism to enable taxpayers to query and correct inaccurate information held about them.

One such problem area is the use of PAYE RTI data from employers. If the taxpayer disagrees with some pay and tax data held by HMRC, the employee is told to take up any apparent mistakes with their employer. The employee is then placed in the difficult position of having to approach the employer to suggest they may

have sent incorrect data to HMRC. In many circumstances this does not resolve the problem, particularly where the employee has left the employment, the employer has closed down, or the employee is in dispute with the employer. This problem is compounded further when the HMRC data is then used for other purposes. For example, HMRC might use tax data to finalise a tax credits award, or pass it to DWP for universal credit to be calculated. It is therefore vital that queries can be resolved without delay, especially given HMRC's vision to create a fully digital tax system<sup>64</sup>.



## 5. Accessible and responsive



To deliver an accessible and responsive tax system, it is necessary to:

- Capitalise on technological advances appropriately, but ensure no-one is disadvantaged
- Ensure resources are available to allow for flexibility and to be responsive to individuals with particular needs
- Ensure that HMRC understand external pressures and factors

# 5. Accessible and responsive continued

## Ensure detailed consultation during the development of the next phase of Making Tax Digital

Making Tax Digital (MTD) is the government's project to digitalise the tax system through requirements for digital record-keeping and quarterly reporting using third party software compatible with HMRC's systems.

The government started with Making Tax Digital for VAT in April 2019, and Making Tax Digital for Income Tax will become mandatory for those with business or rental income of £10,000 or more from April 2023.

While we agree that digitalisation of the tax system is clearly the correct direction of travel, we are concerned about the onerous obligations that are being imposed on the smallest businesses. We urge HMRC to consult extensively with all stakeholders over the next couple of years while the MTD for Income Tax process is being developed, piloted and reviewed, to ensure the version that is finally rolled out in April 2023 is successful.

By setting the threshold at turnover of only £10,000 the very smallest of self-employed and property businesses are brought within the regime, many of whom will find it a daunting prospect. The level of turnover at which compliance with MTD is compulsory should be revisited as part of the development of the process.

When MTD was consulted on in 2016, we were clear that we thought HMRC should provide software for people to comply, rather than rely entirely on third parties.<sup>65</sup> Our concerns have been borne out in, for example, the context of accessible software for people with particular needs, with the market being slow to deliver fully accessible products for MTD for VAT.<sup>66</sup> HMRC should reconsider their position and agree to



provide free basic software, to enable small businesses to comply with the new income tax regime without coming under constant pressure from software companies to upgrade to enhanced (paid for) versions of their free product.

Those who are digitally excluded (or perhaps 'digitally challenged') will need help to comply, or to apply for exemption if they qualify. HMRC must make sure sufficient resource is made available to deal with this cohort of people, particularly when Making Tax Digital for Income Tax becomes mandatory from April 2023.

Making Tax Digital for VAT is to be extended to all VAT registered businesses from April 2022. As this will bring those with turnover below the compulsory VAT registration threshold of £85,000 into the scheme, we expect many of these to be relatively low profit businesses who may well be unrepresented and so we urge HMRC to undertake a well-targeted direct communications campaign about the extension of MTD for VAT in the near future so that affected businesses become aware of it as soon as possible. This will enable them to plan for any changes they will need to make and register for the scheme in a timely manner.

## 5. Accessible and responsive continued

### LITRG website enquiry: difficulty accessing paper forms

'We have tried to get a form R40 from HMRC, have phoned them 3 times to request it and they have never sent it.'

#### Keep easily accessible non-digital channels, and provide telephone numbers on all correspondence

Moving towards a digitalised tax system has many potential benefits. HMRC's 'Building a trusted, modern tax administration system' strategy document highlights one notable benefit being 'the elimination of paper-based communications'. However, not everyone will be able to fulfil their responsibilities online. Provision must be made for those, often vulnerable, people who will never manage their tax affairs digitally – treating them not as second-class citizens, but as a set of taxpayers with different needs that must be met.

Taxpayers must also be able to contact HMRC easily, with non-digital channels clearly publicised. Some HMRC letters are issued



without telephone numbers. This is not a mere inconvenience – for some, it may mean that they will not contact HMRC at all, potentially exacerbating a problem and causing stress.

Additionally, there has been a shift towards discontinuing printable versions of forms, which is a barrier to digitally excluded taxpayers being able to engage. This trend also makes life unnecessarily difficult for those trying to help the digitally excluded, such as voluntary organisations.

#### Help advisers to help people, e.g. provide 'dummy' access to HMRC and DWP systems

Government departments – specifically HMRC and DWP – need to think about the role of advisers and how they can support advisers who are trying to help people with online compliance.

It is difficult for advisers to guide people through online systems, because the adviser cannot see what the individual sees. When everything was done on paper, the adviser could print or view a copy of the form and guide people to fill it in.

By contrast, now there is no way to go through a 'dummy' tax-free childcare or universal credit claim on-screen, or to navigate through the personal tax account, for example. Providing such access would reduce administrative costs for HMRC, if it allows people to be supported to self-serve rather than contact HMRC helplines.

#### Raise awareness of the HMRC Charter, embed its principles across HMRC, and learn from complaints

'Your Charter' was launched in 2009 and refreshed in 2016. It sets out what people can expect from HMRC and what HMRC expect of them. From February to August 2020, HMRC consulted again on potential revisions to the Charter<sup>67</sup> and launched the latest version of

## 5. Accessible and responsive continued



the Charter in November 2020. The content of the Charter is of course important, but perhaps arguably more important is awareness and use of the Charter by both users of HMRC's services and by all HMRC staff. Although HMRC have taken on board some of our feedback to its consultation on the latest Charter revisions, we remain concerned<sup>68</sup> that there is insufficient awareness of the Charter (both within HMRC and externally) and that its principles are not embedded across HMRC.

Overseen by HMRC's Customer Experience Committee<sup>69</sup>, better promotion of the Charter might help HMRC to improve their culture which, according to the Adjudicator's Office 2019 annual report, 'plays a part in driving customer dissatisfaction. This is most often a failure to consider issues from the perspective of the customer'.<sup>70</sup> HMRC should continue to work on learning from complaints, taking on board

feedback from the Adjudicator's Office and other external organisations. We therefore welcome HMRC's response to the Adjudicator's report following which the Adjudicator notes some progress has been made and the Adjudicator's membership of the Customer Experience Committee.<sup>71</sup>

### **Introduce an HMRC overarching extra support strategy and vulnerable customer policy**

In July 2019, we welcomed<sup>72</sup> a House of Commons Treasury Committee report<sup>73</sup> calling for HMRC to do more to support vulnerable taxpayers in dispute situations. More broadly, we believe that HMRC should have an overarching strategy for those who need additional help. This is even more important as the long term impacts of the coronavirus pandemic are felt, especially in the area of tax debt.

## 5. Accessible and responsive continued

While it is important to recognise that having additional needs (such as making reasonable adjustments for disabled customers) does not mean a customer is vulnerable, any extra support policy needs to include how to assist vulnerable customers. It should therefore include a definition of vulnerability – with acknowledgement that vulnerability can be temporary as well as permanent, that it is a fluid state that needs a flexible response and that it can in fact be caused by HMRC processes and actions as well as the individual’s own circumstances. Vulnerability is also not absolute – that is, a person may not be vulnerable in all respects, but may for example be vulnerable when it comes to financial matters such as tax.

We are concerned that HMRC’s extra support team can only be effective if other frontline HMRC staff are able to identify that a person has a need to be transferred to it. In our experience, that is where things often fall down.

We recognise that it can sometimes be difficult to identify if someone needs extra support during a phone call, but as part of its overarching strategy, HMRC should train staff effectively to recognise when someone might require additional support and/or presents with indicators of vulnerability. We suggest that HMRC could draw on the Financial Conduct Authority’s work in this area.<sup>74</sup>

In addition, it is important that the separate teams providing extra support (whether in HMRC customer services or compliance) provide a hand-over to their colleagues in debt management where it is established that this is appropriate.

Currently, once a taxpayer’s dealings with customer services or compliance have ended, if they fail to pay on time, it is necessary for debt management to separately identify the customer as requiring extra support.



## 5. Accessible and responsive continued

### **Ensure HMRC is adequately staffed, and staff sufficiently trained, to provide consistency and continuity of service**

Adequate staffing levels must be achieved and maintained for HMRC to deliver a consistent service. We also wonder at the adequacy of helpline staff training – both technically and in how to deal empathetically with taxpayers. For example, in the context of state pension lump sums, we have been contacted by several taxpayers who have been given incorrect or misleading advice by HMRC helplines.

It could be that this is due to inadequate training of helpline staff or perhaps pressure of targets on them to give speedy answers (and so not referring to HMRC internal guidance). Where technical queries such as this are raised, HMRC must consider how best to provide support – for example, by transferring the call to a specialist.

Finally, there is a sense that contact with HMRC is somewhat haphazard and each time an individual makes contact, they need to explain the situation again. While it is appreciated that the same staff member might not be available to deal with an ongoing issue, efforts should be made to read notes from previous contact.

We appreciate that HMRC staff have been flexible and adaptable during the coronavirus pandemic, in a bid to continue delivering services. This approach may well need to be maintained as uncertainty continues – for example, HMRC may need to train its staff to expect higher demand on its debt management services as the impact of deferred tax payments starts to be felt.

### **Ensure HMRC devote the time, effort and resources necessary to fully understand the inner workings of the labour market**

To help protect the lowest paid workers, it is vital that HMRC ensure they properly understand



what is going on in the temporary worker sector at ground level. This needs to be a continuous process of learning, as models of engagement evolve constantly.

For example, tax avoidance schemes can involve agency workers, driven by PAYE avoidance behaviour on the part of their employers (the umbrella companies). It is vital that HMRC recognise and understand this so that appropriate strategies can be developed. Otherwise there is a risk that HMRC's responses to such schemes will be ineffective because they are based on an underlying assumption that the worker understands what they have been drawn into.

## 6. Joined up

An illustration at the top of the page shows several hands of different colors (brown, orange, blue) reaching up to hold and interlock various white and light blue gears. The gears are of different sizes and are arranged in a way that suggests a complex, interconnected system. The background is a solid light blue color.

A joined-up system should ensure that:

- Different government departments and devolved administrations work closely together, so that no-one falls into gaps between different arms of government
- Data is shared appropriately, and taxpayers are not caught between different arms of government and third parties as regards inaccurate or incomplete data
- The tax and benefits systems interact effectively and coherently



## 6. Joined up continued

### **HMRC should appoint a senior official to take responsibility for agency workers and umbrella companies, and work with other government departments on issues arising**

It seems many agency workers and umbrella company workers may have missed out on support under the Job Retention Scheme as there was no clear guidance issued to agencies and umbrella companies as to how the Job Retention Scheme applied to the specific circumstances within that sector.

For example, some agencies and umbrella companies interpreted the official scheme rules as meaning that to qualify to be furloughed, workers needed to have been on a 'live' assignment that was suspended or terminated as a result of the coronavirus. They were then only considering the furlough period as applying up until an assignment was going to come to a natural end.

It was not clear whether the government intended for the scheme rules to be interpreted more widely – for example to support people: who were looking for an assignment and who might have found one but for coronavirus; or who were in an assignment that was scheduled to end but which might have been extended but for coronavirus.

It was disappointing that HMRC did not provide clarity on the situation at an early stage which would have been helpful to all involved. However, there was a lack of ownership of the issue.

There is also a lack of ownership when dealing with compliance in the sector. As violations tend to cut across both tax law and employment law, there is a clear need for HMRC's tax compliance function and the forthcoming Single Enforcement Body<sup>75</sup> to work together, in partnership, to tackle abusive models. To support this, someone senior in HMRC should take overall responsibility for

agency workers and umbrella companies, as well as cross-departmental working.

### **Deliver a holistic service for joint customers of government departments and devolved administrations**

The different arms of government can be confusing, and individuals do not necessarily know who to deal with. This can be the case both within UK government – for example with a matter involving two government departments; and between UK government and the devolved administrations – such as someone mistakenly contacting Revenue Scotland about an income tax matter which is still administered by HMRC.

One way of addressing confusion and dealing effectively with matters that cut across different arms of government is to view an individual as a customer of government generally, rather than of each part of it.

### **LITRG website enquiry: passed back and forth between HMRC and the DWP**

'I contacted DWP and was told my state pension lump sum will be taxed and to contact the tax office if I want to know more. I contacted the tax office twice. First I was told the lump sum will be taxed, but there is a £30,000 exemption. The second time I was told the only exemption I would get is £11,850 for the 2018/19 tax year and the lump sum would be included as my income.'

'When I mentioned this was different to the website I had seen, I was told to contact DWP, as they deal with state pension taxation. I contacted DWP again and was told the lump sum would be taxed.'

## 6. Joined up continued

Take HMRC and the Department for Work and Pensions (DWP) for example. HMRC are making efforts to deliver a 'once and done' service internally, rather than passing people between different teams. However, for the low-income taxpayer/benefits claimant, there is also a need for a joined-up service between HMRC and DWP. At the very least, there should be a 'warm handover' where individuals need to deal with both departments.

Furthermore, it is important that the implications of devolved policies are explained properly to taxpayers and claimants. Such guidance also needs to be easily accessible and where people would expect to find it.

For example, the Scottish Government introduced Carer's Allowance Supplement in 2018/19. This is a taxable benefit, because it supplements the taxable reserved benefit Carer's Allowance.



LITRG's work in Scotland ensured that amendments were made to the text of letters and the Scottish Government's website in relation to Carer's Allowance Supplement payments to ensure that the tax treatment and interactions with tax credits were explained correctly. Addressing these points in guidance as devolved policies continue to develop needs to be standard practice.

The coronavirus pandemic has led to the creation of a number of new grants and payments, which has created confusion because of their different availability and treatment, for example, they might be:

- available across the UK, or only in devolved regions
- taxable, or tax-free
- taken into account for tax credits and benefits, or not – indeed some payments, such as the small business grants paid by Local Authorities, count as income for tax credits but not for universal credit.

Although there is guidance about the grants and payments, there is very little that tells people about their ongoing obligations in respect of tax and benefits.

### **Publish details of any protocols for dealing with matters that cut across government departments and devolved administrations**

Greater transparency about how different arms of government work together could help people to understand what is happening when matters cut across more than one body.

For example, in the event that things do go wrong and a complaint arises, it would be helpful if HMRC and DWP were to publish, on GOV.UK, the full protocol that exists between them to deal

## 6. Joined up continued



with matters that cut across their departmental boundaries.<sup>76</sup> When relevant, they should also always ensure that individuals are advised of the existence and content of any such protocol.

### **Carefully manage the migration of tax credits claimants to universal credit, ensuring it is fully piloted and clearly communicated**

One area in which individuals risk falling between the cracks is the migration of tax credits claimants to universal credit. Although this is temporarily on hold due to the coronavirus pandemic, it will need to re-commence at some point.

We have raised numerous concerns about this, for example the greater number of people ‘naturally migrating’ to universal credit due to the continual

delays to the migration schedule (consequently not benefiting from the transitional protections promised through ‘managed migration’).<sup>77</sup>

We are particularly concerned about the creation of overpayments through tax credits in-year finalisation when someone moves to universal credit and about the potential difficulties around calculating and explaining transitional protection. It is crucial that people understand what is happening so they can challenge decisions if necessary.

Consultation with stakeholders is key here, as proved helpful when tax credits were introduced. We stand ready to help both HMRC and DWP in identifying and overcoming potential problems, if they are willing to consult and engage with us and other external bodies.

## 6. Joined up continued

### Tackle issues arising out of sharing data across government departments

With proper safeguards, sharing of data across government departments can make life easier for taxpayers and benefit recipients. However, if not done carefully, problems can sometimes emerge.

One example of this is that HMRC collect PAYE data via real-time information (RTI) and pass it to DWP for universal credit calculations.

However, this data sometimes does not either:

- tie in with universal credit assessment periods;<sup>78</sup> or
- tell the full story.

On the first point, RTI earnings data which is arguably 'mismatched' to universal credit assessment periods can mean that people have too much income assessed in one period and not enough in another. The UC regulations have now been amended<sup>79</sup> to allow for adjustment of the income assessed in these cases, however it is as yet unclear how the DWP will operate the new provisions.

On the second point, UC claimants may be able to deduct expenses from their pay that they have necessarily incurred and that have not been reimbursed by their employers. These details are not included in the PAYE data. This is not mentioned on GOV.UK and, as far as we are aware, is not mentioned in the universal credit claim process, so is reliant on claimants or their work coach knowing about the potential for deductions.

This is clearly not acceptable and not fair on claimants who may be missing out on their entitlement. Even where people are aware that they can deduct expenses, they find it difficult to get DWP to acknowledge this and have no official guidance to point to.

### LITRG website enquiry: failure to deduct employment expenses in UC claim

'I am a community care worker and I've been having several problems with this universal credit. My new issue is that the staff really need more training as I have spoken to several people this week and they unaware that your mileage is not taken into account when claiming and they are having to look into this.'

### Align rules for calculating self-employment income for tax and universal credit

A clear example of inconsistency of treatment across government departments is in the definition of self-employment profits for tax and universal credit. If an individual is both a self-employed taxpayer and a universal credit claimant, they have to duplicate effort in reporting income to both HMRC and the DWP.

Not only that, but the figures they need to report are different. This is because the DWP uses a cash basis for reporting self-employed income, whereas for tax purposes, the cash basis is optional and many low-income self-employed people still use the accruals basis.

But even if those people were to switch to cash accounting for tax, the figures to report to HMRC and DWP would not necessarily be the same because of differences between HMRC's cash accounting rules and the DWP's cash basis.

### Better co-ordinate policy making across government departments

Policy making could be better co-ordinated between government departments such as the

## 6. Joined up continued

Department for Business, Energy and Industrial Strategy (BEIS), HM Treasury, HMRC and the DWP.

Our 2015 couples report identified how different definitions of what is a couple for tax and benefits purposes can cause significant confusion (see also our comments on bereavement benefits above).<sup>80</sup>

Another example of where issues arise is carers. This is because the national minimum/living wage, tax and national insurance and benefits systems can interact, with potentially unfortunate consequences for low-paid and unpaid carers.

For instance, unpaid carers in receipt of carer's allowance can lose that benefit as a result of

a minimum wage increase. This is because the earnings limit for claiming carer's allowance is not updated in line with the minimum wage.<sup>81</sup>

During the coronavirus pandemic, we have unfortunately seen several examples of these interactions. For example, the small business grant paid by local authorities to businesses is taken into account for self-employed tax credit claimants but not for self-employed universal credit claimants. Payments have been introduced with little thought to the tax and benefit consequences of the payments – this may be somewhat understandable given the initial time pressures on all government staff but if better processes were in place to co-ordinate policy between departments it may have reduced the occurrence of problematic interactions.



# 7. Inclusive



An inclusive tax system should mean that:

- Policy and legislation are consulted on in a wide and meaningful way
- Everyone has a voice
- The full impact of proposed changes is considered, including the interaction with non-tax systems such as welfare benefits

## 7. Inclusive continued

### Consult early on all tax policy, with proactive stakeholder involvement

Early and proactive consultation makes it easier for ordinary and vulnerable taxpayers, and those representing them, to feed into the policy process at a stage where their representations can make a difference.<sup>82</sup>

One example of where we think progress could be made is if HMRC were to build contacts and relationships with providers in the temporary labour market. HMRC could work with responsible agencies and umbrella company providers on 'what good looks like'. The lack of such engagement has, we believe, resulted in a crowded and confusing marketplace, which contains pitfalls for the unwary. HMRC working with responsible providers would take us a step towards better standards within the sector and, hopefully – in time – fewer troublesome providers.

### Increase parliamentary scrutiny of tax policy, and embed post-implementation reviews in the process

Parliamentary committees have played a significant role in getting issues affecting low-income and vulnerable taxpayers onto the political agenda. However, there is scope for more to be done by Parliament, especially during the Finance Bill process, as the debate of technical matters is often rushed and inadequate.

This could be improved by using some of the committee sessions to take oral evidence from subject experts on key themes in the bill, something which is normal practice in other public bill committees, including those considering changes to NICs.

Post-implementation reviews of policy could also become more systematic, to ensure that policy is evaluated and confirmed to be having its intended effect.<sup>83</sup>



### Introduce a step in the tax policy-making process to ensure all impacts, including non-tax impacts, are considered

It sometimes appears that the full impact of new tax legislation is not considered, and that changes are portrayed as being for one purpose but have further hidden – or at least publicly unidentified – consequences. For example, the announcement of a change as being targeted at higher rate taxpayers, when it also impacts on others, is misleading.

The introduction of the change to tax relief on interest costs for residential landlords illustrates this point well. Until 2017, all interest costs were deducted from rental income before tax was calculated. Since 2017, we have gradually moved to a system in which tax relief on interest costs is given as a basic rate tax reduction against an individual's tax bill.

## 7. Inclusive continued

### LITRG website enquiry: impact of finance costs restriction for residential landlords

'My child has been awarded a government funded Dance and Drama Award (DaDA) to help with fees and living costs at a private dance and drama school. The amount I get depends on my household income. DaDA offers income assessed support for tuition fees and living costs. It is available at a number of high quality private dance and drama institutions in England. The intention is that DaDA will contribute to the costs of studying for talented young people who want to become professional actors and dancers. Institutions assess the amount of financial support a student is entitled to based on nationally set income bands. Household income is used to determine the level of financial support for both fees and living costs (maintenance).

'...I have received the highest amount as I

have the lowest income. My taxable income is from taxable benefits and property lettings income last year. This total was below £21,000 enabling me to receive the maximum amount of support. With the introduction of Tax reduction on property income my apparent earnings have now taken me to £27,000 when in fact my profits are only £13,000. I will now lose the top rate of maintenance because of this.

'I am sure it was not the government's intention to penalise low income single parents but that is what this has done. Next year I will receive no maintenance and will also have to pay some of the school fees if they base my income on this new adjusted income. How can I persuade the institution that my child attends that my income has not increased to the levels suggested by my tax return?'



When announced, it appeared this was intended to have no effect on basic rate taxpayers. However, the result of the change is that an individual's taxable income is higher, which does have consequences for basic rate taxpayers. We explained these in an article on our website<sup>84</sup>, further to which more taxpayers came forward.

Further examples of tax policy being made without the full ramifications of new measures being considered include the controversial loan charge. This was introduced without apparently gathering or considering information about the users of schemes – for example, how some low or middle earners became involved in them.

Another example is addressing labour market issues. The increase in 'gig' workers, agency workers and those working via intermediaries such as personal service or umbrella companies has left many low-income workers in difficult situations.



## 7. Inclusive continued

We think that tax policy making in this area could be improved if the government had a better understanding of the inner workings of the market.

Changes in tax rules affecting this sector tend to distort the behaviour of workers and intermediaries and can lead to unforeseen consequences. Accompanying new rules with appropriate enforcement activity, as part of an overall strategy, could help with this issue.

The 'other impacts' section of policy papers should demonstrate that policymakers have considered all tax consequences and the wider interactions (with state benefits, student loans and child maintenance, for example).

Policymakers can then consider whether they wish to mitigate any impacts and, if not, they should identify what steps are needed (such as publishing guidance) so that people understand how they are affected.

### **When making tax policy, consider all the interactions between UK government and devolved administrations**

Devolution of tax-making powers to the Scottish and Welsh administrations means that tax has become more complicated in recent years. To the extent that devolution relates to indirect and transactional taxes, it perhaps does not impact greatly on low-income taxpayers.

However, the devolution of certain aspects of income tax means that low-income people now potentially encounter the added complexity of working out whether they are Scottish or Welsh taxpayers and the extent to which their income is taxed at devolved or UK main rates.

While we have broadly welcomed moves in Scotland to establish more structured processes for devolved tax policy making<sup>85</sup>, we think



that more effort needs to be focused by both UK central government and the devolved administrations on ensuring that overall policy making remains as cohesive as possible.

In this vein, we welcome the publication by the Scottish Government and Revenue Scotland of 'Working Together on Tax'<sup>86</sup>, a document setting out four guiding principles to underpin the way in which the two organisations work together and to increase the visibility of their relationship.

It would be helpful if principles could also be developed in respect of the relationship between the UK government and the devolved administrations.

# Footnotes

## About us

- 1 This includes other systems that are connected to/interact with the tax system such as national minimum wage, student loans, auto-enrolment.
- 2 Our main website is [www.litr.org.uk](http://www.litr.org.uk).  
For further details, see the About us page [www.litr.org.uk/about-us](http://www.litr.org.uk/about-us)
- 3 LITRG staff: [www.litr.org.uk/about-us/litr-staff](http://www.litr.org.uk/about-us/litr-staff)
- 4 LITRG volunteers: [www.litr.org.uk/about-us/litr-volunteers](http://www.litr.org.uk/about-us/litr-volunteers)
- 5 Website content relating to students and people taking on a carer is shortly moving to [www.litr.org.uk](http://www.litr.org.uk)
- 6 Tax Guide for Students: [www.taxguideforstudents.org.uk](http://www.taxguideforstudents.org.uk)
- 7 Disability Tax Guide: [www.disabilitytaxguide.org.uk](http://www.disabilitytaxguide.org.uk)
- 8 Revenue Benefits: [revenuebenefits.org.uk](http://revenuebenefits.org.uk)
- 9 LITRG successes: [www.litr.org.uk/about-us/litr-successes](http://www.litr.org.uk/about-us/litr-successes)

## Foreword

- 10 We use the term 'low income' generally to mean people who are unrepresented in dealing with the tax system and who are unable to afford to pay for professional tax advice.
- 11 HMRC, HM Treasury Corporate report, 21 July 2020, Building a trusted, modern tax administration system: [www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system](http://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system)

## 1. Clear and up to date

- 12 Some pitfalls of misunderstanding tax allowances are outlined in these articles: [www.tax.org.uk/allowance-not-allowance](http://www.tax.org.uk/allowance-not-allowance) and [www.litr.org.uk/pension-lump-sum-tax-claim](http://www.litr.org.uk/pension-lump-sum-tax-claim)
- 13 HMRC Annual Report and Accounts, 2017-18, published 12 July 2018, pp22: [www.litr.org.uk/HMRC-annual-report-and-accounts-2017-2018](http://www.litr.org.uk/HMRC-annual-report-and-accounts-2017-2018)
- 14 A Deloitte report on The Tax Education Gap identified that 'only 54% [of those surveyed] correctly understood the meaning of tax code 1250L', see pp 10: [www2.deloitte.com/content/dam/Deloitte/uk/Documents/tax/deloitte-uk-tax-education-gap-explanatory-note.pdf](http://www2.deloitte.com/content/dam/Deloitte/uk/Documents/tax/deloitte-uk-tax-education-gap-explanatory-note.pdf)
- 15 Public Accounts Committee, Call for evidence: Tackling the tax gap, September 2020: [www.litr.org.uk/latest-news/submissions/200911-call-evidence-tackling-tax-gap](http://www.litr.org.uk/latest-news/submissions/200911-call-evidence-tackling-tax-gap)
- 16 Your rights as an agency worker: [www.gov.uk/agency-workers-your-rights](http://www.gov.uk/agency-workers-your-rights)
- 17 Revenue Scotland website example: [www.litr.org.uk/revenue-scotland-LBTT3010-tax-reliefs](http://www.litr.org.uk/revenue-scotland-LBTT3010-tax-reliefs)
- 18 Revenue Scotland is the tax authority with responsibility for the collection and management of Scotland's devolved taxes. It was established as a Non-Ministerial Department on 1 January 2015. Its remit currently covers Land and Buildings Transaction Tax and Scottish Landfill Tax.
- 19 Budget 2020 press release (LITRG) illustrates this in the context of a proposed new tool for the self-employed: [www.litr.org.uk/will-new-guidance-tool-self-employed-help-business-owners](http://www.litr.org.uk/will-new-guidance-tool-self-employed-help-business-owners)
- 20 GOV.UK Self Assessment: [www.gov.uk/self-assessment-tax-returns/who-must-send-a-tax-return](http://www.gov.uk/self-assessment-tax-returns/who-must-send-a-tax-return)

# Footnotes continued

- 21 Pension pitfalls article (LITRG news):  
[www.litrg.org.uk/latest-news/news/190711-pension-pitfalls](http://www.litrg.org.uk/latest-news/news/190711-pension-pitfalls)
- 22 Pension freedoms advisory service call (LITRG news):  
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- 23 MaPS UK Financial Wellbeing Strategy 2020-2030:  
<https://moneyandpensionservice.org.uk/uk-strategy-for-financial-wellbeing>
- 24 MaPS Listening Phase report (pp23):  
<https://moneyandpensionservice.org.uk/wp-content/uploads/2020/01/Listening-Phase-Report-Money-and-Pensions-Service-January-2020.pdf>
- 25 Link to Research on the Sharing Economy: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/658728/HMRC\\_Report\\_453\\_Sharing\\_Economy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658728/HMRC_Report_453_Sharing_Economy.pdf)
- 26 OTS Life Events review:  
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- 28 High Income Child Benefit Charge (LITRG news):  
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- 29 High Income Child Benefit Charge information on GOV.UK:  
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## 2. Simple

- 30 Tax compliance: gig economy (LITRG news):  
[www.litrg.org.uk/online-platforms-tax-compliance](http://www.litrg.org.uk/online-platforms-tax-compliance)
- 31 Businesses with a turnover of £10,000 or more will be in scope of MTD for income tax.
- 32 Taxation trusts review (LITRG submission):  
[www.litrg.org.uk/190226-taxation-trusts-review](http://www.litrg.org.uk/190226-taxation-trusts-review)
- 33 Conservative Party manifesto 2019, (page 15): <https://vote.conservatives.com/our-plan>
- 34 Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2020, SI 2020/299: [www.legislation.gov.uk/ukSI/2020/299/contents/made](http://www.legislation.gov.uk/ukSI/2020/299/contents/made)
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- 36 HMRC projects scrapped (CIOT blog): [www.tax.org.uk/hmrc-to-scrap-projects-brexit-pressure](http://www.tax.org.uk/hmrc-to-scrap-projects-brexit-pressure)
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- 39 Office of Tax Simplification report (LITRG submission):  
[www.litrg.org.uk/office-of-tax-simplification-second-report-business-life-cycle](http://www.litrg.org.uk/office-of-tax-simplification-second-report-business-life-cycle)
- 40 HMRC told us that some 96% of participants in recent pensions research they conducted did not know the state pension is taxable.

# Footnotes continued

## 3. Equitable

- 41 Couples in the tax and related welfare systems – a call for clarity (LITRG report):  
[www.litrg.org.uk/couples-tax-and-related-welfare-systems-call-greater-clarity](http://www.litrg.org.uk/couples-tax-and-related-welfare-systems-call-greater-clarity)
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[www.bailii.org/ew/cases/EWHC/Admin/2020/183.html](http://www.bailii.org/ew/cases/EWHC/Admin/2020/183.html)
- 44 UK Parliament Written Question, UIN 76930, 20 July 2020:  
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[www.moneymarketing.co.uk/news/pension-tax-relief-goes-begging-for-low-paid-workers](http://www.moneymarketing.co.uk/news/pension-tax-relief-goes-begging-for-low-paid-workers)
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[www.litrg.org.uk/occupational-pensions-tax-allowances-written-question-hl15963](http://www.litrg.org.uk/occupational-pensions-tax-allowances-written-question-hl15963)
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- 49 Via PAYE/RTI, see data item 61: /node/2095: [www.litrg.org.uk/guidance-on-rti-data-items-april-2019](http://www.litrg.org.uk/guidance-on-rti-data-items-april-2019)
- 50 Net Pay Arrangements for lower paid workers (LITRG news):  
[www.litrg.org.uk/budget-2018-representation-net-pay-arrangements-lower-paid-workers](http://www.litrg.org.uk/budget-2018-representation-net-pay-arrangements-lower-paid-workers)
- 51 The HICBC also raises further issues. Some further points were discussed in our 2015 Couples Report, section 4.1.5: [www.litrg.org.uk/couples-tax-and-related-welfare-systems-call-for-clarity](http://www.litrg.org.uk/couples-tax-and-related-welfare-systems-call-for-clarity). Others – for example the potential for child benefit not to be claimed because of the charge and consequent likelihood for non- or low-earning parents (often women) to miss out on NI credits and therefore state pension accrual – are pulled together in a House of Commons Library Briefing dated 17 October 2019 (CBP-8631): <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8631>. See also the LITRG website, submissions section, for our 2020 Budget Representation paper on the HICBC. We suggest some means of improving the operation of the HICBC and alleviating its knock-on effects in our 2020 Budget representation: [www.litrg.org.uk/budget-representation-2020-high-income-child-benefit-charge](http://www.litrg.org.uk/budget-representation-2020-high-income-child-benefit-charge)
- 52 Per Bank of England inflation calculator, using CPI averaging 2.4% a year. As a result, according to the IFS, “around 36%, or 370,000, more families will lose some Child Benefit in 2019/20 than in 2013/14”:  
[www.ifs.org.uk/publications/13791](http://www.ifs.org.uk/publications/13791)
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- 54 Care workers – tax system challenges (LITRG 2018 report):  
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- 55 At the time of writing, the Minimum Income Floor has been suspended as one of the measures introduced due to the COVID-19 pandemic. It is unclear how long that suspension will be in place, although we know it will be suspended until at least the end of April 2021: [www.gov.uk/government/news/government-extends-extra-welfare-support-for-self-employed-for-further-six-months](http://www.gov.uk/government/news/government-extends-extra-welfare-support-for-self-employed-for-further-six-months)
- 56 Self-employed claimants of universal credit (LITRG report):  
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# Footnotes continued

## 4. Just

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[www.litr.org.uk/press-release-increased-hmrc-powers-assess-offshore-tax-will-penalise](http://www.litr.org.uk/press-release-increased-hmrc-powers-assess-offshore-tax-will-penalise)
- 58 The Adjudicator's role is to ensure that HMRC abide by their own processes, rather than to tell HMRC what those processes ought to be.
- 59 Inquiry into the conduct of tax enquiries and resolution of tax disputes (LITRG submission):  
[www.litr.org.uk/inquiry-conduct-tax-enquiries-and-resolution-tax-disputes](http://www.litr.org.uk/inquiry-conduct-tax-enquiries-and-resolution-tax-disputes)
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- 61 Vulnerable taxpayer support (LITRG news):  
[www.litr.org.uk/campaigners-welcome-promise-extra-support-vulnerable-taxpayers](http://www.litr.org.uk/campaigners-welcome-promise-extra-support-vulnerable-taxpayers)
- 62 TaxAid: <https://taxaid.org.uk>
- 63 Tax Help for Older People: [www.taxvol.org.uk](http://www.taxvol.org.uk)
- 64 HMRC, HM Treasury Corporate report, Building a trusted, modern tax administration system, 21 July 2020:  
[www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system](http://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system)

## 5. Accessible and responsive

- 65 Making Tax Digital (LITRG submission):  
[www.litr.org.uk/latest-news/submissions/161108-making-tax-digital](http://www.litr.org.uk/latest-news/submissions/161108-making-tax-digital)
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[www.litr.org.uk/supporting-disabled-people-through-making-tax-digital](http://www.litr.org.uk/supporting-disabled-people-through-making-tax-digital)
- 67 HMRC Charter on GOV.UK: [www.gov.uk/government/consultations/hmrc-charter](http://www.gov.uk/government/consultations/hmrc-charter)
- 68 LITRG response on the HMRC Charter:  
[www.litr.org.uk/sites/default/files/files/110820-LITRG-response-HMRC-Charter-consultation.pdf](http://www.litr.org.uk/sites/default/files/files/110820-LITRG-response-HMRC-Charter-consultation.pdf)
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- 70 Adjudicator's office annual report 2019 (pp5):  
[www.gov.uk/government/publications/the-adjudicators-office-annual-report-2019](http://www.gov.uk/government/publications/the-adjudicators-office-annual-report-2019)
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# Footnotes continued

## 6. Joined up

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- 76 The existence of a joint complaints protocol is noted in HMRC manuals, but the full detail is not published: [www.gov.uk/hmrc-internal-manuals/complaints-handling-guidance/chg816](http://www.gov.uk/hmrc-internal-manuals/complaints-handling-guidance/chg816)
- 77 Natural migration to universal credit (LITRG submission): [www.litrg.org.uk/190228-work-and-pensions-committee-universal-credit-natural-migration](http://www.litrg.org.uk/190228-work-and-pensions-committee-universal-credit-natural-migration)
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- 79 The Universal Credit (Earned Income) Amendment Regulations 2020, SI 2020/1138: [www.legislation.gov.uk/uksi/2020/1138/regulation/2/made](http://www.legislation.gov.uk/uksi/2020/1138/regulation/2/made)
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## 7. Inclusive

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- 86 Scottish Government / Revenue Scotland: [www.litrg.org.uk/revenue-scotland-working-on-tax-together-2020](http://www.litrg.org.uk/revenue-scotland-working-on-tax-together-2020)

# We provide guidance on (or for):

## General tax

[www.litrg.org.uk/tax-guides/tax-basics](http://www.litrg.org.uk/tax-guides/tax-basics)

## Employment

[www.litrg.org.uk/tax-guides/employment](http://www.litrg.org.uk/tax-guides/employment)

- Checking coding notices and tax calculations, and claiming refunds
- Benefits and expenses
- Pension contributions

## Self-employment

[www.litrg.org.uk/tax-guides/self-employment](http://www.litrg.org.uk/tax-guides/self-employment)

- Registering for tax and National Insurance
- Working out profits, allowances and expenses (including trading allowance)
- Agency work/umbrella companies
- Downloadable guide

## Pensioners

[www.litrg.org.uk/tax-guides/pensioners](http://www.litrg.org.uk/tax-guides/pensioners)

- Preparing for retirement
- What pension income is taxable, including flexible pension withdrawals

## Disabled people and carers

[www.disabilitytaxguide.org.uk](http://www.disabilitytaxguide.org.uk)

- Employing a carer/personal assistant
- Reporting under Real Time Information

## Students

[www.taxguideforstudents.org.uk](http://www.taxguideforstudents.org.uk)

## Migrants

[www.litrg.org.uk/tax-guides/migrants](http://www.litrg.org.uk/tax-guides/migrants)

- Residence and domicile
- Foreign income and gains
- Short stays/studying in the UK

## Tax credits and benefits

[www.litrg.org.uk/TC](http://www.litrg.org.uk/TC) and

[www.revenuebenefits.org.uk](http://www.revenuebenefits.org.uk) (for advisers)

- Tax credits entitlement and claims, and moving to universal credit
- Child benefit including the high-income charge

## Bereavement

[www.litrg.org.uk/tax-guides/bereavement](http://www.litrg.org.uk/tax-guides/bereavement)

## Childcare costs

[www.litrg.org.uk/childcare](http://www.litrg.org.uk/childcare)

- Different schemes, e.g. Tax-Free Childcare, and childcare vouchers

## Savers

[www.litrg.org.uk/savings](http://www.litrg.org.uk/savings)

- Savings and dividend allowances/tax bands
- Help to Save

## Landlords

[www.litrg.org.uk/property](http://www.litrg.org.uk/property)

- Rent-a-room relief
- Property allowance

**We also produced tailored guidance aiming to help people during the coronavirus pandemic:**

[www.litrg.org.uk/coronavirus](http://www.litrg.org.uk/coronavirus)

\* **Note:** the materials on [www.disabilitytaxguide.org.uk](http://www.disabilitytaxguide.org.uk) and [www.taxguideforstudents.org.uk](http://www.taxguideforstudents.org.uk) are being merged into our main website [www.litrg.org.uk](http://www.litrg.org.uk)

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