How can I possibly owe any tax?

Personal tax



01 October 2017

Julie Cameron explores how vulnerable people with little or no income can unwittingly build up tax debts, which may not be justified, but cause extreme anxiety

The tax charities, Tax Help for Older People and TaxAid, are often asked how people on low incomes can have serious tax problems. After all, you need to earn it to pay it, don't you? There is a personal allowance, isn't there? And doesn't it get taken at source under PAYE? Of course, the answer to all these questions is 'Yes', but the above assumptions ignore the many reasons behind 'accidental' tax debt. By this, I mean debt which has accrued unintentionally, which typically surfaces just when a person has found a regular source of income, or has recovered from mental or physical health issues, or is learning to live a different life following the old one being torn apart by bereavement.

'I wanted to work but couldn't'

There are diverse causes of HMRC debt and, with our current system for penalties unrelated to tax liabilities, it can mount where there is no actual liability.

Take Jackie: like many who find themselves unemployed, she decided to set up a business – in her case, gardening – and obtained a start-up loan from her local Department of Work and Pensions in Newcastle. Unfortunately, just as she was starting out, Jackie suffered a nervous breakdown; she was really struggling with her serious mental health issues and did not submit her 2013/14 self-assessment return. Automatic penalties kicked in and her inability to pay them only added to Jackie's fragile state of mind. The return was delayed further and the penalties piled up. By the time Jackie came to TaxAid, she had made a successful claim for Employment and Support Allowance (ESA), but the penalties totalled £1,600 and she was distraught.

TaxAid explored the background and on the facts HMRC cancelled the return and penalties.

I'm a homeless, out of work teenager – how can I owe tax?'

Jackie's experience illustrates how easy it is to acquire tax (or in her case penalty) debt when the best intentions and plans are unfulfilled because of health issues. But abuse can also start the downward spiral into debt. Physical abuse caused teenager Luke to leave home at sixteen because of his violent stepfather. Luke was desperate for a better life but initially things only got worse and he became homeless and eventually alcohol dependent. Luckily, help came in the form of a homeless shelter and Luke was able eventually to defeat the drink and look for work. When a contractor registered Luke as self-employed for a short job in the construction industry, he was suddenly in the tax system, with no knowledge of what that entailed.

Sure enough, tax debt caught up with Luke, just as he was ready to start an apprenticeship. Feeling very anxious that his new future might be under threat, he was referred to TaxAid, by which time his accidental debt had reached £22,000. TaxAid found that the debt consisted of determinations, interest and penalties, which had built up despite Luke having had no taxable income! TaxAid contacted HMRC and were able to agree that the liabilities would be reduced to nil. The charity also gave him guidance on handling his tax in future. This help was invaluable for

Luke’s reintegration into the workplace and it boosted his confidence in his own abilities.

‘I’m not the bad guy here’

Ahmed lives in Stoke on Trent and was the victim of a different form of abuse, one that is becoming more prevalent as work models change. He was the victim of abusive employment practices.

It is true that when he came to TaxAid, Ahmed had penalty debt of £3,200 from late self-assessment filing of two returns, issued after he’d ceased as a self-employed plasterer. But he also had PAYE debt of over £3,800. This had come about after Ahmed’s decision to look for a more regular income than that provided by self-employment had caused him to take up employment with a cash and carry business. His new employer failed to give Ahmed payslips, so it was impossible to check whether tax had in fact been deducted (it hadn’t) and eventually, Ahmed decided to seek employment elsewhere.

At this point Ahmed crossed paths with two ‘employers’, referred to him by an agency. These employers issued payslips showing PAYE deductions, but failed to follow HMRC’s procedures for taking on a new employee, so the deductions were not paid over to HMRC and the PAYE debt started to grow.

Fortunately, for Ahmed, TaxAid successfully appealed against the PAYE underpayments, citing employer error and using ESCA19. For the self-assessment penalties, TaxAid helped Ahmed complete the relevant tax returns. There was some confusion over Ahmed’s status during these two tax years, but a pragmatic approach was to show his income as self-employment and appeal the penalties, explaining to HMRC that Ahmed had believed himself to be an employee so had not thought it necessary to complete the returns. HMRC accepted this and, as the income concerned was below the personal tax threshold, the debt was remitted.

Bridge the Gap Appeal

Life situations understandably cause people to concentrate on addressing their life issues. No surprise then, that during difficult times, tax debt can just sneak up on people whilst they are trying to turn their lives around. The two charities helped almost 22,000 people in the year ended 31 March 2017. Many suffered from mental

illness or from abusive employment practices; all were vulnerable and critically needed tax advice. With help from the charities, they were able to put the tax issue behind them and start rebuilding their lives.

Advice changes lives

People like Jackie, Luke and Ahmed come to TaxAid and Tax Help for Older People because they critically need professional advice–but can't afford to pay for it. All of them are vulnerable and many are in crisis. The help they receive makes a huge difference, is frequently life changing and gets them back on their feet. But demand for the two charities' services outstrips their resources and they have launched their urgent Bridge the Gap appeal to the tax profession.

Image



Donate via the Bridge the Gap website or by standing order.

Image

