The age factor

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Jane Frecknall-Hughes and Andy Lymer provide guidance on understanding the tax problems experienced by older people

Age features in many tax research studies as an impacting factor on people's tax-paying behaviour, but it is also increasingly becoming a complicating factor in practical tax affairs as populations age and more people work into 'retirement' periods. This used to include, among others, age related allowances creating high marginal tax rates for some, now thankfully a thing of the past; however, many on-going, age related, issues remain. A recent CIOT-funded academic study has explored the details of such issues to help us more fully understand the range of headaches that our tax system creates for older people, and make practical

suggestions for where these could be alleviated.

A Tax Adviser article last year ('Distressing tax', April 2016) reported on the findings of a 2015 scoping study (also funded by the CIOT) exploring older people's tax problems. This further, much more in-depth, study was carried out over 2016/17 (the full report can be found on the CIOT website).

As with the scoping study, this more detailed study examined the case files of the tax charity, Tax Volunteers, which runs Tax Help for Older People services (Tax Help hereafter). Tax Help was established in 2004 in response to an initiative of the Low Incomes Tax Reform Group (LITRG), a committee of the CIOT, its remit is to provide accessible tax help and advice for older, more vulnerable and unrepresented people on low or modest incomes, in the absence of any real action on the part of HM Revenue & Customs (HMRC) to address the problems highlighted in earlier LITRG reports. The charity is currently based at Salway Ash, near Bridport, in Dorset. To qualify for assistance, individuals will usually have income of less than £20,000 per annum and be aged over 55.

It was evident from the 2015 scoping study that Tax Help had many thousands of case files and had seen a surge in requests for help in recent years, generated by the existence of an ageing population, who increasingly experience difficulties in dealing with their taxation affairs as a result of problems associated with advancing age or inherent in the tax system itself. Tax problems are not something that only rich older people experience – a common misconception. During the year to March 2016 (the date of the latest available financial statements at the time of the research), Tax Help had received about 67,000 queries/requests for help, although the number of individuals helped was fewer than this, as individuals often had several (inter-related) problems which needed resolution. The 2016-17 study analysed in total 708 of these case files (351 men; 357 women). The evidence from 2016–17 study reinforced, and added further depth to, the findings of the scoping study which had looked at only 169 case files.

Key problems the research highlights included:

- Impacts of incorrect PAYE coding;
- Difficulties commonly arising over self-assessment, applicable tax rates, allowances, savings and investments;
- Interaction between income and benefits (particularly pensions);

- Marriage allowance issues remaining a key problem for the most elderly.

An incorrect coding continued over several years might result in under-/over-payment, and thus generate several issues to resolve. In terms of technical tax problems, those attracting the most queries concerned various issues relating to self-assessment, PAYE, applicable tax rates, allowances (especially age-related ones), savings and investments, the tax status of various benefits received, pension income and the marriage allowance.

The causes for these queries could be analysed into eight categories, namely:

1. changed circumstances, especially on retirement from employment/self-employment;
2. bereavement, especially the death of a partner/spouse;
3. complex legislation and/or changes to legislation;
4. illness/impairment, physical and mental;
5. lack of official help;
6. errors by taxpayers, tax authorities and others;
7. digital issues; and
8. lack of tax education/literacy; no ‘tax antennae’ (i.e., a general lack of awareness that a given matter might have tax implications or consequences).

Older people (typically those who have retired from employment, rather than the self-employed) frequently experience multiple technical problems resulting from a variety of causes. Often problems do not surface for several years. A key reason was older people’s lack of tax knowledge/education/literacy about what constitutes taxable income or benefits, typically because, on retirement, they lose the ‘safety net’ of having their employer deal with (the majority of) their tax affairs via the PAYE system. They were unaware of their tax compliance obligations and entitlements. This was compounded by complex tax legislation and errors made – by themselves, employers/pension providers and HM Revenue & Customs – and a lack of ability to articulate their problems.

Older people can also become vulnerable because of illness or physical/mental impairments, which prevent them from being able to comply in a variety of ways. Although severe health problems were experienced by many individuals in the cases examined, they were most frequent in the over 80 age group. This evidence does seem to suggest a possible case for considering exempting from income tax

obligations those over 55 on low incomes who are seriously ill or suffer serious mental/physical impairments - something a rising personal tax allowance is helping with in practice.

Often dealing with the ‘tax man’ causes significant amounts of distress, which is exacerbated in instances of severe illness or impairment, whether physical or mental. It would also be helpful if HMRC could take greater account of the effect and impact of their forms, letters and decisions on this older group of people. While it is acknowledged that they have to treat people on an equal footing, that their resources are very stretched and that they will often have to make a decision on less than full information (e.g., about coding), nevertheless the tax process was regularly shown in the cases examined to appear unduly harsh and lacking understanding of the frail condition in which some of this older group of individuals find themselves.

The tax issues associated with an ageing population are likely to increase rather than decrease – and will only get worse if left alone as the population ages and more work into their ‘retirement’. However, this is not just an issue for the future. With over 11.6 million (17.8% of the population) aged 65 and over and 1.5 million (2.3% of the population) aged 85 and over in mid-2015, these are issues faced by a large percentage of taxpayers now and more should be done to address this current challenge.
There are few easy solutions to many of the problems the examined cases demonstrate. Clearly a much simpler tax system would help everyone, and implementing some of the recommendations made in the past by the Office of Tax Simplification would be useful, such as for a ‘DWP60’, a P60-type form, stating the amount of taxable income from the state pension and other taxable state benefits which any pensioner was entitled to in the previous year.

Other interventions to reduce impacts in the future might include better education about taxation at school and throughout employment, perhaps with implementation of schemes such as creation of an annual statement from employers of tax changes affecting their employees and a ‘tax retirement information pack’ provided mandatorily by the state via an employer/pension provider. Pre-population of tax returns might also help in the shorter term – helping to steer older taxpayers to where HMRC believe they have numbers to check and report.

Concerns about the impacts of digital exclusion should also arguably be higher on the policy agenda. All evidence points to those being so challenged being more commonly found amongst the older population and therefore contributing disproportionately to this problem as greater amounts of information about tax-paying obligations, and the filing of tax returns, move online. This is an issue that has exercised LITRG regularly. They have also lobbied, rightly it seems from this research, on the need to support those who continue to wish to file paper returns being allowed to so do – again, the older generation are more inclined to wish to continue to file this way.

This research confirms that the tax affairs of older people continue to show up significant problems. Further, they represent problems that are likely to become more complex, not less so, with changes in working versus retirement demographics, the complexity of individual financial affairs and the complexity of the tax system itself all interacting to mean the burden of tax in older age remains a key concern for many.

Age-related websites for further tax help

AgeUK: Guides and Factsheets

Tax Help for Older People

Citizens Advice

Low Incomes Tax Reform Group