Tax and 'localised' benefits

Technical

01 February 2015

The Social Security Advisory Committee (SSAC) released a call for evidence in late 2014 on ‘localisation and social security’ – www.tinyurl.com/kmuppln. The SSAC is an independent statutory body that provides impartial advice on social security and related matters. It scrutinises most of the complex secondary legislation that underpins the welfare system.

Although the relevance of tax might not be immediately obvious from the title of this call for evidence, some specific tax questions were posed in the paper – for example, knowledge of tax by those delivering services at a local level, and the often complex interactions for claimants of social security.

LITRG responded with a reference to the vast amount and fragmented nature of information on different government and local authority websites. This has hampered our efforts to represent the public.

In the past, when a national tax change was announced, we could immediately analyse the impact on individuals and households by understanding what the effect on net income would be for benefits purposes (including local impacts such as council tax benefit). With increased localisation (the move to individual council tax support schemes) we can no longer make such global comment, which means it must also be more difficult for central government to understand the impact of national changes on individuals at a local level.

Localisation is a complex subject and the SSAC paper starts by seeking views on clarifying what is meant by it and how it relates to other terms such as devolution.

Although LITRG is generally supportive of localisation to the extent that it means people are better served by authorities being able to flex benefits and services to local needs, we are concerned that it can cause confusion. This arises both in terms of people’s understanding of to whom they turn for guidance (whether it is a national, devolved or local authority) and of what power exists to change things in

their community.

LITRG therefore believes that localisation should be approached with caution, limiting differences to those considered essential to meet local need, and to minimise any ‘postcode lottery’. But even if a local authority would wish to put in place a scheme tailored to its community, there appears to be no global exemption in tax law for it to do so. Careful consideration of the tax and tax credits treatment of local benefits would therefore need to be made in each case, together with their impact on national benefits such as universal credit. We suggest there would be a case for considering some form of global exemption for local benefits. This would need to exempt these benefits from income tax and be copied across to tax credits and other benefits legislation to exclude them from income assessment.

There is a lack of understanding of tax matters at a local level. Particular examples are the different definitions of income for the self-employed in terms of tax, tax credits and benefits both at national and local level, and how the infrequent tax payments made under self-assessment are treated for benefits purposes. This problem can only have been compounded with the loss of local knowledge within HMRC as a result of enquiry centre closures.

LITRG evidence highlighted that guidance for self-employed claimants is poor. It gave an example from one local authority’s web materials, pointing out that:

- It mentioned nothing about the basis period to use for self-employed income, nor whether the claimant should report figures on an accruals basis or ‘cash’ basis and how that is defined. Further, it referred to ‘the amounts shown on your accounts for allowable expenses’, thus presupposing that expenses shown as allowable in a person’s accounts equate to allowable expenses for benefits purposes, which is not necessarily the case.
- The benefits calculator tool asked the user to enter ‘income tax paid’ but gave no additional help link when making that entry. Thus, a self-employed user would not know what figure is expected from them.

Where do these claimants turn to for help? Given their circumstances, it is unlikely they will be able to afford professional advice. So do they turn to other web channels perhaps?

Well, they might try. But where do they go, given the multiple ‘layers’ of website guidance? We are told to ‘start at GOV.UK’. But with separate websites being

developed in devolved administrations (such as Revenue Scotland's www.tinyurl.com/q4gjteq) and examples of local authority website guidance such as the above, the man on the street is bound to be confused.

If you have examples of local tax and benefits interaction complexities, email litrg@ciot.org.uk