Distressing tax

Management of taxes | Personal tax



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Jane Frecknall-Hughes, *Sharon Collard* and *Nashid Rizwana Monir* report their findings on a scoping study for research on older people's tax problems

Key Points

What is the issue?

CIOT provided funding to facilitate a scoping study to ascertain the reasons for older people's tax difficulties

What does it mean to me?

Older people are confronted by a tax system that is complex often now in the context of increasing digitalisation of tax services by HMRC and a lack of help

What can I take away?

Older people can find them themselves excluded from the tax system, which they usually do not realise until problems manifest themselves

The tax problems older people face have long been documented in reports by the Low Incomes Tax Reform Group (LITRG), the National Audit Office and the Office of Tax Simplification (see further information for more details). Then last year the CIOT provided funding to facilitate a scoping study to ascertain the reasons for older people's tax difficulties (see 'What is Tax Volunteers' below).

A common theme was changed personal circumstances, with divorce, retirement and bereavement featuring prominently. Particularly problematic were changes to tax codes, especially K codes, by HMRC or a pension provider. There was much misunderstanding about why tax was deducted from one source of income when it appeared to relate to another, such as the state pension. Recent changes in pensions legislation proved confusing, as more individuals sought 'trivial commutations' without being fully aware of the potential tax consequences of commuting pensions if they were taxpayers.

Whether a person should be included in self-assessment proved problematic too, with individuals being incorrectly included and excluded by HMRC. Self-assessment returns could cause great difficulties as recipients did not know what they were or how to complete them.

One case concerned a man in his 80s who had received self-assessment returns for several years but had not completed or returned them to HMRC (this was not uncommon). When the man fell ill, his son found the returns, together with subsequent penalty notices for non-filing. His father had not known what the self-assessment returns were or how to deal with them because he had never had any experience of them. Given the penalties had amassed to many thousands of pounds, the son contacted Tax Help. It turned out that the father did not owe any tax; indeed, he was due a small refund. Tax Help managed to have the penalties waived,

the refund paid and the individual removed from self-assessment.

This case showed, like many others, that multiple tax years could be affected by a particular problem, which could be exacerbated by the passage of time or could generate other problems in turn.
Several cases revealed individuals at a loss in trying to cope with the ‘tax system’, even though they attempted to fulfil their obligations. Various obstacles stood in their way. Many did not understand what a tax code was or how it interacted with allowances, especially the older married couple’s allowance, and would ‘let things slide’.

Sometimes a new item of income caused problems: a foreign pension or overseas investment income, for example. Moving to a different country or returning to the UK caused confusion as to where the taxpayer might owe tax. Moreover, individuals found it nearly impossible to get through to HMRC’s helpline. If they succeeded and a follow-up call was required, it was seldom made by the person with whom they held the initial conversation. The closure of local tax enquiry offices had inconvenienced many because it removed an immediate source of help.

Many case files revealed that older clients were ill or prevented by disability from engaging with the tax system. Matters related to dementia were common, such as having in place an enduring or lasting power of attorney to allow a relative to deal with the person’s tax affairs. There were also issues relating to the sale or renting out of property to fund care home fees and the associated capital gains and income tax implications. Then there was the question of the disposal of investments to allow modifications to a house.

One case concerned a blind person who could read neither a paper form nor a computer screen, although she knew what was required in terms of tax compliance (though others did not, and were unaware of their eligibility for the blind person’s allowance). This highlights another pervasive issue, namely the difficulty older people might have in accessing forms online and wider engagement with the tax system through internet access because of health-related matters or other problems. Although some older people own PCs and are computer-literate, many have no access to one, let alone know how to use one, albeit this is likely to change over time.

The distress caused to older people trying to resolve their tax affairs was evident. It was common for individuals, worried by the complexity, to contact Tax Help for a tax ‘health check’ to ensure they were compliant. One woman, due a small refund, was not bothered about claiming it: she just wanted to make sure that she did not owe anything. Sometimes individuals just wanted to check whether there would be tax implications from a projected course of action and whether they should obtain paid professional advice. In these instances Tax Help could steer enquirers towards a suitable adviser.

Several cases proved of great complexity for various reasons. These could be for tax technical reasons, because clients had inadequate or messy records, or because of errors and events over which taxpayers had little or no control – for example, differences between the Department for Work and Pensions and HMRC over the treatment of a deferred state pension lump sum. Some were not admissible of an easy solution.

One individual, in his 90s, had received a significant lump sum for a (fixed-amount annual) pension that should have started on his 65th birthday, but which by error did not. The individual was unaware of this entitlement as it was revealed only after an internal investigation by the pension provider, which deducted a considerable sum in income tax. Had the pension been paid yearly, the individual would not have been liable to tax because his annual income would have been less than the personal allowance for each year. The individual also received compensatory interest on the total of the back payment. The client contacted Tax Help because he could not find any forms on the ‘government internet site’ to claim a refund.

Tax Help argued successfully for a refund of the income tax collected for the pension. Unfortunately this was handled by different HMRC departments, one of which ‘re-worked’ the calculation incorrectly, so further input was required from Tax Help to correct this.

On retirement, individuals lose the ‘safety net’ of having their tax affairs dealt with by their employer through Pay As You Earn (PAYE) and are often unaware of their obligations and entitlements. Many will never have seen a self-assessment return, and will often have to deal with tax issues for the first time after a bereavement, and, as they become older and, perhaps, infirm, are unaware of their eligibility for increased allowances.

They are confronted by a tax system that is complex for older people. Moreover, they must deal with PAYE and tax withholding systems that are not geared to their needs, often now in the context of increasing digitalisation of tax services by HMRC and a lack of help, given the closure of local tax enquiry offices. They are thus excluded from the tax system, which they usually do not realise until problems manifest themselves.

What is Tax Volunteers

Tax Help for Older People (Tax Help) is a service delivered by Tax Volunteers throughout the UK providing independent, expert help and advice for older people (usually aged 55 or above) on lower incomes (normally under £20,000 per annum).

Tax Volunteers was set up by LITRG in 2004 to give a voice to unrepresented pensioners on low incomes. However in recent years, the number of enquiries it has received has rocketed and in the three months to 30 June 2015, more than 10,000 queries or requests for help were made.

In July 2015, members of Tax Volunteers visited the Dorset premises of Tax Help for Older People. The purpose was to carry out an initial study of case files to ascertain the types of problems that Tax Help's clients face. Of the cases arising in July, 169 files were examined. This number comprised a convenience sample and, but although it was a small number of the total cases for that month, it was indicative of the problems Tax Help deals with.

Further information

The following reports have reviewed the tax problems older people face:

Low Income Tax Reform Group (1998), *Older People on Low Incomes: The Case for a Friendlier Tax System*, London: Chartered Institute of Taxation.
Low Income Tax Reform Group (1999), *Older People on Low Incomes: The Taxman's Response*, London: Chartered Institute of Taxation.
National Audit Office (2009), *Report by the Comptroller and Auditor General, HC 961 Session 2008–2009, HM Revenue & Customs: Dealing with the Tax Obligations of Older People*, London: The Stationery Office.
Office of Tax Simplification (2012), *Review of Pensioners' Taxation: Interim Report*, London: Office of Tax Simplification.

Office of Tax Simplification (2013), *Review of Pensioners' Taxation: Final Report*, London: Office of Tax Simplification.