Why the tax charities?

General Features



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Rosina Pullman and Graham Sherburn explain why the need for charities TaxAid and Tax Help for Older People has never been greater

Every month more than 1,000 people with tax problems ring the helplines of tax charities TaxAid and Tax Help for Older People. The two charities have been helping low-income taxpayers for the past 20 years. At no time has the need been higher.

Last February we started to track the details of 300 cases over the year to discover why they needed our help. What follows are our findings, illustrated by some case stories, that underlined not only the extent of the problem, but also how stretched both charities are.

Why is the need for tax assistance increasing?

The working environment has become harder. A larger proportion of the working population is now in low-paid work – some with multiple part-time employment, others in new low-income self-employment. Older people too face lower incomes at retirement as annuity rates plunge and many are forced to take or remain in part-time employment. The result is more vulnerable people.

At the same time the tax regime has become harder for them. Those least able to cope now have more complex tax affairs (through self-employment, multiple employments or a mixture of both) made worse by changed tax law and HMRC practice. This includes late-filing penalties, the greater focus by HMRC on compliance activity and their tightening practices on debt collection. The late-filing penalty regime is harsh for all those on incomes below the personal allowance; particularly so for those with no original tax liability.

The late-filing penalty regime has also caught out people who had a PAYE underpayment which was subsequently progressed into self-assessment. The confusion that had been generated by poor information on the original P800 has been compounded by the misunderstanding that being sent a tax return must imply that they had been self-employed. The worst aspect is that these problems often involve only tiny amounts of tax but carry disproportionately high penalties of up to £1,600.

Providing a safety net

Edward’s case was typical. Now retired, he had a serious stroke which rendered him incapable of completing his outstanding tax returns, resulting in late-filing penalties. Although he tried to appeal against them himself he was unsuccessful. This exacerbated the depression Edward had been diagnosed with and caused further risk to his health.

This case was unusual in that, despite having been through the appeal stages, we were able to make an exceptional appeal against Edward’s late-filing penalties on the grounds of his incapacity.

The more usual situation is that poorly presented appeals by individual taxpayers – or their unqualified advisers – use up their opportunity to appeal, leaving them with only the more tortuous route of taking the case to the tribunals.

Even when the taxpayer is competent and has some knowledge of how the system should work, dealing with HMRC is not always straightforward.

The number of low-income self-employed is rising, resulting in a significant proportion of our clients with earnings below the personal allowance. There is a positive correlation between this and vulnerability. Many of the 300 clients we

tracked had long-running, complex cases that the tax advice charities were able to resolve and close.

Alex illustrates this. He has learning disabilities and suffers from chronic depression that worsened after a street attack in which he was badly hurt. He continued to be self-employed, albeit at a lower level than previously, and is now on income below the personal allowance. He used various coping mechanisms to deal with his depression. But he was unable to deal with his self-assessment obligations, resulting in multiple outstanding tax returns and penalties. His tax affairs were not straightforward because he had also bought a van using a finance lease.

The tax charity liaised with HMRC to ensure that distraint proceedings were not taken. We assisted Alex to complete his tax returns for the multiple years and negotiated with HMRC's debt team to give Alex time to speak to his family about raising money to settle his outstanding tax liabilities.

Mental illness affects 20% of clients

Compounding the increase in low-income employment and self-employment, the extent of vulnerability has increased.

Nearly half of the clients in the month in which we reviewed the cases presented multiple vulnerabilities. For those of working age, this included combinations of:

- homelessness;
- serious health problems (including lack of capacity due to brain damage);
- disability, including mental illness;
- abusive employment or domestic situations;
- illiteracy;
- prisoners or ex-offenders; and
- alcoholism and drug addiction.

For the older population, greater isolation, age-related health problems, diminishing confidence and exclusion
by the move to 'digital by default' denies them the access to knowledge that affects their ability to manage their tax responsibilities.

Are we doing HMRC's work?

Edward's and Alex's situations are not uncommon. But increasingly, the charities are seeing taxpayers who are too fearful to contact HMRC – and who have problems beyond the scope of resolution direct with HMRC. Four clients in five who accessed our help in the review month had not contacted HMRC to resolve their problem, and were deterred further by the higher penalties for non-compliance. This also begs the question 'should callers to our helplines have contacted HMRC instead?'.

Although HMRC have launched the Needs Extra Support service for those lacking capability to deal with their obligations, the staff are not in a position to act as adviser to low-income taxpayers who cannot afford professional advice.

This, rightly, avoids HMRC advising on disputes and challenges to assessments. Neither can HMRC provide the support needed in respect of calculations, or engage in appeals or claims to special relief. Analysis revealed that more than nine clients in ten did need the expertise that a professional tax adviser provides – and most were given advice by the charities in how to present the issue or formulate the question to HMRC. People who need our help struggle with forms and can't understand HMRC's communications.

Why are more free tax advice services needed now?

With the trend towards greater casualisation of employment, self-employment and the blurring of boundaries between work and retirement, more vulnerable people on low incomes face an increasingly complex tax regime.

Nearly half of the clients in our review had several causes of vulnerability. This number is much higher than in previous years, and has a significant impact on the functioning of the tax charities.

For the future, other changes driven by the increasing numbers in low-income employment or self-employment and the constantly changing tax regime and environment will affect the low-income taxpayer. These include:

- Digital by default, which will exclude categories of vulnerable taxpayers who will need help with calculations and online filing.
- The transition to Universal Credit, which will affect those on low incomes, in and out of work, and marginal self-employment.
- Employment intermediaries (rogue employers and scams) will continue to prey on vulnerable taxpayers, who will need support to ensure compliance.
- Increasing focus by HMRC on compliance activity and tightening practices of debt collection.
- New complexity added to the tax system affecting the lower paid, for example transferable married couple's allowance, 0% savings band, tax-free childcare payments.
- The tax implications of the forthcoming changes in the pension rules.

What are we doing about this?

TaxAid and Tax Help for Older People fill those needs and help vulnerable people on low incomes. But their resources are too stretched to help anywhere near the number who need support.

Bridge the Gap

To better cope with the pressures now put upon them, both charities have launched Bridge the Gap, a joint campaign with the CIOT and ATT. This aims to allow the charities help a further 6,000 vulnerable people facing tax crisis, getting them back on their feet and providing the education they need to handle their own tax affairs in the future.

The first stage is to make people in the tax profession more aware of the problems our clients face and the work the two charities are doing to help them. In effect, we provide the tax profession's safety net.

We need your help now – simply to raise awareness among your colleagues of the tax advice charities and our Bridge the Gap campaign.

This spring, in the second stage of the campaign, the CIOT and ATT will provide ways for their members to support the campaign financially.

For further information: visit www.bridge-the-gap.org