

The tax problems experienced by older people
End of project report to the Chartered Institute of Taxation

By

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Executive summary

This document reports on a qualitative, inductive study of the tax problems experienced by older people, as evidenced in the case file of the tax charity, *Tax Volunteers*, which runs *Tax Help for Older People* services (*Tax Help* hereafter). *Tax Help* provides assistance to individuals aged over 55, who usually have income of less than £20,000 per annum.

In total 708 case files were analysed (351 men; 357 women), building on a small scoping study, also funded by the Chartered Institute of Taxation, which was undertaken in July 2015. During the year to March 2016 (the date of the latest available financial statements at the time of the research), *Tax Help* received about 67,000 queries/requests for help, although the number of individuals helped is fewer than this, as individuals often have several (inter-related) problems which need resolution. For instance, 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: (i) changed circumstances, especially on retirement from employment/self-employment; (ii) bereavement, especially the death of a partner/spouse; (iii) complex legislation and/or changes to legislation; (iv) illness/impairment, physical and mental; (v) lack of official help; (vi) errors by taxpayers, tax authorities and others; (vii) digital issues; and (viii) lack of tax education/literacy; no 'tax antennae'. Often there is an overlap between these categories, for example, incorrect coding as a result of bereavement is both a coding and a bereavement issue.

Older people (typically those who have retired from employment, rather than the self-employed) thus often experience multiple technical problems resulting from a variety of causes. Often problems do not surface for several years. A key reason is older people's lack of tax knowledge/education/literacy about what constitutes taxable income or benefits, frequently 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 are unaware of their tax compliance obligations and entitlements. This is 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 are often 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. There is thus a case for considering exempting from any tax obligations those over 55 on low incomes who are seriously ill or suffer serious mental/physical impairments. 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.

Clearly a much simpler tax system would help everyone, but recommendations made in the past by the Office of Tax Simplification would be helpful, 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 might include better education about taxation at school and through employment, with an annual statement from an employer of tax changes affecting their employees and a 'tax retirement information pack' provided mandatorily by the state via an employer/pension provider.

The tax problems experienced by older people

1. Introduction

This document reports on the results of a study, funded by the Chartered Institute of Taxation (CIOT), on the tax problems experienced by older people, as evidenced in the records of the tax charity, *Tax Volunteers*, which runs *Tax Help for Older People* services (*Tax Help* hereafter).

Tax Help was established in response to an initiative of the Low Incomes Tax Reform Group (LITRG), a committee of the CIOT. In December 1998, LITRG published a report – “Older people on low incomes – the case for a friendlier tax system” – and in the absence of any real action on the part of HM Revenue & Customs (HMRC) to address the problems highlighted therein, LITRG initiated *Tax Help for Older People* in April 2001 as a one year pilot project in Wolverhampton and in rural areas of the South West of England, chosen as representing very different areas but having in common a substantial population of older people on low incomes. The objective was to provide accessible tax help and advice for older, more vulnerable and unrepresented people on low or modest incomes. Funding for the pilot initially came from the CIOT and the Nuffield Foundation and it was established with the help of just a small number of volunteers. The success and take up of the service led to the eventual establishment of *Tax Volunteers* as a charity in 2004 specifically to run *Tax Help* services.¹ 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.

The current study builds on a small scoping study, also funded by the CIOT, which was undertaken in July 2015. The 2015 visit to *Tax Help* took place over a week² and 169 case files were examined (and notes taken), all relating to problems being dealt with in July. 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 people experience – a common misconception. For the over-55s on lower incomes, an examination of a greater number of case files, as in the present study, will generate clearer evidence about the nature of these problems, for example:

- the level of tax literacy/knowledge among older individuals;
- whether the level of literacy differs between those who have been self-employed and those who have been employed;

¹ This information is taken from *Tax Help*'s website (<http://www.taxvol.org.uk/>, accessed 23 April 2017). *Tax Volunteers* is an independent company limited by guarantee and is a registered charity in England and Wales (No.1102276) and in Scotland (No. SC045819).

² Effectively three days on site and two days of travel, for the two researchers involved.

- the types of intervention that might be necessary to engage taxpayers successfully;
- how working individuals might be educated regarding tax prior to entering the labour market;
- how entrepreneurs and business owners might be educated prior to developing their activity; and
- the possible relationship between tax literacy and tax non-compliance, for example, whether tax literacy is important and whether there might be other barriers preventing compliance.³

The remainder of the report is structured as follows. Section 2 outlines the context for the research and discusses relevant professional and academic literature; Section 3 gives details of the research methods employed and sample selected; Section 4 discusses the findings, with illustrative case examples provided; Section 5 presents conclusions and recommendations.

2. Context and review of academic and professional literature

It is a well established fact that people in general now live much longer lives than did their parents or grandparents. The Office for National Statistics (ONS) (2016, p. 7) comments that the UK population is ageing, and says of the 65.1 million in the population in mid-2015:⁴

... the population of the UK consisted of 32.1 million males (49.3%) and 33.0 million females (50.7%).

The number of males aged 85 and over in the UK has increased by 54% since mid-2005, compared to a 21% increase for females. The faster improvement in male mortality is largely driven by changes seen in tobaccosmoking and advances in health treatments for circulatory illnesses. Male occupations over the same period have also become less physical and safer.

The life expectancy of older people has also increased with increases for those reaching retirement being greater than previously. The older population continues to grow, 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 (ONS, 2016, p. 2). The *National Life Tables, United Kingdom: 2012–2014* (ONS, 2015, p. 8) reports that the most common age at death for men was 86 and for women 89, in the period 2012–2014, also that:

The cohort of people born between 1926 and 1935, often referred to as the Golden Cohort, is another contributor to the overall improvements in life expectancy at older ages in the UK. This group have experienced improvements in mortality throughout most of their lifetimes that no cohorts previously or since have experienced.

³ For instance, a person who wishes to claim a Blind Person’s Allowance, must first be registered with his/her local council as blind or severely sight-impaired before being able to claim this allowance – something already highlighted in the 1998 LITRG report (p. 10) as a “cumbersome” process, with as many as two-thirds of people entitled to be registered not being so.

⁴ These are the latest available figures (ONS, 2016, p. 2).

It follows that an ageing population will generate a variety of issues – and one of those clearly relates to taxation. For instance, for the latest financial year for which results were available, to the end of March 2016, *Tax Help* received over 67,000 queries/requests for help.⁵ *Tax Help* provided assistance to 15,772 actual clients during the 2015/16 year, of whom 14,335 were new. Individuals often have than one issue to resolve, which is the reason for the number of queries/requests being so high. Some of these individuals are members of this ‘Golden Cohort’, although many are younger. The Office of Tax Simplification (OTS) 2013 report (p. 4) on pensioners’ taxation commences with the remark that:

[t]here is no such thing as a typical pensioner. They may be single or married; above or below sixty five; in work or taking their leisure; with or without a pension; with or without savings or investments.

This is a non-heterogeneous group of individuals, comprising the retired and active/inactive, those who are still working as well those as in poor mental and physical health. Moreover, not all see themselves as ‘old’ or ‘older’. Many people who receive pension income also actually still work to make ends meet, with *The Telegraph* reporting in July 2016 that the “number of pensioners with jobs has trebled since the 1980s and one in 10 of those over the age of 65 is now in work” – so working pensioners may experience problems in regard to pension income and earned income.

The tax issues generally experienced by this group of the population are well documented by a series of reports by LITRG (2002), the National Audit Office (2009) and the OTS (2012, 2013). For example, the LITRG 1998 report, referred to earlier, on p. iii, states that older people on low incomes:

- Have less access to support, such as a payroll department or a professional tax adviser.
- Are more likely than younger people to suffer from physical disabilities impeding their ability to deal with their tax affairs.
- Often have to cope with tax issues, for the first time, following bereavement.
- Face a tax system that is particularly complex for those aged 65 or over.
- Must deal with PAYE and tax withholding systems which are not geared to their needs.

The LITRG 2002 report, p. 8, commented:

If many MPs cannot complete self-assessment returns without professional help, as a Chartered Institute of Taxation survey once showed, what hope is there for a 73 year old widow in the South West, living on a total annual income of £6,455 a year? MPs can afford to pay for independent ... professional advice, while the widow could not; luckily though she was able to seek the help of a [*Tax Help*] volunteer.

⁵ Since 2008, *Tax Help*’s interventions have secured adjustments to tax bills of over £7,000,000, about half of this in repayments to taxpayers and half in additional payments to HMRC. While some of these adjustments are for several thousand pounds, many are for much smaller amounts (say, £20 or £30), which nonetheless represent significant sums to people on very low incomes. One case cited in Section 4 (iv) refers to a person having only £56 per month disposable income.

Also, older people may grasp new ideas less quickly or thoroughly than younger people. This is because it involves ‘unlearning’ older, entrenched facts, which is harder than learning something for the first time (Lehman, 1953).

The latest of the professional reports found on the tax issues affecting older people, most especially pensioners, is that by the OTS in 2013. While all recommendations were considered in detail by HMRC and some were implemented or superseded by changes in legislation, others were not. For example, the OTS 2013 report (pp. 6–9) recommended the introduction of 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, so as to provide an accurate figure for taxable state income and facilitate checking that the correct tax is paid. Many pensioners find it difficult to calculate their annual income, especially when the state pension is paid on a weekly basis, although the single composite PAYE coding notice (‘Form P2C’) also recommended by the OTS 2013 report has now been introduced, which aggregates the various individual codes for each source of income subject to PAYE and provides a reconciliation to the personal allowance. This does allow pensioners to see how their personal allowance is being allocated and check whether the tax is correct. This is of benefit to individuals with multiple jobs, but may still be difficult to understand for many. The report comments (p. 7):

Our work has highlighted a lack of understanding and engagement with tax issues across the working population in PAYE, even before they retire. Although we have not made specific recommendations in this area (as this is beyond our remit) we believe further education work is needed to engage taxpayers of all ages who are in PAYE about the need to understand their tax codes, personal allowance and savings taxation.

The above refers to what might be termed ‘tax literacy’. Research in this field, as a sub-set or dimension of financial literacy, is just starting to develop. For example, Cvrlje (2015, p. 157) comments:

Tax literacy is a rather new and still developing concept which is highly related to financial literacy. Financial literacy presents a very broad concept which is usually defined as basic financial knowledge and financial skills needed to make informed financial choices. Financial literacy reflects individuals’ ability to understand financial concepts, financial products and services and enables them to control their personal financial resources (Bahovec et al., 2014).

Cvrlje (2015, p. 158) suggests that “discussions on tax literacy are not widespread and the concept is also not discussed widely nor is it generally defined or accepted”, although literacy generally is linked to “tax complexities including tax revenues and tax compliance”.⁶ Specific studies on tax literacy are rare, but Chardon et al. (2016) report on research carried out in Australia of 604 individuals (188 male, 416 female, including 65 people overall over

⁶Citing Lewis, 1982; Riezman and Slemrod, 1987; Ghura, 1998; Eriksen and Fallan, 1999; Book, 2003; Singh, 2003; Kenny and Winer, 2006; Holzner, 2006; Kirchler et al., 2008; Mahdavi, 2008; Chaudry and Munir, 2010; Marti et al., 2010; Mutascu and Danuletiu, 2013; Bhushan and Medury, 2013.

55 years in age), indicating that 19 percent of Australians had “tax literacy scores classified as either ‘poor’ or ‘low’ ”(p. 652). Their study recommends (p. 676) that:

employers consider developing tax literacy as part of the induction processes for new staff and particularly those employees who are young/new employees and those returning to work after a period of absence.

Finally, we suggest that professional advisers (tax agents, accountants and financial planners) utilise their expertise to enhance the confidence and knowledge of clients as a part of the professional client relationship (in other words empower them). Indeed, we would extend this to suggest such professionals may have the capacity to participate in community education programs as part of their broader professional service to the community.

The OTS 2013 report also commented (p. 7) on the “range of often outdated, ineffective or badly targeted allowances and reliefs which span both income and savings taxation”, saying that taxation on savings is “an area of complexity for all taxpayers”, with particular reference to the ten percent savings rate in force at the time the report was compiled, owing to its restriction to a “narrow band of income and savings” and its complexity, in terms of understanding, and claiming, if a taxpayer should not file a self-assessment tax return. The report advised against making changes to the savings tax regime which might involve “complicated eligibility calculations or a reclaim process, because they create barriers to take up” (p. 8). It also criticised the older married couple’s allowance for its complexity and the blind person’s allowance owing to the difficulties associated with registering as blind with a local authority which is a pre-requisite to claiming the allowance, agreeing with “a proposal made by the Royal National Institute for the Blind that a medical diagnosis of blindness should trigger an automatic notification to local authorities and HMRC” (p. 8).

Given that the OTS report was published in 2013, and that there have been no academic studies, as far as can be ascertained, that have used empirical data to examine the tax problems faced by older people, this study is therefore timely and relevant, especially as there are now substantial archival data in *Tax Help*’s case files.

3. Research methods

This was an inductive, archival study, which examined individual cases that *Tax Help* had dealt with. All cases are recorded on the client database using a Client Advice Record (CAR), and every time anything is done for any client, an entry is made. Help is provided by a variety of means – post, phone, e-mail, ‘surgeries’ at venues close to clients’ homes, and home visits– by the permanent staff at the charity and a team of professionally qualified volunteers throughout the UK: the method of help depends on the nature of the problem identified.

The CAR is a key document, as it logs the name of any client, the address, telephone number and a variety of other personal information relevant for tax purposes, such as age, marital/partnership status, tax reference number, etc. (though sometimes not all details are present). It usually records the source of the initial query to *Tax Help* (e.g., *Age UK*, *Citizens' Advice*, previous client, etc.), who dealt with it, and to whom, among the volunteer tax advisers, the case was referred, if this was necessary. If a volunteer tax adviser is involved, the CAR records the adviser's name, date, location for giving advice, and the amount of any tax payment/repayment due and whether the case is immediately resolved or requires further input. All cases dealt with receive a unique reference number, which is the identifier used in this research, to ensure anonymity and confidentiality. The CAR also logs the type of technical issue on which the client needed help, under broad categories, for example, self-assessment, PAYE, advocacy, help with forms, general guidance and tax credits, etc., and listings of the kinds of problems arising are maintained.

Many individuals are 'returning' clients, and some had entries dating from the establishment of the electronic database in about 2008 (and before). Until a client record was accessed, it was not possible to tell whether a case was a single, anonymous phone call, dealt with almost at once, or whether it involved a returning client with multiple entries, going back many years. Some cases had 50 or so entries; a very long one might have 70; a short one, one entry. One-off (sometimes anonymous) queries by phone, requiring a few minutes' discussion/advice were not uncommon.

Over a series of seven site visits during 2016–2017, 708 case details were recorded (351 men; 357 women). (The separate scoping study had recorded 169 cases.) The details were extracted for each case selected on to an Excel spreadsheet for demographic-type details and on to a Word file for the narrative details of the issues involved. The 708 cases reflect issues that *Tax Help* had particularly identified as problematic over the past two years and the commonest tax problems arising, by reference to problem listings referred to above, but comprise in essence a convenience sample.

The commonest tax issues concerned:

- Self-assessment – whether appropriate; help with (paper) returns; help to understand calculations/statements; advice regarding payment/repayment.
- Pay As You Earn (PAYE) – whether codes were correct; help to estimate a tax bill; advice regarding payment/repayment.
- Tax rates.
- Allowances, especially age-related ones.
- Savings and investments.
- Tax status of benefits.
- Pension income (including trivial commutations and flexi-access, and help with form P53/P53Z, to claim back income tax deducted on small pension lump sums).
- Marriage allowance.

Each of the above categories comprised several thousand queries. To obtain reasons for the queries arising, a thematic analysis of the case details was carried out, which revealed eight general categories of reasons, which are discussed Section 4.

4. Results

The eight general categories of reasons emerging for tax problems arising were as follows:

- i. Changed circumstances, especially on retirement from employment/self-employment
- ii. Bereavement, especially the death of a partner/spouse
- iii. Complex legislation and/or changes to legislation
- iv. Illness/impairment, physical and mental
- v. Lack of official help
- vi. Errors by taxpayers, tax authorities and others
- vii. Digital issues
- viii. Lack of tax education/literacy; no ‘tax antennae’

It should be said first of all that a considerable amount of the work done by *Tax Help* is non-contentious in tax terms, for example, the routine completion of tax returns. However, all of the problems identified above are equally likely to apply to the population more widely, not just those over 55: we just do not know. A large proportion of the problems dealt with related to people who had been employed, rather than self-employed, so it is possible that self-employed people were more comfortable in dealing with tax issues because of their experiences of running a business or because they had an established contact with a tax professional, but it is difficult to quantify this.

The eight categories identified above are discussed in more detail below, with specific, illustrative examples provided. It is clear that many queries arise because of ‘overlapping’ reasons.

i. Changed circumstances, especially on retirement from employment/self-employment

It was very clear that individuals, who had been formerly employed felt ‘cast adrift’ from the PAYE system previously implemented by their employer, and so were unaware of whether they needed to be in self-assessment or not.

A very large number of cases involved the incorrect calculation/application of ‘K’ codes by HMRC or a pension provider, often where individuals had small pensions from different sources, which they had started to receive on retirement. There was great misunderstanding among *Tax Help* clients as to why tax was deducted from one source of income when it appeared to relate to another, for example, the state pension (not taxed at source).

A ‘K’ code means that a person has income that is not taxed elsewhere (e.g., at source) that is in excess of the tax-free allowance. An employer or pension provider will take the tax due on the untaxed income from wages or pension – even if another organisation is the one paying the untaxed income. Employers and pension providers cannot take more than half of pre-tax wages or pension when using a K tax code. However, problems can arise if a K code is not issued against the largest source of income. For example, in one instance, a K code was issued to the smallest source of income, rather than the largest, causing the tax due not to be collected. This happened for several years, giving rise to multiple years of under-payments.

Another case concerned a client who was in receipt of the state pension and two private pensions, with problems arising over the codes. *Tax Help* got the 2013/14 codes corrected so that the non-increasing pension was accurately coded into the increasing one, but the HMRC system reverted to the previous incorrect coding approach when issuing the 2014/15 codes. Fortunately the client noticed, which enabled *Tax Help* to contact HMRC to put the codes right again. There remained a concern at the time that the same problem would arise when future codes were issued.

ii. Bereavement, especially the death of a partner/spouse

The death of a spouse or partner often triggered a variety of tax problems, sometimes (and understandably) made worse because left unattended to because of the emotional stress of the bereavement.

In one instance, a client, who was widowed in February 2015, inherited a pension plus an increased state pension. HMRC did not update codes until October 2015. When codes were issued, they were issued on a cumulative basis, meaning that the taxpayer paid the tax due for April 2015 to October 2015 in one month, which gave cause for concern. This is a topical issue, given the arrival of dynamic coding (near real time adjustments to tax codes) scheduled originally for 2017. While HMRC has given assurances that they will not collect six months’ worth of tax in one month, they will try to collect it in whatever period remains of the tax year, which will still be a major problem for some taxpayers.

On a client’s death on 7 April 2015, the surviving partner’s daughter asked *Tax Help* to contact HMRC to see if there was any refund due. A call was made to HMRC which advised that there were under-payments for many years. On investigation it turned out that no married couple’s allowance (MCA) had been given and therefore there was no under-payment: in fact there were refunds due for at least four years.

In another instance, a taxpayer, whose wife had passed away on 7 July 2013, contacted HMRC on 22 July 2013 to advise of his wife's death. HMRC updated his code and removed the MCA from his 2013/2014 tax code. He contacted *Tax Help* in March 2014 as he wanted to check he was paying the correct amount of tax. *Tax Help* contacted HMRC to ask why the MCA had been removed for 2013/2014 as he was entitled to the allowance for the full year. HMRC advised that the operator had removed this in error, but owing to the time of year, it could not be added back and the client would receive a refund when a reconciliation process took place. The client received his refund in July 2014.

Sometimes it is the death of a relative which creates difficulties which can remain undetected for some time. One lady, aged 68, had always been a compliant taxpayer, running a small business and filing her tax return on time. She ceased business in August 2015 but did not complete her final tax return, which was unusual behaviour. In time the penalty notices started to arrive, but suffering ill health and holding the belief that she had nothing to pay, she ignored them. It was only when the amount become worrying that she went to her local *Citizens' Advice Bureau* and was referred to *Tax Help*. It turned out that she had given up work because in July 2015 her sister had been found dead in her home. When she attended the funeral, her son informed her he had been diagnosed with cancer and was starting chemotherapy: he died in March 2016. The stress caused the client to suffer with her own health issues, including muscle spasms which made it difficult to write. *Tax Help* assisted her to file two outstanding returns, get her self-assessment record closed down, and successfully appealed the penalties.

iii. Complex legislation and/or changes to legislation

Inherently complex tax legislation, often subject to change which makes it difficult to keep pace with, means that individuals feel out of their depth in trying to deal with it. Recent changes to savings' rules have created great difficulty, while changes to pension legislation have generated numerous queries, particularly as regards trivial commutations and pension flexibility. The following case, cited in full from a client's e-mail, eloquently makes this point.

I am 63 on a state pension with little savings and no family to help me with this problem. I have not had sufficient income to pay tax since giving up work to care for my father over ten years ago. I was on carer's allowance and income support until eight weeks after his death in January 2013. I was then on employment support allowance then jobseeker's until I was able to claim my pension in March 2014.

Shortly before I retired I cashed in a small pension and tax of £1,196.40 was taken out. The pension company advised me to claim the tax back under trivial commutation. This I did and received two cheques in the same envelope. One was for £661.20 against 2013–14 and one for £447.60 against 2014–15. I didn't dispute the slight difference and to be honest was in such a physical and mental state at the time I probably didn't notice.

Last week I received a new calculation telling me to repay the £447.60. I phoned and the person said they could not see where this had come from. Then a few days later I received a letter telling me that they had made a mistake repaying the money and I had to pay it back. This is a lot of money to me and I don't know where to turn to for help, even to just confirm that they are in the right and that this isn't another mistake on their part. Thank you for any help you can give me.

iv. Illness/impairment, physical and mental

As individuals grow older, they are at increasing risk of the health problems associated with advancing age, in terms of both physical and mental impairment. This makes it even more difficult to engage with the tax system.

In one case, an 82 year old lady wanted form R40 to reclaim tax from her savings. She tried contacting HMRC by phone but was unable to cope with voice recognition.

Another case concerned an elderly severely disabled gentleman who was unable to read or write and who had been receiving self-assessment returns since 2007/08. In the first year he called HMRC and was told it was because he was self-employed. He told them he was not. After that he just ignored the returns when they arrived. Eventually he received large late filing penalties and his sister contacted *Tax Help*. The investigation revealed that his state pension was higher than his personal allowance, which was the real reason for his self-assessment returns.

One lady, aged 81, had continued for many years to file a tax return because she was a fitness class instructor. She had stopped filing tax returns in 2006, however, because her income was so low. HMRC had made determinations with, in her words, "grossly inflated figures", such that a debt totalling £20,000 had accumulated. She came to *Tax Help*, asking if anything could be done. The story was long and confusing, but it turned out that she had already been to court and had been ordered to pay the debt. However, she had contacted HMRC again and had recently submitted four of the returns up to 2010, although HMRC told her not to bother with the earlier ones. The submitted returns had not been processed and she had become very distressed because of waiting. *Tax Help* spoke to HMRC using their internal link. The returns were located and it was agreed that the determinations were incorrect, the court action was suspended and the client's figures were used to displace the determinations. All penalties and interest were cancelled. There was a potential repayment due of £7,300 but the client had to provide returns for another two years, interestingly the two HMRC told her not to bother about. Unfortunately, she died before this could happen. *Tax Help* is now working with the executor to retrieve the figures so the refund can be paid to the estate. The sad truth is that the debt was never due. The client lived on a low income with only £56 a month disposable income. Dealt with compassionately, the returns would have been filed much earlier, she would have received a nice refund and enjoyed the last few years of her life.

Many of the case files reveal serious physical illnesses/conditions, with cancer, heart/lung disease, strokes, severe arthritis, blindness, deafness, mental health problems, dementia and Alzheimer's Disease being common. While not confined to a particular age group, it is very noticeable that those aged 80 and above are most adversely affected by health issues.

v. *Lack of official help*

Lack of help from official sources was a common reason for people in difficulties contacting *Tax Help*. One client called HMRC to request a marriage allowance transfer, and owing to the automated recorded message, decided to try to register online. However, he was unable to complete online registration so tried to call HMRC again. He was put on hold for a long time and when he spoke to an adviser, he was told by HMRC that they were unable to action the transfer over the phone and he would have to register online. The transfer of the marriage allowance has caused frequent difficulties, owing to the documentation to facilitate transfer not being available when required.

Another client tried to contact HMRC five times by phone on 11 July 2014 but never got through. He had previously been told by HMRC that he no longer needed to complete self-assessment forms but was later sent a self-assessment form to complete so wanted to speak to HMRC to find out what was going on.

When the scoping study was undertaken in 2015, a particular problem uncovered was difficulty in contacting HMRC by phone after the closure of its 281 Enquiry Centres, carried out between March 2013 and June 2014. This problem has eased considerably, but individuals still report long waits, being put on hold, and experiencing difficulty in talking to the same HMRC adviser if they need to ring back. Contacting anyone at HMRC, if ringing from overseas, was a near-impossibility, as well as being prohibitively expensive.

vi. *Errors – by taxpayer, tax authority and others*

Many problems arise because of errors, which may be made by a number of different parties. In one instance, a client had an under-payment which he appealed in November 2014, but the appeal was denied. He then started to make payments towards the under-payment but re-appealed. HMRC agreed that employer error applied, but not until April 2015. He then struggled to get a refund of the amounts he had paid and requested assistance from *Tax Help* which secured a refund of all monies paid in November 2015. In another case, a pensioner questioning his tax codes found that a duplicate record had been created using a temporary national insurance number when his pension provider joined the Real Time Information reporting system for PAYE. The effect falsely increased the client's income which also restricted his MCA to zero. One client received correspondence from HMRC addressed to the personal representative of herself deceased, although her national insurance number was on the letter. Another case records a non-taxpayer being pursued by HMRC for a £940.80 under-payment. She could not understand why and could not resolve it by calling HMRC.

On investigation it was found that her record had been mixed up with another taxpayer with the same birthday and this had been the case since pre-2007. Needless to say, she was relieved that she did not owe any tax.

Another client had been receiving tax demands from HMRC every September since 2010 and it had become a time of year she dreaded. She had rung HMRC every year but had never received an explanation she could understand, although she was told that the error had been corrected. Nevertheless, the next year another under-payment notice was sent out. As she was not able to manage money well, tax debts arose, which compounded an escalating debt problem cumulating in her downsizing to a smaller home during 2014 when finally she became debt-free. However, in September 2014 she received yet another under-payment notice, then another in September 2015 and again more recently in September 2016. Feeling suicidal, the client contacted *Tax Help*. An investigation revealed that HMRC had been struggling to code her various sources of income, which included pensions and employment and some of which were small. Each year when the client called HMRC, the coding was manually changed but not accurately: some codes were changed but not others, and then when the computer calculated the following year's codes, it all reverted. *Tax Help* spoke to HMRC on the client's behalf and put in an appeal under the exceptional circumstances' clause of ESC A19 because HMRC had failed more than once to use information they held about a source of income. Although agreement was not guaranteed, because the issue had been rectified within the allowed timeframes, HMRC decided that the appeal would be allowed and an outstanding debt of £763 was written off. The client was delighted with this outcome, but was recommended to call *Tax Help* again when her 2017/18 codes arrived. More importantly, she understood what was going wrong each year, as *Tax Help* explained how codes work and she could now spot whether there was likely to be a problem. Just having this knowledge meant that the client was calmer about everything – a real bonus for her, as she struggles with high blood pressure.

vii. Digital issues

The increasing use of digital media for taxation matters brings a number of problems in its wake. One client, aged 77 years old, for whom English was a second language, received a letter from HMRC as part of a let property campaign. She had rented out a flat. She rang HMRC and was advised that she needed to complete a disclosure form online, as they could not send her a form. When she advised she had no Internet access, HMRC gave her the telephone number of *Tax Help* and advised her to call. Such cases are normally referred to NES⁷ by the HMRC call centre.

In another instance, a client's step-father rang *Tax Help* for advice. The step-son is severely disabled, but has to complete a self-assessment tax return every year. His mother and step-

⁷ 'NES' stands for 'Needs Extra Support' and is a branch of HMRC which deals with exceptionally vulnerable individuals.

father normally complete a paper return every year, but this time needed to do it online and needed help as they had no Internet access.

The use of digital media also creates the potential for fraud and ‘scams’. One client had been coming to *Tax Help* for years for help with untaxed interest, and, in one year, with an employer error concerning the operation of a tax code with her pension provider. *Tax Help* had form 64-8⁸ in place because of the on-going relationship and this year as usual, a P800 arrived in the *Tax Help* office. *Tax Help* contacted the client to check the interest figures and to confirm that the refund was due. However, the client said that her son had gone online to claim the refund – in her words “my son has made a claim on his computer thing as you have to wait 45 days otherwise”. She had no idea how he did it and *Tax Help* could only assume that her son had opened a personal tax account (PTA) for her. While *Tax Help* felt sure that the son was acting in his mother’s best interest, it does highlight the vulnerability of an elderly person. If the son had had a different agenda, he could have entered his own bank details to collect the refund or could have reported fictitious figures to create a larger refund. The refund in this case was wrong because HMRC held incorrect data on the interest the client received, but fortunately, she was owed more not less. However, her son could easily have claimed a refund that was not due.

Another case concerned a lady of 89, suffering from dementia. Her daughter held power of attorney (POA) and had recently cashed in two pensions for her mother under the trivial commutation rules, one in 2015/16 and one in 2016/17. In December 2015, believing that a refund might be due, the daughter contacted HMRC. She was unable to talk to anyone because she had not yet registered the POA with HMRC. HMRC insisted on talking to the mother who, unfortunately, was extremely impolite that day. Nevertheless, by the end of the call the daughter was informed that the refund would be issued immediately. The second pension was commuted in July 2016. As the daughter had not heard from HMRC regarding the last refund, this time she decided to search online and found ‘claim a refund’ on Gov.UK. She created a PTA for her mother and made a claim. She said that she did not need to enter any income details, which seemed strange. Soon after she received an e-mail saying she was due a refund of £1,200. The e-mail gave reference numbers and advised her to visit HMRC to claim the refund. Luckily she did not click on the link included in the e-mail but went back to her mother’s PTA account. It would appear that she claimed again and this time was asked for bank details. She entered these but it kept saying ‘invalid details’. At this point she was so confused she called *Tax Help*, who alerted her to recent scams and told her that the e-mail was probably suspicious. As it was hard for her to explain what had happened, *Tax Help* spoke to HMRC on her behalf to ensure that the correct refunds for both years were issued. In the same week another family member (granddaughter) received an e-mail unexpectedly advising she was due a refund. Unfortunately she clicked on the link incorporated into the e-mail and entered all her bank details. It seems that she had been caught by a scam and *Tax Help* advised her to contact her bank.

⁸ Form 64-8 allows a person/firm, in this case, *Tax Help*, to act formally as a tax agent for a client.

viii. Lack of tax literacy/education; no ‘tax antennae’

Often problems are caused by clients’ lack of tax literacy/education or a general lack of awareness that a given matter might have tax implications or consequences. There are numerous examples of this. For instance, a client called *Tax Help* to advise that his wife was trying to complete an online application for the transfer of the marriage allowance (going from her to her husband) but the system would not accept her national insurance number. When he provided the number to *Tax Help*, the *Tax Help* adviser explained that it was two digits short. The client checked again, and it appeared that his wife had been reading the digit ‘1’ as an oblique stroke, in error. Armed with this information, she intended to try again.

In another instance, a client received a P800,⁹ indicating an under-payment of £62 which caused distress. It turned out that the MCA had not been applied to the client’s tax record. HMRC then reviewed the client’s tax record back to 2011/12 and applied the allowance. This resulted in a refund of tax of £1,229.02, which represented a considerable sum of money in this instance. The client had been completely unaware of his eligibility for the MCA.

Distress

It is evident from the cases cited above that their tax problems often cause *Tax Help*’s clients considerable distress. There are many instances of this. For example, a client received help from *Tax Help* regarding an under-payment of tax for 2009/2010 and 2010/2011. On 14 May 2013, following an investigation, HMRC agreed to waive the under-payment. In February 2014, the client called *Tax Help* again, distressed by receiving a letter requesting payment for the previously waived tax. *Tax Help* was advised that the client’s record had not been fully updated in 2013. HMRC apologised and sent the client £25 for the worry and distress caused. Another client received an annual summary which said that her taxable income was £15,000, although it was only £8,940 and had been for many years. The annual summary caused her real concern as she was worried that HMRC would start charging her tax. One elderly client, aged 89, was extremely distressed to receive form R27¹⁰ in July 2014 in respect of his wife who died on 24 May 2002, asking for details of her income between 6 April 2002 and 24 May 2002.

⁹ A P800 form is issued to those subject to income tax, but who are not within the self-assessment system.

¹⁰ Form R27 was for use in calculating the tax reclaim or payment due following a person’s death. It was withdrawn in October 2014.

5. Conclusions, recommendations and plans for dissemination

Conclusions and recommendations

It is quite evident that tax problems are not confined to the rich, as many people might assume, given the media headlines frequently seen. As this study indicates, people with very moderate and low incomes experience considerable problems with taxation and complying with their tax obligations. In general, this is not a group of people who are trying to evade or avoid tax, but there are numerous obstacles in the way of their compliance, as Section 4 shows. Many of these problems overlap. For example, the first and third cases cited under Section 4 (ii) in respect of bereavement could just as easily be classed as errors.

Tax problems often remain hidden for several years, but then some event/change triggers a need to look into a person's affairs and investigation subsequently unearths a multitude of other, related problems: there is seldom just one problem. Frequently individuals cannot articulate what their problems are: it is often receipt of a form or letter they do not understand, or just a feeling that something is going wrong, which may lead eventually to a request to *Tax Help* (often via a close relative) for assistance or at the least, a request for a 'tax health check'. Many have no real idea of what 'income' means for tax purposes or whether any state benefits they might receive are taxable or exempt.

Many of the persons seeking assistance from *Tax Help* are extremely vulnerable, because of advanced age, illness or various forms of physical or mental impairment. The most extreme conditions appear commonly in those who are over 80 years of age, who find day to day life almost as much as they can bear. There is a justifiable case for considering exempting from any tax obligations those who are over 55 with £20,000 income or less per annum, who experience severe illness or serious mental/physical impairments. 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), which must be frustrating, nevertheless the tax process comes across on many occasions as harsh and lacking understanding of the frail condition in which some of this older group of individuals find themselves, and of how distressing and difficult they find it to deal with the 'tax man'. The OTS's recommendation for a DWP60 would address many of the issues arising.

Coming through strongly from the cases examined is a pervasive lack of tax education/literacy. This is not to deny that there are many older people who understand their tax compliance obligations and know what needs to be done, but who, despite this, for various reasons require help to comply, for example, because they have some form of physical impairment: a blind person will have difficulty completing boxes on a paper or computer-based tax return. However, people are frequently unaware of the tax implications of their financial affairs and decisions, both in terms of specific technical knowledge and a wider sense that something might have tax ramifications: in other words they have no 'tax antennae' to prompt them to make enquiries. This remains evident when employed people

retire and no longer can rely on the ‘safety net’ of a PAYE system operated by an employer. They do not know their obligations or entitlements. They are frequently unaware of the age-/infirmity-related benefits they might claim, and the availability of the MCA and the marriage allowance caused much difficulty and confusion. They fall foul of a complex tax system through lack of knowledge and often end up paying too much or not enough. In the latter case, penalties imposed can run into the thousands of pounds, particularly if HMRC has issued self-assessment forms which have not been returned. People often do not respond to HMRC communications, because they are frightened by them or do not know what they mean, and so put them aside, which is why problems often remain hidden for years, as mentioned earlier. The volume of queries relating to various aspects of self-assessment and PAYE in relation to pension income, also savings and investments, supports this (also identified in the various LITRG and OTS reports already cited). Many are unaware that the state pension needs to be added into their ‘pot’ of annual income to determine whether they need to pay tax overall (it is often assumed to be per se non-taxable). PAYE coding and K codes were mystifying to them with problems compounded by errors – by the taxpayer, a pension provider/employer and HMRC variously – and an increasing need to deal with tax affairs online.

The answer to such problems is twofold: a tax system that is easier to understand (which might seem an impossible dream¹¹); and a greater degree of tax education from an early age (in school) continuing through employment/self-employment to preparing people for retirement, perhaps by some form of intervention, such as an annual statement from an employer of tax changes affecting their employees and a ‘tax retirement information pack’ provided mandatorily by the state via an employer and/or pension provider.

These interventions would not, of course, help the self-employed. It is possible that self-employed people might be more ‘tax-aware’ anyway, which might be deduced by their absence from *Tax Help*’s records, but this does not mean they do not experience problems: they may be younger than 55 and have more than £20,000 income and so seek help with their tax affairs elsewhere – and may, indeed, continue to use the same source of help after retirement. Persons younger than 55 with £20,000 annual income or less may seek help from *TaxAid*, the other main charity which helps those in need of help with their tax affairs. We similarly lack evidence more generally for employed persons under 55 with more than £20,000 income. These are areas where more research is needed.

¹¹ Tax systems that are more complex are often so because they try to be more equitable, for example, by including exemptions to ease burdens which would be unduly heavy or unfair, so pressures for a simpler system may be unlikely to overcome the pressures for a complex one (see James et al., 2016).

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