



House of Commons  
Committee of Public Accounts

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# HM Revenue and Customs: Dealing with the tax obligations of older people

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**Eleventh Report of Session 2009–10**

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by the House of Commons  
to be printed 1 February 2010*

## The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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Angela Eagle MP (*Labour, Wallasey*)  
Mr Philip Dunne MP (*Conservative, Ludlow*)

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Sian Woodward (Clerk), Emily Gregory (Senior Committee Assistant), Pam Morris and Jane Lauder (Committee Assistants) and Alex Paterson (Media Officer).

### Contacts

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## Summary

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Older people are a significant and growing group for HM Revenue & Customs (the Department), making up 18% of taxpayers. In 2007, the number of people over the State Pension age was, for the first time, greater than the number of children, and around 5.6 million were liable for Income Tax. Older people are poorly served by the Department. They are more likely to comply with their tax obligations than other taxpayers but are less likely to understand them, and many pay more tax than they need to.

The Committee noted that errors occur because people's tax affairs often become more complicated when they reach pension age, and that the Department's systems do not cope well with their multiple sources of income. For example, an estimated 1.5 million older people have overpaid tax by £250 million because of discrepancies between the Department's records and those of their employers and pension providers. Older people may also be paying too much tax because they do not claim additional tax allowances available. Some 2.4 million older people have also overpaid around £200 million in tax because they did not have their savings income paid gross of tax.

The Committee concluded that the Department should devise simpler systems so that older people can have peace of mind about their tax affairs. At present, if they have more than one source of income, as many older people do, they receive multiple tax coding notices which make it difficult for them to check whether they are paying the right amount of tax. The onus is on older people to claim the age-related allowances, where the rules on eligibility are hard to understand and older people do not find the claim form easy to complete. It is also unacceptable that the Department does not have a clear idea how many older people are missing out and may therefore be paying more tax than they need to. Awarding the age-related allowances automatically, where information available indicates an individual's eligibility, would reduce the burden.

The Committee recommended that the Department should have a more coherent plan for meeting the needs of older people efficiently and effectively. Administering Income Tax for older people is costly for the Department and could rise further as the number of older people increases. It costs the Department twice as much on average to deal with an enquiry from an older person compared to those from other taxpayers because their enquiries tend to be more complicated. Older people were however less likely to contact the Department for help even though 36% did not understand their obligations, compared to 26% of all taxpayers. The Department should improve the support it provides to older people by working more closely with other agencies in the third sector and across government. In particular, it should safeguard opportunities for face-to-face contact which older people often prefer.

On the basis of a report by the Comptroller and Auditor General,<sup>1</sup> the Committee examined the Department on: claiming the additional tax allowances available to older people; administering tax for older people; and providing cost-effective support for older people.

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1 C&AG's Report, *HM Revenue & Customs: Dealing with the tax obligations of older people*, HC (2008–09) 961



## Conclusions and recommendations

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1. **The Department's systems for dealing with older people's tax affairs are too complex, create uncertainty for older people, and result in too many overpaying tax.** The Department should establish a clear plan by June 2010 to guide its approach, making it simpler for older people to fulfil their obligations and reducing the level of error in their tax. This should include accurate information on the needs of older people; and a clear explanation of what the Department and other agencies should do to meet these needs.
2. **The Department does not know the costs it incurs, how effective it is in meeting the needs of older people, or the likely impact of future growth in the numbers of older people.** The Department should track the costs of helping older people with their tax affairs, the quality of service it provides and their take-up of allowances. It should estimate the likely impact of the forecast growth in older people, and decide how it will provide effective support for older people as the number of older people increases.
3. **The age-related allowances are intended to help people financially in later life but the Department does not know for certain how many people are eligible for the allowances but do not receive them.** The Department should establish accurately how many older people have not claimed the age-related allowances, Blind Person's Allowance and the Married Couple's Allowance but are eligible to do so, and identify the steps it will take to ensure they receive the allowances due to them.
4. **The age-related allowance rules are complex and hard for older people to understand and place too much emphasis on older people having to prove their eligibility, resulting in errors in claims and potential overpayments of tax.** The Department should reduce the effort required by older people:
  - a) by agreeing with the Department for Work and Pensions and other agencies what information the Department could use to identify who is eligible for an allowance;
  - b) by awarding the allowances automatically without the need for a claim in those cases where the information available indicates an individual's eligibility, and
  - c) where claims are required, by making the process easier to complete, such as by allowing claims to be made by e-mail or with assistance from the Department's staff.
5. **Many older people with multiple income sources have to cope with several tax coding notices which they find hard to check and which creates costs for the Department in dealing with associated enquiries.** Once the rollout of the new PAYE system is complete in 2010 the Department should provide people with a single document which explains clearly how their tax code is calculated and how tax will be deducted from each income source.
6. **The planned one-stop shop drawing together online, telephone and face-to-face support across Government and the third sector offers an opportunity for the Department to improve the access older people have to information and help in managing their tax affairs.** The Department should decide with the Department for

Work and Pensions, as a matter of urgency, what tax information will be provided for older people through the one-stop shop and ensure that they will have access to this information as soon as the initiative is launched.

**7. The Department recognises that working with third sector organisations is a cost-effective way of helping older people to get their tax right, but it is not yet making the most of such organisations in helping it to contact hard-to-reach older people.**

The Department should:

- a) identify the types of support which third sector organisations are best placed to provide to older people and how it can maximise that contribution, and
- b) target its funding accordingly, providing a commitment to long term funding where this would help third sector providers develop a more sustainable and cost-effective service.

**8. In pursuing efficiency savings, the Department should not put at risk the access to face-to-face contact that older people and other vulnerable groups need, which is currently provided through its enquiry centres.** The Department should talk to other organisations to identify how the needs and preferences of older people can be met most cost-effectively. It should recognise that older people often place great value on face-to-face contact and safeguard the opportunities for this when deciding on what access people have to enquiry centres in different parts of the country.

# 1 Claiming additional tax allowances available to older people

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1. Older people are a significant and growing group for the Department, representing 18% of taxpayers. Around 5.6 million older people were liable for Income Tax of around £14.2 billion for 2006–07, the latest data available. They are a more compliant group than other taxpayers. But their tax affairs can become more complicated on reaching pension age, mainly because they often have multiple sources of income. The Department's systems do not cope well with these circumstances. For many older people, errors which lead to even small overpayments or underpayments of tax can have a significant impact on their income.<sup>2</sup>

2. One reason why older people may pay more tax than required is because they do not claim additional tax allowances. At 65, people can claim an age-related tax free allowance which is higher than the basic personal allowance and which increases once they reach 75. These allowances are one of several Government measures, including Pension Credit, to help people financially in later life. The allowances are means-tested and rules on eligibility are difficult to understand because entitlement reduces as income rises above certain thresholds. An estimated 3.2 million older people do not claim the age-related allowances.<sup>3</sup> Following the Comptroller and Auditor General's report, the Department had begun work to identify how many of this group might actually be entitled to the allowances and had arrived at a working estimate of 500,000. The Department, however, did not yet have an accurate picture of the number of older people who were paying too much tax as a result. There were similar gaps in the Department's knowledge about how many people were eligible for the Blind Person's Allowance or the Married Couple's Allowance but were not claiming them.<sup>4</sup>

3. The onus is currently put on older people to claim the age-related allowances. To accurately calculate a person's tax allowance, the Department requires them to complete a claim form with details of their expected income for the year ahead. Older people do not find the claim form easy to complete because they do not understand the questions or do not know their expected pension income.<sup>5</sup> This had led to errors in 19% of claim forms, costing the Department an estimated £13 million a year in staff costs to administer the allowances including £1.1 million a year on contacting people to obtain missing information. The Department had improved and shortened the guidance it issues with the claim form. It considered this had reduced the error rate to 10%.<sup>6</sup>

4. The Department sends claim forms to individuals who it knows are about to reach age 65, or receive the State Pension or an occupational pension. Some people do not receive a

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2 C&AG's Report, *HM Revenue & Customs: Dealing with the tax obligations of older people*, HC (2008–09) 961, paras 1, 6, 2.5 and 2.10

3 Q 9; C&AG's Report, paras 8, 3.3 and 3.19

4 Qq 2, 3, 6 and 123; C&AG's Report, paras 3.8 and 3.20

5 C&AG's Report, paras 3.4 and 3.5

6 Qq 21 and 114; C&AG's Report, paras 8 and 3.5

claim form because the Department has no record of their address. This might be because they have not worked or claimed benefits and so have no previous contact with government, or because they have not informed the Department of a change of address. Once someone starts claiming the State Pension, the Department for Work and Pensions informs the Department if they have a tax reference number. However this is an imperfect means of ensuring that the Department knows of everyone who should receive a claim form as some people, particularly women, have never had such a tax reference number.<sup>7</sup>

5. Entitlement to the age-related allowances depends on an individual's income. The Department considered it could not award the allowances automatically without creating a risk that individuals would receive allowances to which they were not entitled, leading to underpayments of tax which would then have to be recovered.<sup>8</sup> The Department was considering other ways to make it easier to claim the age-related allowances, such as claiming the allowance by email. It was also working with the Department for Work and Pensions to confirm whether it would be feasible to share relevant information. The Department for Work and Pensions has undertaken extensive work to encourage older people to claim benefits. The Government's recent strategy 'Building a society for all ages' contains proposals to streamline the Pensions Credit claims process by making better use of information the Government already has to make awards automatically.<sup>9</sup>

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7 Qq 23–25; C&AG's Report, para 3.4

8 Qq 10–12; C&AG's Report, Box 2 (page 17)

9 C&AG's Report, paras 3.6 and 3.7

## 2 Administering tax for older people

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6. Most older people who are taxpayers pay tax through Pay As You Earn (PAYE). PAYE is complex, but the Department considered it was an effective system for dealing with the tax of most people. Employers and pension providers deduct tax according to a tax code calculated by the Department for each individual. The tax code is used to allocate a person's tax allowance between each source of income, meaning those people with multiple income sources receive several coding notices. The alternative to issuing tax codes would be to require everyone to file a tax return each year, as is the case in some other countries.<sup>10</sup>

7. Eighty per cent of older people paying tax have multiple sources of income such as the State Pension, occupational pensions and part-time employment. They consequently receive more coding notices on average than other taxpayers. When someone receives several coding notices it can be difficult for them to check that they are paying the right amount of Income Tax through PAYE. Some 20% of complaints to the Department from older people are about their tax code. The Department recognised that the coding system was complex, but saw it as necessary to ensure the right amount of tax was collected, no matter how complicated an individual's tax affairs were. The Department aspired to produce a single document once a year bringing all of an individual's tax coding notices together, but it had not set a date for achieving this.<sup>11</sup>

8. Discrepancies can occur between the tax shown as actually paid by an individual on their employers' or pension providers' returns and the amount the Department's records show that person should pay. In March 2009, there were 20 million 'open cases' where the Department had yet to resolve such discrepancies including around 6.6 million relating to older people. Of these cases, an estimated 1.5 million older people had overpaid tax of £250 million, and 500,000 had underpaid tax of £100 million. In November 2009, the Department reported that the total number of open cases had reduced to 17 million but that it would not be able to start clearing this backlog until its new PAYE systems were fully operational in 2010. The Department acknowledged the importance of clearing the backlog and of giving priority to those cases where it believed it owed tax refunds.<sup>12</sup>

9. The Department estimates that some 2.4 million older people have paid around £200 million more tax on their savings income than they need to. Many, however, do not realise that they may be able to claim back part of the tax paid or that they can claim to receive interest on their savings gross of tax if their income is below the personal allowance.<sup>13</sup> The Department ran a campaign in 2004 to inform older people they could claim back tax on their savings and launched a further campaign in autumn 2009 targeted at Pension Credit claimants. It had experienced difficulties in encouraging individuals to claim refunds of tax and was disappointed with the limited success of its recent campaign. While it was appropriate to target this group because of their low incomes, they had not responded in

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10 Qq 15, 34 and 105; C&AG's Report, paras 1.3 and 2.2

11 Qq 14 and 36; C&AG's Report, paras 7, 14e, 2.5, 3.10 and 4.6

12 Q 107; Committee of Public Accounts, Second Report of Session 2009–10, *HM Revenue & Customs: Improving the Processing and Collection of Tax: Income Tax, Corporation Tax, Stamp Duty Land Tax and Tax Credits*, HC 97, para 7; C&AG's Report, paras 2.2 and 2.3

13 C&AG's Report, paras 3.11–3.13

large numbers to previous take-up campaigns. The campaign had so far resulted in repayments of £51 per person on average. Though relatively small, repayments on this scale could nevertheless provide a significant benefit to older people on lower than average incomes.<sup>14</sup>

10. The Department recognised that older people on low incomes were particularly hard to reach. There were sensitivities in getting banks and building societies to explore whether people were eligible to receive interest gross of tax. They would need to be aware of other tax liabilities to know whether someone should receive savings interest gross of tax, and people may wish to keep that information private. Legislation would be required before the Department could mandate banks and building societies to provide advice of this sort and it foresaw dangers in asking third parties to carry out such a role. The Department was, therefore, working with third sector groups such as TaxHelp for Older People to find better ways to target this hard-to-reach group. The Department needed to do more work to help older people understand whether they were eligible to receive tax back on their savings interest or to receive savings interest gross of tax.<sup>15</sup>

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14 Qq 7, 26 and 27; C&AG's Report, para 3.13

15 Qq 8 and 29–33

## 3 Providing cost-effective support for older people

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11. The Department encourages taxpayers seeking information to use the most cost-effective method that meets their need, whether by telephone, post, the internet or face-to-face meetings. It recognises that people have different needs and that the most cost-effective method will not necessarily be the same for everyone. The complexities of many older people's tax affairs meant that it cost the Department twice as much on average to deal with enquiries from older people compared to other taxpayers. The Department recognised that handling the tax affairs of older people required a certain level of expertise. It had, therefore, decided to introduce greater specialisation by staff in dealing with older people, following successful piloting.<sup>16</sup>

12. The Department was also committed to working with third parties where they were better placed to provide support to older people. Initiatives included:

- Participation in the cross-government 'Tell Us Once' service being piloted by the Department for Work and Pensions in the North West and South East of England. The service enables the bereaved to tell the various authorities about a death just once;
- Working with the Department for Work and Pensions and local authorities to improve information for older people on their obligations as an employer, if they employed a carer and had to operate PAYE, and
- Pilots on working with large employers to provide information to people approaching retirement covering questions that the Department was commonly asked.<sup>17</sup>

13. In July 2009, the Government launched its strategy 'Building a society for all ages'. This included plans to introduce from 2010 a one-stop shop to offer online, telephone and face-to-face support in one place to those who want to plan ahead. The Department supported the concept of the one-stop shop, but had only recently become involved in the planning of this initiative and in determining the best way to use it to provide tax information and support to older people.<sup>18</sup>

14. Older people were less likely to contact the Department even though around 36% do not understand their obligations, compared to 26% of all taxpayers. The Department was unclear why this was the case. It thought older people could find completing official documents daunting and they sought advice more readily from family and friends, and voluntary organisations.<sup>19</sup> The Department acknowledged that the third sector had an important role in providing support to older people on tax issues. In 2008–09 it provided £165,000 to a range of third sector organisations, including Age Concern, the Life Academy and TaxHelp for Older People. The Department recognised that third sector

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16 Q 16; C&AG's Report, paras 2.6, 4.2 and 4.4

17 Qq 59–62 and 114; C&AG's Report, para 3.25

18 Qq 19 and 20; C&AG's Report, paras 1.9 and 4.12

19 Qq 22 and 115; C&AG's Report, para 4.3

groups needed longer term funding in order for them to reach more of the people the Department was trying to target. Future funding, however, would depend on an evaluation of their success as part of a forthcoming review of the Department's total grant-in-aid.<sup>20</sup>

15. The importance of providing support through a variety of third parties was becoming increasingly important as the Department sought to provide the best possible customer service while reducing costs and increasing efficiency.<sup>21</sup> It was reviewing its arrangements for access to its enquiry centres as part of this. The total number of people visiting the Department's 280 centres had reduced by some two million in recent years and only 15% of those who did visit actually required an interview. It was taking account of factors such as the number of visitors to individual centres, and the nature of the population they served, in determining the future demand for face-to-face contact.<sup>22</sup>

16. The Department acknowledged that older people often preferred face-to-face contact. It confirmed that it would not remove this facility where it was needed, and that it would look at extending the opening hours of enquiry centres in areas where there was a high proportion of people, including older people, who needed such a service. With the help of the third sector, it was also piloting mobile advice services to reach older people who were not able to visit enquiry centres.<sup>23</sup>

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20 Qq 33, 57 and 58

21 Qq 91 and 94

22 Qq 18, 54, 55 and 80; C&AG's Report, para 4.10

23 Qq 18, 54, 78, 82 and 83

# Formal Minutes

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**Monday 1 February 2009**

Members present:

Mr Edward Leigh, in the Chair

Rt Hon David Curry  
Rt Hon Keith Hill

Mr Austin Mitchell

Draft Report (*HM Revenue and Customs: Dealing with the tax obligations of older people*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Conclusions and recommendations 1 to 8 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Eleventh Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 3 February at 3.30 pm]

## Witnesses

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### Monday 7 December 2009

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**Ms Lesley Strathie**, Permanent Secretary and Chief Executive, **Ms Sarah Walker**, Director, PAYE, Self Assessment and NI Contributions, and **Ms Jane Frost**, Director Individuals Customer Unit, HM Revenue and Customs

Ev 1

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# Oral evidence

## Taken before the Committee of Public Accounts on Monday 7 December 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Angela Browning  
Mr David Curry

Mr Austin Mitchell  
Geraldine Smith

**Mr Amyas Morse**, Comptroller and Auditor General, **Mr Rob Prideaux**, Director, Parliamentary Relations and **Ms Jane Wheeler**, Director, National Audit Office, gave evidence.  
**Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL DEALING WITH THE TAX OBLIGATIONS OF OLDER PEOPLE (HC 961)

*Witnesses:* **Ms Lesley Strathie**, Permanent Secretary and Chief Executive, **Ms Sarah Walker**, Director, PAYE, Self Assessment and NI Contributions, and **Ms Jane Frost**, Director Individuals Customer Unit, HM Revenue and Customs, gave evidence.

**Q1 Chairman:** Good afternoon and welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report on HM Revenue and Customs, *Dealing with the Tax Obligations of Older People*. We welcome back to our Committee Lesley Strathie, who is the Chief Executive of HM Revenue and Customs. Would you like to introduce your colleagues, please?

**Ms Strathie:** Thank you Chairman. On my left is Jane Frost who is our Director of Individuals Customer Unit, who deals with all our customer insight and third party providers and stakeholders. On my right is Sarah Walker who is Director of PAYE, Self Assessment and National Insurance.

**Q2 Chairman:** Obviously this is a very important and interesting subject. There are growing numbers of older people, their tax affairs tend to be more complex than younger people because, particularly nowadays, they may have more than one pension and they also tend to be more compliant and worry more about these issues, so it is a very important matter. Further, if you are a retired person you can have a pension of as little as £9,000 but that is your allowance basically and after that you are paying tax, so just a matter of a few hundred pounds over-claimed can make a lot of difference to a lot of older people. I am sure, Ms Strathie, we both take this very seriously. The Report tells us, if you look at page 5, paragraph 8, that up to 3.2 million older people may be eligible for age-related allowances but do not receive them. Do you accept that figure?

**Ms Strathie:** I can see where that figure was drawn from. In welcoming this Report and in the work that we have done since the NAO completed their Report we have worked more closely to try and understand that figure and particularly worked

with the DWP where we have seen 2.7 million people are actually on pension credit and, therefore, not in the tax system, they are below that threshold. We think that figure is probably closer to half a million—not that that is still not a figure to work for.

**Q3 Chairman:** I say to you having read the Report that 3.2 million older people may be eligible for age-related allowances but do not claim them, and you say it is half a million.

**Ms Strathie:** We are saying that based on the work that we have done since the Report was completed we reckon about 2.7 million of those, because that is the pension credit take-up, is an area that we are now working on and we think that the number is much lower.

**Q4 Chairman:** What does the Comptroller and Auditor-General say to that?

**Ms Wheeler:** The figure is a maximum, it is an estimate.

**Q5 Chairman:** I said “up to”, yes.

**Ms Wheeler:** Yes. It is an estimate which is comparing ONS data on the one hand in terms of the total population with those that are in HMRC's processes, so it was a figure which needed to be explained and needed to be examined further to see whether there are cases in there where people should be getting the allowance but are not or whether there are cases where it is perfectly right that people are not getting that allowance.

**Q6 Chairman:** All right. Anyway, it is anything between half a million people and three million people who are not getting the allowances they

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 HM Revenue and Customs
 

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should be getting. The truth is that you are not certain of the figures, are you, Ms Strathie? You just do not know, do you, that is the honest answer?

**Ms Strathie:** We know slightly more and each time we explore and sample this group we find out more. Jane, perhaps you would like to say just exactly what we have learned about how many people there are.

**Q7 Chairman:** That leads me to my next question. If you are getting to know more about these people what more are you doing now to reach these people, to help them, so that they are not overpaying their tax?

**Ms Strathie:** Over the last five weeks we have launched our new TaxBack campaign which is where we have written to 2.9 million customers over a five-week period, phrasing that, to promote the fact that some of those people may be entitled to some tax back. I do have to say that thus far, as with all of our campaigns, the take-up has been quite small but the amounts of tax that people have been entitled to average around £51 at this point. I know that is not a lot of money but if you are a pensioner it is £51 that you are entitled to.

**Q8 Chairman:** Every little helps.

**Ms Strathie:** We have also worked with all the third party representative groups to find other ways of targeting these people too.

**Q9 Chairman:** After all, the Government has this objective of helping people financially in later life.

**Ms Strathie:** Yes.

**Q10 Chairman:** Let us try and explore a bit why it is so difficult for older people. Would it not be simpler to have automatic allowances so that you do the work and, unless you know anything to the contrary, they get the allowance. Why should older people have to always work themselves? They find it very difficult, complicated, they may not have the energy, why do you not just award the allowances automatically?

**Ms Strathie:** Because we would inevitably pay to large numbers of the population who would not be entitled to the allowance and we would have to claw it back.

**Q11 Chairman:** No, I am not saying there should be a single allowance for everybody, I am saying that you know that X has a certain pension and you could pay the allowance automatically, and unless there is something known to the contrary they get it, you do not make them do all the work.

**Ms Strathie:** You are saying that everybody would be awarded the allowance.

**Q12 Chairman:** Yes, based on the information you have about them.

**Ms Walker:** Can I help? The point is that at the point where somebody moves from employment into retirement we do not know before they retire what their income will be. We send them a form at that point to try to collect as much information about the different sources of income they might have and the

different types of pensions so that we can get their tax codes and tax allowances right from the start, otherwise if we gave allowances without that information we would be likely to collect not enough tax and people would get used to a net income that was not the net income they were entitled to.

**Q13 Chairman:** What does the Comptroller and Auditor General say about that; are they acting fairly, is there some way that we could help people with more automatic payments?

**Ms Wheeler:** The issue that people face is the difficulty of dealing with the claim form and being able to complete it and that creates a number of enquiries for the Department. Older people find it difficult, particularly in terms of forecasting the details of their income because they do not necessarily know what it will be. There are issues around what would result if you were awarded the allowance incorrectly, but equally it seems that actually the claim form is a problem and, therefore, are there other ways of dealing with older people to try and get over the problems of those claim forms.

**Q14 Chairman:** Is there not a problem, Ms Strathie, in that people have to cope with several coding notices? Why not just have a single notice, a single code? It would be much easier for them to understand.

**Ms Strathie:** That is absolutely right because if you are pensioner with a state pension and maybe three small occupational pensions, then there will be a tax code for each of those occupational pension providers. You might even have a part-time job these days and you would have another tax code for that. Our aspiration over the longer term, and now that we have better IT support through the new service, would be to reach a point where we could bring that together once a year in single documentation, but we cannot really get away from several tax codes because the income sources are from different people.

**Q15 Chairman:** Again, National Audit Office, could we have some sort of single tax code?

**Ms Wheeler:** I am afraid I do not know the details of the mechanics of putting together the coding notice but the idea of bringing something together in a document which somebody can understand, in other words it is actually brought together, the details are understandable and the person can check the details, that would be good.

**Ms Strathie:** The alternative would be, like some countries, to have universal filing where everybody had to file a tax return and was dealt with, but there are huge benefits in this country to operating a PAYE service and it is a success for the majority of people.

**Q16 Chairman:** You have had various pilots, should you perhaps have more specialist staff to deal with older people?

**Ms Strathie:** Yes, and that is something we have certainly taken from the Report and it is something we have in place now. In fact, we have one site in Cardiff and 40% of our pensioner population are

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dealt with from that site but in others we have staff who are specialised in this customer group. They do take longer to deal with, they are more expensive to handle and there is a certain level of expertise needed to support them.

**Chairman:** You are trying to discourage face-to-face interviews; do you not think you should fully help people come where they want to have a face-to-face interview? I know why you do not want to do it: you are increasingly moving on-line but older people may find the internet difficult, they may find automatic telephone systems very irritating, why not face-to-face interviews?

**Mr Curry:** Not just older people.

**Q17 Chairman:** Yes, we are all driven to despair by them—press button 1, 2, 3, 4. After all, you have worked all your life, you are now taxing them in a very complex system, why can they not just go and see you face-to-face and argue it out?

**Ms Strathie:** I do have some empathy for people whose preferred means of dealing with things is face-to-face; I have a 78 year old mother who expects me to sort out all of her benefits and the tax system, so I have routed my way through both systems.

**Q18 Chairman:** She has got the right daughter anyway.

**Ms Strathie:** Thank you. What we have done is reviewed this from a service point of view rather than from a bricks and mortar or telephone point of view and said what do our customers tell us about what they need and how can we best help within the resources available. We have actually refreshed our face-to-face service by looking at the demand, the customers that we have in that location, and changing the skill-sets that we have, so even in our estate rationalisation it has not been about withdrawing completely face-to-face service. There will be reductions in places in line with the business reduction of hours but we do recognise that this customer group has more of a need for face-to-face.

**Q19 Chairman:** Will you commit to a one-stop-shop or increase the availability of one-stop shop?

**Ms Strathie:** We are working very closely with DWP on one-stop-shop; we have responded and we are now part of the strategy for ageing customer groups. We very much want to but, again, an awful lot of that is web-based and what we need to look at is the totality of our customer group and what DWP are trying to achieve because it is not just tax and benefits, there are many calls, health as well, in trying to do that. It is absolutely the right concept.

**Q20 Chairman:** Ms Strathie, when did you personally last discuss with DWP about one-stop shop in this context?

**Ms Strathie:** About three weeks ago.

**Q21 Chairman:** Okay, fair enough. In conclusion then just describe for me the steps you are going to take, summing all this up, to help older people get

easier access to the help that they need, whether it is face-to-face interviews, one-stop-shops, easier coding, advertising campaigns, because I am sure you will agree that there are very, very large numbers of older people who are paying more tax than they need to, so just sum up all the things that you are doing.

**Ms Strathie:** I would start with the customer and what we know about the customer group. Each time Jane and her unit have carried out something with this group and their representatives we have learned more about them and we are trying to tailor our service. An example of that would be the form P161 that we ask people to complete when they are retiring and, working with that customer insight, we have significantly improved the guidance and shortened it. We have also learned in research that the more guidance you give people the more error you get in completion, that is just how human beings behave, so giving them pages and pages of instructions that you and I might struggle with is not the best way of getting accurate forms. We are committed to working with DWP through our joint working to look at this from a customer perspective and we have already started joint communications so that rather than people being confused, as they have been quite often when DWP have issued new forms, we have a project now that looks at all of these and tries to get a joined-up message. About 50% of this client group do not have access to the internet; that is much lower than the general population and we expect that is not going to change an awful lot, even in *Digital Britain*. Therefore, we are committed to maintaining our telephone services and committed to working in partnership with third parties to support them. Indeed, we have funded third parties to help support delivery.

**Q22 Chairman:** Having said all that it is surprising to read in the Report that these people, who have more difficulties than other groups, are contacting you less. That is strange, is it not? That leads me to believe there is something fundamentally wrong with your systems.

**Ms Strathie:** From everything I have known about older people in my career they tend to go to other parties, whether it is their family members, their friends, the Citizens Advice or third parties rather than direct contact with Government, but it is quite a complex group. Many pensioners are only at the start of pension age, living full, active lives; some of them have several jobs, portfolios, some of them are just having children, right through to people in their eighties and nineties. There is quite a range.

**Mr Curry:** These people are having children in their eighties?

**Q23 Angela Browning:** I will not go into the child tax credit entitlement of pensioners and I probably shall not be the only one of this Committee today who declares a personal interest in the subject matter in front of us, but I would just like some clarification. On page 17, 3.4, where it talks about the use of that form P161 which we have heard about, I am a bit concerned that down towards the bottom of that

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paragraph it says: "Some people do not receive a claim form because the Department does not know their address." I can see that if it is a man who has not yet claimed the state pension at the age of 65 but of course you would have women pensioners already claiming a state pension. Why would you not know people's addresses?

**Ms Strathie:** Some people have never been in contact with Government. We have information systems like the National Insurance system where if people have engaged with the Government we are updating their addresses, but for many people if you have never claimed benefits or had any other engagement there may be no reason at all for us to hold a current address. People are not obliged by law to tell us every time they change their address or to tell DWP.

**Q24 Angela Browning:** Once they start claiming their state pension you do have an address for them, I assume.

**Ms Strathie:** Do we?

**Ms Walker:** DWP will have.

**Q25 Angela Browning:** But you do not.

**Ms Strathie:** Not necessarily. If they had a tax code then DWP would notify us that the state pension was in payment to someone who had a tax reference number, suggesting they were in the tax system, but many women in particular are not in the tax system.

**Q26 Angela Browning:** They must be a particularly difficult group then for you to get information across to. I am going to come in a minute to the problem with interest on savings which might affect quite a lot of people who are non-taxpayers. How are you going to attempt to find this group?

**Ms Walker:** The current exercise to try and contact people about tax on savings actually involves letters being sent out by DWP to pension credit claimants, so we know those people are on low incomes and we know that their incomes are so low they should not pay tax, so if they are getting tax deducted from their interest then they ought to be claiming that back, so we have got DWP to send these letters out using their records to reach those people.

**Q27 Angela Browning:** Are we not still concerned about the lack of uptake on pension credit? There are still a lot of people who should be claiming who are not.

**Ms Walker:** Yes, that is right.

**Q28 Angela Browning:** It is a group of people who are difficult to identify and who are not necessarily coming forward anyway for what they are entitled to.

**Ms Walker:** That is right, yes. We are using the best and quickest database we have got in order to reach a large number of older people on low incomes, and that is the exercise that we are doing at the moment.

**Q29 Angela Browning:** Thank you. Could I move on then to this question of people who do not get their full entitlement to the tax relief on savings, some of which are incredibly modest. In my experience if you

go in personally and open an account with a bank or a building society it is pretty routine that they would ask you to tick the box which would enable you not to have any deduction at all from your savings, but of course so many products now are sold through newspaper adverts where people telephone in or use the internet, I am not sure that for that group there is the same rigour in making sure they are aware of their rights and they fill that form in. Have you looked at that area?

**Ms Strathie:** That is exactly what the TaxBack campaign is because we have used a number of different means to communicate that message and, indeed, we have tried to work with banks and building societies on this too, but inevitably a lot of people simply do not understand that they need to ask for their interest to be paid gross without that 20% deduction. On the TaxBack campaign we have done through local radio and through national media and by writing individual letters saying we may owe you money and invite people to claim, the amounts are much smaller than anticipated because of course interest payments are a lot smaller, with interest rates where they are, than you might otherwise have expected, but the downside of some of this in the campaign is that a lot of people have contacted us quite alarmed because they think that they might owe us money, but we are trying to help.

**Q30 Angela Browning:** From the other point of view is there not some way you can require, even on a voluntary basis, the building societies and banks who sell these products to be as vigilant with the method of selling as they are if people go in and purchase over the counter? There are certain statutory requirements even if you open an account on-line or by phone that they have to ask you. Why do they not then say to people, "By the way" and fill that bit of the box in at the time? Why is the onus not on them rather than the general public having an awareness?

**Ms Strathie:** The onus issue is quite a delicate one because it is making an assumption about the rest of someone's income and whether they are due to pay tax or not, because it is the total tax liability, is it not? We would be actually asking banks to advise on tax, but what we have asked people to do is to draw attention and if this is the only additional income they have got they could ask for that to be paid gross.

**Q31 Angela Browning:** I can see your delicacy there but it sounds a rather convoluted way round whereas if it was—

**Ms Strathie:** It would require legislation to mandate any action for the banks or building societies but I just know the dangers of asking third parties to be advisers of something like that.

**Q32 Angela Browning:** Yes, I can see that.

**Ms Strathie:** Many, many taxpayers, let us not forget, pensioners included, do have their interest paid gross, but it is for those who do not quite understand to do that.

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**Q33 Angela Browning:** They ask a lot of daft questions to do with money laundering rules; you wonder why they cannot drop half a dozen of those and put in something useful like this.

**Ms Strathie:** Do you want to add anything about the banks' response?

**Ms Frost:** Not quite about the banks but what we have found is that working with the third sector is a really good place for putting the right amount of information out on a number of these issues. We have got a grant-in-aid programme at HMRC and we do move monies through the relevant third sectors to help in the communication and advice area. A project over two years for £100,000 with Age Concern, for example, has a tax health-check with it and we are also working with the Life Academy who provide tutoring to build capacity in the third sector for advisers, but the critical thing is for people like Tax Help for Older People who get a grant from us of about £80,000 a year to increase their capacity for giving direct help for people who ring up. It is putting it at a place where people would naturally want to be that is critical.

**Q34 Angela Browning:** I do refer constituents to them and I have to say they do a fantastic job, they really are worth their money, it is a very good service. Could I just ask you about codes because I am sometimes a bit mystified by this. If you have more than one income stream, as we know many pensioners do, why is it, for example—as I have, I have a very, very tiny pot of a pension that goes back about 30 years; it is minute and it is paid once a year it is so small, that is the only way they will pay it—yet the Revenue insists on allocating a quite obscure tax number for that because they cannot let this particular pension company know what my real tax number is for some reason—I would be quite happy for them to know—and then my accountant has to juggle all this together when they do my tax return. Why do we have to have these obscure numbers that do not mean anything to anybody?

**Ms Walker:** I am not sure I can answer that. The general question about tax codes is that the point of the tax codes is to allocate your personal allowance against each of your sources of income and that is why you end up with different codes for different sources of income in order that they all add together to get the right amount of tax in aggregate.

**Q35 Angela Browning:** It seems a very complicated system and there is a level of secrecy that seems to be attached to it. Does that not complicate it even more?

**Ms Walker:** There is a principle that the information is concealed, if you like, in the code number so that the employer or payer does not know what other sources of income the employee has for reasons of confidentiality. It is right that if the employee does not necessarily want the employer to know what other income he has got then we should not be telling him and we should not be letting him deduce it.

**Q36 Angela Browning:** Okay, thank you. I still think it is a very complex system.

**Ms Walker:** It is a complex system because it is designed to get exactly the right amount of tax in the year however complicated your affairs are.

**Angela Browning:** Thank you. I am afraid my time is up and I would have liked to ask you about direct payments, but perhaps, Chairman, you would allow me an extra question on that at the end.

**Chairman:** Ask it now.

**Q37 Angela Browning:** Thank you, you are very kind. Direct payments: again, this is something that we are going to see a lot more of and I notice this section in the Report about employing a personal care assistant. Sometimes the funding for that personal care assistant is directly funded through the local authority. How do you disaggregate somebody's personal liability as an employer if the payment of that employee for these purposes is coming out of their personal income, and where there is a pot of money specifically allocated by a local authority? It would not just apply to older people, it would apply to people of all ages with disabilities who qualify for such grants.

**Ms Strathie:** If the issue is just one of a direct employee, you become an employer.

**Ms Walker:** I do not think the source of the money affects the obligations of the employer. The obligations of a person taking on an employee are the same regardless of where that money comes from, whether it is their own personal money or money they had in a grant. People do get grants from local authorities to help them to decide what sort of care they want, what sort of assistance they want and to pay for it themselves. People then have a choice as to whether they get it in all sorts of different ways, go to an agency or whatever, but if they decide to directly employ somebody to look after them then they have to take on the obligations that go with employment.

**Angela Browning:** I might finally just remind you, as I have said before in these sessions, you do still pay people £100 to do an on-line nil tax return in these circumstances. I know in the past, Chairman, I have been told that this is because it is more cost-effective to do, but I just wonder how much that adds up to across the country every year.

**Q38 Mr Bacon:** Ms Walker, you mentioned the issue of confidentiality. Is it correct—I have got your CV here but I am not sure I am reading the right bit—that you are currently, since October 2008, the Director of PAYE, Self Assessment and National Insurance Contributions?

**Ms Walker:** That is right.

**Q39 Mr Bacon:** Good. On the National Insurance and PAYE service, the NPS section of the HMRC website, there is a reference under current issues to some notices and statements having been sent to the wrong agents. I will just read the first sentence. It says: "Even though HMRC's self assessment and PAYE systems are showing the correct details some notices and statements have been issued incorrectly

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to the wrong agent”, by which one presumably means in most cases a tax accountant or something like that. How many cases?

*Ms Walker:* I do not have those figures with me I am afraid.

**Q40 Mr Bacon:** You do not. Over what period has this been going on?

*Ms Walker:* It happened over a period in the summer. It has now been fixed as I understand it.

**Q41 Mr Bacon:** It says on the website—you have anticipated one of my later questions—that “HMRC is due to put a fix in place in December 2009”. That has now happened, has it?

*Ms Walker:* I believe it has.

**Q42 Mr Bacon:** When you say “over the summer”, when did it start?

*Ms Walker:* The new PAYE system went live at the end of June.

**Q43 Mr Bacon:** Right, and this breach, data being sent to the wrong people, occurred starting at what point?

*Ms Walker:* I do not know the details of that; I know it was something that happened in the summer.

**Q44 Mr Bacon:** Could you write to the Committee with a note explaining that?

*Ms Walker:* I will do, yes.

**Q45 Mr Bacon:** Have you had any discussions with the Information Commissioner about this or has anyone in HMRC because it would be appear to be an obvious breach of one of the principles of data protection, which is that information must be securely kept.

*Ms Walker:* We have taken advice on that; I would need to write to you and tell you the total answer.

**Mr Bacon:** You have not talked to the Information Commissioner or you do not know if anyone has talked to the Information Commissioner? You have put on your website—which is what I find extraordinary, especially after the issues with the HMRC and the National Audit Office where, famously, 25 million names went missing—that you have been sending notices and statements out to the wrong people. You have admitted the breach on your website but you do not know whether you have had any discussions with the Information Commissioner?

**Q46 Chairman:** What is the answer? Do not just all shake your head, either say yes or no.

*Ms Strathie:* We have taken this in a different context. What you have read, I am assuming, Mr Bacon, is the known problems that we keep updating so that agents and so on know what we are working on and what we are fixing. We owe the Committee a note and we will explain the Information Commissioner point in that.

**Q47 Mr Bacon:** You are quite right, there are issues that have been resolved and there are current issues. This one is under “Current issues” which suggests that it has not yet been resolved.

*Ms Strathie:* Yes, and we are just into December, so we will confirm that.

**Q48 Mr Bacon:** What is the difference between sending a notice to someone who has no right to know it, that informs them, say, that Mrs Smith of Middlesbrough or Mr Jones of Cornwall is on the verge of retirement and T-Mobile sending out information or using the information that they have no right to, to phone people up and say, “Your mobile phone contract is about to expire”? This information can easily be misused by people to do marketing that they have no right to do. You can easily imagine phone calls where people would say, “Hello Mrs Smith, now that you are about to retire . . .” and start selling them products. This is potentially an extremely serious breach.

*Ms Walker:* This is not about information about people who are about to retire as I understand it.

**Q49 Mr Bacon:** It does not say what it is about but some of them may be in that category, we do not know. If someone is aged 64 then presumably they are about to retire, if they are 53 they are probably less likely to.

*Ms Walker:* Yes, but that will not be obvious from the information that was sent out.

**Q50 Mr Bacon:** It might if their date of birth was there.

*Ms Walker:* I believe these were notices of coding which were sent to the agent when they did not have the correct authority to receive them.

**Q51 Mr Bacon:** It says they were sent to the wrong agent, had been issued incorrectly to the wrong agent so Mr Smith’s tax accountant in Cornwall gets sent something that should have been sent to Mrs Smith’s tax accountant in Middlesbrough. That is what it reads like to me. Are you saying that is not the case, that I have misunderstood it?

*Ms Walker:* I would need to be properly briefed on that. I am sorry, I have not got the details with me.

**Q52 Mr Bacon:** Perhaps you could send the Committee a detailed note.

*Ms Walker:* Yes, indeed.<sup>1</sup>

**Q53 Chairman:** I did not hear that last answer; what did you say?

*Ms Walker:* I am sorry, I said I do not have the information with me.

**Q54 Mr Bacon:** Could I specifically on the question of tax obligations of older people ask about the investigations that the HMRC has done, if any, into the impact of reducing the opening of enquiry centres for older people? Have you done any work on assessing the impact of that?

*Ms Frost:* Yes. The basic business case is based on the footfall to the enquiry centre itself but we are in the process of consultation for what else should be taken

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into consideration, and one of the things we are taking into consideration is the demographics of the area in which those enquiry centres sit. Where there appears to be a higher proportion of people in need of that enquiry centre we are looking at actually keeping the centre open for longer, despite the fact that the footfall currently does not necessarily merit that.

**Q55 Mr Bacon:** You have specifically undertaken work on the demographics of service users in particular areas?

*Ms Frost:* Yes, that is right.

**Q56 Mr Bacon:** What evidence have you got to suggest that older people would prefer to use the telephone or the internet?

*Ms Frost:* We have quite a lot of data in one-off research formats on what preferences are. You will appreciate that familiarity changes preference, so if you are used to something then obviously you have a preference for it. We do know the availability of the internet to older people and their usage of the same, so we check that on a fairly regular basis and are aware that we need to make sure that we have got a range of options open to the older people so that their preference can be met as far as possible, right time right place. As Ms Strathie says, prior to this we do know that working with the third sector is one of the best ways of reaching those people in need.

**Q57 Mr Bacon:** The Report says that you have spent £165,000 with voluntary organisations. Can you say how successful that funding of those organisations has been? What has it achieved?

*Ms Frost:* The £165,000 you are talking about is part of a rolling programme, so none of those programmes have completed as yet. There are evaluation processes agreed with the third sectors involved that they have to meet as it goes through, but they will not have completed those programmes until the end of next year because it is a rolling funding provision.

**Q58 Mr Bacon:** Are you saying that subject to their performing well you would then consider putting in place longer term funding, which is presumably what the organisations would need in order to reach more of the older people you are trying to target?

*Ms Frost:* They would need longer term funding and introducing rolling funding was an innovation and actually a commitment of faith to the third sector because they did not always have the data that they needed when we started this. We will be reviewing the grant-in-aid programme in total, which is wider than just the third sector, as part of the Spending Review and value for money considerations, and a key part of that will be what is being delivered in these pilots. We are also looking to work with the Low Income Tax Reform Group and other people to see where the future of face-to-face and outbound contacts should be for hard to reach groups, and that is a piece of work which will take this data into account.

**Q59 Mr Bacon:** I am glad you are talking to the Low Incomes Tax Reform Group, that is good news. While we are talking about pilots, you have a pilot

called Tell us Once which is about partners who die and not being distressed by being besieged with post several times, even after you have told the HMRC that your partner has sadly died. That is just in two or three areas at the moment, is it not?

*Ms Frost:* Tell us Once for bereavement is a DWP initiative and we are working with them on that one.

**Q60 Mr Bacon:** How is it going, because it affects you too?

*Ms Frost:* It will affect us. It has limited impact on us in terms of the current scope of what is in Tell us Once.

**Q61 Mr Bacon:** Is that because it is in only a couple of geographical areas?

*Ms Frost:* It is also the total scope of what it covers at the moment, and we are working with DWP to put more tax points into the programme which are not there at the moment.

**Q62 Mr Bacon:** One of the things the Report identifies is that more and more older people may end up having to be employers and operate a PAYE service. What work are you doing with the Department of Health in England and the other home nations to try and make that easier for people?

*Ms Frost:* There is a piece of work currently in hand with the Department of Health and local authorities which are the key touch points for communication for a lot of these to improve their guidance and the way that communication goes out, particularly when they are doing the funding of this particular group.

**Q63 Mr Bacon:** One of the things that surprised me was that operating even the simplified scheme of PAYE—this is in paragraph 3.23—can involve completing up to five forms. Have you done any work on redesigning that process so that it could be done in one form, albeit perhaps with bits that do not need to be completed in particular cases?

*Ms Frost:* We have some specific work with the Department for Work and Pensions, the Pensions and Carers Service, where we can streamline, but Ms Walker would be better placed to comment on that.

*Ms Walker:* As I said before, if you choose to take on the responsibility of being an employer inevitably there are things you have to do around things like statutory sick pay, statutory maternity pay, income tax and National Insurance, and there are end of year returns that people have to fill in. We do give small employers a CD-Rom every year which includes calculators.

**Q64 Mr Bacon:** A starter pack.

*Ms Walker:* Yes, there is a starter pack when you start but there is also an annual CD-Rom.

**Q65 Mr Bacon:** There is an as it gets more complicated pack as you go on, is there?

*Ms Walker:* There is a trying to make it less complicated pack, yes, but it does—

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**Q66 Mr Bacon:** What you are saying is you are trying to explain it more clearly. What I was really getting at was designing the process to make it simpler.

**Ms Walker:** It is inevitably complicated because you are operating a number of different systems and it is not just tax, it is tax, National Insurance and statutory payments. There are a number of obligations that you have.

**Q67 Mr Bacon:** Can I just check with the NAO, are the five forms that are referred to in paragraph 3.23 purely forms relating to the PAYE because that is how it reads to me: “Using the Simplified PAYE Deduction Scheme or the main PAYE scheme operated by most employers depends on the personal assistant’s taxable earnings. Operating the simplified scheme can involve completing up to five forms”? Are they all PAYE/HMRC-related forms or are they to do with other aspects that have nothing to do with HMRC?

**Ms Wheeler:** We would have to double-check on that. I understand your point that it looks like it is PAYE but it is actually about being an employer.

**Q68 Mr Bacon:** Yes, so Ms Walker’s point is right, it is not that HMRC has got five forms that they could turn into one. Anyway, if there is any more information on that perhaps you could send it to us.<sup>2</sup>

**Ms Walker:** We will certainly explore it.

**Q69 Mr Bacon:** If it is easier it is going to make your life as well as their life easier and it is going to increase, there are going to be more and more people who are employing people as carers.

**Ms Walker:** Yes, and it is certainly in our interest to make it as simple as we can.

**Mr Bacon:** Right. I am sadly running out of time.

**Chairman:** You have run out of time.

**Mr Bacon:** That takes care of that then.

**Chairman:** Did you want to ask another question?

**Q70 Mr Bacon:** The question I wanted to ask was about people deferring their state pension and who, therefore, could be paying too much tax. I would have thought that the universe of people who have deferred their state pension in any one given year is a pretty definable thing and DWP ought to know what it is and, therefore, they just ought to be able to tell you on a regular basis. Why do you not know how many people have deferred taking their state pension?

**Ms Walker:** We are informed by DWP when their pension starts, we are not normally informed by DWP at the point where they decide not to take their pension.

**Q71 Mr Bacon:** But from this it sounds like you are taxing them as if they are taking their state pension when they are not, when they have deferred it.

**Ms Strathie:** Do you mean because the allowances are in relation to age rather than pension?

**Q72 Mr Bacon:** Are you not in some cases imputing that because they are of pensionable age they have started to take their state pension because you would have expected them to but actually they have deferred it?

**Ms Strathie:** No, I do not think the system operates in that way. Bearing in mind that you are not in work and then you suddenly get an invitation to claim retirement pension, it is something that you as an individual citizen needs to contact DWP about and make that claim. Therefore, many people simply do not make that claim.

**Mr Bacon:** The reference is paragraph 2.7: “If a person has deferred taking their State Pension and has not informed the Department, they will overpay tax.” It is down to the individual to inform you that they have deferred taking their state pension, is it not?

**Chairman:** You are obviously struggling. Do us a note.

**Mr Bacon:** I am saying that should be information you have anyway because the DWP knows all of that.

**Chairman:** Ms Strathie, you should do a note on this.<sup>3</sup>

**Q73 Geraldine Smith:** Can I ask Lesley Strathie, you said earlier that you were “refreshing” the face-to-face services for the public, but surely what you really meant was you are just cutting them, you are just reducing the face to face services, starting with 59 offices.

**Ms Strathie:** Absolutely, since 2006 HMRC has been announcing and ministers have announced all of the places where we will reduce and rationalise the estate.

**Q74 Geraldine Smith:** Why say “refresh”?

**Ms Strathie:** What I am saying is we are refreshing that approach from the original planning. There were three waves of announcements, the last being December last year, on those sites that we would pull out of. They were not face-to-face offices, they were where we have given up floors or have come out of a whole building. They are much more to do with processing rather than face-to-face. What I said was the services that we are refreshing—

**Q75 Geraldine Smith:** Can I just stop you there?

**Ms Strathie:** Let me finish, please.

**Geraldine Smith:** I do not think you are being clear.

**Chairman:** We cannot have two people talking at once.

**Q76 Geraldine Smith:** If I can just ask you to clarify that because in Lancaster there is an enquiry office and a face-to-face service that is involved in having a reduction in the days that they will be open each week.

**Ms Strathie:** That is right.

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<sup>2</sup> Ev 14

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<sup>3</sup> Ev 15

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**Q77 Geraldine Smith:** There are also 25 staff that have been left stranded in Lancaster for the last three years because they have not been redeployed and they have not been told what job they are doing. That is a very bad way, a very poor way to treat staff, and I am sure you would agree, but what I am talking about specifically is enquiry staff where you are reducing the service that you are offering to the public there.

**Ms Strathie:** What I am saying is that the original plans were very much around the total numbers of people and what would be in that location.

**Q78 Geraldine Smith:** Can we stick to the enquiry staff, please, the face-to-face element?

**Ms Strathie:** On the face-to-face my point in the refresh was the skills of the staff that were there in the enquiry centres in relation to the question that we were asked here about older people, being clear that face-to-face is much more likely to be required to a greater extent for this customer group than it is for many others. That was why I said we were refreshing it based on the customer insight and fact that 50% of these customers do not have access to internet or any desire to use it.

**Q79 Geraldine Smith:** I hope having said that you will look closely at Lancaster because 30% of their customers are actually pensioners or tax credit claimants who fall into a similar bracket.

**Ms Strathie:** I absolutely do agree with you in terms of the uncertainty facing so many of the people who work for HMRC. We have to bring that to an end, but that will not necessarily mean that everybody has a future in HMRC.

**Q80 Geraldine Smith:** Can I just ask Jane Frost, you mentioned that you look at the face-to-face services, you look at the footfall of people entering those offices; can you tell me what you mean by that?

**Ms Frost:** It means how many people go through the door and seek either information or an appointment. We have seen a reduction over the past 18 months to three years of about two million people going directly to enquiry centres down from five million to three million. Of the people who currently go through the door to ask for information, the customer contact directorate say only 15% actually need a full blown one-to-one appointment, the others are dealt with—and please bear in mind this is not just older people, this is the total number of people through the door—either by being directed to the phones or to the internet.

**Q81 Geraldine Smith:** That seems to contradict information that your own staff are giving me because they say, again using Lancaster as an example, there are 1,553 pre-arranged interviews that you would count as your footfall but there are 16,000 people who go through the doors. They may just come in, they may have a question, they may have an issue they wish to raise about their tax, but because it is not a pre-arranged interview it has not been counted on your figures.

**Ms Frost:** We do direct those people either to the phone or the internet, so those are the people who are—

**Q82 Geraldine Smith:** But do they count on your statistics as people using that office when you are looking at closing or reducing the service?

**Ms Frost:** We will look at the number of people through the doors and the number of people requiring appointments. One of the things I must make very clear in this area is that if we are going to improve the service to older people actually bricks and mortar are not always—and I am not talking about Lancaster but in general—the best way to do it because we are talking about less mobile people and people with other difficulties. We are working with Customer Contact and with the Low Income Tax Reform Group and others on piloting more peripatetic aid which is sending people out to places where that need and help is much more defined.

**Q83 Geraldine Smith:** You see, I would have no problem with that nor, I think, would the staff at Lancaster, if you were saying to them, “We are going to reduce the amount of time you are actually in the office at Lancaster, but what we will do is send you out to Morecambe”, which is my own constituency which does not have an enquiry point but has a very large number of pensioners living there, and other nearby rural areas. I do not think there would be a problem if that was the approach, but there is a lot of cynicism and suspicion amongst staff that it will just be purely cost-cutting and you will have large distances where you will just have a small group of travelling staff, moving from office to office, paying for travelling time and everything to be included in their work, and maybe not giving the best service—I am sure not giving the best service—to pensioners, for whom face-to-face is important. We all believe in choice and whilst some pensioners are great at using the internet—the silver surfers—and are great on the telephone, others find it very frustrating and they do want to be able to see someone face-to-face. Can you give me some assurances that you are going to look after that group, the group that do want to see a human being and talk about their tax? Sometimes it can be very complicated.

**Ms Frost:** There are a number of ways of dealing with that group and we have to look at what the value for money in total is in terms of face-to-face, which is one of our most expensive ways of handling people. We have referred to Tax Help for Older People before and they are providing really good value for money in terms of direct contact. To be clear, some of these changes in opening hours for the frontline footfall face-to-face is to provide more space for the back office processing, so we are not actually saying that by closing the enquiry centre those people are not going to be dealing with customers, they are moving to help with the processing in the back office.

**Q84 Geraldine Smith:** I can only judge from my own experience and that is not the case in Lancaster. Can I ask a little bit about the evidence, what you have

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actually done to find out—Mr Bacon touched on it before—exactly what older people want from you, because your mission statement says that you put the customer at the heart of all you do. It is quite right that you say that, so what evidence have you got that the older people do not want face-to-face, that they are quite happy with the internet and telephone and they are quite happy for you to reduce these services?

**Ms Frost:** We have a number of ways of looking at older people particularly. We have just completed a quantitative survey of 2,000 older people, what their preferences are for contact, what their abilities are, what sort of information they need going into pension, because one of the things that research has found for us is that actually post-pension age is a bit too late to start helping people with their obligations and that the time to start talking to people who are going to have pension issues and tax is pre-pension, three to five years before, and that comes from that research. We also do, but this would not be specific to pensioners per se, exit interviews at the face-to-face and enquiry centres and a survey of all our contact and how we have delivered the contact, so we have a number of ways of looking at it.

**Q85 Geraldine Smith:** Do you actually ask people, “If you had a choice what would you prefer, would you prefer a local enquiry centre where you can go and talk to someone about your tax affairs or would you rather do it on the phone or over the internet?”

**Ms Frost:** We ask them whether they prefer face-to-face, telephone or post.

**Q86 Geraldine Smith:** What do they say, what are the results?

**Ms Frost:** I would have to ask for the information on that.

**Q87 Geraldine Smith:** Could we have the results of those surveys, please?<sup>4</sup>

**Ms Frost:** Yes.

**Ms Strathie:** The more general point is for the Department to deliver efficiently and to continue to modernise the things that we are trying to do in moving the way that we do things is for the very points you are making, so for that 12% to 15% of our total customer base of 40 million we are able to focus our resources on those who need it.

**Geraldine Smith:** Can I just finally make the point that it is not only older people that like face-to-face contact, I think you will find that most of the public would prefer a local enquiry office where they could go and talk to someone.

**Chairman:** Thank you, Ms Smith. Your last questioners are Austin Mitchell and then David Curry.

**Q88 Mr Mitchell:** The PCS tell us that you are undergoing a workforce change programme which could, in their estimate, see 25,000 job losses and over 200 office closures by 2011. How is this going to

help service to older people who, as Geraldine Smith has pointed out, probably need the personal contact more than most?

**Ms Strathie:** I do not recognise the number of 25,000.

**Q89 Mr Mitchell:** There are going to be substantial cuts, are there not?

**Ms Strathie:** We will continue; we have already downsized the Department considerably and that will continue for quite a number of years.

**Q90 Mr Mitchell:** Their estimate is probably fairly close.

**Ms Strathie:** I do not know how close it will be because head count is basically a cashed-up budget, so depending on the grade mix and the way you design your services would determine how many people we have at any one time.

**Q91 Mr Mitchell:** The more jobs you cut the less personal service.

**Ms Strathie:** No, my challenge is to deliver the best possible customer service within the resources made available to the Department to do that job, and that is the big challenge of taking advantage of technology, getting those customers who can help themselves to help themselves and then focusing our resources on those who most need support. If you take numbers like nearly six million people filing on-line when that used to all be a single process and if you look right across all our taxes, more and more automation will inevitably reduce—

**Q92 Mr Mitchell:** Older people are less likely to file on-line.

**Ms Strathie:** Not necessarily.

**Q93 Mr Mitchell:** I can say that authoritatively as the oldest person here.

**Ms Strathie:** As I have already pointed out, pensioners span decades now, they are not one homogenous group and people have many different preferences. What I am saying is the challenge is the pace at which you make those changes and the pace at which we adjust the cost of running the Department.

**Q94 Mr Mitchell:** You say you want to strive to provide the service but you are also proposing to reduce the opening hours of enquiry centres. It seems impossible to improve service and personal contact if you are reducing the hours.

**Ms Strathie:** Service has got to be about understanding what the customer needs in order to get the things they are entitled to and in order for us to ensure that they get those things and comply with what Government asks them to do. Starting from all the research we have been speaking about, we have to find the best way of using our resources to meet that need. I mean, at the end of the day we are here to get the tax in.

<sup>4</sup> Ev 15

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**Q95 Mr Mitchell:** Let me take a local example. You have reduced staff in the offices in Grimsby; can you tell me what the nearest enquiry centre to Grimsby is?

**Ms Strathie:** I do not know, sorry.

**Mr Mitchell:** Can you give us a note on that?<sup>5</sup>

**Chairman:** It would not be very difficult to do research on who are the Members of this Committee. You are closing my tax office in Gainsborough. You could have found out who the Members are, you should have come briefed and you should have been able to answer that question for Mr Mitchell. It is elementary.

**Q96 Mr Mitchell:** So you know where the knives are coming from.

**Ms Strathie:** We will take that up.

**Chairman:** Do you not learn this sort of thing at the Civil Service College about how to make friends and understand Members of Parliament?

**Q97 Mr Bacon:** On those expensive courses.

**Ms Strathie:** I am sorry, I have not been on any of them obviously. I will take that as a reprimand, Chairman.

**Q98 Chairman:** It is a reprimand.

**Ms Strathie:** I accept it. At the end of the day we are not closing face-to-face, we are actually trying to reduce the cost of the number of buildings that we rent with the shrinking workforce, which has already been reduced by something around 16,000 headcount to around 90,000 people.

**Q99 Mr Mitchell:** Jane Frost said that you are consulting people on what kind of service they like—telephone or personal contact or whatever—but paragraph 4.8 says: “A Departmental survey in 2008 showed that 58% of older people contacting [the Department] were frustrated or annoyed by their experience” on the telephone.

**Ms Strathie:** Yes, and I do not think that is restricted to older people.

**Q100 Mr Mitchell:** That seems a very high figure. Either the calls are not being dealt with properly or—

**Ms Strathie:** What we are finding in current research is that we answer the phone more frequently of total calls offered now. We have also shown that in up to three contacts we get a very high satisfaction score from pensioners. If they have to contact us more than three times then that reduces over a period of time, so our aim has got to be that we answer 90% plus of all calls offered and that our customers are satisfied with what they get.

**Q101 Mr Mitchell:** Paragraph 4.8 says you do not provide them with information about the time they are going to have to wait, they are in a queue and their call will be dealt with personally in two hours’ time.

**Ms Strathie:** We have even launched a call-back where people can log if they hit one of our peak times, being told that we will do the call-back for them.

**Q102 Mr Mitchell:** Where, over the whole country?

**Ms Strathie:** I would have to check the details. We launched it within the last couple of months.

**Q103 Mr Curry:** You have to stay in all day waiting for it.

**Ms Strathie:** No, I do not think that is fair. I am very happy to give you the figures on our recent contact centre performance and the improvements year-on-year, particularly the improvements this year.<sup>6</sup>

**Q104 Mr Mitchell:** The PCS also tell us that people are being encouraged to contact the centres for tax queries, but while calls have increased by six million over the last three years, the staff has not increased proportionately. Even if there were the capacity, you are forcing older people to deal with their queries by telephone. You have not increased the staff proportionately to the number of calls, therefore older people are being forced to use the telephone with which they are dissatisfied.

**Ms Strathie:** I do not have unlimited resources. We have a constant prioritisation. We had some deterioration in service in the summer as we moved our contact centre priorities around while we delivered the MPPC Programme and had to train 30,000 of our people. Overall, our contact centre performance is on an improving trend.

**Q105 Mr Mitchell:** It seems a much more complicated tax situation for older people. Why can you not deal with them on a personal basis? The complication seems to be there are so many sources of revenue, pensions or whatever it is, so why can you not shift the basis once people retire and deal with them personally rather than every source of revenue? Your approach is now centred around sources of revenue, is it not? Why can you not centre it around the people once they retire?

**Ms Strathie:** For us the system is predicated on either PAYE or self-assessment. Either we require somebody to send in a return once a year and tell us all of their income and then we will do a calculation or we are striving to prevent people from having to do that by allocating their tax allowance through a series of codes. That is the basic concept. Many pensioners have their tax done through agents. Many more do not have any tax return or pay any tax and are not in the system. In trying to create an efficient service within the resources available to us we are trying to get as many of those people who can help themselves to do so, so that we can focus our effort on those most in need.

**Q106 Mr Mitchell:** I see you have got an enormous number of open cases on overpayment and 6.6 million of those are for older payers. Why can the cases of overpayment by the taxpayer not be dealt with more quickly?

**Ms Strathie:** When we froze and closed the old system when we introduced the 12 databases into one on 29 June we lost the capability to clear these cases until April. We will. We have already worked

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<sup>5</sup> Ev 16

<sup>6</sup> Ev 16

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through the changes. Each year under the old system we had just under 17 million open cases to work and under the new system that will come down to about four million a year. We have plans at the moment for those open cases, starting with those who we believe may be owed some tax back and then working through those—

**Q107 Mr Mitchell:** Why can you not give priority to cases of overpayment and specifically why can you not pay those people back before 6 May next year, which will be the election date?

**Ms Strathie:** Is it? It is the introduction of the new system that allows us to bring everybody's income into one source. A lot of this was in different parts of the country on 12 different databases. We will work those cases and give priority to those people who we believe are owed tax back, and we have plans to do so. I cannot say it will be before 6 May.

**Q108 Mr Curry:** You are under the cosh financially in any case, are you not, and it is going to get worse if you look ahead? What is the worst possible scenario? When this Government or the next government say, "We are going to save zillions out of Westminster, get much more efficiency" and you are all going to be located in some Godforsaken spot, it is going to get much worse and harder to keep the service going, is it not?

**Ms Strathie:** I think the challenge of delivering high quality public services and finding the resources to invest in the transformation will just get tougher and tougher.

**Q109 Mr Curry:** What do you think is the maximum efficiency saving you can achieve per year without services suffering? A yield of wheat goes about 2% a year and it is now 1% a year.

**Ms Strathie:** It depends on the route, bearing in mind how many huge systems HMRC has and where you decide to invest. We decided to invest heavily in PAYE because it is so critical to the tax revenues flowing. For us, the challenge now is productivity, realising the benefits of that big investment the Government has made. That is one strand. We have renegotiated our contract with our IT supplier, which we will take considerable efficiencies from.

**Q110 Mr Curry:** Put some sort of number on this, just have a go.

**Ms Strathie:** I do not think I can.

**Q111 Mr Curry:** If your boss comes along to you and says, "Ms Strathie, we want you to get 2% a year", do you say, "We can just about do that", but if they want 5% do you say, "We can't do it without there being casualties"?

**Ms Strathie:** We have been dealing with 5% a year all through the 2007 Spending Review. I was not in HMRC for most of that, I have been there a year, but we had the same challenge in DWP and we will no doubt face exactly the same challenge going

forward. When you have done 5% a year for five or six years, inevitably that gets tougher but you just have to find more innovative ways of doing it.

**Q112 Mr Curry:** That begs a question, does it not, the innovative ways of doing it? It is going to be tougher, is it not, we can agree on that?

**Ms Strathie:** It is tough and will continue to be tough, but it will be tough for probably everybody in this country for quite a long time.

**Q113 Mr Curry:** I was not excluding anybody from this. Let me just look at this from the opposite end of the telescope. Like everybody else, I loathe paying taxes.

**Ms Strathie:** Did you say you loathe paying taxes?

**Q114 Mr Curry:** Absolutely. My view is I can always spend it better than the Government, but that is one of the reasons I am a Tory I suppose. On 5 April every year I take a large plastic folder and I write on it "tax" and whatever the year is, put it in the bottom left-hand drawer of my desk, and whenever a document comes in which might be relevant to that tax year, that document goes in the folder so I know I have got it. When I get the list from my accountant of all the documents he wants, I know it is down there in the bottom left-hand drawer. What information do you give, and how accessible is it to elderly people, so they actually know what bits of paper they need to keep and assemble?

**Ms Strathie:** I take your point. I too have a folder.

**Ms Frost:** We actually did start some work with benefits and credits where there is a similar issue in terms of ability to cope. We looked at whether people could manage the system and how organised they had to be with the system and introduced, funnily enough, sending out an envelope saying, "Keep these things in here". We did start at that end of the spectrum. The form that we send out now at the start of pension age, the P161, has a help sheet attached to it and the early indications are that there is a reduction in customer error from 19% to 10% which is quite a lot of error reduction. The other thing that we are looking at, and I think this will make a whole difference, is working with the large employers to start off with to ensure that when they are sending information out for how people prepare for pension and what they need to do, they have got the right tax information there. We are just about to start a pilot, and I am just looking at the concept, which will tell people the sorts of things that we know they ask us later in life. We will help them be that organised.

**Q115 Mr Curry:** Elderly people can get a bit intimidated by documents which look official and have lots of numbers in them, it is not easy.

**Ms Frost:** It is not easy for older people and it is not easy for a lot of people.

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**Q116 Mr Curry:** No, I do not find it easy.

**Ms Frost:** There is a lot of work going on to reduce the amount of text, the amount of numbers, and simplify all the forms. That is a general thing that we know we have to do.

**Q117 Mr Curry:** Since we are all in the business of defending our local offices, let me join on behalf of Skipton and Ripon. I had a letter today saying you have extended the consultation by a month, I think.

**Ms Frost:** Yes.

**Q118 Mr Curry:** You have said you are going to take into account the demographic. Since I am used to these letters with all sorts of words which then need other words to say what they mean, what do you mean by that? What are the criteria? Do you have to be over 80 or 90 or x per cent of people? What do you mean by the term you are going to “take into account the demographic”? Without deviation, hesitation or repetition, for a minute tell me what it means in real life?

**Ms Frost:** I do not know if I can do it without the repetition! We will look at more than old people’s demographics because enquiry centres are about people who need face-to-face help. In looking at the customer base we have identified a group of people we have characterised as “needs help” and there are marginally more older people in that group, as you might expect, than normal PAYE employees. We have a very good idea of what the age, literacy capability, social class and those sorts of things are and they will be taken into account in looking at the demographics, much more of the “needs help” than just older people.

**Q119 Mr Curry:** Where will you get that information from?

**Ms Frost:** That information is readily available on databases like Experian.

**Q120 Mr Curry:** So you could look at Craven, for example, which is a hinterland of Skipton, which is not an elderly population, and you could come to conclusions about the probability of need, is that what we are talking about?

**Ms Frost:** The overall profile of the people there. If we are not actually getting people through the door in the nearest enquiry centre then we would have to say the demand does not seem to match the overall template of the area.

**Q121 Mr Curry:** If you were to move the enquiries to a larger centre, on what basis do you calculate the travel times? My experience has always been with HMRC that their assumptions of how you can get to Skipton, Bradford or Leeds are different from those of every person who actually lives there, and you assume trains run on time and bizarre things like that, or that trains exist.

**Ms Frost:** There is not an easy way of doing public transport provision except on a case-by-case basis because I am afraid the data does not exist for that. One of the things we are looking at, and I know this sounds simplistic but it is the nearest thing we can do, is the provision of rail services because at least we can find the railway station nearest there.

**Q122 Mr Curry:** Access to the railway station, of course, is often much more difficult.

**Ms Frost:** It is on a case-by-case basis because there is no national data on any of these things. In fact, frequently there is no comparable regional data that we can easily draw from. The most important thing is to work with our third sector partners who are more flexible than we are because a lot of their services are flexibly based on telephone and multiple working from home areas even, and see where the provision they can make can contribute to any gaps that we identify.

**Mr Curry:** Time flies when you are enjoying yourself and the Chairman has told me my time is up.

**Q123 Chairman:** I think all our time is up. One last question. You said that you think only half a million people are missing out, but why did you take the trouble to find out this information before the NAO Report?

**Ms Strathie:** We had many discussions about many of the figures and trying to understand them. There is no implied criticism. It was a number that was unaccounted for and explored. We were exploring it then, we carried on exploring it and we will continue. In my view, in driving good customer service, even if it is half a million, it is still half a million people we want to target. We do not have a choice about who gets the allowance or not, that is a decision for the Government, but the alternative would be to overpay more people and then have to claw it back, and that does not seem very good service. We have to find the most efficient way of targeting those people and trying to get them to help themselves by claiming what they are entitled to.

**Q124 Chairman:** You might get some of this money back because it already costs the Department twice as much to deal with tax enquiries from older people as it does dealing with ones from other taxpayers. If you made your processes more consumer-friendly and more efficient you might get some of your money back. For instance, we read in paragraph 4.17 that there is funding of £165,000 organisations helping older people. How much are you investing in developing services for older people? Can you put a figure on it for us, if not now in a note?<sup>7</sup>

**Ms Strathie:** We will take that away and give you a note.

**Chairman:** Thank you very much. That concludes our hearing. Clearly there is a lot more work you need to do working with the Treasury to help older people ensure they are not overpaying their tax. Thank you.

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<sup>7</sup> Ev 16

### Supplementary memorandum from HM Revenue and Customs

Questions 39–52 (Mr Bacon): *How many cases of coding notices being sent to the wrong tax agent. When did the problem begin? When was it resolved? What was the nature of the problem? Was the Information Commissioner informed of the security breach?*

During the introduction of our new computer system last summer we provided relevant information to interested parties, including agents' advisers and customer representatives. This included regular updates for stakeholders about any emerging PAYE issues which might affect them.

In September 2009, we were made aware of two instances where data had been incorrectly sent to the wrong agent. Two agents contacted us to advise that coding notices had been incorrectly sent to their client's previous representative. When the problem was reported, we investigated and found there was an issue with the system design. Although the website shows this as a current issue, I can confirm that it was fixed on 23 November 2009. Although only two individual cases were reported, we advised the agent community so that any unreported cases could be quickly identified. No further cases have since come to light.

The notices of coding which were misdirected would have contained the taxpayer's name and address, their employer's PAYE reference, their National Insurance number and details of their tax code. They did not contain bank account or date of birth details.

We also consulted our lawyers about the two cases and they advised that on the basis that personal data was accidentally sent to a person who was not authorised to receive it; the two instances did amount to a breach. However, given the number involved was low, the nature of the data and the fact that it went to previous agents of the relevant taxpayers who owe duties of confidentiality themselves, then their advice was that the breach was not so serious as to merit reference to the Information Commissioner's Office.

We take all security breaches very seriously and as soon as we were aware that information had been sent to the wrong agent, we acted as quickly as we could to resolve the issue. We have apologised to the parties involved in both these cases.

Questions 63–68 (Mr Bacon): *More information on the five forms people have to fill in to register as an employer and operate the Simplified PAYE Deduction Scheme (para 3.23 refers).*

A new employer who wishes to register for the simplified scheme can do so by telephoning the HMRC Employer Helpline giving their employee's name, address and National Insurance number or date of birth. HMRC will then send the employer a new employer's pack containing explanatory material and simplified tax deduction tables.

Following registration, operating the Simplified PAYE Deduction Scheme can, in exceptional circumstances, involve completing up to five forms. Usually, only one or two forms have to be filled in, either the P12 and the P37 if the employer does not use an agent to file online on the employer's behalf, or simply the FBI 2 if the employer does use an agent to file online. The five forms are as follows:

- P16A—to notify HMRC about taking on a new employee for whom PAYE must be operated. This form has to be completed only if the employer takes on a different employee after providing the Employer Helpline with details of their first employee. Otherwise it is not required.
- P12—for each employee the employer needs to complete a two page form on which they enter the employee's name, address, date of birth and National Insurance number. For each week, the employer records on this form the employee's pay, income tax, National Insurance contributions, any statutory payments made (such as statutory sick pay) and any student loan deductions recovered.
- P37—An end-of-year declaration that the information for all their employees is correct and has been included. This requires only the employer's signature and the date. Each completed P12 form is sent with this declaration. On receipt of these forms, HMRC will prepare a notification of tax and National Insurance deductions for the year and send that to the employee.
- MS116—Request to an employer for details of an employee's pay and tax where the end of year P12 has gone astray. The form MS116 is not required in order to "register as an employer and operate the Simplified Deduction Scheme". The MS116 is provided by HMRC in limited circumstances; it is a request for details of pay and tax where the original form giving those details has gone astray. It is rarely used for this type of employer.
- FBI2—Authority for an agent to operate the online service on the employer's behalf.

Employers carrying out the work themselves would normally only have to complete two forms.

The procedure is simplified if the employer files online. This is because the software carries out all the calculations for the employer. When they enter their employee's details and gross pay on the electronic form, their tax, NICs and net pay figures are calculated automatically. They are also automatically set up to file the declarations needed at the end of the tax year online and can print off the notification of tax and National Insurance deductions to give to their employee themselves.

Questions 70–72 (Mr Bacon): *The number of older people that defer taking the State Pension*

When people approach state pension age, they must make a claim to DWP for payment of that pension. At the point of claim, DWP inform HMRC when the payment of the state pension is due to start and HMRC amend the claimant's tax code accordingly. Assuming the payment of the state pension starts on the expected date, the claimant will have the correct amount of tax deducted from the outset.

In some cases, however, having made their claim, the claimant may decide to defer the start date for the payment of their state pension. In deferring their state pension, they may choose to take the deferred amount as a lump sum, normally at the time that payment of their pension begins, or to receive an increased weekly amount of state pension 12 months later.

In the deferred cases, a number of different things can happen:

- if a claimant chooses to take their deferred pension as a lump sum, DWP notifies HMRC. When the lump sum is paid, DWP deduct tax from the lump sum at the claimant's marginal rate and notify HMRC of the payment made and the tax they have deducted. HMRC use that information to calculate the pensioner's end of year liability;
- if, instead, they choose to receive an increased weekly amount of state pension then there is, at the present time, no automatic data feed from DWP to HMRC about their decision to defer. In these cases, HMRC will code out the amount of state pension which DWP have notified to them and will then collect the tax due and the person will overpay tax. In order for these claimants to be paying the correct amount of tax, DWP would need to amend their systems to provide HMRC with the data they need. DWP do not currently have any plans to do this; and
- a claimant is, however, able to advise HMRC of the deferral themselves and HMRC will remove the state pension restriction from the coding.

DWP estimate that there are around 60 000 cases a year where pension is deferred, normally because the person does not make a claim.

Questions 84–87 (Geraldine Smith): *The results of the quantitative customer survey asking what contact method older people prefer and results from other Departmental work such as exit interviews on whether people prefer contact by telephone, face-to-face, letter or the internet.*

HMRC has a number of approaches where we seek to find out what customers thought of the service they received, areas for improvement and what their preferences are in their future dealings with HMRC:

- HMRC Customer Survey—A quarterly survey covering all customer groups, including 2,000 individual customers. The survey allows HMRC to understand how customers rate their experience of dealing with the department. September results showed that 77.5% of pensioners understood what they had to do; 73.7% found the process easy to complete; 69.8% found it easy to get in touch and 72.8% thought the service was designed with their needs in mind.
- Exit interviews (face-to-face)—Overall satisfaction for face to face service (Enquiry Centre) is 95%. These results cut across all customer groups.
- Specific pensioner research—The latest research, carried out by BMRB, reported in August 2009. 2,539 customers (pensioners, pre-pensioners and people in transition) were included. Questions included asking customers about their dealings with us, what channels they used and what their preferences are. We also tested confidence levels and knowledge about key tax issues. Specific findings relating to channel preferences:

PRE-PENSIONERS (CUSTOMERS CHOSE ALL THAT WERE APPROPRIATE)

	<i>Post</i>	<i>Phone</i>	<i>In person</i>	<i>Internet</i>	<i>Email</i>
Finding out information or getting a response to a query	73%	68%	49%	46%	42%
Filling in and returning a form	83%	46%	39%	43%	36%
Getting a response to a query on personal tax affairs	84%	59%	47%	41%	34%

PENSIONERS

	<i>Post</i>	<i>Phone</i>	<i>In person</i>	<i>Internet</i>	<i>Email</i>
Finding out information or getting a response to a query	77%	72%	41%	22%	23%
Filling in and returning a form	87%	39%	42%	20%	19%
Getting a response to a query on personal tax affairs	86%	63%	39%	21%	15%

Questions 95 (Mr Mitchell): *Details of the nearest enquiry centre to Grimsby.*

GREAT GRIMSBY

There are two offices in this constituency, both in Grimsby, Heritage House (no Enquiry Centre) and Imperial House (Enquiry Centre). Heritage House is to be vacated, Imperial House is to be retained.

Questions 99–103 (Mr Mitchell): *Figures on recent contact centre performance and the improvements year on year.*

HMRC is conscious that the lack of information on its telephone services about approximate waiting times has the potential to cause frustration to some customers. HMRC is currently investigating the technical feasibility, as well as the costs and benefits to the Department and its customers, of implementing this type of service.

We are constantly looking for ways to improve the customer experience. We have, for example, introduced a range of informative initial messages this year which have resulted in many customers being able to obtain the information they need quickly without having to stay on the line to speak with an adviser. In addition HMRC is piloting a call-back facility which, at busy times, allows customers to leave their details so that a return call can be made within a specific time frame. So far this year HMRC has answered 76% of all call attempts compared with only 52% in the same period last year, and continues work towards the industry standard of answering 90% of call attempts.

Question 124 (Chairman): *Details of how much the Department is investing in developing their services for older people (this was in the context of £165,000 being given to the third sector to help the Department provide information to older people who are hard to reach—para 4.17 refers).*

The £165,000 mentioned in the report refers to 2008–09 funding specifically issued to Third Sector organisations dealing with older people and forms part of HMRC's Grant in Aid funding of £2 million per financial year. Grants issued to other Third Sector Organisations will also have helped older people, though we don't record details separately. The grants support a variety of local and national projects. We know that for a particular section of pre and existing pensioners, often the most vulnerable, third sector organisations are the preferred source of information and advice. Specific grants for services for older people include:

- Age Concern (£104k over two years)—produced “your tax help check leaflet” to 32,000 people (so well received more were produced and circulated); Web based tax calculator is being produced.
- Tax Help for Older People (£240k given over three years)—funding helped them reach 33% more customers; telephone helpline received 9,645 calls (6,344 dealt by phone; 1,766 by surgeries & 1,535 by visits).
- Life Academy (£79k over two years)—Produced workbook “Taxation at retirement” for 3rd sector organisations; training advisers in third sector organisations.

In the majority of cases we do not separate investment in developing services/products specifically for older people from other customer groups; most of our processes, products and services affect all customer groups. A figure for older people is therefore not available, however specific recent changes include:

- P2 (Notice of Coding)—Separate P2s are issued for each taxable source of income which causes confusion. A flyer, which research shows all customers found helpful, explains what to do, what it is used for and where to go for further information. While P2 notices increased by 6% early feedback indicates that calls are down by more than 25%.
- P161—Research showed low awareness of receiving/completing the form; this is the main form used to get customers tax code correct for retirement. Analysis of common errors made on the form led to the P161 Help sheet; it explains why we ask for the information and how best to complete the form to ensure they receive the correct tax code. Latest results show a 9% reduction in errors with some areas showing significantly more.
- R27—The key form for finalising the tax affairs of someone who has died (*Potential repayment to the estate*). We plan to publish a more sensitively-worded, clearer, more user-friendly replacement in 2010.

In addition, wherever feasible, HMRC works with other Government Departments and the Third Sector to improve our understanding of customer needs and to inform changes to products and services.

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## Memorandum from the Low Incoms Tax Reform Group (LITRG)

### WHY PENSIONERS OVERPAY TAX:

#### A REVIEW OF THE HMRC FORM P161 BY THE LOW INCOMES TAX REFORM GROUP

The recent NAO report<sup>1</sup> concluded that too many older people pay more tax than they need to because, amongst other factors, they do not claim allowances to which they are entitled. It goes on to say that an estimated 3.2 million older people do not claim the additional age related allowances, acknowledging that the rules applying to the allowance are difficult to understand. This figure was challenged by HMRC at the PAC evidence session.

#### CLAIMING THE AGE RELATED ALLOWANCE

Through our own work, and in partnership with the tax charity TaxHelp for Older People,<sup>2</sup> we have seen first hand how many people struggle with the concept of age related allowances and as a result have failed to claim the entitlement they are due; some for many years.

Indeed many older people do not claim the higher age-related allowances because they do not understand the relationship between retirement age, pensions and tax.

The lack of clear guidance currently provided by HMRC for those approaching retirement, coupled with a distinct lack of joined up information with DWP, means that pensioners are often very much in the dark when it comes to understanding their obligations and entitlements.

The vast majority of pensioners reaching 65 are entitled to the full age related allowance as their income falls well below the age allowance “clawback” threshold (starting at £22,900). Those with incomes in excess of this figure are very often brought into the self assessment system which will automatically arrive at the correct tax.

Accordingly, because it is only a small minority who are in danger of being given excess allowances for a temporary period, we have argued that the higher allowance should not have to be claimed, but instead should be given automatically.

#### THE PRESENT POSITION AND THE FORM P161

At present the claims process still remains. At its heart is a computer-generated pension coding form (P161), which is the greatest barrier to pensioners starting their retirement with correctly coded income sources. We have tried for several years to have it removed, or at least made comprehensible, without success. HMRC have made some minor changes in recent years to make it better; but it is still, as we show, not really fit for purpose.

In reviewing this form it is necessary to understand the functions it serves from a HMRC perspective. These are twofold:

First, it is treated as a formal claim to the age related allowances. It is issued to both men and women approximately 6 weeks prior to their 65th birthday.

Second, HMRC use the details requested in the form to understand the full extent of the claimant’s future income sources for coding purposes on reaching state retirement age. For this reason, women are asked to complete a form ahead of their 60th birthday as well as just before they reach 65.

There is also a version of the form which is issued following bereavement.

#### THE NEED FOR APPROPRIATE GATHERING OF INFORMATION

Any form needs to:

- be clear as to why it has been issued;
- explain the consequences of non-completion;
- identify the date by which it should be returned;
- be easy to complete by the user;
- be free of unexplained jargon;
- be relevant to the circumstances of the recipient; and
- contain only the minimum request for information needed for the task at hand.

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<sup>1</sup> HM Revenue & Customs: Dealing with the tax obligations of older people  
[http://www.nao.org.uk/publications/0809/dealing\\_with\\_the\\_tax\\_obligatio.aspx](http://www.nao.org.uk/publications/0809/dealing_with_the_tax_obligatio.aspx)

<sup>2</sup> Tax Volunteers, registered charity 1102276 [www.taxvol.org.uk](http://www.taxvol.org.uk)

The P161 is no exception. Completing such a form on time and accurately should ensure that:

- sources of income that are ceasing are dealt with appropriately and existing reliefs no longer applicable following retirement, such as employment expenses, are not carried forward incorrectly;
- any new allowances due (or some that may have been missed) are awarded at the earliest opportunity (and if allowances have been missed in the past such that a refund may be due, the taxpayer invited to make a claim for earlier years);
- codings appropriate to the various income sources, such as pensions and any new part time employment, are issued as close to the commencement date as possible;
- the likelihood of any over/underpayments of tax is reduced or eliminated; and
- the correct tax deductions are established from the point of retirement so that the individual is clear about the income they will receive after tax. This establishes the net income figures needed to determine entitlement to DWP benefits.

We consider, however, that the P161 fails nearly all these requirements.

### THE CURRENT P161

To demonstrate the inadequacy of the form/process we have taken the current version and annotated it with some of the questions which arise for the new pensioner. This is after having read the—in our view, the not very helpful—Helpsheet, which accompanies the form.

The image shows a screenshot of the HMRC Pension coding form (P161) with several callout boxes pointing to specific sections of the form. The callouts contain the following text:

- Top Left:** We think this could better explain why the form has been issued and stress the importance of completing the form and the advantages to the customer of doing so.
- Top Right:** It is not clear whether this refers to all pensions, State Retirement Pension (SRP) or pensions other than SRP. Furthermore advice provided within the guidance only adds to the uncertainty by saying that if your state pension is not due to start within the next three months, you should still complete the remainder of the form and send it back straight away.
- Middle Left:** An individual would be forgiven for being confused when asked to include details of their name on a form issued by HMRC when the fact that is has been issued in the first place assumes that this is already in the possession of the issuing department.
- Middle Right:** The Helpsheet suggests that the taxpayer's date of birth is required so that HMRC can determine entitlement to age allowance. Why then, in cases where this is the only information required, is the claimant asked to complete a further 3 pages? HMRC/DWP already know this information, which triggers the issue of the form.
- Bottom Left:** There is no reference to this date anywhere in the Helpsheet so the reason for requesting such information (an unlikely claim to married couple's allowance) remains unclear to a taxpayer.
- Bottom Right:** The Helpsheet explains that this information will be used by HMRC to "correct Married Couple's Allowance or Blind Person's Allowance if necessary". In our view this is so remote as to be unnecessary.

Even if the claimant is able to understand this explanation, for those whose income is below the age allowance limits such payments have no tax implications and are therefore irrelevant. Its positioning as the first main question is very strange and confusing. In any event, there are other reliefs not covered at all.

It is likely that any higher rate taxpayer will be either in self assessment or otherwise already accustomed to providing this information to HMRC annually.

This implies that the form should not be completed until after such pensions have started which encourages the taxpayer to put it on one side and for HMRC to grant the minimum allowances.

Helpsheet notes add further uncertainty by asking the claimant who has chosen to defer their SRP to include the date they have chosen their pension to start. When an individual defers their SRP it is not a requirement that they provide DWP with the length of their deferral period. For many this will rely heavily on a number of financial considerations so such information is simply not available to them.

HMRC's booklet IR121 clearly states "The State Pension is taxable so the Pension Service will tell us when you are due to get it and how much. We should send you a form [P161] asking for the details of any other pensions that you receive as soon as we get the details about your State Pension."

A taxpayer would think: why do you want me to complete this, as you know already?

Attendance allowance can only be claimed by those 65 and over so is irrelevant here.

This is incomprehensible to most people. Most HMRC staff are unable to explain the concept.

The Helpsheet serves to add to the confusion by wrongly identifying the lump sum as the amount the claimant should include on the form. It fails to mention that contained within the lump sum will be a non taxable element which is ignored for tax and as a result does not affect age allowances. It also suggests that the reason for requesting this information is because the claimant may have paid too much tax on it. Nowhere though is the figure of tax deducted requested which is vital if genuinely trying to establish whether tax has been overpaid. Neither is there any mention of form P53 - the only method by which such a claim to refund may be made unless the taxpayer needs to complete a Self Assessment return.

Logically this should be the first question asked, as if SRP has been deferred the other two boxes are irrelevant.

There is no difference in the tax treatment of the different types of pension listed and most people will be unable to tell the difference. The categorisation would therefore appear irrelevant and simply adds uncertainty. Yet foreign pensions and lump sum payments (triviality and wind-up) which may well need a different approach to ensure correct tax deductions are left to be recorded under "other".

Evidence from the charity TaxHelp for Older People suggests that the average low income pensioner may have at least three pensions so a third pension box would be useful here.

Questions relating to the date of commencement of the pension and the amounts received are placed on the following page (see below). The risk here is that these will consequently be overlooked so vital information will be missing. Those questions should therefore be placed first, in preference to these less important items.

Again there is an assumption that the pension has already begun. Anybody completing this would be forgiven for thinking that the form should only be completed once pensions are in payment which could lead to unnecessary delays in returning the form. The Helpsheet however adds further uncertainty by advising "enter date your first payment was, or is due, to be paid".

The only boxes provided for inclusion of pension assume a monthly amount payable. What about those pensions paid weekly or annually; and where is the claimant expected to include one off payment as in the case of a trivial or wind up lump sum? If such a sum is included how will HMRC ensure they are excluded for the following year?

The weekly rate of benefit is required even though such benefits are actually paid fortnightly.

It is unclear whether this date is the date that the benefit came into payment or the date the taxable amount became payable. Including the wrong date risks excessive benefits being considered.

Six boxes are provided when in reality the largest award will only require three.

Helpsheet guidance suggests that if the customer is unsure of the type of benefit paid they should enter the details indicating the three initials most appropriate to the type of benefit received and HMRC will check if taxable. How will this be picked up as there is no box provided that allows the customer to indicate that such a check is required?

Some incapacity benefit and Employment Support allowance is non taxable but insufficient details are provided to explain which is which. Whilst the customer is asked to indicate when taxable incapacity benefit is being paid using the abbreviation TIB, there is no such abbreviation for taxable Employment Support allowance.

This asks for details for the last 12 months when it is only information from 6<sup>th</sup> April of the year under review that has any relevance.

It is quite possible that a loss has arisen but there is no ability to indicate this.

The heading here refers to other taxable income when in reality the only information requested is earned income. Would it not be more appropriate to use "earned income"? - especially when page three has another section entitled "any other taxable income".

Again an assumption that the claimant is paid monthly when it is just as likely that they receive weekly pay.

**Form Fields:**  
Date pension began DD MM YYYY  
Amount of current monthly pension (before tax) £ .....00  
Jobseeker's Allowance, taxable Incapacity Benefit or Employment and Support Allowance  
Your current weekly benefit .....00  
Date benefit started DD MM YYYY  
If you receive Jobseeker's Allowance enter 'JSA'; if you receive taxable Incapacity Benefit enter 'TIB'; if you receive Employment and Support Allowance enter 'ESA'.  
If you expect this benefit to end, enter the date it will stop being paid DD MM YYYY  
Check you are paying the correct amount of tax, we need to know about any other taxable income.  
If you are employed now or have been in the last 12 months  
Name and address of employer  
When did you start? DD MM YYYY  
Your estimated profits for this tax year £ .....00  
Your 10 digit tax reference (from page 1 of your tax return) .....  
Date you intend to stop working, if applicable DD MM YYYY

The entries here ask for estimated interest for the current tax year similarly for untaxed interest. The Helpsheet contradicts this by asking for the estimated interest received in the 12 months ending on 5<sup>th</sup> April last so which one is it?

The national savings account no longer exists so is irrelevant here.

The claimant is asked to provide the taxable income here. The guidance provides no reference to this entry at all. The claimant is therefore not alerted to the fact that payments from the insurance company may contain a return of capital that is not regarded as taxable income. The risk is that income for tax purposes may therefore be overstated.

This mentions products such as pensioner, income and capital bonds but fails to mention perhaps the most common sources of NS & I untaxed interest, the Investment or Easy Access Savings Accounts.

The guidance adds further confusion by providing examples of the types of interest that shouldn't be included when in reality these do not pay untaxed interest but pay income exempt from tax.

Whilst property income is mentioned here no reference is made to rent a room relief so those renting rooms in their own home may be misled into providing inaccurate figures and overstating their income as a result.

The claimant is asked to include the total of their other income here. The guidance then explains that the source of this income should be included in the 'other information' section below. It does not however clarify that if the claimant has more than one source of income not only should they explain the source but confirm the amount relevant to each. How will HMRC disaggregate this to ensure that the correct figures are used for each source?

We are unclear why a signature is required. This isn't a statutory form and the claimant isn't certifying anything. The details provided after all are merely estimates of income.

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## CONCLUSION

We believe the current form and processes do not fulfil their intended purpose and are inefficient. HMRC and DWP should collaborate to produce a single process for the customer to follow.

Much of the information that HMRC requires is already in the hands of the DWP and it is unnecessary for HMRC to request it from the customer.

The rationale for HMRC requesting much of the data has been overtaken by the advent of the new, much praised but untested, PAYE Service which was introduced in June 2009 and brings together in one place all PAYE sources, including taxable benefits paid by the DWP.

Information that HMRC have in their possession could be used to prompt people for claims to means-tested benefits such as Pension Credit, Housing Benefit and Council Tax Benefit.

We would urge the PAC to recommend the following:

1. The automatic granting of the higher age allowance at age 65 for all people outside the self-assessment system. With the new PAYE Service it should be easy to identify the small minority of people who are not entitled to it.
2. Until the recommendation in 1 above is implemented, that a working party be immediately established between HMRC, DWP, the tax charities and representatives of local authorities to:
  - (a) map all the processes surrounding retirement across the domains of HMRC, DWP and local authorities; and
  - (b) restrict the information required from the customer to that which is known only to them, and essential for producing the right PAYE code, and informing the customer about State Pension options and what benefits they are entitled to.
3. As a by-product of this working party, to devise new processes which will ensure a much higher take-up by pensioners of Blind Person's Allowance, Pension Credit, Housing Benefit and Council Tax Benefit. The working party should also consider how take up of Working Tax Credit for those aged 65 and over can be encouraged, particularly in view of the proposal in the 2009 Pre Budget Report to extend entitlement from 6 April 2011 to those working 16 hours or more a week.
4. All such processes to be in place for the tax year 2011–12.

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it—taxpayers, advisers and the authorities.

25 January 2010

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### **Memorandum from the Public and Commercial Services Union (PCS)**

The Public and Commercial Services union represents 300,000 members in the civil service and related areas including over 80,000 who are employed by HM Revenue and Customs.

PCS welcomes the PAC's timely meeting on the "Tax obligations of older people" and would be grateful if the committee would consider this memorandum and suggested questions.

HMRC are currently undergoing a workforce change programme which could see 25,000 job cuts and over 200 office closures by 2011. We have serious concerns about the effect this is having on our members' ability to continue delivering a quality service to the public.

We are concerned at moves to reduce the opening days of tax enquiry centres. This is happening despite repeated commitments having been given in response to concerns raised by MP's that face-to-face advice will still be available to taxpayers and claimants in all localities where they can get it now.

59 tax enquiry centres have already been announced for reduced opening and HMRC is considering rolling this out across all offices.

These offices primarily deal with some of the most vulnerable people in society such as the elderly, migrant workers and tax credit claimants.

The elderly regularly require access to face-to-face services. For example they will use the offices to assist with a R27 form (potential repayment to the estate of the deceased). It would be distressing for a widow or widower stood at a closed office door at such an emotional time of their lives.

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Increasingly the public are being encouraged to call HMRC's contact centres for tax queries. It is concerning that while calls have increased by six million over the last three years staff at these offices have only increased by three. Even if there was the capacity, PCS do not believe that forcing older people to deal with their queries by telephone or even the internet is an adequate alternative.

PCS would like members of the PAC to ask the following questions:

- Has HMRC investigated the impact of the decision to reduce the opening of enquiry centres on older people who access the service?
- Has any work been undertaken to identify the demographics of service users?
- What evidence is there to suggest that older people would prefer to use telephone or internet services rather than face-to-face?
- What are the findings of any equality impact assessments that have been carried out on the closure of enquiry centres?

*4 December 2009*

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