

Understanding tax credits: Client and adviser experiences

Introduction

Tax credits were introduced in 2003 to boost the incomes of families with children and those in low paid work. Around £17 billion is paid out to six million households every year.¹ It is more generous than the systems that preceded it and has a high take up rate amongst households with children. For those on the lowest incomes a tax credit award, including childcare, can be worth a substantial part of their weekly income. A lone parent with two children working 20 hours a week at £6 an hour and with £75 weekly childcare costs would, for example, be entitled to around £220 in working and child tax credits.² Families on higher incomes receive £10 a week. Tax credits are designed to be responsive to a family's changing home and work circumstances. Awards are based on annual income but take account of current home, work and childcare circumstances. This responsiveness means families can get more money as soon as they need it, but it also contributes to the complexity of the system and means there is an inherent risk of under or overpayments if changes are reported late.

From the outset Citizens Advice Bureaux helped hundreds of thousands of people work out what they were entitled to, and to put in applications. Advisers also immediately found themselves helping clients in desperation as payments failed to come when expected, while overpayments and their sudden recovery caused confusion, shock and hardship. In 2006/07 the CAB service across England and Wales helped with over 186,000 tax credit enquiries. The most common areas of advice included: calculating eligibility and entitlement; assisting in the claims process; and dealing with overpayments. Citizens Advice received around 4,000 individual reports from bureaux

describing problems faced by their clients. The top five problems reported were associated with: claims procedures; overpayments; poor administration and delays; take-up problems which included a lack of knowledge or an unwillingness to claim; and conditions of entitlement.

In spring 2007 we carried out research to find out more about what clients understood about the tax credits system and how much their understanding and experiences of the system impacted on their ability to manage their claims successfully. This briefing is based on a summary of research with 15 claimants, 10 advisers and a focus group session

¹ Child and working tax credit statistics: finalised annual awards 2005/06, HM Revenue & Customs (HMRC). Note six million includes thousands of out of work families who still receive social security support for their children and not child tax credits (CTC).

² Based on 2008/09 figures.

with 17 advisers and project staff, all conducted in May 2007. The advisers and clients who took part in this research were taken from the 23 bureaux funded by HM Revenue & Customs (HMRC) in 2006/07 to undertake tax credit take up work in their local communities. The research provides qualitative evidence which complements and reinforces the Citizens Advice survey findings *Tax Credits: the current picture*, published in September 2007.³

Client experiences

Of the fifteen clients interviewed: five were receiving child tax credit (CTC); two were receiving working tax credit (WTC); and eight were receiving both CTC and WTC.

Knowledge/understanding before making the claim

Claimants reported little knowledge about whether they would be entitled to tax credits in advance of making the claim. They'd heard about tax credits from friends and family, adverts in the media, information in bounty packs and from Jobcentre Plus and council officers.

Claimants were asked if tax credits had encouraged or enabled them to change their working position – to start work or to change their working hours. A couple of people mentioned that it had helped them stay in work – one increased her hours to 16 and another said it made her work more viable, making it worth her staying in her job. Those not in work did not believe that tax credits alone would enable them to make the step into work because debt, family commitments and

childcare problems were also issues for them.

Making a tax credit claim

None of the claimants reported having literacy problems and the majority completed the application forms themselves. But they reported finding the process difficult, time-consuming and confusing. Many lacked confidence that the information they had provided was correct, even when checking with the notes – others admitted that they had not read the notes as they found them too long and off-putting. A couple reported getting help from the CAB or the tax credits helpline after completing the form, to check whether they'd done it correctly.

Six of the fifteen claimants experienced problems with their claim before payments started. The experience of these claimants tallies with the wider experience of CAB clients – bureaux submitted over 2,000 reports of problems clients had with claiming in 2007/08.

Understanding their awards and managing their claims

On the whole, claimants did not know how much money to expect before the arrival of their award notice. Many said they had been surprised as it was much higher than expected. The majority said that though it was relatively easy to check their personal details they found it difficult to understand how the figures were arrived at so just hoped they were correct. Despite this the majority felt confident that they knew what changes in their circumstances they needed to report. A number commented that they had learnt the hard way – having had

³ *Tax credits: The current picture*, findings from the online survey of visitors to the Adviceguide website in April and May 2007 was published in September 2007.

overpayments as a result of late reporting.

Many claimants reported that they had come to the CAB for help because they could not get adequate advice or support from the tax credits helpline.

“My wife gets very upset when she talks to them because they cannot answer her questions. They never seem to know what is going on with our claim and often give the wrong advice.”

Most claimants felt they were in constant contact with HMRC about tax credits. For some this was because they were still trying to resolve disputes over earlier overpayments; most claimants had been in recent contact in order to renew their claims and/or finalise their 2006/07 awards. The majority said they had returned their forms by post, many saying that they did not trust the helpline to record all the information correctly over the phone.

Other specific problems were raised, including knowing when to report that a partner is abroad – the helpline advice was not clear on this; and understanding the rules relating to children over the age of 16, when their entitlement ends and when changes have to be reported.

Overpayments

Nine of the fifteen clients interviewed had experienced a tax credit overpayment. All of them said that the initial paperwork did not explain how their overpayment had arisen.

“It only says what you have been overpaid but you just don’t know why.”

Seven of them had managed to find out how the overpayment had arisen through subsequent correspondence. The causes were varied and included: HMRC error; receipt of an emergency payment which was later duplicated when bank payments started; error in reporting an ex-partner’s income.

“We had a gap of payments for six months and we made loads of phone calls to sort it out – no one we spoke to was helpful. Eventually we were sent cheques (two), which we cashed. Later they paid me again through the bank, I realised this had happened so we paid it back straight away, and I have a receipt. They are still chasing us for the money we paid back two years ago.”

Only two claimants had their overpayments recovered by reducing their future payments. The others had been sent time-to-pay notices which initially ask for payment within 30 days. These debts were being recovered by the Debt Management and Banking unit (DMB) – largely because the overpayments arose on joint claims with partners from whom they had since separated. DMB have clear policies which recognise the need to prevent hardship and consider affordability when setting up repayment arrangements. However this was not reflected in the experiences of the clients interviewed. Claimants felt that DMB were difficult to negotiate with and found letters and phone calls from them threatening. They found the notion of being jointly liable for debts with their ex-partner difficult to understand or accept.

“They have been quite heavy handed and this has had an impact on my

health. It's kept me up all night worrying. We have had phone calls to our home from the recovery department from just around the corner – which makes it more threatening, and threatening letters: 'you have to pay it or you will end up in court'. Initially they were asking for a lump sum of £1,200 and being on a wage of £8,000 per year it's a shock."

"They have this really rigid policy of 12 months [recovery] so I agreed to pay back £65 per month. There is no leeway of a period to pay it over. They don't take into consideration your income and expenditure."

"I did not think it was fair that they should be chasing me for something my husband failed to do. They said it was a joint claim and I was liable but they were not pursuing my ex, only me. My ex has a high wage and I am on income support."

Some of the clients suggested that they would like the option to have the old overpayment recovered from their current award. They did not understand why they got tax credits paid into their bank accounts at the same time as being asked to set up a standing order to repay a tax credit overpayment from a previous award. To them offsetting what was owed against some of what was due made sense.

Most of the claimants had challenged – or were currently challenging – the recovery of overpayments. They were concerned about the time they had waited for a reply and had not been satisfied that the responses had addressed the points in their letters.

"They don't seem to be reading the correspondence we send them. We have found they have avoided the subject or we get very incomplete answers back."

"With the help of the CAB we completed an appeal form and sent it about a year ago. We have not received anything since. We have booked to see the adviser again to chase them up; it's annoying because I have to keep taking the day off work..."

Adviser experiences

Advisers said that overpayments and the broader complexity of the tax credit system were the two biggest challenges they faced when helping their clients with tax credit enquiries. They said that lack of claimant understanding and fear of overpayments often made it difficult to encourage clients to make a claim.

Application process

Advisers were fairly confident in calculating entitlement to tax credits and helping clients complete application forms. They used software packages and completed manual calculations to work out the amount of an award. It was difficult to get the clients to provide all the necessary information regarding their income. They found that clients found the annual system quite difficult to understand and particularly the importance of both current and previous year's income. The application form notes were said to be useful but too long and off-putting for many clients, particularly those who struggled with literacy or had English as a second language.

“When they [clients] are faced with lots of paperwork and lengthy forms they are just not capable of dealing with it. If it takes us hours to deal with and we have training then it must be worse for clients.”

Focus group attendee

“The Inland Revenue only produce these in English and Welsh, yet the Child Trust Fund produce information in all languages.”

Interviewee

Advisers felt that the changes to the award notices introduced in April 2006 made them easier to understand but still believed that further changes were necessary. The calculations could be further broken down and simplified and explanations of the different elements of the awards and any overpayments should be provided.

Advisers generally spoke positively of the intermediaries’ helpline. Based in the tax credit office rather than with the main helpline in the more remote contact centres, it is better equipped to deal with queries. However, they found it frustrating that the helpline staff were not able to provide progress updates of cases being dealt with by other teams – such as overpayment disputes or the technical team – yet weren’t able to put them through either. They had varied experiences of getting overpayment explanations from the helpline and often found that they needed to put complex issues in writing.

They found it frustrating that the default time for their authority to deal with a client’s case only lasted for four months even though it often took much longer

for a client’s problem to be resolved. It was an added frustration to suddenly find that progress was delayed further by the need to submit another form. Surprisingly advisers reported that they were still sometimes told that client records could not be accessed because the computers were down.⁴

“They are getting better at it – it used to be a nightmare... There have been times when I have rung up and I’ve been trying to find out how the overpayment occurred and they say ‘oh there has been an error’, then you are told they can’t provide the details and that you have to write in. When you have the client with you it’s frustrating, you want it resolved.”

Interviewee

“I had one case when a client’s award stopped with no warning or explanation, when we called up they said ‘oh yes your payments have fallen off the system’. I asked her what that meant, she could not answer me and I asked if she could put me through to someone who could, she couldn’t.”

Focus group attendee

Overpayments and recovery

The lack of explanations of the causes of overpayments was the most common concern raised by advisers. They referred to the fact that the paperwork does not show how an overpayment has arisen and it was not easy to get an explanation from the main helpline. Some advisers said that with experience they can usually spot the cause if they have all the paperwork and have the time to go through it ‘with a fine-tooth comb’.

⁴ In April and October each year there is planned downtime of the tax credit computer in order to allow system updates. The adviser interviews took place in May so it is possible that the downtime in April affected advisers’ perceptions of this.

They had dealt with overpayments that had a variety of causes, including errors, late reporting or recording of changes of circumstance. They stressed that some overpayments resulted from clients not reporting changes on time or not understanding their award notices sufficiently, and finding it difficult to spot Revenue error.

Most advisers had challenged the recovery of an overpayment on behalf of a client. They were in strong agreement about how difficult they found the process. They reported that their letters were ignored – they waited ages for responses and then found that the replies failed to address the issues raised in their correspondence.

“I find it frustrating. It feels like there is no discretion and it’s like you are hitting your head against a brick wall. You feel you are putting all this effort in and they don’t even read your letters and their systems are so rigid.”

Interviewee

“You send them a letter detailing the story and the reply that you get is almost as if they did not read the letter. It’s like a bog standard letter: ‘we are sorry but it’s not our error’ and you think ‘but that was not my question it was not an error we were disputing it was something else’.”

Interviewee

“You don’t get a proper explanation, they say ‘we have looked at the overpayment and it is recoverable’, that’s all you get. Even when you challenge it they say ‘we have looked at it again and it’s recoverable’, they don’t address the points you raised in your letter. [In contrast] if you

challenge a benefit decision you get a full statement of reasons and all of the evidence.” Focus group attendee

Until February 2008 claimants wanting their overpayment to be written off on grounds of official error had to prove not only that their overpayment resulted from official error but that it was also reasonable for them to have thought their award was correct. Advisers did not like this ‘reasonableness test’. They felt it was bad enough that HMRC had made an error with the claim that had resulted in an overpayment that had been automatically recovered without warning or explanation. For a claimant to then have to try and justify why it was reasonable for them to have failed to spot this error and report it was particularly harsh. They felt the burden of responsibility lay too heavily on the claimant and that HMRC should take more responsibility for the errors made by its systems.

Like the clients, advisers also found that it was difficult to negotiate affordable repayment schedules with DMB. They felt that DMB were reluctant to accept the financial statements they had put together. They found it particularly difficult to succeed when challenging recovery on the grounds of hardship.

“People budget and that means that when an overpayment happens they can’t pay it back in one lump sum because the money has been spent. Clients say if HMRC were more flexible [with the rate of recovery] they would be able to repay the money.”

Focus group attendee

Advisers had dealt with many overpayments that had arisen on joint

claims after a couple had separated. They felt that parents with care of the children appeared to be being pursued for the whole amount, as they were 'an easy target' because they were still claiming tax credits. It wasn't evident to the advisers that attempts were being made to pursue the ex-partner for their share of the debt.

Advisers were concerned about the financial difficulties their clients had experienced when their tax credit overpayments were recovered by reducing their ongoing payments. They stressed that most clients they saw spent tax credits on everyday living essentials and did not have reserves to fall back on when the money was cut without warning. Claimants facing recovery from DMB found the time-to-pay notices came as a shock, and were quite frightening, particularly when the amount was high. Advisers stressed the difficulties faced by clients who were paying back overpayments in both these ways at the same time.

"It can be very stressful, even when it's a small amount it's a debt none the less. It's even worse for those whose on-going award is reduced and they are still demanding a repayment plan from them."

Focus group attendee

Advisers had seen families lose out financially because they had been overpaid after a delay in reporting a change in their household – their partner moving in or out. Whilst all of the overpayment on the old claim is recoverable the new claim can only be backdated for three months.

"I had a couple who were both

working. They just got the family element of CTC. They split up but did not tell them [HMRC] straight away. An overpayment occurred and they recovered the whole amount. They would not take into consideration the client's entitlement as a single person."

Focus group attendee

Advisers also highlighted that being overpaid tax credits could mean a family loses out on housing benefit. Tax credits were finalised annually and any overpayment from one year recovered the next, but any underpayments of housing benefit could not be claimed for later.

Advisers added that they found it very difficult to promote the take-up of tax credits to some families who had heard about overpayments in the news, from family or friends or who had an overpayment themselves in the past.

"There is supposed to be a guaranteed seamless income for those on a low income and in reality if the system works then it's fab, but when they get an overpayment they suffer like hell. I had one client who could not afford to pay her mortgage, I had someone else who couldn't afford to buy food."

Interviewee

"I had a client who came to me regarding his renewal, he had an overpayment in the past and did not want it to happen again so he asked for advice on stopping his claim."

Interviewee

Advisers felt that dealing with tax credit enquiries was very resource-intensive and the complex nature of the enquiries meant that – like debt cases – they were best dealt with by specialist workers.

They were concerned that the loss of a specially funded post could result in the loss of expertise in the bureau. Many therefore felt that they shouldn't become too dependent on one expert and should increase the training of generalist workers.

Suggested improvements offered by clients and advisers

The research sought to look at claimants' ability to understand the tax credit system and whether a poor understanding affected their ability to manage their claims effectively. It also looked for suggestions from clients and advisers as to how claimant understanding could be improved. Some improvements were directly suggested by clients and advisers; others became apparent from their feedback.

Claimants offered few suggestions for major changes to the system. Their comments centred on simplifying and improving the clarity of the application form, the award notices and the notes that accompany them. They suggested that:

- Award notices should provide a clearer breakdown of the elements that make up the award, and explanations for overpayments.
- There should be improved training for helpline staff so claimants could rely on the advice they were given.

In addition to the above, advisers stressed the need for:

- More face-to-face support for

claimants, including some training about how the tax credit system worked.

- A less automated and more customer-oriented approach to handling complex cases. Many claimants need support from someone who knows their case.
- Improved debt recovery – HMRC should only recover one overpayment at a time, accept financial statements and make transparent attempts to chase both parties where joint liability is concerned.
- Offsetting overpayments arising from failure to report a change of household against unclaimed entitlement on a new award.
- An amnesty on debts that arose due to official error before 2006.

Advisers did not have strong views on whether an alternative system would work better, though some suggested a return to fixed period awards. Some felt that shorter award periods of three to six months might ensure better stability of income for claimants than annual awards. Advisers recognised that any system would have different strengths and weaknesses for different claimant groups. They suggested that a successful system should include the following features: clarity, transparency, efficient routes of resolution when problems arise, quality administration and communication.

Whilst we cannot assume that the views of the clients and advisers in this research

are typical, as they were not drawn from a representative sample of tax credit recipients or CAB advisers, they are also unlikely to be unique. Without advice and reassurance from a third party many claimants are not confident enough to assess what help they can get from tax credits and manage their claim sufficiently so as to avoid overpayments. When it comes to assessing likely entitlement to tax credits, the WTC2 leaflet includes tables that cross-tally income and the number of children, to help people broadly assess how much they might get. If childcare costs are added in, together with working hours that fluctuate above or below 30 or 16, the picture becomes much harder to predict.

More work needs to be done to help claimants understand their tax credit awards, for example:

- Tax credits workshops put on in adult education colleges; outreach workers to give presentations in community settings such as children's centres. These should ideally be provided by HMRC staff to help improve confidence and trust of claimants in officials, and to restore confidence in the tax credits system.
- Improved training for all HMRC frontline advisers.
- A two tier helpline where complex enquiries can be referred on. We are aware that the advice and support provided by the staff on the intermediaries' helpline is far better than the main helpline and believe that quality advice on complex entitlement issues should not be only accessible via third parties.

Recent developments

Tax credits continue to play a key part in the Government's strategy to eliminate child poverty and help people move from welfare to work. It is five years since the introduction of the tax credits system, and the Government has responded to feedback from customers and their representatives. Most importantly, families who have been overpaid no longer see their payments stop overnight. To prevent families facing hardship, the 2005 pre-budget report introduced limits to the cuts that can be made to payments when recovering an overpayment.

HMRC have set up the tax credit transformation programme, which includes initiatives and proposals that will address some of the issues raised in this research. Many of these changes are very welcome and we outline them below.

More support for managing claims

The 2008 budget made some welcome announcements of specific support to claimants, including: reminding claimants to renew; providing different levels of support to new claimants, based on assessment of risk; contacting claimants who have been out of touch for a while.

Piloting of face-to-face advice in children's centres

As part of a pilot scheme to provide work-focussed services for parents in 30 children's centres, HMRC will place advisers to help people claim tax credits – particularly the childcare element – and help them keep their awards up to date.

Changes to application form and notes

A revised application form and shortened notes were introduced in April 2008, which mark a definite step in the right direction, though HMRC recognise that they only represent an interim improvement. A fundamental re-design would be strongly desirable, but this would require significant IT changes, and is, we are told, not currently feasible.

Recovery of overpayments

31 January 2008 saw the end of the unpopular 'reasonableness' test. It was replaced with a clearer test that sets out customers' responsibilities for checking factual information, alongside HMRC's responsibilities. Overpayments will be written off where claimants are found to have fulfilled their responsibilities but HMRC have not met all theirs. This goes some way to redressing the balance of responsibilities and removes the need for claimants to fully understand their entitlement.

In spring 2008 HMRC completed an internal review of how tax credit debt is managed by different parts of HMRC. The review recognised the need for more consistency and co-ordination between DMB and the Tax Credit Office as well as when appropriate with the Department for Work and Pensions (DWP). We hope that it will result in concrete improvements in customer service and in particular the reduction of hardship.

Developing a more case-oriented approach

A merger of teams within the Tax Credit Office will result in a more 'customer focused' service to claimants. It will mean

that personalised letters with named contact details will no longer be limited to claimants making complaints. Claimants asking for explanations of their overpayments and challenging the recovery are now promised letters that address their questions and do not rely on standard paragraphs. Whilst it is difficult to rejoice in something so basic, inadequate communication from the tax credit office has added significantly to the stress faced by advisers and claimants in trying to resolve problems. There is therefore no doubt that this should represent a substantial improvement.

Conclusions

This research offers graphic qualitative evidence which reinforces the more quantitative material published in previous reports from Citizens Advice. Citizens Advice supports the principle of tax credits as a practical way of helping those on low incomes, but stresses that the poor implementation of the service has caused lasting disillusionment among many of those it was designed to help the most.

Most of the recent announcements are designed to help claimants operate a complex system, rather than making the system simpler: claimants are to be supported through different stages of their claims and reminded of actions they need to take, which should result in fewer errors and fewer over and underpayments, but does not essentially simplify the system.

Citizens Advice recommends a more comprehensive review of the information and advice given by the helpline:

- Scripts and prompts should be designed to provide claimants with appropriate information proactively – ensuring they not only know what they need to do now but also at the end of the year. We will monitor their impact and continue to press for improvements in these areas, particularly increased access to face-to-face advice.

Citizens Advice believes that important changes are needed in the way HMRC manages the recovery of tax credit overpayments via its Debt Management and Banking unit. The experience of clients and advisers ran contrary to HMRC description of their policy and practice, suggesting a need for greater clarity, consistency and transparency. Specifically we urge that:

- HMRC suspend recovery of overpayments from claimants already repaying other tax credit or DWP benefit overpayments.
- HMRC review the letters it sends to claimants on debt recovery ensuring that messages consistently advise claimants that they can negotiate an affordable repayment arrangement or that in some cases recovery can be suspended or even written off on grounds of hardship.
- As Tax credit debts are often part of a larger debt problem we would like to see HMRC subscribe to the Common Financial Statement or equivalent document. This would align HMRC policy and practice with current debt advice standards, simplify negotiations and reduce the need for advisers to duplicate their work.

We also re-iterate the recommendations made in our September survey findings, mainly relating to the management of overpayments and debt recovery. We ask that HMRC should:

- Postpone recovery action until after communication with claimants.
- Provide routine explanations of causes of overpayments.

Until it is possible to do either of the above automatically we recommend that HMRC:

- Proactively offer explanations to claimants contacting them about an overpayment.
- Offer explanations in writing where there is more than one single cause and suspend recovery until the explanation has been provided.
- Introduce a statutory right of appeal on overpayment recovery on grounds of official error.
- Impose further limits on recovery to prevent excessive loss of income.
- Review the operation of the annual system and consider the re-introduction of fixed awards, to increase stability of income and enable families to budget more effectively.

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