



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 961
SESSION 2008–2009**

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HM Revenue & Customs

Dealing with the tax obligations of
older people

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HM Revenue & Customs

Dealing with the tax obligations of older people

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

20 October 2009

Older people are a significant and growing group for HM Revenue & Customs, representing 18 per cent 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.

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Summary

1 Older people are a significant and growing group for HM Revenue & Customs (the Department), representing 18 per cent 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. The Department collects most Income Tax from older people through the Pay as You Earn scheme (PAYE), Self Assessment and schemes such as building societies and banks deducting tax from the interest on deposits.

2 We define older people as people of State Pension age, currently 60 and over for women, and 65 and over for men. In 2007, for the first time in the UK, there were more people over State Pension age than children, and the number is expected to increase by 23 per cent by 2031. As the number increases, the Department's costs in helping them to comply is likely to increase at a time when its budget is reducing. Compared to other taxpayers, older people are less aware of their tax obligations and what they should do to comply.

3 The Department has been considering how it can improve the service to older people so that they understand their obligations, pay the correct amount of tax and reduce levels of contact. The Government has produced strategies, most recently in 'Building a society for all ages' of July 2009, for meeting the challenges presented by an ageing society to bring together action from various parts of Government to tackle pensioner poverty and to ensure that the country adapts.

4 This report examines:

- the Income Tax obligations of older people (Part 1);
- their compliance record (Part 2);
- how changes in circumstances affect their tax obligations (Part 3); and
- the Department's help (Part 4).

Appendix 1 summarises our methodology.

Key findings

5 On Income Tax Self Assessment, people comply with their tax obligations by filing accurate returns on time and paying on time. About 1.7 million older people filed a tax return for 2006-07 and nearly £2.8 billion was collectable through Self Assessment. The Department's data shows that older people have higher compliance levels than taxpayers as a whole, and on average underpay significantly less tax. It does not know by how much in total older people overpay tax, but it is undertaking work to estimate the amount.

6 Most older people who are taxpayers pay tax through PAYE. A substantial number over or underpay tax. Such errors can have a disproportionate effect on this group as their net average annual income of some £16,000 was around 25 per cent below the national average in 2006-07. Errors occur partly because the Department has not dealt with discrepancies between its records and the tax deducted by employers and pension providers under the PAYE system. We estimate that by March 2009 in these cases some 1.5 million older people had overpaid tax by £171 on average (£250 million in total) and around 500,000 underpaid tax by £207 on average (£100 million in total). The average error represents around one per cent of the average net income of older people who pay tax.

7 One reason for the discrepancies on PAYE is that for many people their tax affairs become more complicated when they reach pension age, mainly because they have more sources of income and the PAYE system does not cope well in calculating the correct tax code in these circumstances. Eighty per cent of older people paying tax have multiple sources of income and, especially when they have a new source of income may receive multiple tax code notices which are often hard to check. The Department has improved its accuracy rates in processing PAYE cases and introduced a new computer system in June 2009 to reduce errors further by providing a complete view of people's income.

8 Older people may also pay more tax than required because they do not claim additional tax allowances or arrange to have interest on savings paid gross where eligible. For example, we estimate that some 3.2 million older people do not claim the additional age-related allowances, where the rules are difficult to understand, particularly as the allowances reduce as income rises beyond certain thresholds. The Department believes that most do not claim as it is not financially worthwhile because they do not pay tax. For those who pay tax, claiming the age-related allowance can increase the average net income of an older person by up to four per cent. The Department incurs £13 million a year in staff costs to administer the allowances. It also estimates that some 2.4 million older people have not claimed to have savings income paid gross, paying around £200 million more in tax than required and representing around one per cent of their income on average.

9 The tax code notices and age-related allowances are also the main reasons why older people contact the Department for help. The Department spends around £36 million a year in staff costs on dealing with enquiries from older people, costing twice as much to deal with each enquiry compared to those from other taxpayers, because they tend to be more complicated. Older people are, however, less likely to contact the Department for help, even though around 36 per cent do not understand their obligations, compared to 26 per cent of all taxpayers. Around 80 per cent of older people dealing with the Department were satisfied with the service provided.

10 As well as dealing with HM Revenue & Customs, older people deal with other public sector organisations such as the Department for Work and Pensions and local authorities to claim welfare benefits and the State Pension. They also have to contact HM Revenue & Customs about tax on the State Pension because unlike pension providers the Department for Work and Pensions does not operate a PAYE scheme. Consequently, some 30,000 older people on relatively low incomes have to complete Self Assessment returns to pay tax due.

Conclusions on value for money

11 It is difficult to assess whether the Department is providing value for money because it does not know the extent to which older people pay the right amount of Income Tax or the actual costs of administering the tax for this group. For many people their tax affairs become more complicated when they reach pension age mainly because they have more sources of income. While older people appear to have a better record of compliance than other taxpayers, they are disproportionately affected by particular features of the Income Tax system that give rise to errors either by the individual, the Department, or pension providers and employers. The system is therefore not as effective as it could be in dealing with the tax affairs of this group.

12 The data available shows that significant numbers under or overpay tax because of errors or because they do not claim allowances or arrange to have savings income paid gross of tax. While most older people contacting the Department are satisfied with the service provided, the level of contact is perhaps less than might be expected given the complexities they face.

13 Demographic changes are likely to increase these pressures and costs for the Department, which are already higher for this group than other taxpayers because their tax affairs tend to be more complicated. In this context, the Department should rethink its approach to ensure that older people get the financial support to which they are entitled and that it works in more joined-up ways with other organisations to reduce the costs for older people in managing their tax affairs and provide a better service. Simplifying the underlying rules and procedures would bring significant savings for the Department, as well as improvements in service, although wider reform could reduce the amount of tax collected and incur transitional costs. The recommendations below identify the issues the Department should consider and possible solutions as well as obstacles that would need to be overcome. The Department should achieve such changes by aligning its approach more closely with the Government's strategy 'Building a society for all ages'. It would have an opportunity to road-test proposals for change with the new UK Advisory Forum of Ageing which gives older people an opportunity to comment on new ideas and services.

Recommendations

Ensuring older people get the financial support to which they are entitled

14 Many older people pay more tax than they need to. By taking firmer action to help people, the Department would contribute more effectively to the Government's policy of targeting financial support on those who need it most.

- a** The Department should explore with HM Treasury the cost effectiveness of the current structure and take-up of allowances and the scope to simplify the arrangements. The obvious simplification, to remove the link between the age-related allowances and income, would make the allowances less targeted on older people with lower incomes (paragraphs 3.3 to 3.8, 3.19 and 3.20).
- b** Many older people may not claim the age-related allowances or the Blind Person's Allowance. The Department should introduce initiatives to ensure that people receive these allowances where they are entitled (paragraphs 3.3 to 3.8, 3.19 and 3.20). This could include:
 - automatically awarding the age-related allowances to people when they reach age 65, withholding the allowances or seeking further information only where its records suggest that a person may not be entitled to the full allowance. The Department could confirm it has awarded the allowances correctly retrospectively. Awarding the allowances in full without having information about the taxpayer's expected income would increase the risk that people would have to pay additional tax after the end of the tax year;
 - pilot work to assess the feasibility of comparing the Department's records of those who have claimed the Blind Person's Allowance with local authorities' records of people registered as blind to identify and inform those who may be entitled to the allowance. The Department would need to set up legal arrangements with local authorities to obtain access to the information.
- c** The Department could:
 - inform older people that in certain circumstances they can claim back part of the tax paid on their savings and the arrangements for doing so;
 - ask banks and building societies to participate in a campaign to help people more in deciding whether they are entitled to receive interest gross (paragraphs 3.11 to 3.13).
- d** Although the Department's processing accuracy rates are improving, its checks show that older people are more likely than other taxpayers to suffer from errors. A common error is incorrect calculation of tax codes where older people have a number of sources of income. The Department expects its new PAYE computer system to reduce errors. It should look at other ways of reducing errors such as allowing staff to specialise on 'older people' PAYE cases rather than work on all types of cases (paragraphs 2.2 to 2.6).

- e Many older people contact the Department because they find it difficult to understand the various coding notices covering each source of income. To make the tax coding easier to check, the Department could issue older people with a single coding notice covering all sources of income, clearly explaining how it is calculated and how tax will be deducted from each source of income. This would also benefit other taxpayers with more than one source of income (paragraphs 2.8, 3.9 and 3.10).

Joined-up working with other organisations

- 15** More collaborative working with other organisations would help older people comply with their tax obligations. There are various issues and solutions the Department should consider.
- a Each year, the Department requires around 30,000 older people each year whose main source of income is the State Pension, to complete Self Assessment returns. Unlike pension providers, the Department for Work and Pensions does not deduct Income Tax at source on the State Pension. The Department should explore with the Department for Work and Pensions the feasibility, costs and benefits of introducing a PAYE system selectively for the State Pension (paragraph 3.14).
 - b The Department's enquiry centres can be some distance from where older people live. Sharing facilities with other organisations providing services to older people could extend the Department's reach and help reduce its costs while providing a better level of service. In 'Building a society for all ages', the Government notes that sources of information for making plans for the future are often disparate and fragmented and proposes setting up a one-stop shop in 2010. At present, this does not include information from the Department on tax issues. The Department could participate in the proposed one-stop shop (paragraphs 4.10 to 4.12).
 - c Older people employing a personal assistant to care for them may need to operate PAYE. The Department could work with the UK Health Departments to provide advice to local authorities on how they can help people in this situation (paragraphs 3.21 to 3.24).

Part One

The Income Tax obligations of older people

1.1 This Part looks at:

- how Income Tax affects older people; and
- the Department's approach to helping older people comply with their obligations.

How Income Tax affects older people

1.2 In 2008, there were around 12.1 million people in the UK receiving the State Pension at aged 60 and over for women and 65 and over for men. The country recently passed a tipping point in demographic change. For the first time, the number of older people in the UK exceeded the number of children under 16. The Office for National Statistics forecasts that by 2031 there will be 14.9 million receiving the State Pension¹, nearly 21 per cent of the population.

1.3 Some 5.6 million older people (**Figure 1**) had Income Tax liabilities of £14.2 billion for 2006-07², an average of £2,535 each, comprising £9.5 billion from Pay As You Earn (PAYE), £2.8 billion from Self Assessment and around £1.9 billion mainly from schemes such as banks deducting tax from interest on savings. The net average income of these older people of some £16,000 a year in 2006-07 was around 25 per cent below the national average. Some 6.5 million older people had no Income Tax liability.

Figure 1

Analysis of types of income for older people who had an Income Tax liability for 2006-07

	Number of people (million)	Income (£ billion)
Total, comprising:	5.6 ¹	104
Pension income	5.46	67
Investment income	5.0	16
Employment income	1.47	16
Self-employment income	0.4	5

Source: HM Revenue & Customs

NOTE

¹ The data in the column exceeds 5.6 million because people have more than one source of income.

¹ In 2031, the age at which women and men can claim the State Pension will be 66 years old.

² The latest data available.

1.4 Everyone resident in the UK for tax purposes has a 'personal allowance', which is the amount of income that is tax-free. Older people can also claim age-related allowances. The PAYE system operates by the Department assigning people a tax code that determines the amount of tax an employer or a pension provider should deduct. People who have more complex tax affairs, for example, if they have investment or rental income, need to complete an Income Tax Self Assessment return. They may have to complete a return even if they are already on PAYE to confirm that they have paid the correct amount of tax overall on all their sources of income. Other countries we looked at – Canada, Australia and Sweden – have a different system for withholding tax from income which means that most people complete a tax return. One country – The Netherlands – has a similar system to the UK with most people not completing a return.

The Department's approach to helping older people comply

1.5 The Department's objective is to improve the extent to which people pay the tax due. It also wants customers to feel it has become simpler to do business with it. To help taxpayers comply, the Department provides information in printed guidance and on the websites www.hmrc.gov.uk and www.direct.gov.uk. Directgov provides government-wide information on services that people use. People can also complete certain transactions online through the Department's website. By 2011, the Department expects to provide all information and services on tax matters on the Directgov website. People can also obtain information by telephoning or writing to the Department or visiting its enquiry centres. The Department seeks to encourage people to use the most appropriate communication channel to meet their needs at the lowest cost.

1.6 Based on the average costs of administering Income Tax, the Department spent around £210 million in 2008-09 on sending forms to older people, processing completed forms, collecting tax and providing information to help people comply. The Department is concerned that as the number of older people increases, the cost of helping them to comply will also increase at a time when its administrative budget is reducing. It has found that compared to other taxpayers, a higher proportion of older people are unaware of their tax obligations or do not understand what they should do to comply. They are also less likely to use online services, but this could change as new people retiring become more familiar with using computers.

1.7 The Department does not have staff specifically responsible for dealing with the tax affairs of older people but it has been working on projects to improve the service to them. It plans to spend around £100,000 in 2009-10 to produce more information that is specific to older people and simplify processes for complying.

Wider Government initiatives

1.8 The Committee of Public Accounts' report on 'Improving public services for older people' (29th Report, Session 2003-04) noted that the Government had given attention in recent years to improving services for older people. It concluded that the range of initiatives and the variety of bodies involved highlighted the importance of co-ordination between providers, both inside and outside Government. It also emphasised the importance of communicating clearly what services are available and how to access them. Without careful consideration of the needs of older people, services were unlikely to be well-designed, meet their needs or provide good value for money.

1.9 The Government has been taking action to tackle pensioner poverty and to ensure the country adapts to an ageing society. Its most recent strategy – 'Building a society for all ages' published in July 2009 – seeks to create an age friendly society; help people to plan for later life; emphasise the importance of support to carry on living well in later life and keep support and information flowing to respond to changing circumstances. The strategy follows on from Government reforms to the pension system that included changes to the State Pension and measures to outlaw age discrimination. In July, the Government also published the Green Paper 'Shaping the future of care together' which sets its vision of a National Care Service in England.

1.10 The Department for Works and Pensions has a cross-government role to make the most of the opportunities created by an ageing society working closely with the Prime Minister's Strategy Unit, the Department of Health and the Department for Communities and Local Government. HM Revenue & Customs does not have a role in the Government's strategy but is seeking to contribute. The Government recently set up the UK Advisory Forum on Ageing to give older people a direct line to Government to comment on new policy ideas, services, legislation and areas they feel Government needs to address.

Part Two

The compliance record of older people

2.1 This Part looks at:

- tax underpaid and overpaid on PAYE; and
- the extent to which older people comply with their obligations on Self Assessment.

Tax underpaid and overpaid on PAYE

2.2 PAYE is designed to collect the right amount of Income Tax from people over the course of a year. Employers and pension providers deduct tax from the pay and pensions of people according to a tax code issued by the Department. Overpayments or underpayments of tax can occur, if a person moves jobs, stops working, or has more than one job or occupational pension. The Department carries out end-of-year checks to resolve discrepancies between the tax its records show each person should pay and the amount shown as actually paid on employers' or pension providers' returns. Its computer systems have identified more discrepancies than it has been able to deal with, known as 'open cases'. At the end of March 2009, the Department had 20 million open cases, around 6.6 million of which related to older people. Around half of these were for tax years 2007-08 to 2008-09, the rest covered tax years 2002-03 to 2006-07.

2.3 Not all cases result in an under or overpayment of tax. We estimate that there are 1.5 million cases where older people have overpaid tax by a total of £250 million (an average of £171 each) and 500,000 where they have underpaid tax by a total of £100 million (£207 each)³. The average case represents around one per cent of an older person's net income. Delays in the Department in clearing open cases can mean that taxpayers are not promptly notified of additional tax payable or refunds due. In June 2009, the Department introduced a new computer system that it expects will help resolve all discrepancies identified in 2009 by 31 March 2010, and deal with the backlog of cases by the end of 2010.

³ The estimate of under and overpayments is based on 30 per cent of cases having a financial effect and the average amount of under and overpayments from the Department's checks on 132,000 older people's open cases.

2.4 In addition to the discrepancies identified in the Department's end of year checks, older people can pay the incorrect amount of tax where:

- staff have processed a taxpayer's record incorrectly, for example, when calculating someone's tax code or issuing a repayment;
- the information the Department uses to calculate the tax code is later found to be incorrect.

Older people may also overpay tax if they have not claimed additional tax allowances, (see Part 3).

2.5 The Department checks 20,000 PAYE cases a year to estimate the extent of processing errors it makes. In 2008-09, the Department's overall accuracy rate for processing cases was 96.2 per cent. Errors are more likely to occur where the Department processes complex PAYE cases manually. Its accuracy rate was 83.5 per cent for these cases. For older people, the accuracy rate was lower at 79.4 per cent but has improved since 2006-07 when it was 76.4 per cent. These errors mean that older people overpaid tax by £28 million and underpaid by £49 million in 2008-09. One of the main errors is in processing tax codes, where the Department does not always include the correct amount in the tax code for the State Pension (**Box 1**) and the age-related tax allowance, often because it does not know a person's exact income. It has difficulty in getting an overall view of a person's income where they have multiple sources of income because the PAYE computer system structures records around sources of income rather than individual taxpayers. Around 80 per cent of older people paying tax have multiple sources of income and especially when they have a new source of income, may receive multiple tax code notices which are often hard to check.

Box 1

Adjusting the tax code for the State Pension

The State Pension and some other benefits are subject to tax. While the Department for Work and Pensions deducts tax from incapacity benefit, it does not do so for the State Pension and other benefits. If someone pays tax on another source of income such as an occupational pension, their tax office normally asks the pension provider to collect any tax due on the State Pension at the same time by adjusting the person's tax code. If there is no other source of income and the person is due to pay tax, the Department requires them to complete an Income Tax Self Assessment return.

2.6 The Department expects its new PAYE computer system to improve accuracy rates for all taxpayer cases by between one per cent and 2.2 per cent. To improve the accuracy of processing, it is also:

- using computer software tools to calculate tax codes, checking information from different databases, including information on tax allowances. This helped it to reduce the number of errors in the tax codes of older people by 25 per cent from 2005-06 to 2007-08;
- conducting a pilot where designated staff work solely on pensioner cases. PAYE processing staff usually work on all types of cases. Staff had found that pensioners' cases were often the most complex and time-consuming mainly because of their multiple sources of income. Early results show reduced errors and increased productivity; and
- running a pilot where staff specialise in handling forms from older people claiming the age-related tax allowances at 65. Initial results show staff are processing claims more accurately and efficiently than when dealing with correspondence from all taxpayers.

2.7 The Department also finds that information it has used to calculate a person's tax code is sometimes incorrect and it has to recover or repay tax. For example, the Department uses the State Pension entitlement to calculate someone's tax code if the individual or the Department for Work and Pensions has not notified it of the actual amount. If a person has deferred taking their State Pension and has not informed the Department, they will overpay tax. The Department does not know how many older people are affected in this way or the tax involved.

2.8 It is important for people to check their tax code is correct because even where the Department has made an error or delayed notifying someone about arrears of tax it may consider that they could not have 'reasonably believed' that their tax affairs were in order. In some cases, the Adjudicator's Office has decided that the Department should have used its discretion not to pursue older people for arrears because the tax coding notice was too difficult to understand, particularly if the person was ill and could not have appreciated that their tax affairs were wrong.

2.9 The Department also estimates that since 1983 around 95,000 older people have underpaid around £25 million in tax because they did not have all their pension income taken into account. This is because the Department provided incorrect advice to pension providers and its local offices did not follow correct procedures. From 2009-10, the Department is collecting tax on these pensions but it is not pursuing arrears.

Compliance on Self Assessment

2.10 Around 1.7 million older people filed a tax return for 2006-07. Some 1.5 million had a net Income Tax liability amounting to £8.9 billion of which nearly £2.8 billion was collectible through Self Assessment. The Department requires people to file a return for various reasons such as needing to know an older person's income to calculate their entitlement to the age-related allowance. People comply with their tax obligations by filing accurate returns on time and paying on time. The Department's data shows that older people have higher compliance levels than individuals generally (**Figure 2**), and on average under-declare significantly less tax.

2.11 The Department has not carried out checks to estimate the extent to which people in Self Assessment over-declare their tax liabilities. The Committee of Public Accounts 20th report of Session 2007-08 recommended that the Department should set a timetable for producing such an estimate. The Department launched work in December 2008 but because of the time it takes to carry out checks, the results will not be available until the end of 2010.

Figure 2
Levels of compliance

	All individuals (%)	Older people (%)
Filing returns on time ¹	88.6	98
Accurate returns ²	68	87
Paying on time ¹	88.3	Not available

Source: HM Revenue & Customs

NOTE

1 Results for 2007-08.

2 Results of the random enquiry programme for 2003-04 tax year covering under-declaration of liabilities.

Part Three

How changes in circumstances affect tax

3.1 This Part examines how certain changes in older people's lives affect their tax obligations, covering:

- taking a pension for the first time;
- working part-time;
- becoming entitled to higher tax allowances at age 75;
- employing a personal care assistant to care; and
- dealing with a partner's death.

Taking a pension for the first time

3.2 Each year some 700,000 people become entitled to the State Pension. In the transition from work to taking a pension, it is important for older people to understand how their obligations change, otherwise the amount of tax they pay may be incorrect. They may need to:

- claim the additional tax allowances available at age 65 and the Blind Person's Allowance;
- check that their tax code is correct as their income changes;
- arrange to receive savings income without tax deducted, if their income falls below their personal allowance; and
- complete a Self Assessment return.

Claiming the age-related allowance at age 65

3.3 At age 65 people are entitled to claim an age-related tax free allowance which is higher than the basic personal allowance (**Box 2**). This allowance and the additional allowance for those 75 and over is one of several Government measures including Pension Credit to help people financially in later life. The estimated tax foregone on the age-related allowances was around £3 billion in 2008-09. To target support on those who need it most, the age-related allowances reduce once an income threshold is reached (£21,800 in 2008-09). The additional allowance at age 65 increases an older person's net income by up to four per cent on average. Some 3.2 million people receive at least some of the allowance. Around 480,000 people in the 65-74 age range are not entitled to the allowance because their income is too high. There are some 5.1 million in the UK in this age range, indicating that 1.4 million do not claim the allowance. The Department believes that most do not claim because it is not financially worthwhile as they do not pay tax.

Box 2

The age-related allowances at age 65 and 75

People are entitled to additional age-related tax allowances at age 65 and 75, subject to income limits. For the tax-year 2008-09, the allowance is £9,030 for those aged 65-74, and £9,180 for those age 75 or over. If a person's income is over £21,800 the allowance reduces by £1 for every additional £2 of income to a minimum of £6,035.

Mr H was 66 years old and had a pension income of £23,000 or £1,200 over the income threshold of £21,800. The Department reduced his age-related allowance to £8,430 (£9,030-£600). Mr H then informed the Department that he had investment income of £1,500, increasing his total income to £24,500 or £2,700 over the income threshold. The Department adjusted his age-related allowance to £7,680 (£9,030-£1,350).

3.4 The Department sends out a paper P161 form if its records show that a person is about to reach age 65 or receive the State Pension or occupational pension. It requires people to complete a form, stating their date of birth and expected income in the year ahead so it can determine how much of the allowance to award. As the income of older people can change significantly around age 65, the Department wants to ensure that the allowance is calculated accurately to avoid people underpaying tax which they may need to repay later. It can be difficult for someone to check whether they are receiving the correct amount because the allowance reduces above a certain income threshold. Some people do not receive a claim form because the Department does not know their address. The Department estimates that it spends around £6.1 million a year sending out and processing the forms.

3.5 Older people do not find the claim form easy to complete. The Department's checks on a sample of completed forms found that nearly one fifth were completed incorrectly or did not provide the information requested because people did not understand the questions or did not have the required information such as their expected pension income. The Department estimates the cost of contacting people for the missing information at £1.1 million a year. In 2009, the Department began issuing a helpsheet to help people understand and complete the form.

3.6 The Department has been considering how to make it easier for older people to claim the allowance and reduce costs by:

- examining how to make the form easier to complete;
- running a pilot in 2008 to allow some people to claim by email. The results showed that fewer people made errors in providing information and the Department's costs were also lower – one third of the cost of the paper forms; and
- confirming whether it can obtain information from the Department for Work and Pensions to reduce what it asks people to provide.

3.7 Ensuring older people get the financial support to which they are entitled is an important part of the Government strategy 'Building a society for all ages'. This points to extensive work by the Department for Work and Pensions to encourage older people to claim benefits, and proposals to streamline the Pension Credit claims process by making better use of information Government already has to make awards automatically.

Claiming Blind Person's Allowance

3.8 People can claim Blind Person's Allowance if they are certified blind and registered with a local authority, or in Scotland and Northern Ireland if they are unable to perform any work for which eyesight is essential. There are around 139,000 people aged 65 and over registered as blind. Some 37,000 claimed Blind Person's Allowance for 2006-07. People can transfer the allowance to their partner by completing a form. Claiming the allowance can increase an older person's net income by up to 2.25 per cent on average. People may not claim the allowance because they do not know about it or how to claim it, or their income is too low to make it worthwhile. The Department's arrangements for claiming and transferring the allowance are relatively straightforward. Information on the allowance is on its website and on www.direct.gov.uk. The Royal National Institute of Blind People refers to the allowance in a leaflet aimed at people registered as blind.

Checking tax coding notices

3.9 Of the 25 million tax coding notices issued each year to people who have tax deducted through the PAYE system, around seven to eight million go to older people. Older people receive more coding notices on average because the Department usually issues a notice for each source of income. We estimate that the Department issues around 109 notices for every 100 older people paying tax, compared to 61 for every 100 other taxpayers. The Department's 2007 customer service survey shows that 81 per cent of older people who recalled receiving a notice found it easy to understand.

3.10 Where someone receives a number of notices, it can be difficult for them to check that their tax code is correct especially if their age-related allowances are reduced because they exceed the income threshold. TaxHelp for Older People told us that older people are more likely to overpay or underpay tax because of difficulties in checking their tax code. Some 20 per cent of complaints to the Department by older people are about their tax code. The Department has been improving information on its website to help someone check their tax code. When sending out the 2009-10 coding notices, the Department included a flyer containing some frequently asked questions because of queries it received. While the coding notice tells people “it is important that you make sure that we have got your tax code right”, the flyer advises people that the coding notice is “simply for you to keep”.

Receiving bank or building society interest without tax deducted

3.11 Older people whose income is below the personal allowance can receive interest gross on their savings by completing a form R85 from their bank or building society. Once completed, it remains in place until they ask for it to be withdrawn. At the start of each tax year, people should estimate their income for the year ahead as their eligibility to have interest paid without tax deducted might change. We found that the R85 is one of the easier forms to complete.

3.12 Older people often do not realise that they may claim back part of the tax paid on savings interest subject to certain limits (**Box 3**), by completing a form R40 for a tax refund at the end of the tax year. The Department has included information on its website about the circumstances in which people can claim back tax but the rules are complex, and the form is one of the more difficult to complete.

Box 3

The 10 per cent tax rate for savings

For the 2008-09 tax year, and later years there is a 10 per cent starting rate for savings income only. The 10 per cent band is limited to £2,320 of savings income in 2008-09. As a general rule people can claim back part of the tax on savings income where their total income is:

- between £6,035 and £8,355 for those aged 64 and under;
- between £9,030 and £11,350 for those aged 65–74; or
- between £9,180 and £11,500 for those over 75.

If a person is also receiving Blind Person’s Allowance – £1,800 for 2008-09 – the upper limits increase by this amount.

3.13 The Department estimates that some 2.4 million older people have paid around £200 million more tax on savings income than they need to or around £83 each on average, representing around one per cent of their annual income. People must claim the tax back no later than 31 January five years after the end of the tax year (5 April) in which the overpayment was made. For example, a claim for tax year ending 5 April 2004 must be made by 31 January 2010. The Department intends the period for reclaiming tax overpaid will be reduced to four years starting from April 2012. In 2004, the Department ran a campaign to inform older people they could claim back tax on their savings. Some 50,000 people reclaimed £20 million in overpaid tax, an average of £400 each. At the end of 2008, the Department publicised that taxpayers may be able to claim a refund of tax. It is also planning a campaign in autumn 2009 targeting 3.3 million people on Pension Credit to inform them about claiming back tax on savings income.

Filing a Self Assessment tax return

3.14 For 2006-07, some 1.7 million older people completed a tax return. 450,000 people with straightforward affairs completed the shorter four-page return. Around one-half of older people who completed the full return did so online. The Department spent around £15 million sending out and processing the returns. It may require older people to complete a return even though they are on relatively low incomes. It estimates that each year around 30,000 older people whose main income is the State Pension are in Self Assessment. This is because the Department for Work and Pensions does not operate PAYE to deduct tax from the State Pension and the only way the Department can collect the tax is through Self Assessment. Many older people do not realise the State Pension is subject to tax and that they may be required to complete a tax return, possibly for the first time.

3.15 The Department may also require people to complete a tax return so it can check their entitlement to the full age-related allowance. It does not know how many people are required to complete a return for this reason.

3.16 The Department's customer service survey found that 87 per cent of older people completing the full tax return found it easy to complete and 95 per cent found the short return easy to complete. Our tests showed that the online tax return is easier to complete than the paper return.

Working part-time

3.17 Some 1.3 million older people work, of whom over two-thirds are part-time. Working could affect entitlement to the age-related allowances if their total income exceeds a threshold. The Government's strategy 'Building a society for all ages' notes that the majority of people say they would like to work for longer in some capacity. Continuing in work can give people the opportunity to use their skills and experience, maintain social networks, boost their retirement income, maintain a strong sense of purpose and stay healthy. To help people do this, the Government introduced legislation

in 2006 to ban unjustified age discrimination in the workplace and other measures to help with the employment of older people. Older people can also defer receiving the State Pension and receive either a lump sum or an increased State Pension at a later date, whether they are working or not.

3.18 Research by the Department found that many older people did not know it was possible to continue working while claiming the State Pension. People we interviewed said they did not understand how moving in and out of part-time work would affect their tax and considered that the Department could provide more information.

Becoming entitled to higher tax allowances at age 75

3.19 When someone is 75 they become entitled to a higher age-related tax allowance of £9,180 in 2008-09, subject to income limits (Box 2). There are some 4.7 million people in the UK who are 75 years old and over. Some 2.6 million people have all or part of the allowance. The Department provides the allowance automatically if people have already claimed the age 65 allowance. Around 250,000 are not entitled to the allowance because their income is too high. The Department believes that people do not claim because it is not financially worthwhile as they do not pay tax.

3.20 At least 900,000 people over the age of 75 also claim the Married Couple's Allowance. In the longer term the number of people claiming the allowance will reduce because it is only available to people who were born before 6 April 1935. There are no data to indicate how many people may not be claiming the allowance. The rules on the allowance are particularly complicated because of the way they interact with the age-related allowance and it can be difficult for people to check whether they have paid the correct amount.

Employing a personal care assistant

3.21 If an older person employs a personal assistant to care for them, the Department may regard them as an employer, requiring them to register and becoming responsible for their Income Tax and National Insurance contributions. The Department's website includes information on employing someone in the home such as a nanny or cleaner but older people do not always realise how this applies to them when they employ a personal assistant.

3.22 The Department does not know how many older people are registered as an employer but it expects the number to increase. This is because the UK Health Departments are encouraging local authorities to make greater use of legislative provisions enabling them to make payments to people to purchase equipment or care services. They estimate that around 28,000 older people received direct payments in 2007-08.

3.23 The requirements of PAYE can be difficult to deal with for someone who needs care. 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. The Department provides a starter pack to help people complete the forms but these are not easy to complete. It also has a helpline for new employers but it does not provide specific advice to older people employing a personal assistant.

3.24 In July 2009, the Government published a Green Paper for consultation on 'Shaping the future of care together' which set out its vision of a National Care Service in England. It noted that there are currently few clear rights or entitlement, and what people can expect to receive is often unclear until they actually apply for support. The Green Paper set out six things people could expect, including that all services people need will work together smoothly and they will be able to understand their way through the care and support system easily.

Dealing with a partner's death

3.25 Each year some 100,000 people over the age of 65 suffer the death of their partner. They or the deceased person's personal representative may need to inform various government agencies such as the Department for Work and Pensions, HM Revenue & Customs and their local authority, sometimes providing the same information. In November 2008, the Department for Work and Pensions launched a pilot of a cross-government service – 'Tell Us Once' – in the North-West and South-East to make it possible to let the various authorities know about a birth or death with just one visit or call.

3.26 The surviving partner may need to sort out the tax obligations. The Department's staff told us that the most challenging situation is where the surviving partner has little or no knowledge of tax. They may need to complete up to four forms (**Box 4**) to settle the deceased person's tax affairs. These are not straightforward to complete and can involve having to find various documents.

3.27 The surviving partner also needs to ensure that their own tax affairs are correct. Their taxable income may increase if they draw a widow or widower's pension or receive income from savings previously held jointly, which could affect their entitlement to the age-related allowance (paragraph 3.3). The surviving partner may lose the Blind Person's Allowance (paragraph 3.8) if their deceased partner was claiming it, the Married Couple's Allowance (paragraph 3.20) and may not be entitled to receive interest on savings gross (paragraph 3.11).

3.28 The Department recently brought together relevant guidance on its website that it is developing further. In January 2009, Jobcentre Plus published a booklet 'What to do after a death' but it only briefly mentions tax requirements. There is little guidance on how the tax position of the surviving partner may change and what they need to do.

Box 4

Tax and bereavement

It is important for the surviving partner or personal representative to check whether there is tax to pay or a refund due. If the deceased person paid tax through:

- PAYE, the Department sends the surviving partner a form R27 to finalise the tax position up to the date of death.
- Self Assessment, the surviving partner can complete form R27 in full - or only in part and then complete a Self Assessment tax return. If they choose to complete form R27 in full, the Department may still ask them to complete a tax return at a later date.

The deceased's estate may be due a refund as the person is entitled to their full tax allowances for the year. To claim a tax refund, form R40 Claim for Repayment, Form R27 or the Self Assessment tax return is required depending on the circumstances.

A deceased person's estate can receive income until the estate has been distributed. The estate pays tax on certain types of income such as rent and on capital gains. If the tax due is less than £10,000 this can usually be paid direct to the Department. Above this amount, a Trust and Estate Tax Return SA900 is required.

Part Four

The Department's help

4.1 This Part looks at:

- the Department's approach to providing help;
- its handling of telephone calls, face-to-face meetings and letters;
- its guidance; and
- how it works with others to provide information.

The Department's approach to providing help

4.2 The Department's strategy is to encourage taxpayers seeking information to use the most cost-effective method of contact (website, telephone, face-to-face or post) that meets their needs. It recognises people have different needs and that the most cost-effective method will not necessarily be the same for all customers. The Department's customer service survey indicates that over three-quarters of older people think that it 'communicates effectively with its customers'. Some 80 per cent of older people dealing with the Department were satisfied with the service.

4.3 Older people are less likely to contact the Department for help, even though around 36 per cent do not understand their obligations, compared to 26 per cent of all taxpayers. We estimate there were 676 contacts for every 1000 older people paying tax compared to 999 contacts for every 1000 other taxpayers. Its contact levels are around twice that of the Canada Revenue Agency and the Australian Taxation Office (**Figure 3**). In 2008, we estimate that the Department had around 3.8 million contacts from some 1.4 million older people, almost three contacts per person on average (**Figure 4**), involving staff costs of £36 million.

Figure 3

The amount of contact

	Number of contacts per 1000 older people paying tax ¹	Number of contacts per 1000 other taxpayers ¹	Number of contacts per 1,000 in the UK taxpayer population as a whole	Number of contacts per 1,000 taxpayers in Canada	Number of contacts per 1,000 taxpayers in Australia
Telephone calls	463	661	626	395	331
Letters	144	248	230	13	157
Enquiry centre visits	69	91	87	2	12
Total contact	676	999	943	410	500

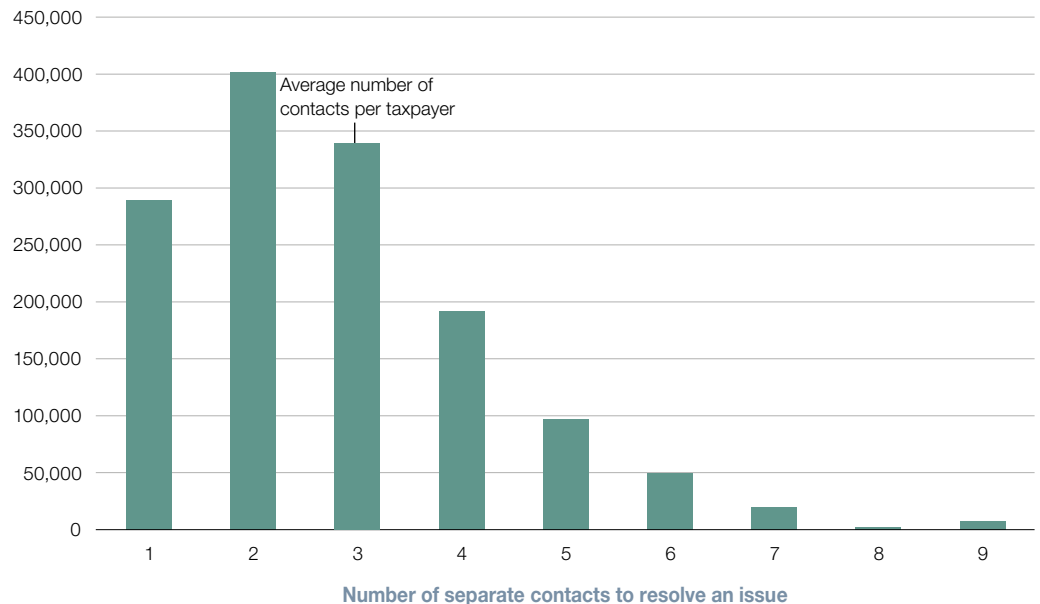
Source: National Audit Office analysis

NOTE

1 Numbers are estimated as the Department does not hold data on contact from older people.

Figure 4

Estimated number of contacts by older people to resolve an issue on their tax

Number of older people

Source: National Audit Office analysis of the Department's data

NOTE

Contact can be by letter, telephone or face-to-face.

4.4 We estimate that on average it costs the Department twice as much to deal with an enquiry from an older person than other taxpayers (**Figure 5**). This is because older people often have more complex tax affairs and it takes the Department longer to deal with their enquiry. We estimate that older people who contact the Department incur costs totalling £9 million, or £6.29 each on average based on the costs incurred of telephone calls, postage and travel. It takes more than one month on average in elapsed time to resolve an issue about their tax.

4.5 The Department is examining how to reduce the amount of contact by:

- analysing and developing plans to reduce avoidable contacts – those occasions where there is no real need for the contact. In 2009, the Department sent out tax coding notices with a flyer of frequently asked questions that reduced the number of telephone calls by approximately 260,000 from all taxpayers (paragraph 3.10);
- making it easier for older people to comply with their obligations. The Department has identified 21 typical scenarios where older people seek help and identified scope for savings of up to 50 per cent on some scenarios while improving services; and
- targeting information at older people who need the most help to comply and understanding how they obtain information from the media and whom they turn to for advice.

Figure 5

Estimated staff cost of contact

	Older people total cost (£m)	Older people cost per contact £	Other taxpayers total cost (£m)	Other taxpayers cost per contact £
Telephone	17.4	6.74	62.1	3.59
Letters	9.1	11.36	43.0	6.62
Enquiry centre visits	9.3	24.23	15.4	6.47
Total	35.9	9.51	120.5	4.60

Source: National Audit Office analysis of Departmental data

NOTE

Costs are estimated because the Department does not hold data on cost of contact from older people.

4.6 There are opportunities for the Department to reduce contact by focusing on areas where older people make most enquiries. The main reasons older people contact the Department are:

- because they do not understand their tax code, they think it is wrong or are providing information about their income. We estimate that around one half of telephone calls and one quarter of letters from older people are about their tax code, costing the Department around £11 million a year. The Department expects its new PAYE system to reduce enquiries (paragraph 2.3);
- about the age-related allowance and completing the claim form. We estimate that up to a third of telephone calls from older people are about this, costing nearly £6 million a year; and
- checking progress on tax refunds and seeking clarification about their tax position are reasons why older people write to the Department.

The Department's handling of telephone calls

4.7 People can obtain information by calling the Department's helplines. These are open seven days a week usually from 8am to 8pm. People can find the telephone numbers on recent correspondence, the Department's or Directgov websites or in telephone directories. In 2008-09, the Department handled nearly 20 million calls from people about Income Tax. We estimate that some 2.6 million were from older people at a cost of some £17 million or nearly £7 per call.

4.8 Like other taxpayers, older people can have problems in getting through to the Department. In 2008-09, callers received an engaged tone, an all lines are busy message or they abandoned their calls in 39 per cent of cases. A Departmental survey in 2008 showed that 58 per cent of older people contacting it were frustrated or annoyed by their experience but it had not put them off telephoning the Department in future. People we interviewed suggested that the Department should provide callers with information on approximate waiting times.

4.9 In 2008-09, the Department's checks on the quality of its call handling showed that it answered 92 per cent of calls accurately and completely compared to a target of 88 per cent. People we interviewed thought that the Department's contact centre staff explained information clearly. Nearly all were satisfied with the information provided. They did, however, hold contact centre staff at the Pension, Disability and Carers Service in higher regard believing they had more empathy with older people.

Face-to-face meetings

4.10 Enquiry Centre staff assess whether visitors need to speak to someone face-to-face or whether their enquiry can be dealt with using the Department's website or telephoning a contact centre. Enquiry centres are open weekdays usually from 8.30am to 5.30pm. People with mobility problems can request a home visit. In 2008-09, some 385,000 older people visited the Department's 280 enquiry centres (10 per cent of all face-to-face contacts), costing the Department an estimated £9.3 million.

4.11 Staff offer an appointment to people whom they assess as needing a face-to-face meeting. In 2008-09, the Department's staff had face-to-face meetings with 126,000 older people. The Department provided an appointment within three working days to 97 per cent of people compared to a target of 95 per cent. The Department introduced in 2009 a system to measure the accuracy and completeness of information provided by staff in face-to-face meetings.

4.12 The Department's enquiry centres can be some distance from where older people live. Sixty-five per cent live within 10 miles of a centre. Its research suggests that older people want the Department's staff to provide more information on tax by visiting local communities. The Department shares facilities at 17 enquiry centres with other public sector organisations and is seeking further opportunities. The Committee of Public Accounts' report on improving public services for older people (29th report, Session 2003-04) concluded that consolidating services through 'one-stop' shops, are of considerable value to older people. In 'Building a society for all ages', the Government has undertaken to draw together online, telephone and face-to-face support from across Government and the third sector and from 2010 will provide a one-stop shop for individuals wanting to plan ahead. There are no plans at present for HM Revenue & Customs to participate in the one-stop shop.

The Department's replies to letters

4.13 The Department receives over seven million letters a year from taxpayers on Income Tax. Around 800,000, or 11 per cent, are from older people costing the Department an estimated £9 million. In 2008-09, the Department did not meet its targets for replying. It provided:

- a response to 38.4 per cent of Income Tax cases within 15 days compared to a target of 80 per cent and 85.5 per cent within 40 days compared to a target of 95 per cent; and
- accurate and complete information and advice in 87.4 per cent of Income Tax cases compared to a target of 88 per cent. The Department is improving staff training.

The Department's guidance

4.14 The Department provides the majority of information on people's tax obligations on its website and on Directgov. It expects that by 2011 the Directgov website will be the main web channel for citizens to obtain information about tax and for online services. In 2008, the Office for National Statistics found that people over 65 years old are least likely to use the internet while usage among those aged 55-64 suggests that in the future older people may make greater use of online services. The Canada Revenue Agency and the New Zealand Inland Revenue have found that providing more information online has not led to the anticipated transfer of contact away from telephone as people want to confirm information obtained from the website or conclude their tax affairs by telephone.

4.15 The Department has drawn together much of the information of interest to older people in a section of the website. Our tests showed that older people were successful in finding information on general tax issues such as tax codes but less so on specific issues such as how income affects the age-related allowances. The Department intends to improve its website to make it easier to find information and issue a tax fact sheet to people approaching retirement. The Department recognises that if people get tax right at the start of retirement then they are likely to continue to do so. It is also developing an information pack about tax and pensions.

Working with others to provide information

4.16 The Department has been working with the Pension, Disability and Carers Service to improve the information provided to older people, such as the State Pension being taxable. The Department could work more closely with the Service that provides a face-to-face outreach service for pensioners through home visits and information points, using its local service of 1,300 full-time equivalent staff.

4.17 The Department works with the voluntary and community sector to reach those who find it difficult to engage with it. In 2008-09, the Department provided some £165,000 to organisations helping older people, giving a commitment in most cases to three-year funding. Its research indicates that the sector wants sustainable funding to carry out and expand their work.

Appendix One

Methodology

Our main research methods are outlined below. Further details are on our website.

Method	Work carried out
Document review	<p>We examined the Department's:</p> <ul style="list-style-type: none"> ● research to understand why older people contact it and the opportunities to reduce contact; and ● evaluations on different approaches to processing tax forms.
Analysis of the Department's data	<p>This included data:</p> <ul style="list-style-type: none"> ● on the tax compliance levels of older people compared with taxpayers as a whole; ● from the Department's customer surveys to assess the extent to which older people are satisfied with the service provided and understand information; and ● on older people's contact with the Department using different channels compared with other taxpayers.
Focus Groups	<p>We held focus groups with frontline staff dealing with post, telephone calls and face-to-face meetings to identify the type of information older people seek and the frequency of their enquiries.</p>
In-depth interviews with older people	<p>We commissioned consultants to conduct in-depth interviews with 32 older people and hold focus groups to obtain views on their experiences of contacting the Department.</p>
Usability testing	<p>We tested:</p> <ul style="list-style-type: none"> ● the usability of the Department's forms using checklists developed by the London School of Economics; and ● the Department's website for ease of use.
Comparison with other tax authorities	<p>We compared the UK tax system with Canada, the Netherlands, Sweden and Australia.</p>
Stakeholders' views	<p>Key stakeholders provided their views on the Department's approach to dealing with the tax obligations of older people.</p>



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