



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
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**HM Revenue & Customs**

Dealing with the tax obligations of  
older people

# 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).