



National Audit Office Report – HMRC 2013-14 Accounts

Commentary from the Low Incomes Tax Reform Group

NAO report high levels of error and fraud in tax credits: but what about the effect on claimants?

The National Audit Office has again qualified HMRC's accounts because of the levels of 'error and fraud' in tax credits. But how accurate are HMRC's figures on which the assessment of error and fraud is based? And while not all claimants may be innocent, the experience of being landed in unexpected debt to HMRC can be highly distressing for those who are.

In its report on HMRC's 2013/14 Annual Report and Accounts, the National Audit Office (NAO) has found that payments of between £1.8bn and £2.2bn were made to tax credit claimants incorrectly because of error or fraud, and a further £70m to £320m was not paid to claimants because of error. It concluded that overall levels of error and fraud in finalised awards were significant within the context of the £29bn spent on personal tax credits in 2012/13, leading the Comptroller and Auditor General to qualify his opinion on HMRC's Resource Accounts for the third year running.

It is tempting to blame HMRC for the material levels of error and fraud in tax credits. That would not be wholly fair. Tax credits were designed to respond to changes in income and circumstances, but to keep up in real time with sudden and unforeseen changes in claimants' lives would be practically impossible. A certain level of overpayments and underpayments is therefore inevitable. It would be equally unfair always to blame claimants' failure to report changes of circumstances when even a very short delay in reporting them, and a further short lapse of time to allow HMRC to process them, can result in an overpayment or underpayment accruing for each day.

Do claimants understand their obligations?

Besides, as the NAO observed in last year's report: "claimants do not always understand their obligations to tell HMRC when their circumstances change and to report their actual income and circumstances at the end of the year". Nor will they understand their obligations unless they are told what they are accurately, in full, in a form that is accessible to them and in a manner that they can understand. That will never be easy, given the complexity of the tax credits system. But HMRC and Government are making the situation worse. The current tendency within HMRC to reduce both the quantity and quality of guidance to claimants, the transition of online material to GOV.UK whose content signally fails to give accurate and complete information to claimants, and the absence of any

detailed paper products to assist those without internet access, can only exacerbate claimants' lack of understanding of their obligations in the longer term.

The less claimants understand what they must report and within what timescale, the greater their exposure to overpayments and underpayments, and the greater HMRC's exposure to debt which may in time become irrecoverable.

What about HMRC error?

It is not unknown for HMRC to make mistakes which could lead to overpayments, or cause them to miscalculate overpayments which are not really there.

One area of compliance activity in which the NAO report HMRC's performance has worsened is that of finding undeclared partners of single claimants. In this area in particular, we question whether it is possible to rely at all on the data HMRC produce. A recent Parliamentary answer confirmed that while HMRC's compliance investigations into undeclared partners increased by about 33% between 2012/13 and 2013/14, the actual number of awards amended as a result declined by about the same amount¹, which casts considerable doubt on how accurately these investigations are targeted. That same Parliamentary answer confirmed that no data is kept on the number of initial compliance decisions overturned on appeal or review. Without such data, how can the error or fraud figures produced by HMRC be accurate? Besides, whether a couple is 'living together' or apart is sometimes not clear-cut, and HMRC's opinion is not necessarily more reliable than the couple's own.

This is also an area where HMRC provide minimal guidance to claimants and do not take the opportunity to engage with claimants when they claim in order to stop the error entering the system in the first place. More focus on claimant education and reducing error from the start would reduce the need for expensive and often distressing investigations.

New debt emerging

Finally, the NAO report mentions the transition to universal credit, and notes that total tax credit debt rose to £5.5bn by 31 March 2014 and is likely to increase further as Budget changes make fewer people eligible.

As tax credits claims come to an end over the coming months and years, whether because claimants simply cease to qualify (children ceasing to qualify for child tax credit, working claimants losing their jobs, or whatever) or because universal credit is gradually phased in, overpayments that have been painlessly deducted from claimants' ongoing payments for years will crystallise, leading to HMRC demanding payment of substantial sums within 30 days. This is happening now. Of course, claimants can apply for time to pay, but a badly startled claimant may not read the small print on the demand notice. In time, HMRC and the DWP may work out a system whereby claimants can continue to have their tax credit overpayments deducted from their universal credit awards, if they qualify. But that is in the future. Meanwhile, besides the public finances, there is the experience of the claimants to be considered. Those who are innocent of fraud may suffer unmerited distress by being suddenly and unexpectedly landed in substantial debt to HMRC. As the NAO has rightly said:

¹ *HC Debates*, 14 May 2014, c682W

“Converting tax credits debt into cash remains challenging and needs to be set in the context of HMRC’s need to strike the right balance between pursuing collection and a claimant’s ability to pay, so as not to cause hardship through its approach to debt recovery.”

Hear, hear.

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