Parliamentary and Health Service Ombudsman

Tax Credits:
Putting Things Right

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Parliamentary
and Health Service
Ombudsman

Tax Credits:
Putting Things Right

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Foreword

I am laying before Parliament under section 10(4) of the Parliamentary Commissioner Act 1967 this special report on the administration of Child and Working Tax Credits, which were introduced by the then Inland Revenue (now HM Revenue and Customs) in April 2003. The new tax credits system is aimed at helping to tackle child poverty and encouraging more people into work. It is a major project which affects around six million families, and uses a processing system which is wholly IT based. This report does not suggest that the new tax credits system is in general disarray; on the contrary it recognises that, given the scale of the undertaking, its introduction has been broadly successful. However, the new system created fresh challenges for the Revenue. Amongst those six million families, it brought them a new group of customers, the key groups intended to benefit from the tax credit reforms: poor families with children and low income earners. These are people who rely on the payments made by the Revenue as an essential part of their family income.

By drawing on the experiences in the complaints referred to me since the introduction of the new system, this report charts the experience for that particular group of tax credit customers. It seeks to understand what has gone wrong in those cases, the impact on customers, the effectiveness of the Revenue's response and the lessons to be learned. However it also raises wider and more fundamental issues, which are not for me, but for Government and Parliament to address, such as whether a financial support system which includes a degree of inbuilt financial uncertainty can meet the needs of this particular group of families. It also suggests that, if such a system is to meet those needs, then a much improved level of customer service is required in the form of better and clearer communications, easier and quicker customer access to Revenue staff who can address problems and queries, and prompt and efficient complaint handling. Without these a sizeable group of families will continue to suffer not just considerable inconvenience, but also significant worry, distress and hardship. It is particularly important that these key issues are addressed before the Revenue transfer over into the system, later this year, the 800,000 families who currently receive their Child Tax Credit through Jobcentre Plus.

In addition, I believe that this review suggests that there are important lessons to be learned, not just for HM Revenue and Customs, but for all public bodies when implementing new policies and systems. In particular, it highlights the importance, when

'Without these [improvements] a sizeable group of families will continue to suffer not just considerable inconvenience, but also significant worry, distress and hardship'

designing new systems, of starting from the customer perspective and maintaining customer focus throughout the development of the programme. It also highlights the dangers of introducing a 'one size fits all' system. Such systems, whilst superficially providing a fair and consistent and efficient service for all customers can, by failing to pay sufficient regard to the different circumstances and needs of specific client groups, have entirely unintended harsh and unfair consequences for more vulnerable groups.

I know that HM Revenue and Customs are committed to providing good customer service, to understanding the customer experience and to the importance of using complaints as an important source of feedback and learning. I hope, therefore, that they will welcome this report as valuable feedback to help them improve the service they provide to all their customers.

Ann Abraham

Parliamentary and Health Service Ombudsman

June 2005

Summary and recommendations

The Parliamentary Ombudsman's Annual Report for the 2003-04 business year noted that the introduction of the new Child and Working Tax Credits system by the then Inland Revenue (the Revenue) had been marred by significant technical problems which had led first to delays in payments, and then created other problems when the Revenue tried to remedy the situation. At the end of the year, although, for the vast majority of tax credit recipients, the system appeared to be working reasonably well, there still remained concerns for families on low incomes in particular in respect of the treatment and recovery of overpayments of tax credits arising both in-year and at the year-end. Although those cases only represented a very small proportion of the six million families currently receiving tax credits, it was nevertheless clear that a significant number of families were affected and that the level of financial hardship and distress being caused to some was considerable.

The Revenue assured the Ombudsman that the initial difficulties were only teething problems, which would be resolved as the new IT bedded down and staff became more experienced in operating the new system, and as both staff and customers became more familiar with the new rules. Nevertheless, the Ombudsman undertook to watch closely how the Revenue dealt with situations arising which caused hardship to families, and also to identify if complaints threw up wider issues about the systems and processes that needed to be addressed.

A year on it is clear that the Revenue's assurances were over-optimistic. Complaints about tax credits have continued to rise, and in the first two months of this business year represented almost a quarter of all cases referred to the Parliamentary Ombudsman.

It is also becoming clear that the cases considered by the Office represent the tip of a much bigger iceberg. The majority of complaints referred to the Ombudsman relate to the Revenue's recovery of money from families who have received too much in tax credits. The scale of this particular problem is demonstrated by the recently published figures[1] on overpayments at the end of the first year of tax credits. These show that, at the end of the tax year 2003-04, a third of all tax credit awards (1,879,000) had been overpaid. In all, the overpayments amounted to £1,931 million. More than half a million awards (630,000) had been overpaid £1,000 or more - including 40,000 awards where the overpayment amounted to more than £5,000. Two-thirds of overpaid awards related to households on modest incomes - families out of work with children; those on Working Tax Credit or receiving an amount of Child Tax Credit above the family element.

A review of all the cases referred to the Ombudsman shows that the greatest difficulties are suffered by the core group that the tax credit system is aimed at helping, namely families on low incomes. The majority of the problems arising appear to have two key origins:

- the design of the tax credits system itself. Awards are annual and the system has an element of financial uncertainty built into it, sometimes causing significant problems for people who have to plan carefully to manage their family budgets;
- the delivery of tax credits has been designed to be wholly IT based and does not take proper account of the needs of customers.

Design of the tax credits system

The fact that awards are annual but are not finalised until the end of the tax year, when under or overpayments of tax credits in the year are identified, means that families on modest

[1] *Child and Working Tax Credits Statistics, Finalised awards 2003-04*, Supplement on payments in 2003-04, HM Revenue and Customs Analysis Team, National Statistics, 2005.

means, who have to budget and plan their finances carefully to manage their lives, cannot easily budget ahead as entitlement to tax credits is only finalised retrospectively. In addition, in response to reported changes in circumstances in year, the tax credit computer will adjust the remainder of the payments in year so as to avoid overpayments at the year-end. However, this recovery is simply part of an automatic rolling mathematical re-calculation of an award by the tax credits computer system to ensure its accuracy at year-end. In practical terms, this has caused significant difficulties for families because it takes no account of ability to pay. Problems are particularly acute where the excess payment is large, or it is identified only a short period before year-end. In these circumstances, the re-adjustment of an award can lead to a drastic drop in payment, or payment stopping altogether.

This situation is then compounded further where there are other IT problems or clerical errors made, again resulting in significant under or overpayments. An adjustment to correct an earlier mistake may put the problem right from the Revenue's viewpoint, but the customer experience reflected in the complaints received shows that families affected can pay a heavy price in the disruption of their finances where careful budgeting is paramount. Many families report having to borrow money from family and friends to support their children, using up their life's savings or running up credit card debts in order to pay for childcare costs, buy food and get to work. One woman whose award was wrongly terminated wrote:

'I have had to borrow money to pay my rent as the landlord was... threatening me with eviction... It has caused me so much stress and depression'.

Another woman facing an overpayment of over £5,000 wrote:

'I cannot buy sufficient food for my three young children never mind my husband and myself. Not to mention the increasing credit card bills which are coming through the door. We are in the process of re-mortgaging our house to cover payments for credit card and loan repayments. My husband and I are at breaking point due to the pressure and stress... '

Although the Revenue has attempted to deal with interruptions in payment by making manual interim payments, these have not always been regular, have been subject to processing errors and have led to other system problems. The Revenue has also introduced additional tax credits (ATC) payments for families where recovery of excess or over payments is causing financial hardship. However, families have to apply for those payments, which are in any event also recoverable starting in the following year. The Revenue has also introduced a Code of Practice (COP26) which describes, amongst other things, the circumstances in which the Revenue will decide not to recover all or part of an overpayment due to official error. However, this is only activated at the customer's request, there are significant delays in decisions being made, and it requires Revenue staff to make a largely subjective decision as to whether it was reasonable for the claimant to believe that the award was correct.

Delivery of the tax credits system

The actual processing of tax credits claims is wholly IT based. Most tax credits claims are now captured electronically, claims are then automatically checked and processed, the entitlement calculated, a decision notice produced and sent out and payment made - all without clerical intervention or review. Whilst this is intended to produce a streamlined and efficient service, the customer experience suggests that it is not meeting the needs of many families on low incomes. The system appears unable to provide an immediate, responsive and appropriate service, particularly when things go wrong. Problems identified include:

- poor information on award notices; which makes it difficult if not impossible for customers to work out their entitlement;
- the issue of a multiplicity of such notices, which adds to customer confusion;
- poor communication with customers: currently, when a problem occurs, communicating with customers often appears an afterthought rather than an important part of the process of reaching a solution.
- poor accessibility, customers continue to report serious difficulty in contacting the Revenue to get queries answered or problems sorted out; telephone lines are engaged, letters are not responded to;
- inability for customers to get through to someone who can explain what is happening: Helpline staff are unable to access a full claims history or say where cases are in a queue waiting to be resolved;
- delays in dealing with appeals and complaints.

Unsurprisingly, families reliant on tax credits feel deeply frustrated and anxious about their inability to establish their position, or to find out how long it will be before matters are sorted out.

The significant impact this whole experience can have on low-income families is underlined by the fact that, in total, the Revenue has paid out well over £1 million in compensation for delay, hardship, inconvenience and distress. In 2003-04 10,820 tax credit customers received compensation amounting to £309,000.[2] In the nine months up until December 2004, 14,400 customers had been paid compensation, amounting to £912,000 in total.[3]

This sort of customer experience appears to be undermining the very laudable policy intentions behind the tax credits system.

A customer who had been notified she had been overpaid but who, after the Ombudsman's intervention, had then been found to have been underpaid wrote:

'... after careful consideration I have decided not to re-apply for tax credits in the new 2005 financial year despite being eligible to do so. The reason is that I have absolutely no confidence that the TCO will be able to administer my case efficiently or most importantly, accurately.'

Conclusions

The new tax credits system has brought the Revenue a new customer group which has created fresh challenges for the Revenue which it has yet to meet.

The customer experience, as reflected in the complaints referred to the Ombudsman, raises the fundamental issue, which is for Government and Parliament to address, as to whether a financial support system which includes a degree of inbuilt financial uncertainty can truly meet the needs of this particular group of families. It also suggests that, if the system is intended to meet those needs, then a much improved level of customer service is required in the form of better and clearer communications, easier and quicker customer access to Revenue staff who can address problems and queries, and prompt and efficient complaint handling. Without these, a sizeable group of families will continue to suffer not only considerable inconvenience, but also significant worry and distress.

The tax credits experience also provides important lessons for the future design of major IT projects for all public bodies, but particularly in the social welfare field. It demonstrates the importance of making consideration of all

[2] *Hansard*, 18/11/2004, col 1711-1712, and 18/1/2005, col 830W
[3] *Hansard*, 18/2/2005, col 830W and 31/1/2005, col 599W

potential customers a central element from the start. The intelligibility of information to customers, good communication, and effective mechanisms to deal with things that go wrong should not be afterthoughts, but central and built into the system design.

Recommendations

The problems caused by certain aspects of the tax credits system require prompt action. The Ombudsman's report makes 12 specific recommendations:

1. Steps should be taken to ensure that tax credits staff who are in direct contact with customers recognise the situations where interim payments of tax credits may be appropriate, so that payments can be put in place promptly to prevent financial hardship. (Paragraph 3.41)

2. The Revenue, having taken steps to ensure that future payments of tax credits properly take account of current circumstances, should not seek to recover either an excess payment made in the current year, or an overpayment from the previous year, until it has come to a decision, based on all the relevant facts, as to whether or not the excess amount paid should be recovered in accordance with Code of Practice 26 (COP26). (Paragraph 5.17)

3. As a minimum, on the 'payments page' of an award notice, customers should be alerted to the fact that recovery of an overpayment (in-year or at the year end) of tax credits can be challenged, if the overpayment was due to official error and in circumstances where a customer reasonably thought they were being paid the correct amount. That note should also draw customers' attention to COP 26 and the fact that, if they want to dispute an overpayment, they need to complete form TC846. (Paragraph 5.21)

4. Where it is decided that an excess payment in-year is recoverable in accordance with COP 26, recovery should be at the same rates as those for previous year overpayments. (Paragraph 5.29)

5. Steps should be taken to ensure that all Revenue staff who have contact with tax credit customers are alert to the circumstances when Additional Tax Credits (ATCs) might be appropriate, so that they can invite an immediate claim. (Paragraph 5.30)

6. Where in-year recovery of excess tax credits is justified, the Revenue should take steps to pay ATCs automatically to families in receipt of Income Support and income-based Jobseeker's Allowance. (Paragraph 5.30)

7. Details of the availability of ATCs should be printed prominently on the 'payments' page of an award notice (where details of in-year recovery also appear); and the issue of financial hardship (and how the Revenue can help) be given greater prominence in the guidance notes which accompany an award notice. (Paragraph 5.30.)

8. Customers who have been paid too much in tax credits, whether identified during the year or at year-end, should be sent a letter outlining:

- the total amount they owe;
- the reasons why the overpayment or excess payment in-year occurred and the date or dates when it happened; and
- the repayment arrangements which will apply in their case.

The letter should enclose a copy of COP 26, and draw particular attention to the circumstances when recovery can be waived and the availability of ACTs in cases of hardship. (Paragraph 5.41)

9. Whenever a Revenue mistake or error is identified which has led to too much in tax credits being paid, the customer should be immediately notified of exactly what has happened and informed of the circumstances

when recovery can be waived. (Paragraph 5.51)

10. Consideration should be given to writing off all excess and overpayments caused by official error which occurred during 2003-04 and 2004-05. (Paragraph 5.61)

11. Consideration should be given to the adoption of a statutory test for recovery of excess payments and overpayments of tax credits, consistent with the test that is currently applied to social security benefits, with a right of appeal to an independent tribunal. (Paragraph 5.65)

12. The Revenue should reconsider the way it organises delivery of tax credits in order to deliver a better, more complete service to the customers it now serves. A different model is needed in complex cases and where something has gone wrong. More sustained and informed communication with customers about their case is essential, as is a 'whole case' approach to investigation to ensure a tax credits award is correct. (Paragraph 7.14)

1. Introduction

1.1. In April 2003 the Inland Revenue (now HM Revenue and Customs - but I shall refer to the Department in this report as 'the Revenue') introduced Child and Working Tax Credits as part of the Government's programme to modernise Britain's tax and benefits systems. The new tax credits system has the very laudable key aims of helping to tackle child poverty, through income-related support for families with children, and encouraging more people into work by 'making work pay'. The scale of this undertaking must not be underestimated. It is a major project which affects around six million families, using a processing system which is wholly IT based. In the light of that, the introduction of the system was, for the most part, successful.

1.2. However, as I reported in my *Annual Report* for the 2003-04 business year,[4] it was clear from the complaints about the new tax credits system referred to me, that that was not the whole story. The first year of tax credits had been marred by IT problems which had led to delays in commencing payments. The Revenue had sought to deal with the financial difficulties caused to the families affected by making 'interim payments' by girocheque. Later, when the initial IT problems were resolved, the computer-generated awards failed to take account of manual payments made in the meantime. As a result, these families were overpaid and found their tax credits adjusted to recover the excess. This caused further financial difficulties - alleviated by the introduction of additional payments of tax credits, designed to prevent hardship. Later in the year, I received further complaints about the recovery of excess payments as a result of in-year adjustment of awards.

1.3. I had been assured that the initial difficulties were teething problems, which would be resolved as the new IT bedded down and staff became more experienced with the new system, and as both staff and customers became more familiar with the new rules. In the light of that reassurance, I decided not to conduct a specific review of the administration of tax credits, in order to give the Revenue time to sort out its difficulties.

1.4. One year on, the influx of complaints on tax credits has risen dramatically. In the year to 31 March 2004 I had received 37 complaints; at the end of the following year I had received a further 216 complaints. From being just 3% of the workload of the Parliamentary Ombudsman in 2003-04, in 2004-05 complaints about tax credits rose to form over 9% of total complaints to the Parliamentary Ombudsman. During this business year, tax credits complaints currently account for over 23% of all Parliamentary Ombudsman business. Of the tax credit investigations concluded, the rate of complaints upheld has been far higher than is usual, some 78% of them having been upheld at least in part in the last business year, compared to the general rate of complaints upheld last year by the Parliamentary Ombudsman, which was around a third. See Appendix A.

1.5. The complaints I have received show that problems with tax credit have continued, causing major difficulties for many families on low incomes. A significant concern in the last 15 months has been the number of people complaining of sudden large reductions in their tax credits awards to recover overpayments which they argue were caused by 'official error'. Issues about overpayments have featured in 67% of the complaints I have received about tax credits - see Appendix A.

1.6. In the light of the volume of complaints I have received and the issues they raise, I have decided to publish this special report to review what has gone wrong, the impact on customers, the effectiveness of the Revenue's response, and

[4] *Annual Report of the Parliamentary Ombudsman 2003-04,* HC 702, July 2004, The Stationery Office

the wider lessons that need to be learned for the future.

1.7. My office sees only a tiny fraction of tax credit cases. By definition, they are the ones where problems have arisen. Yet experience suggests that, when there has been such a large upsurge in cases to my office, they almost certainly represent the small tip of a much larger iceberg. I am strengthened in this belief by reports from MPs, that complaints about tax credits are now one of the largest constituency issues they have to deal with.[5] I am aware that advice organisations such as Citizens' Advice have also faced large increases in the volume of people coming to them for advice about their tax credit awards. The Revenue itself has had to double the number of staff dealing with overpayments and complaints in the last year, whilst the Adjudicator - who independently investigates complaints that have been fully considered by the Revenue - has seen her workload on tax credits grow from almost a third of the complaints that her office received in 2003-04 to over a half in 2004-05.

1.8. I would not, however, wish to imply that the whole tax credits system is in disarray. As I have already indicated, the introduction of the new system was clearly a massive undertaking, which has, in the main (and after initial teething problems), been successful. I accept the assurance of the Revenue Chairman, David Varney, who advised me in February 2005 that the cases in which problems had occurred have been a minority. However, in the context of six million tax credits customers, even a small minority can still represent several hundreds of thousands of households on modest incomes. It is now clear, for example, that at the end of the first year of tax credits, 713,000 households had been underpaid a total of £464 million. At the same time, a third of all tax credit awards (1,879,000) had been overpaid a total of £1,931 million.[6] Not all these cases can be classed as problematic, as under- and overpayments are built-in elements of the new tax credits scheme and to be expected. Nevertheless, the scale of the figures does point to difficulties in the first year affecting hundreds of thousands of tax credits households.

1.9. There is no doubt that the Revenue has taken steps to minimise the effects of its technical problems on its customers, and it now has in place a Code of Practice to deal with disputed overpayments and cases of hardship. It has introduced measures to improve its accuracy rates. It has drafted in extra staff and opened new call centres to cope with extra workloads. Most recently, it has put in place new streamlined procedures designed to reduce the backlogs to disputed overpayment cases. It has also worked closely with user groups to plan improvements in the information it gives to customers, notably the tax credits award notice. All these measures have helped, and will lead to improvements.

1.10. However, I believe the complaints I have received suggest that this is not enough and that there are wider and more fundamental issues which need to be addressed. These concern the treatment of the key groups intended to benefit from the tax credit reforms: poor families with children and low income earners. They also relate to the basic principles of fairness which should underpin the implementation of public policy.

1.11. The introduction of tax credits has brought the Revenue a new group of customers. These are people who rely on the payments made by the Revenue as an essential part of their family income. They include just over half a million out-of-work families for whom, alongside Child Benefit, Child Tax Credit is the main source of financial support for their children. Their number will shortly be swelled by a further 800,000 families, who currently receive their Child Tax

[5] See House of Commons, Minutes of Evidence, Public Accounts Committee, 24/1/2005, HC 269-i and *Hansard*, 6/4/2005, col 437 WH 5
[6] *Child and Working Tax Credits Statistics, Finalised awards 2003-04, Supplement on payments in 2003-04*, HM Revenue and Customs Analysis Team, National Statistics, 2005.

Credit through Jobcentre Plus, but whose awards are due to be transferred to the Revenue during the course of 2005-06. They also include 1.5 million low income working families, who are receiving the maximum Child Tax Credit and also Working Tax Credit. They may not be the majority of tax credits customers, but these are families of modest means, where the award of Working Tax Credit, alongside Child Tax Credit, makes the financial difference between working and not working.[7]

1.12. These families are also the ones who are likely to have a closer relationship with the Revenue than other tax credit recipients, by virtue of the fact that their awards, containing a greater number of different elements, may therefore more often be subject to change. Families on lower incomes are more likely to move between benefits and work. Work itself can be more insecure, with people moving from job to job, or with varying hours and pay. A parent may become eligible for tax credits as a result of a drop in income caused by relationship breakdown; she/he may later have a new partner. New children may enter the family. Childcare arrangements can alter - from part-time, to full-time, to after-school arrangements or to include vacation schemes. All these changes can affect the level of an award. This compares with the two million customers on higher incomes who receive only the family element of Child Tax Credit.[8] Here, provided there remains a child in the family, the award is largely unaffected by other changes of circumstance, including income, up to around £50,000 a year.

1.13. The new customer group has created fresh challenges for the Revenue, which it has yet fully to meet. The reliance of modest income families on tax credits, both to support their children and to sustain employment, makes it absolutely essential that, as far as is possible, an award is correct at the outset, that payments are regular and that changes are dealt with promptly and properly. An adjustment to correct an earlier mistake may put right the problem from the Revenue's point of view, but as this report shows, the family affected can often pay a heavy price in the disruption of their finances in circumstances where careful budgeting is paramount.

1.14. From the evidence I have seen, I consider the Revenue has yet to adopt a model for dealing with these customers which takes full account both of the complexities of tax credits, and the vulnerabilities of their lives. The relative frequency of contact between customer and the Revenue caused by changing circumstances calls for a more continuous relationship than the one-off transactions which the current system is set up to deal with. When customers speak to the Revenue, particularly when a problem has arisen, they need a single point of reference, where they can talk to someone who can readily access the full case details and their contact history. They need to be able to talk to someone who can take action to deal with their case, rather than being told the matter is in a queue elsewhere, and give a clear timeframe for the resolution of the problem so that they can budget appropriately.

1.15. Where a family's circumstances have changed several times in the course of a year, the history of an award can be complex. It is therefore reasonable to expect that people are given clear and comprehensive information about their awards. Given the financial burden imposed by a debt owed to the Revenue, it is also reasonable that they be given a full explanation of what they owe, why they owe it, and the rate at which it will be recovered. They also need proactive intervention by the Revenue to ensure that any financial difficulties caused by disruption of a claim or overpayment recovery are minimised. From the evidence I have seen, I am not satisfied that this happens at present.

[7] *Child and Working Tax Credits Statistics, April 2005*, National Statistics 2005

[8] Ibid

1.16. The Revenue needs to re-consider how it organises the delivery of tax credits so that it can provide a more immediate, responsive and appropriate service to this new client group, both generally and when things go wrong. It also needs to take on board the lessons from the complaints it has received, in order to adapt its services to the needs of its customers.

1.17. The design of tax credits means that a degree of financial uncertainty is built into all awards (in that awards remain provisional until they can be finalised at the end of the tax year when actual income is known). For families on modest incomes, this uncertainty can be particularly difficult to cope with. That puts an added responsibility on the Revenue to help its customers manage that uncertainty. In practice in the cases I have examined, far from helping customers with this, the manner in which customers have been dealt with by the Revenue has, if anything, contributed to their problems.

1.18. I am particularly concerned that the current system automatically claws back an excess payment in-year or an overpayment assessed at the year-end before any consideration has been given to the full facts of a customer's case, and any decision made as to whether such payments should in fact be recovered. This represents a fettering of the Revenue's discretion and is, in my view, unfair to the customer. It means that customers can suffer months of anxiety living in reduced circumstances, paying back a debt which it is eventually determined should not have to be repaid.

1.19. Disputes about the recovery of overpayments at year end and excess payments in-year have been a dominant issue in the cases I have seen. Within the Revenue's Tax Credits Office (TCO), deciding on whether sums should be recovered (which is based on the extent to which excess payments have been caused by official error, and whether the customers reasonably thought their award was correct) is now a large, staff-intensive operation. I am not convinced that the current test for recovery of excess payments in-year of tax credits properly reflects the weight of obligation there should be on the Revenue to give prompt, accurate and reliable awards to its customers. Nor do I consider that the present internal system for determining whether sums should be repaid operates in a fair and transparent manner. Indeed, the fact that there is no independent appeal right against the Revenue's decisions on recovery of these sums is undoubtedly one reason why customers come to me, in order to get their case looked at again.

1.20. A wider question arises which is for others to answer. It is whether the degree of financial uncertainty built into the design of tax credits can ever truly work for families on modest means, who have to budget and plan their finances carefully to manage their lives. The sheer scale of the under and overpayment of awards in 2003-04 (see paragraph 1.8) must be a major cause for concern in this context. Arguably, stability and reliability are nearly as important as the actual amount paid. Certainly, in the first two years of tax credits, that stability and reliability has been lacking for many families. The accounts given by affected families in their complaints to me, as set out in the subsequent chapters, demonstrate the harsh realities of the impact that can have. The sums paid out by the Revenue to tax credit recipients in compensation for delay, hardship, inconvenience and distress (see paragraph 6.8) only serve to underline this point.

1.21. This is my first special report on tax credits. It is a subject which I will continue to monitor and to which I will no doubt return. Although Revenue accuracy rates are rising (there have been no repeats of the major computer faults which occurred in 2003-04; and the technical 'glitches' which have affected numerous awards may be reducing) given the increasing number of complaints being referred to me, I am not yet convinced that all these problems are in the past.

1.22. The Revenue is now engaged on a new round of finalisation of annual awards, for the 2004-05 tax year. Later in 2005-06, as explained earlier, the Revenue will be taking on a further 800,000 families, transferred from Jobcentre Plus, who are wholly dependent upon Child Tax Credit (plus Child Benefit) for the support of their children. It seems to me, therefore, that it is particularly important that, before that happens, the Revenue reflects carefully on the reality of the difficulties facing a significant number of low income families within the new tax credits system as described in this report, and gives serious thought to the changes required to avoid others having to face similar experiences.

1.23. In December 2004 the Revenue's National Complaints Conference entitled *New Customers, New Concepts, New Opportunities* took place. In the keynote speech, the Deputy Chairman emphasised that customer focus was a key priority for the new department; that understanding the customer was central to their objectives; that understanding the customer experience was essential when transforming business processes, and the importance of using complaints as a source of feedback and learning. In the light of that, I very much hope that the Revenue will welcome this report as a helpful learning tool to support them in improving the service they provide.

1.24. For my own part, I intend to continue to scrutinise closely the complaints coming to me to monitor the degree to which the Revenue has absorbed the lessons of the first two years in tailoring its services to the new customers it now serves.

1.25. In drawing on the cases I have investigated, my report identifies a number of different strands in order to examine where problems have arisen and what needs to be done. In reality, in individual cases, different strands were woven together in a complex web - where technical faults, errors, poor communication, lost correspondence, disputed overpayments and backlogs in dealing with complaints and appeals could all be interconnected. In my report, I start at the beginning with the computer problems, technical glitches and errors which particularly dogged the first fifteen months or so of tax credits. These may have now diminished, but they play an important part in explaining the later story. I then examine what I see as the other key problem areas, before I set out my overall conclusions.

2. Tax Credits - Key Background Information

2.1. Child Tax Credit and Working Tax Credit were introduced in April 2003 as part of the Government's reform agenda for the tax and benefits system. The Government set out its key reasons for delivering financial support through the tax system, rather than the benefits system, in the document *The Child and Working Tax Credits : The Modernisation of Britain's Tax and Benefit System*.[9] This presented the key improvements of the new system as being: greater generosity compared to the then benefit sums payable in respect of children; more security on the move into work; and a reduction of stigma. When introducing the new legislation, the Government said that the then existing forms of support were too inflexible; they overlapped and could be an awkward fit with the tax system 'increasing the hassle of applying for them and creating confusion for claimants'.[10] The new system would be rationalised and streamlined, improving transparency and fairness, and delivering more effective help to families with children and to working households. The aim was to produce a seamless stream of support, which was better targeted and able to adjust to reflect changes as they happened. There are currently around six million households in receipt of one or both of the new tax credits.[11]

Child Tax Credit

2.2. Through Child Tax Credit the Government aimed to create a unified system of income-related support for families with children, both to support families with children in general, and also as a key means of tackling child poverty - by offering the greatest help to those most in need.

2.3. In April 2005 there were around 5.8 million families receiving Child Tax Credit. At the higher income end, this includes two million families with incomes up to around £58,000 who were receiving only the family element of child tax credit (worth £545 per year). At the bottom end, it includes around 2.9 million families with incomes below a threshold (currently £13,910) receiving significant financial help through maximum Child Tax Credit.[12] Maximum Child Tax Credit is currently worth at least £1,690 per child per year, with higher amounts being paid for a first child, a baby up to 12 months, or a child with a disability. Box A explains the main elements of Child Tax Credit, including amounts paid, in more detail (see end of chapter).

Families on Income Support and income-related Jobseeker's Allowance

2.4. With Child Tax Credits, the Revenue has a new role in distributing financial support to non-working families on benefits - for whom it forms a significant part of their income. There are around 1.4 million families out of work who are dependent on Child Tax Credit (together with Child Benefit) to support their children.[13] Families in receipt of Income Support and income-related Jobseeker's Allowance (JSA) automatically receive maximum Child Tax Credit, which has replaced the children's allowances previously paid with those benefits. Since April 2003, all new Income Support and income-related JSA claimants have been paid their Child Tax Credits via the Revenue.

2.5. Families who were already receiving Income Support and Jobseeker's Allowance when Child Tax Credit was introduced have continued to be paid for their children via Jobcentre Plus. There are currently around 800,000 families in this position. The intention is to 'migrate' these families over to the Revenue's tax credits IT systems during 2005-06, once the Revenue is confident that the transition can happen smoothly without disruption in payment.

9 *The Child and Working Tax Credits: the Modernisation of Britain's Tax and Welfare System Number Ten*, HM Treasury and Inland Revenue, April 2002

10 *Hansard* 10/12/01 column 596

11 *Child and Working Tax Credits Statistics,* April 2005, National Statistics 2005

12 Ibid 13 Ibid

Working Tax Credit

2.6. Working Tax Credit offers financial support to low income earners, including assistance with the costs of registered childcare. It is designed to encourage more people into employment by 'making work pay'. In the current year, low paid workers earning up to £5,220 per year receive maximum entitlement. Working Tax Credit replaced the 'adult' element of the previous Working Families Tax Credit, and was expanded to also include low paid single earners, as well as adults with children. There are currently around 1.8 million Working Tax Credit recipients, 1.5 million of whom are families also receiving Child Tax Credit.[14] Box B explains the main elements of Working Tax Credit in more detail (see end of chapter).

A system of annual awards

2.7. The new tax credits were designed to bring about a greater integration between the tax and benefits systems. Administered by the Revenue, a key feature is that awards, like tax, are calculated on an annual assessment of income (and use similar definitions of income). Based, at the start of the tax year, on a household's current circumstances and the previous tax year's income, awards are not finalised until the end of the tax year, when actual income during the year and any relevant changes of circumstance are considered and under- or overpayments of tax credits in the year identified. Effectively, during the course of a year, awards are provisional until the final reconciliation at year-end. Underpayments are then reimbursed and any overpayment is recovered - usually by reducing the subsequent award in the following tax year (see below).

The responsiveness of the system

2.8. During the course of the year, tax credit recipients are obliged to report certain changes of circumstance within three months. For example, it must be reported if a couple split up or a lone parent re-partners, for this will bring the existing award to an end. The ending of childcare arrangements or a significant drop in childcare costs must also be reported.

2.9. Families are also encouraged to report other changes which will affect the amount of an award, to reduce the scope for under- and overpayment at the end of the year. A new baby, a drop in income, or the award of a disability benefit might all lead to an increase in an award. A rise in family income, a drop in working hours below the 30 hour threshold, or a child aged 16 leaving school could all lead to a reduction in an award. In order to give some protection against financial instability during the year, any income rise up to £2,500 per year is ignored. It is only when annual income rises above this level that the award for the year will be reduced.

2.10. Where changes are reported, the Revenue makes an 'in-year adjustment', either raising or lowering the award to reflect the revised circumstances. A change resulting in an increase in tax credits will be backdated to the date of change, up to a maximum of three months. Any resultant underpayment will then be paid. By contrast, a change leading to a reduced award is not subject to any limitation and will be backdated to the date the change took effect. Any resultant excess tax credits paid in the year to date will be recovered by adjusting the remaining award for the rest of the year. Excess tax credits may be the result, for example, of a delay in reporting a change of circumstances or because the previous award was wrong for various reasons. But, however scrupulous a person is in reporting changes in their circumstances, excess tax credits can also be simply the result of a rise in income above £2,500 which - by virtue of the annual system - causes earlier payments made, although accurate at the time, to be excessive. This can happen, for example, when a partner goes back to work in a family where there had previously only been one earner.

[14] *Child and Working Tax Credits Statistics,* April 2005, National Statistics 2005

Recovery of overpayments and excess payments in-year

2.11. The design of tax credits makes a distinction between two different situations where customers are paid too much in tax credits. 'Overpayments' are when the final reckoning of tax credits paid in the previous tax year is carried out and tax credits are found to have been overpaid; tax credits overpaid in the current tax year - which are seen simply as the result of adjustments (which may occur more than once) to ensure that the award for the year as a whole remains correct and any likely overpayment minimised by the end of the tax year, are described as 'excess' payments.

2.12. In the case of overpayments at year-end, the Revenue will seek to recover the excess paid. The preferred approach is to reduce the subsequent award of tax credits by amounts broadly linked to family income. See Chapter 5 for further information.

2.13. Within the design of tax credits, the recovery of excess payments in-year is merely part of a rolling mathematical re-calculation of an award by the tax credits computer to ensure its accuracy at year-end. In practical terms, as this report shows, this has caused significant difficulties for families because it takes no account of ability to pay. Problems are particularly acute where the excess payment is large, or it is identified only a short period before the year-end. In these circumstances, the re-adjustment of an award can lead to a drastic drop in payment, or cessation altogether.

2.14. The Revenue has therefore introduced discretionary 'Additional Tax Credits (ATCs)', which can be paid, upon request, on grounds of hardship or where there are reasons to think that a possible overpayment should not be recovered. These discretionary payments are themselves recoverable starting in the following year. Paid by girocheque, ATCs supplement a tax credits award (which means that, in effect, they reduce the rate of recovery of the excess amount owed during the rest of the year). See Chapter 5 for further information.

2.15. The Revenue has discretion whether or not to recover overpaid tax credits at all. The application of this discretion is codified in the Revenue's Code of Practice 26 (COP 26) *What happens if we have paid you too much tax credits?* which was published in December 2003. Under the Code, the Revenue will not recover an overpayment caused by 'official error' - provided it was reasonable for the customer to think an award was correct. 'Official error' includes the situation where the Revenue was notified of a change of circumstances but failed to act upon it with a reasonable time (30 working days). The Code also provides for recovery to be waived, in whole or in part, on grounds of hardship. However, in practice, waiving recovery is not considered unless the customer requests it. This is discussed further in Chapter 5.

The administration and payment of tax credits

2.16. Applicants for tax credits claim on a single claim form for both Child and Working Tax Credits, and entitlement is calculated together. The processing of tax credits claims is wholly IT based. Most tax credits claims are now captured electronically either on the tax credit computer using rapid data capture techniques or via the Internet. Claims are then automatically checked and processed, the entitlement calculated, a decision notice produced and sent out and payment made - all without clerical intervention or review. The IT systems which underpin tax credits are the main repository for all information on a tax credits claim - whoever is dealing with a particular issue, and wherever they are.

2.17. There are currently around 8,000 staff within the Revenue working on tax credits. The TCO, with offices in Preston and Liverpool, has the main responsibility for administration and payment. Within the TCO are a number of teams handling different aspects of tax credits, including overpayments, complaints, appeals, and manual payments. A 'resolution team' has the task of dealing with cases where particular technical problems have arisen and establishing solutions. They are backed by a Business Service Team which liaises with the Revenue's IT suppliers.

2.18. For the majority of customers, the 'front desk' of tax credits is the Tax Credits Helpline. This is operated by a separate part of the Revenue - the Inland Revenue Contact Centre network (IRCC). There are currently six call centres dealing with routine tax credit calls, and a seventh based in Liverpool which acts as a referral facility for the other call centres in dealing with more complex cases. Helpline operators handle the routine inputting of data on to the tax credit computer to update customers' awards.

Appendix B sets out in more detail the organisational structure behind the administration.

Box A
Child Tax Credit

Available to those aged 16 or over ordinarily resident and present in the UK, whether working or not, and who are responsible for at least one child.

Normally paid directly into the bank of the main carer. There are several different elements which can be included in an award:

Elements	2003-04 Annual Rates	2004-05 Annual Rates	2005-06 Annual Rates
Family element (one per family)	£545	£545	£545
Higher family element (in first year of child's life)	£545	£545	£545
Child element (for each child)	£1,445	£1,625	£1,690
Disability element (for each disabled child)	£2,155	£2,215	£2,285
Severe disability element (for each severely disabled child)	£865	£890	£920

The family element is reduced by 6.67p for every £1 of income over £50,000 in most cases.

For families entitled to only Child Tax Credit, the Child Element is reduced by 37p for every £1 of income over a limit of £13,910 (£13,480 in 2004-05 and £13,230 in 2003-04). For families entitled to both Child Tax Credit and Working Tax Credit, the child element is withdrawn at that rate after Working Tax Credit has been fully withdrawn.

Source: National Audit Office (2005-06 figures added)

Box B
Working Tax Credit

Available to people aged 16 and over, working at least 16 hours per week with dependent children or a disability or, for those without children or a disability, aged 25 and over and working at least 30 hours a week.

Paid via the employer if the claimant is an employee, otherwise paid direct to claimants such as the self-employed. The childcare element is paid direct to the main carer.

Elements	2003-04 Annual Rates	2004-05 Annual Rates	2005-06 Annual Rates
Basic element	£1,525	£1,570	£1,620
Second adult and lone parent element	£1,500	£1,545	£1,595
30 hour element	£620	£640	£660
Disabled worker element	£2,040	£2,100	£2,165
Severe disability element	£865	£890	£920
Elements for claimants aged 50 and above, working 16-29 hours	£1,045	£1,075	£1,110
Elements for claimants aged 50 and above, working 30+ hours	£1,565	£1,610	£1,660
Childcare element - childcare (costs cannot exceed £175* per week for one child and £300* per week for two or more children)	70% of costs	70% of costs	70% of costs

*In 2003-04 and 2004-05 these figures were £135 and £200 per week

A claim is reduced by 37p for every £1 of annual income over a limit of £5,060 (£5,060 in 2004-05 and 2003-04)

Source: National Audit Office (2005-06 figures added)

3. Processing Errors

3.1. As explained earlier (paragraph 2.16) the processing of tax credit applications is wholly IT based. Although the intention was thereby to create a more efficient processing service, the wholly automated system has been plagued with significant and extensive technical problems which have impeded performance.

3.2. The Revenue assured Parliament as long ago as December 2003 that the system was now stable and working well.[15] The Revenue's *Annual Report* in October 2004 repeated these assurances.[16] The Minister told Parliament in February 2005, that 'the system has been stable and performing very well in terms of availability and speed for well over a year.'[17] But the cases I have investigated lead me to the conclusion that such reassurances did not give a complete picture of what has been happening, and the devastating effects the IT problems have had on some individuals' lives, in terms of stress, financial hardship and living with continuous uncertainty regarding their awards. It may only have been a minority of tax credit recipients who were affected in this way; but they amount to many tens of thousands of families.

3.3. Not all processing errors can be blamed on technical problems. For the Revenue, the introduction of tax credits meant new and complex rules, a new IT system and new, inexperienced staff. Early IT delays and computer problems led to greater volumes of contact between customers and the Revenue and the drafting in of some 7,000 staff from other parts of the Department to cope with the extra workloads. With all these factors, it is unsurprising that mistakes and oversights occurred, leading to inaccurate awards. Accuracy levels during the first year of new tax credits were poor, measuring 78.6%, against a target for processing accuracy of 90%.[18]

3.4. When the Revenue gets tax credits wrong, it can have significant consequences for people's lives. It can lead to uncertainty and loss of confidence in tax credits, with people unsure whether they can trust the accuracy of award they are getting and therefore rely on the money as part of their household budget. It can plunge the family finances into crisis. There is also the sheer stress of having repeatedly to contact the Revenue to sort out the consequences - both getting mistakes rectified, and then, if overpaid, challenging the recovery of any overpayment which has resulted. One customer, whose Working Tax Credit was wrongly terminated and not re-started for three months wrote:

'It has caused me financial difficulty for three months: rent, gas etc. Also the stress has caused me to have violent headaches and [become] very depressed. I have had to borrow money to pay my rent as the landlord was wanting rent and threatening me with eviction - at which point I broke down in the local tax office... It has caused me so much stress and depression.'

3.5. Another customer, who had given up her job to care for her severely disabled daughter wrote:

'I am at my wit's end. I have tried for over a year to ensure that the Revenue have the correct information. Each time I telephone, I speak to a different person. All confirm they will correct whatever error has been made and each time an award notice arrives it contains another error... I have provided [correct details] at least ten times... My life has been turned upside down over this past year... I am now told that I have been overpaid by over £5,000 and that I have to repay

[15] Chairman of the Inland Revenue in evidence to the House of Commons Public Accounts Committee 3/12/03, see *Inland Revenue: Tax Credits*, Public Accounts Committee, fourteenth report of Session 2003-04, HC 89, Ev 7, Q 61.

[16] *Annual Report and Accounts for the year ending 31 March 2004*, Inland Revenue, HC 1062, The Stationary Office

[17] Dawn Primarolo, Paymaster General, *Hansard, 4/2/05*

[18] Inland Revenue Annual Report 2004, op. cit., page 29

it from this year's award... I have become ill through this worry.'

Initial IT delays

3.6. The earliest problems in implementing new tax credits were documented by the House of Commons Public Accounts Committee in its report *Inland Revenue: Tax Credits* published in April 2004.[19] That report said that in the weeks leading up to the start of the new scheme, the planned testing periods for the new tax credits IT systems were cut significantly and that when they went live, the systems proved unstable - delaying initial tax credits payments. For several months, hundreds of thousands of families were left without the financial support they relied upon. The Revenue made arrangements for interim payments to be made by girocheque ('manual payments') at local offices. At the height of the difficulties there were 1.7 million attempts in a single day to contact the Revenue through its telephone contact centres.[20] The system was finally stabilised approximately four months after tax credits began.

(see 'Mrs C' case study)

Case study:

Mrs C's April 2003 tax credits award of around £43 per week was not paid due to 'technical difficulties'. She made frequent calls to the Tax Credits Helpline to try and sort out the problem without success. Eventually she was offered emergency giro payments from her nearest Revenue office, some distance away. The loss of tax credits meant that she could not afford school dinners for her six year-old. She suffered from sleeplessness, anxiety and depression as the family's financial difficulties grew, causing arguments and conflict in her marriage. On her second visit to the local Revenue office, she was wrongly advised that tax credits had not been paid because she had failed to sign and return her award notice - which she had done. She writes: 'I was so distressed, helpless and didn't know what to do next'. The computer problem was finally fixed, and tax credits began to be paid in June 2003.

Two major software problems

3.7. During the first year or so of tax credits, there were two major software problems which affected customers' payments.

'Contra' cases

3.8. Some 455,000 households received incorrect payments when the National Tax Credits (NTC) system failed to recognise that payments had already been made by the separate payment (PMF) system, resulting in duplicate payments being issued. As the Comptroller and Auditor General explained in his 2003-04 report, the Revenue decided to write-off overpayments of less than £300, thus relieving some 373,000 households of the burden of having to repay the money. In the remaining 82,000 or so households, who had been overpaid larger amounts, it did seek recovery.[21] In a further 23,000 cases, problems with the interface between the NCT and PMF systems caused households to be underpaid by a total of £8 million (later reimbursed).[22]

'Incorrect Income' cases

3.9. In early 2004-05 the Revenue identified an isolated system problem, which during 2003-04 and early 2004-05 caused 60,000 customers to be overpaid a total of around £45 million.[23] The problem affected couples. When a change of circumstances in one partner's income was reported to the Revenue, the computer altered the second partner's (unchanged) income to zero. In a few cases, people spotted the error for themselves very early on by careful reading of their award notices - where either the notice

[19] *Inland Revenue: Tax Credits*, Public Accounts Committee, fourteenth report of Session 2003-04, HC 89, April 2004
[20] Ibid, Ev 12, Q 98
[21] Comptroller and Auditor General's Standard Report 2003-04, para 2.10 in Inland Revenue Annual Report 2004 op. cit, page 124
[22] Inland Revenue Annual Report 2004 op. cit, page 104
[23] Revenue letter to the Parliamentary Ombudsman, 21/4/05, see Appendix C.

wrongly showed the second partner's unchanged income as zero, or the notice wrongly omitted any mention of the second partner when listing the income taken into account. In other cases the error was picked up several months later by Helpline operators, when another change of circumstances was reported. However, in a considerable number of cases, the error only came to light in summer 2004, during the finalisation process for 2003-04 tax credits awards and renewal of 2004-05 awards - with the result that the couples concerned found themselves owing substantial sums in overpaid tax credits.

Case study:

Mrs F, a married woman with two young children, rang the Tax Credits Helpline to report a reduction in her earnings and in her childcare costs. To her surprise, her tax credits award rose very substantially. When she received the award notice a week later, she realised that her husband's earnings (which remained unchanged) had been input as £0.00. Throughout April, she tried 77 times to contact the Helpline by phone but was unable to get through. She therefore sent a recorded delivery letter, pointing out the error. This letter was not acted upon. Eventually, in September 2003, Mrs F succeeded in talking to a Helpline operator, who adjusted the award. Although the correct amount due was £64 per week, she was informed that she would only be paid £11.53 because she had been overpaid. This caused severe financial stress to the family because, with two children at nursery, it was impossible to make ends meet. The Revenue later apologised for their mistake.

3.10. Although from the Revenue's point of view, these problems were successfully fixed over a year ago, for the customers affected the consequences have been long-lasting. The reduction in tax credit payments to recover the overpayment has caused major financial difficulties for families, affecting their ability to pay for childcare and household bills. It has caused immense stress. One woman, facing an overpayment of over £5,000, wrote:

'... I amended my details to show my drop in [working] hours in May or June 2003. It seems the error, by a member of staff recording my details, was made at this point. No award nor amended award notice was ever received. I continually phoned to check they had all my details and I was always advised that everything was in order and I should await payment into my bank. Not understanding the tax credit calculation, even tax experts struggle to understand the calculation, I do not believe it reasonable to expect me to consider the possibility of overpayment.
Why would I accept an overpayment of such an amount to know that the next year of my and my family's life would be subjected to the hardship and stress this has caused? I cannot buy sufficient food for my three young children, never mind my husband and myself. Not to mention the increasing credit card bills which are coming through the door. We are in the process of remortgaging our house to cover payments for credit card and loan repayments. My husband and I are at breaking point due to the pressure and stress...'

Other identified IT problems and technical 'glitches'

3.11. In addition to initial IT delays and the two major computer processing problems described above, the Revenue advised the Office of a range of other identified IT problems which had occurred.[24] The Revenue also acknowledge that 'isolated difficulties' sometimes occur when processing individual cases through the system or when handling changes of circumstances.[25] The complaints coming to us reveal a wide variety of technical problems or 'glitches' which, over the last two years, have affected a considerable number of customers. Indeed, it is difficult to do justice to the sheer range of problems which have affected customers' awards. In many cases,

[24] Revenue letter to the Parliamentary Ombudsman, 21/4/05, see Appendix C
[25] Ibid

technical problems were then compounded by human error.

3.12. The early months of tax credits saw delays in issuing award notices. Customers received payments into their bank accounts, but were unable to check these against a schedule indicating their entitlements.

Case study:

Ms A told the Revenue that her wages had significantly increased in June 2003. She sent a reminder letter in early July, and in late July telephoned the Revenue to check again that her award had been altered, to take account of her income change, and also a change concerning her daughter. Ms A was told that the information was 'in the system' but it could take up to two months for an updated award notice to be sent to her. Ms A made a complaint at this point, and again complained at the end of August, that the delay in issuing an award notice was causing her financial difficulties. In particular, the lack of an up to date award notice was preventing the local authority from determining her housing benefit, to help pay the rent. A revised award notice was finally issued on 9 September. The Revenue later admitted it could have processed Ms A's change of circumstances and sent her an updated award notice sooner than it did.

3.13. There were also 'scanning' errors - where electronic scanning of information on application forms resulted in incorrect data being fed into the computer. In some cases, customers erroneously received extra tax credits on the basis of having a disability because they had 'struck through' the box relating to disability, and the computer thought they had completed it. In other cases, incomplete or wrong bank account details were recorded.

Case study:

When Ms M's claim for Child Tax Credit had been 'captured' (i.e. automatically scanned onto the computer system), some of the numbers required for her bank details had been omitted. In January 2003 the Revenue amended those bank details, but unfortunately the wrong sort code was used. It then amended the details again in February, this time correctly. However, due to a fault in the computer system any payments the Revenue tried to make via her account were rejected. Each time Ms M rang the Tax Credits Helpline, she was assured that her bank details were correct. This was because the technical problem preventing payment was not immediately apparent to Helpline advisers. For over a year, Ms M was dependent on irregular payments from the Revenue which on occasions she had to call and collect from her local Revenue office. She and her employer both complained about the stress, inconvenience and financial hardship she experienced as a result. Later, when the Revenue finally sorted out the technical problem, Ms M was sent duplicate payments which took no account of the payments she had already received. As a consequence, she was overpaid £1,017 and her tax credits subsequently reduced to recover the money.

3.14. We have also dealt with several cases where unrelated customers' details have been mixed up in calculating an award. In such cases, the Revenue has found it hard to resolve the problem.

Case study:

The tax credit claim of Ms Y and her partner Mr B was confused with another unrelated claim. The award notice showed Mr B and another man's name. It took repeated calls to the Tax Credits Helpline to try to get the error corrected. Each time Ms Y was assured the problem would be dealt with; each time it wasn't. She complained that every time she rang, she had to explain the problem all over again because the previous call had not been logged. Promises to call back were not kept.

cont...

The problem was eventually corrected, but when her provisional award was set for 2004-05, the computer picked up some of the details from the original incorrect claim. This led to an overpayment of £1,487.46 in June 2004. With some considerable difficulty, Ms Y arranged to pay the money back, but by mid-July was still waiting for her tax credits award to be reinstated. The Tax Credits Helpline adviser said she had no idea how long it would take for the payments computer to update the main tax credits computer system. Therefore it was impossible to say when Ms Y's tax credits would be paid.

In August 2004 Ms Y's partner's employer was instructed to pay him Working Tax Credit to which he was not entitled. The Revenue admitted that it was unable to fix the technical problems on the claim, so they would ask a specialist team to monitor the claim for the future and provide regular updates until the problems were resolved.

3.15. There were also processing delays caused by IT problems, which meant that changes of circumstances, notified to the Revenue by customers were not processed for weeks if not months. This led to much confusion for customers in understanding their awards, and in some cases, errors going unspotted.

(*see 'Ms W' case study*)

3.16. Although described by the Revenue as 'isolated difficulties', these technical glitches - mixed with staff mistakes - have had devastating consequences for the families affected. In some cases they have led to overpayments of tax credits; in others, to an award being halted altogether.

(*see 'Ms P' case study*)

3.17. The case of Ms Y (paragraph 3.14) is one of a number where errors crept in on renewal of an award for 2004-05, caused by the computer picking up wrong information. This caused significant inconvenience for those affected.

Case study:

In June 2003 Ms W, a lone parent, rang the Tax Credits Helpline to say that she had changed jobs. She had increased her hours of work from 16 to 34, her income had increased, as had her childcare costs. She gave her new employer's Revenue reference number, but upon checking the records, the Helpline adviser told her that was not the correct number. The adviser then made a mistake. Ms W's increased childcare costs were recorded, but not her employment details. When the revised award notice was sent to Ms W in July, she rang to query why her new employment details were missing. She was told by the adviser that there was a change of circumstances waiting to be processed on the system, and that she should wait for her next award notice. The Helpline adviser could see, in the light of the information from Ms W that the award was wrong but, because of delays in processing, guessed (wrongly as it turned out) that details of Ms W's employment were simply waiting in a queue to be processed.

Case study:

Miss P is a lone parent with a two year-old daughter. She applied for tax credits in August 2003 when she started part-time work. At that point, the Revenue incorrectly backdated Miss P's award of Working Tax Credit by three months. A lump sum payment of tax credits of £2,213.86 was sent to Miss P. Shortly afterwards, the claim was amended. However, by mistake, the starting date of Miss P's Child Tax Credit - which had correctly been backdated three months - was also brought forward to the same date as her Working Tax Credit. At this point, payment of tax credits ceased. For two months the TCO tried unsuccessfully to solve the problem on Miss P's claim. During this period, Miss P rang the Tax Credit Helpline nine times to query the non-payment. No interim payments were offered to her. She was told that there was a problem and that steps were being taken to correct her award. It was only after the intervention of her MP in October 2003 that an interim payment of £741 was sent to Miss P.

Case study:

Owing to a technical problem, when calculating Ms B's provisional tax credit payments at the start of 2004-05, the computer used details from an old version of her 2003-04 award. As a result, in April 2004 she was paid three amounts of Working Tax Credit, amounting to £360 - even though she had not been working since August 2003. Ms B rang the Helpline after the first payment to say she was not entitled to it. The Helpline adviser told her that she could put the money to one side if she wished - the provisional payments would be set against her Child Tax Credits later in the year. Although Ms B wanted to keep the money on one side, because she was in debt she ended up having to spend the money. Later, after the intervention of the Ombudsman, this overpayment was written off.

3.18. In a number of cases we have investigated the Revenue has accepted that, due to a variety of errors on its part, it has wrongly reduced customers' tax credits awards for many months to repay overpayments which turned out never to have existed. Errors include computer records wrongly showing tax credits having been paid through an employer which had not been paid; the identification of erroneously high overpayments; and technical problems on finalisation resulting in incorrect income details being entered.

(*see 'Ms K' case study*)

3.19. The NTC computer system has been designed so that, when the computer recalculates an award and assesses that there is likely to be an overpayment by the end of the tax year, it automatically triggers a reduction in future tax credits payments for the remainder of the year to claw back the likely overpayment by year-end. If an overpayment does exist at the finalisation stage at year-end, further reductions are triggered for the following year to collect the money, levied in these circumstances at rates

Case study:

Ms K, a lone parent with a teenage daughter, was advised in June 2004 that she owed £2,745.64 in overpaid tax credits. This was followed by ten award notices in two weeks, all saying she had been overpaid. Ms K telephoned the Tax Credits Helpline fifteen times, to be reassured by staff that she had not been overpaid. Meanwhile, her tax credits were substantially reduced by around £45 per week. By September, despite making a formal complaint as advised by Helpline staff, the deductions continued. Ms K wrote to her MP: 'Although [tax credits] staff are helpful, agreeing with me that, in fact, there is no overpayment, I have still not received an answer. The Tax Credits Helpline have put my details into the computer and told me the payments I should have received but say that for some unknown reason the computer will not accept the data.' She was told that, due to 'ongoing technical problems they were unable to solve the problem for the foreseeable future.' Finally, in November 2004, £956.26 was paid into her bank account for the balance of tax credits wrongly deducted. However, technical problems prevented the TCO from amending the system to show the correct payment information. Therefore Ms K was warned that further systems notifications might show an inaccurate overpayment figure, until the computer records could be updated with the correct information. The original error had been due to technical problems which had resulted in incorrect income details being recorded for the year 2003-04.

which are related to a customer's income. As the case above illustrates, major problems emerged in overriding this 'trigger mechanism' in order to halt the reduction in tax credits awards.

3.20. One customer found, on renewal of her tax credits award in 2004-05, that the computer again started to recover an overpayment which, it had been established in the previous year, was incorrect and had already been refunded to her. She wrote:

'All over last year I was juggling my bills as they cut my money down from £8.27 to £3.24 a day, so I was getting behind with everything. Now, just as

I have got things straight and managed to pay back what I had to borrow from family and friends, they are taking it off me again. This is getting to me, making me feel low all the time, making me stressed and causing me migraine all the time.'

3.21. A similar problem has arisen in cases where, following our intervention, the Revenue agreed to remit an overpayment on discretionary grounds in accordance with its Code of Practice. Despite the decision having been taken to remit the overpayment, some of the customers affected then found that the computer started again to recover the money.

Case study:

A number of mistakes by the Revenue led to a large overpayment of Working Tax Credit to Mr T in 2003-04. Following the intervention of the Ombudsman, the overpayment was written off in February 2004. However, in April 2004, deductions from Mr T's tax credit award recommenced to recover the same overpayment. Following further interventions from the Ombudsman's office, Mr T was finally sent a girocheque in August 2004 by the Revenue to make up the money which was being deducted from his award between April and December 2004.

3.22. As in Mr T's case, once alerted to the problem of erroneous recovery of overpayments, the Revenue will put in place manual payments (by girocheque) to compensate customers for the deductions being made. According to the Revenue, up until March 2005, around 2,400 cases were dealt with in this way.[26] The Revenue has since advised us that from March 2005, IT functionality has been increased so that an adjustment can now be made to customer accounts to take account of overpayments which have been written off.[27]

Other processing errors

3.23. Not all errors are due to technical problems. In the cases I have seen, there also appears to have been human error involved. A worrying feature of a considerable number of the cases I have investigated, is that errors and oversights in amending awards did not occur just once but repeatedly, causing immense stress to those affected.

Case study:

Mr and Mrs Q applied for tax credits in 2002. Before their award of Child Tax Credit became payable, they reported that Mrs Q had started a part-time job. In April 2003 the Revenue made three attempts to amend their records, however, each time they made a mistake. Although they made these changes on the same date, they sent out decision notices showing each change on different dates.

First they recorded Mrs Q's hours, but not her earnings. Then they recorded Mrs Q's earnings, but did not include Mr Q's income. This resulted in the couple wrongly being awarded Working Tax Credit and an instruction being sent to Mr Q's employer to arrange payment of Working Tax Credit with his wages. On the third attempt, the Revenue captured both earnings figures, but incorrectly applied an income increase disregard of £2,500 to the household income. This resulted in a third (wrong) calculation of tax credits, and the removal of Working Tax Credits wrongly awarded. However, the Revenue failed to inform Mr Q's employer not to pay Working Tax Credits. To add to the confusion, the Revenue issued decisions notices relating to the original entitlement (ie. before these three amendments) ten days later.

In July 2003 the Revenue again amended Mr and Mrs Q's claim, to include both their income figures in full. However, they made a further mistake in not using the same year when noting both partners' earnings. This led to an overpayment of Child Tax Credit.

After numerous telephone calls to try to sort out his claim, Mr and Mr Q made a complaint in August 2003 about the great worry and distress they were being caused by the uncertainty regarding their award. They strongly suspected they had been overpaid, and were

cont...

[26] Revenue letter to the Parliamentary Ombudsman, 21/4/05, see Appendix C
[27] Ibid

unhappy that they could not properly manage their finances until they knew what their correct award should be. In fact, it was only in November 2003, that the Revenue finally instructed the employer to stop making payments of Working Tax Credit. In February 2004, following the intervention of the Ombudsman, the Revenue agreed to remit the overpayment of Working Tax Credit and Child Tax Credit, and to pay compensation of £230.

3.24. In some cases, there appears to be a confusion within the Revenue as to whether a particular problem has been caused by human error or a technical problem. We have seen a number of cases where a reported change in circumstance concerning the children in a household has led to the children being deleted completely from a tax credit award. Revenue officials say that this situation has been caused by unfamiliarity on the part of staff with the new tax credit system, leading to mistakes when updating customer accounts. For example, where a customer notifies an additional child in the household, by not following correct processes, they have inadvertently deleted all the existing children from the account. In the individual cases, customers have been told by Helpline advisers that a computer error has occurred. Whatever the correct explanation is, the families affected have suffered grave financial consequences as a result.

3.25. The problems are variously described. A couple writing in November 2004 said: 'they (the Revenue) say they are having a problem with their computer and it keeps removing [a new baby] from the award... the Revenue have admitted it may take them several months to sort out the problem.' A lone parent with a six year-old child living on Income Support found her Child Tax Credit claim terminated in November 2004 on the basis that she did not have a qualifying child. In mid-December a Helpline supervisor told her that there was a 'technical error', and her case would be sent to 'Head Office' to be fast-tracked and reinstated.

3.26. The families affected all felt very frustrated at their dealings with the Revenue as they struggled to get an explanation of what had gone wrong and the steps being taken to sort it out. One woman complained;

'[It is causing me] severe stress level trying to sort this out and not being able to get through on the phone'. Another complained 'Every time I phone the Helpline I am told they don't know and there is no way of finding out. Eventually... I was given a number which is constantly engaged.'

3.27. All were experiencing financial hardship. The couple with a new baby were overdrawn at the bank and had been forced to pay basic bills by credit card. They had been turned down for a £500 Sure Start Maternity Grant because, although entitled, they could not show they were in receipt of Child Tax Credit. The lone parent with a six year old wrote in December 2004, 'I'm expected to feed and clothe my six year-old and manage Christmas on £27 per week.' By mid-February, when her complaint reached the Ombudsman, her situation remained unchanged. No tax credits had been paid apart from a one-off payment of £25. She was in arrears with her telephone and gas, was unable to pay her standing orders, and had reached her bank overdraft limit. Another couple were surviving on the wife's sick pay of £65 per week. She had an imminent hospital appointment, which they were thinking of cancelling because they could not afford the bus fares to get there.

Interim payments

3.28. Interim payments were introduced by the Revenue to deal with situations where the computer had failed to deliver, to ensure that customers did not suffer financially. Manual payments are made by girocheque, pending resolution of various technical problems preventing computer-generated payments. However, it is striking that none of the families described above, who were having difficulties in getting their Child Tax Credit paid, had been offered interim payments. These are not the only cases where interim payments have not been offered in situations which appeared to merit them. We are concerned that tax credits staff, particularly those on the Tax Credits Helpline, are not always quick to consider the implications for a family if tax credits have been disrupted for some reason. In the cases above, the hardship the families experienced seems fairly obvious. The fact that Revenue staff similarly do not appear to be identifying families in hardship who should be receiving ATCs is discussed later in this report.

3.29. Where families have been long term recipients of interim payments, there have been complaints that payments are not always reliable.

A lone parent - a student with a six year-old child - had been receiving girocheques for several months whilst technical problems with her Child Tax Credit were resolved. However, she complained that the payments were not reliable. She had to ring the office to remind them to send the payments. Girocheques had gone missing, and she had to report the problem before getting a replacement. This caused delay. By January 2005, she was owed nearly £200 in overdue payments. Her son had been hospitalised for three days, during which she had no money for phone calls or food. She was unable to pay her car insurance, and was 'worried sick' because she was unable to make her direct debit payment arrangements for utilities, and would therefore lose her discount. She wrote 'There are times when all I can do is sit and cry because I do not know how we are going to eat and how we are going to get to school... I am totally bewildered and exhausted by the situation.'

3.30. Another lone parent complained that, not only were payments erratic, but her weekly tax credit payments had been changed to monthly payments without notice. As she budgeted weekly, this had caused her financial problems.

Manual payments

3.31. Some 500,000 manual payments were made during 2003-04, and around 334,000 had been made in 2004-05 up until the end of February 2005.[28] Unfortunately, delayed reconciliation between the manual payments and computer-generated payments systems has meant that, as the various computer problems are resolved allowing tax credits awards to be determined and paid through the computer system, the belated awards, paid electronically into individuals' bank accounts, do not take account of the manual payments made in the interim.

3.32. As a result, the families affected have received duplicate payments. This has been confusing for many people, who have already gone through a period of financial disruption. Once the manual payments are reconciled with the computer-generated payments, customers are notified that they have been overpaid, and find that their tax credits can be substantially reduced as the computer automatically instigates recovery action.

3.33. Since around December 2003, the Revenue has warned customers receiving manual payments that they will be paid twice once the computer-generated payments begin, and that the money will have to be repaid. However, this is a far from satisfactory arrangement. The effect can be that the customer has first suffered a disruption in payment; then they have received (in some cases irregular) manual payments; then an overpayment occurs; only to be followed by further deductions to their award to recover the overpayment. It can be difficult for customers to budget when their income fluctuates in such an unpredictable manner.

[28] *Hansard*, 16/12/2004, col 1236W and 22/3/2005, col 712W

Case study:

During 2004, Ms R, a lone parent, had been receiving manual payments worth £52 per week to compensate for the fact that the computer was wrongly deducting this amount from her tax credits award to recover a non-existent overpayment. The situation was far from satisfactory, with payments being made on a monthly basis although she budgeted weekly. In January 2005, a payment of £1,300 was made into Ms R's bank account. This was as a result of the computer correcting its previous error. However, this payment did not take into account the manual payments Ms R had been receiving in the meantime. Ms R sought clarification from the Revenue as to the extent of the duplicate payment. She was advised that probably around £600 was money which belonged to her. When Ms R offered to repay the remainder, she was refused on the grounds that 'it will cause further problems.' Ms R contacted the Ombudsman's office in desperation. On the one hand, she was reluctant to spend the money just received, because the Revenue was unable to confirm what amount was hers. On the other hand, she was finding it very hard to budget because of all the uncertainty. She had just received a mortgage offer, but it had now been withdrawn because her future guaranteed income was not clear. Ms R worked in the police service, and said the stress of the situation was beginning to affect her work.

3.34. The problem of lack of reconciliation between manual payments and later computer generated payments is obviously a technical one, which the Revenue is working to resolve. Nevertheless, whilst this technical problem continues, there are human consequences which should not be ignored.

The way forward

3.35. It is not the task of the Ombudsman to investigate where the blame lies for any failures in the IT systems underpinning tax credits, although this is an important matter. Nor can it be doubted that the Revenue has tried hard to resolve the various technical problems as they have arisen. The initial large scale IT delays and major computer processing errors have not been repeated. The Revenue has also taken steps to mitigate the consequences for customers. It has introduced interim payments by girocheque to deal with situations where the computer has failed to deliver, and has set up a special team to handle cases on an ongoing basis where technical problems remain unresolved. System releases in April and June 2005 have been designed to improve the IT systems underpinning tax credits.

3.36. We are also pleased to note that the Revenue believes its accuracy rate is improving. Although processing accuracy figures for the year 2004-05 have yet to be published, we understand that the Revenue expects the figures to be considerably improved from last year, in line with its target of 90% accuracy for the processing and calculation of awards. In 2004 the Revenue set up a dedicated team to identify and resolve errors that were affecting processing accuracy. Internal guidance and procedures have been revised. Controlled testing of any new processing procedures has been introduced and a number of system problems identified by the checks have been rectified.[29]

3.37. In addition, it is reasonable to expect that, as staff become more familiar with both the new rules relating to tax credits and the new IT system generally, that fewer errors and omissions will occur. This is an area we intend to continue to monitor closely in the complaints being referred to me and we look forward to publication of the Revenue's latest accuracy figures in its 2004-05 Annual Report.

3.38. However, from the cases we have seen, a number of observations can be made.

3.39. First, the highly automated system of processing claims combined with the lack of human oversight before payments are put in place appears to have contributed to the gross

29 Comptroller and Auditor General's Standard Report 2003-04, para 2.19, in Inland Revenue Annual Report 2004 op. cit, page 126

overpayments that have occurred. To an impartial observer, it is very surprising that systems were not in place to 'throw up' for human scrutiny such blatant errors and inconsistencies as:

- Annual childcare costs of £2,704 recorded as the weekly amount;
- A man recorded as working 42 hours but having zero income;
- A man recorded as working 45 hours a week but with an annual income of only £1,491 (rather than the correct figure of £14,1910;
- An award which takes the income and circumstances of two men (from two separate tax credit claims) and treats them as a couple for tax credit purposes;
- A wife recorded as in receipt of income-based Jobseeker's Allowance, when her husband is recorded as working full-time and in receipt of earnings.

3.40. It would save considerable anguish to customers, as well as substantial sums in overpaid tax credit, if some form of check could be devised to ensure that such irrational cases were subject to scrutiny before awards are put in place.

3.41. Secondly, whatever the efficiencies of the system in processing claims, it has proved poor in dealing with the consequences of processing errors.

- The cases cited in this chapter show how long it took, in many instances, for Tax Credits Helpline operators to recognise that a technical problem was interfering with, or impeding, data processing on a case.
- Errors were not always identified by Helpline operators, even where customers reported a problem (either the customer suspected they were being paid too much, or an award notice appeared wrong).
- Even where the Helpline operators were able to explain that a technical problem had occurred, the case had to be referred to a specialist team within the TCO for remedial action. In the meantime, the system did not provide the operators with the information necessary to keep customers informed of progress in resolving the problem. Customers were being told by Helpline staff that they simply did not know what was happening. This led to deep dissatisfaction and distress.
- Service has been patchy where the failure of IT has meant reliance on human intervention. Despite the existence of interim payments for customers whose tax credits have stopped due to computer error, it has often taken numerous phone calls and letters - and even the intervention of outside agencies - before staff have recognised that interim payments are needed to tide people over.

I recommend that steps be taken to ensure that tax credits staff who are in direct contact with customers recognise the situations where interim payments may be appropriate, so that payments can be put in place promptly to prevent financial hardship.

- Manual payments are a 'stop-gap' solution by the Revenue to payment problems that arise. This non-automated service should not mean an inferior service. Every effort must be made to ensure that payments by girocheque are made promptly and reliably. It is disturbing that customers who receive manual payments due to a computer problem can end up having their finances further disrupted, when duplicate computer-generated payments are later made. This is a problem which I would suggest that the Revenue ought to resolve as a matter of urgency.
- The IT system has been designed so that each alteration to an award automatically generates

an award notice. Attempts to rectify errors often seem to lead to the generation of multiple inaccurate award notices, causing considerable anxiety and frustration on the part of customers. The Revenue appears to have made little effort to liaise with customers when remedial action was planned on a case, to warn them in advance that they might receive incorrect award notices which they should ignore. For example, in one case, the Revenue explained that the reason a customer had received several letters which contained incorrect details about an unrelated person was because 'they were clearing incorrect awards from their records.' Such a casual attitude to the sending out of wrong official information is unacceptable. More needs to be done to liaise actively with customers whose cases are being worked on, not only to avoid confusion but also to check if the remedial action has actually worked. More fundamentally, it may be that the Revenue needs to consider whether it is possible to prevent the automatic generation of notices which are known to be wrong, whilst attempts are made to fix a problem.

4. Communication and accessibility

4.1. Since 2003 the Revenue has faced a vast volume of unanticipated work generated by computer difficulties, multiple processing errors, delays and disputed overpayments. It has struggled to deal with the resulting calls, letters, faxes and e-mails it has received from tax credit customers. In turn, the cases we have seen show that customers have been left desperate and frustrated by their experience in dealing with the Revenue about their tax credit awards, and their attempts to get matters resolved. Their inability to get hold of someone who can resolve their problem fuels more contact; the case 'gets more legs' as it turns into a complaint and possibly an appeal. More people get involved as the customer turns to advisers, MPs, and other outside agencies in an attempt to achieve a resolution.

4.2. The poor quality of communication and customer handling has undoubtedly increased the volume of calls, letters and other correspondence received by the Revenue. For a considerable number of the tax credits customers we have seen, it has also made the experience of dealing with the Revenue a very dismal one, as they struggle to get their cases properly investigated, explained and dealt with. Having telephoned, written, complained and appealed, they have often still failed to get any satisfactory response from the Revenue for several months.

Contact by telephone

4.3. The tax credits system has been designed around customer contact by telephone. Indeed, the telephone is cited by around 76% of customers as their most frequently used method of contact.[30] The Tax Credits Helpline is the 'front desk' in fielding customer calls about their awards and its operators are responsible for inputting revised information provided by customers onto the tax credits computer.

4.4. During the early months of tax credits, there were serious difficulties for many customers in getting through to the Tax Credits Helpline at all, due to the volume of calls (see Chapter 3.6). This problem was resolved by early Autumn 2003. Substantial extra resources have been put into the Helpline in the last 12 months, with two additional call centres opened and considerably more staff being taken on. There are currently around 2,500 staff operating the Helpline in six call centres, with a similar additional number of staff available at peak times.

4.5. Since then, the main complaint from the cases I have seen has been the inadequate response of Helpline operators when things have gone wrong. The stress of having to make repeated phone calls to the Helpline cannot be overestimated.

'I have made umpteen telephone calls and each time I have to explain the situation. Every time I am told that they cannot help me further and that they merely log the call to the team who is dealing with my case. Many months later and still no solution in sight I wish to make a formal complaint about the length of time this is taking, the lack of communication between the various departments, the lack of correspondence to myself and the fact that this is causing me anxiety and stress.'

4.6. People who are desperate are resourceful in trying all avenues in an effort to reach someone in the Revenue who will take on their case and deal with it. From the customer's perspective, the lack of response can make the organisation seem inaccessible and indifferent.

'[In December 04] I telephoned the Tax Credits Helpline and advised them of the change in my circumstances... I was advised that I would receive early in the New Year a revised notification of my entitlements. By 13th January I had not received

30 Inland Revenue and HMCE Customer Service Performance Indicator Survey 2004

notification so I again telephoned the Helpline and was advised that somebody would phone me back... within five days. Payment of my partner's Child Tax Credit had also stopped... By 26th January contact had still not been made...so I again contacted the Helpline and was again assured that contact would be made with me within two days. On the 8th February contact had still not been made with me so I again contacted the helpdesk, who advised me that a referral had been made to another department on the 26th January - who could not be contacted on the phone because 'they would never get any work done if they spoke to clients on the phone.'... I have sent a number of e-mails to the Revenue online services helpdesk... which they have advised me they have forwarded to the Customer Relations Team at the TCO and still no contact has been made with me. I have also attempted to contact the Tax Credit Office in Preston [on the Customer Services telephone number]. This is either engaged or is not answered, this has happened on numerous occasions and is not an isolated incident. I have tried on different days at different times of day and night. We are currently living on my wife's Sick Pay of £65 per week... What I am asking for is for contact to be made with me to advise what is going on...'

4.7. Currently extensive backlogs exist within the TCO in dealing with complaints, appeals and disputed overpayments. There is immense frustration among customers that there is no telephone access to, or communication from, the teams dealing with their case, to enable them to find out what is happening.

4.8. There are a number of reasons why the service given by Helpline operators has proved a frustrating experience for customers who have a problem with their claim.

- As the example in paragraph 3.13 demonstrates, Helpline operators dealing with customers and attempting to input changes into the system are not always immediately aware that technical problems are interfering with the claim.
- From the cases seen by the Ombudsman, there appears to be an inadequate history of contact on a customer's account, in that it does not include the full details of what a customer has said in previous calls and the responses that they were given. This means that each time the customer telephones, a different operator - who may be in a different call centre - answers the call, and the customer has to repeat the background to their tax credit problem again. Increasingly, there is a long and complicated history behind the query - of calls made, what was said and what was promised - which has to be gone through each time. Not only is this frustrating for the caller, the lack of a full recorded history can mean it takes longer for an underlying error or issue to be identified. Each operator is looking at the case afresh.

(*See 'Mr and Mrs N' case study*)

- Helpline operators working out of IRCCs (paragraph 2.18) are in many cases merely the 'front desk' for problems which are being dealt with by the TCO elsewhere. Yet they are the main - and in most cases the only - point of telephone contact for customers to deal with the Revenue about their case. The system is not designed to encourage Helpline staff to contact the TCO to try and resolve problems or get an update on the latest position whilst the customer is still on the telephone (presumably for the same reason that customers are not given direct telephone access (paragraph 4.7 above) namely so as to minimise disruption to the TCO's handling of cases). As a result, there seems to be very little communication between the Helpline staff and the TCO, and customers are often left in the dark about what is happening, if anything, to sort out their claim. The problem has been particularly acute in cases where customers, living on reduced tax credits, are disputing that an overpayment should be recovered.

Case study:

Mr and Mrs N claimed tax credits in January 2003. The Revenue wrote in May 2003 to confirm Mr N's national insurance number. Mrs N provided it. In July, they received an award notice, but it was incorrect.

Mrs N rang, and was told that there was still a problem with Mr N's national insurance number. Mrs N wrote with the information. Shortly afterwards, the Revenue telephoned to say that they had cancelled the new award because Mr N's national insurance number appeared incorrect. However, after some discussion, the officer said he had managed to resolve the matter.

Mrs N then received a letter saying she did not qualify for tax credits. Upon telephoning, she was told that her claim had still not been sorted out. She was advised to contact the National Insurance helpline. This she did. They referred her to the Department for Work and Pension). However, that Department said it could not help.

Eventually, in August, Mr N took time off work and visited his local Revenue office, where it was discovered that his national insurance number was different from the one on his form P60. By this point the local CAB had got involved. The Revenue advised the matter wold be sorted by 22 August.

However, when Mrs N rang on that date, another adviser said her claim had not been sorted out. Eventually, four months later, and after further calls and letters, Mrs N was sent a giro cheque for nearly £2,000 arrears. It seems reasonable to conclude that, if Mr and Mrs N's case had been consistently and actively managed in respect of the problem which arose regarding the national insurance number, the problem could have been dealt with far more quickly and expertly.

4.9. Since early 2005 the Revenue has developed a new call centre in Liverpool, which is intended to act as a backup for operators on the Helpline in dealing with more complex cases. Operators will be able to refer a case to the Liverpool office, with the caller being advised that they will be contacted within 36 hours. This is a welcome new development, which is designed to start a process by which cases can be resolved swiftly, without involving use of the complaints and appeals mechanisms. I will watch with interest to see how this model develops.

Writing to the Revenue about tax credit problems

4.10. Customers who have not been able to get a satisfactory response to their telephone calls have frequently tried to write to the Revenue. Written communication is an important method of contact for many customers, because it allows them to explain relevant facts and dates in more detail, to set out a chronology of their past dealings, and to martial their arguments.

4.11. In practice, this has not proved an effective method of making contact and getting matters dealt with promptly. Instead there have been long delays on the part of the Revenue in dealing with written correspondence.

4.12. In a surprisingly large number of cases I have seen, the Revenue has said it can find no record of customers' letters or forms sent. This may reflect the fact that the tax credits system has been designed to function without paper records. There is thus no central repository for all the papers relating to a case, and letters will theoretically be directed to the relevant handling team (e.g. appeals) for action. It may also reflect the fact that a document which has been received has simply not yet been recorded onto the computer.

One customer who had been disputing the recovery of an overpayment wrote: 'I have now filled in three recovery of overpayment [forms] and as at [date] they were still saying they had not received them. Some of the phone numbers they have sent don't work. So you can only speak to the Helpdesk and all they can say is sorry. I have now managed to speak to [someone in the Disputed Overpayments Team] and she says she needs this recovery of overpayments form. What am I to do?'

Award notices

4.13. Many customers and their advisers have found the system-generated award notices, automatically issued whenever payments alter, inadequate in helping them to understand how their award has been determined. The problem has been exacerbated by people being sent multiple award notices, often in quick succession or even on the same day, where it is difficult to establish the sequence of what has changed and why.

4.14. Moreover, if a customer wishes to contact the Helpline to go through the forms with the operator, the system does not allow Helpline operators to call up on screen the award notices it has generated and sent to the customer. This makes communication difficult.

4.15. The award notice contains only limited information concerning the different elements of tax credits which make up a particular award, and the types of income taken into account. This can make it difficult, if not impossible, for a customer to identify that an award is wrong.

(*see 'Mr B' case study*)

4.16. The lack of information and unintelligibility of the award notices sent to customers during the first two years of tax credits has undoubtedly contributed to the high number of overpayments that have occurred, simply because tax credits recipients found it difficult to comprehend the notices they were sent, or were not given sufficient information in the notice to spot that an error had occurred.

Case study:

Mr B claimed Working Tax Credits and Child Tax Credits, and completed the application form showing that he was the sole breadwinner and his wife was unemployed and claiming Jobseeker's Allowance. Mr B twice contacted the Revenue because he was concerned he was being paid too much. He said that the amount seemed excessive when compared to people he knew in similar circumstances. On both occasions, the Revenue advised that his award was correct. On the strength of these assurances, Mr B purchased a car with the help of a loan. Several months later, he telephoned the Helpline to advise that his wife has started work and was no longer getting Jobseeker's Allowance. At this point, he was told that he had been overpaid. It turned out that on his application form, he had mistakenly put that his wife was receiving income-related Jobseeker's Allowance not contributory Jobseeker's Allowance. As a result, an overpayment of £1,727.98 had occurred. Mr B had had his suspicions that his award was incorrect. But it would have been impossible for him to have spotted this error from the award notices he and his wife received.

4.17. In my view, customers should be entitled to receive a comprehensible award notice, showing in a clear and accessible form how an award has been calculated, including the different elements of tax credit, the different types of income taken into account including individual social security benefits, and any additional tax credit payments being made.

4.18. Often the first communication customers will have from the Revenue, indicating that they have received excess tax credits earlier in the tax year and that recovery action has begun, will be a new award notice. The inadequacy of information to customers when they have received too much in tax credits is explored in more detail in Chapter 5.

4.19. After consultation with customer groups, the Revenue now plan to introduce a significant number of improvements to the award notice sent to customers towards the end of 2005-06, with some improvements being introduced in April 2005, to come on line in tandem with the appropriate IT software changes.[31] These planned improvements are very welcome. However, it will be nearly three years after the start of the new system before customers receive accessible and comprehensive award notices. It is unacceptable that in a brand new system the quality of computer-generated forms should be so poor. A truly customer-focused approach would have ensured that clear, accessible explanations of all aspects of a customer's award were a fundamental starting point for designing the new system, not an afterthought.

Girocheques sent without explanation

4.20. Another example of a lack of a customer-focused approach concerns the practice of sending out girocheques to customers with a compliment slip but without an explanation. Tax credits payments sent out in this form are not recorded in the award notices customers receive (which only cover payments made via the tax credits computer). Therefore it is very important that customers receive - alongside the girocheque - a full written explanation as to why it has been sent.

4.21. We have seen a number of cases where customers have been deterred from cashing cheques they have received (representing remitted overpayments, compensation awards, or even interim payments on hardship grounds) because they are afraid that the money may have been sent in error. It has been left to the Ombudsman's staff to explain the reason for the payment. Indeed, there have even been cases where customers have returned girocheques to which they were entitled, because they did not trust that the payments were correct. At a meeting between staff from the Ombudsman's office and Revenue staff, it was explained that, for internal security reasons, the process of issuing girocheques is completely separate from other dealings with customers. Whilst we fully appreciate the need to take appropriate steps to avoid internal fraud, the Revenue needs to take equally seriously its obligation to its customers to provide clear and coherent explanations of the money it sends to them. Ideally, an explanatory letter could be sent with a tear-off girocheque at the bottom. At the very least, better co-ordination is needed to ensure that customers receive an explanation for the payment at the same time as, or just before, a girocheque is received.

[31] See Revenue letter to the Parliamentary Ombudsman, 21/4/05, Appendix C

5. Overpayments: excess tax credits payments and their recovery

5.1. Although excess tax credits payments and their recovery are an in-built element of new tax credits (see paragraph 2.11), it was always likely that there would be a large number of overpayments during the first year or so of tax credits as the new system bedded down. This was because customers were unfamiliar with a system of annual awards and the need to report relevant changes of circumstances. There was also the fact that, in 2003-04, initial awards were based on annual income in 2001-02. Unless customers alerted the Revenue to their current income, the likelihood was that, at the end of the tax year when their award was reassessed and actual income in 2003-04 taken into account, they would have been paid too much. People were also able to make their applications for new tax credits several months in advance, which meant that, by the time an award was made in April 2003, their circumstances, for example their employment or their family situation, could have changed. It was also only to be anticipated that, with new rules, new staff, and a new IT system, unfamiliarity on the part of the operators might lead to errors.

5.2. Recently published figures on overpayments at the end of the first year of tax credits show that, at the end of the tax year 2003-04, a third of all tax credit awards (1,879,000) had been overpaid. In all, the overpayments amounted to £1,931 million. More than half a million awards (630,000) had been overpaid £1,000 or more - including 40,000 awards where the overpayment amounted to more than £5,000. Two-thirds of overpaid awards related to households on modest incomes - families out of work with children; those on Working Tax Credit or receiving an amount of Child Tax Credit above the family element.[32] It should be emphasised that these figures are in respect of overpayments as reckoned at year-end. They do not show the number of awards adjusted in-year to take account of excess tax credits paid during the year, where reductions in the later award were sufficient to ensure that the excess payment had been fully paid back by the end of the tax year.

5.3. Apart from the sheer number of households affected by overpayments, a variety of factors have led to this aspect of the new system becoming a major source of complaint to the Ombudsman. First, although this situation was foreseeable, and the Revenue should, therefore, have been able to anticipate and plan for it, the Revenue appears to have been caught unprepared for the volume of overpayments and the customer response to them. Secondly, the manner in which recovery of excess payments has been handled has alienated many people and caused considerable financial disruption and real hardship. Thirdly, large backlogs have built up in dealing with requests for reconsideration of recovery. Fourthly, from the evidence we have seen, in a large proportion of cases the Revenue itself has been at fault in causing an excess payment to occur, yet has insisted on repayment.

Procedures for recovery of excess tax credit payments

5.4. As indicated above, the manner in which excess tax credits payments have been recovered has proved contentious - even in cases where the cause of the excess payment owes nothing to official error, but rather is due to a delay on the part of the customer in reporting a change of circumstance, wrong information provided by the customer to the Revenue, or simply a rise in annual income of more than £2,500.

5.5. There is no statutory test to decide whether or not an excess payment of tax credits - either in-year or at the end of the year - may be recovered. Under the Tax Credits Act 2002, decisions concerning the recovery of overpayments at year-end and the adjustment of tax credits awards in-year to avoid likely

[32] *Child and Working Tax Credits Statistics, Finalised awards 2003-04, Supplement on payments in 2003-04*, HM Revenue and Customs Analysis Team, National Statistics, 2005.

overpayments are decisions which fall within the discretion of the Revenue. However, good administration requires the Revenue, when considering the exercise of their discretion in this area, to do so in accordance with procedures that are fair, and which take account of all material circumstances.

5.6. It is matter of significant concern that, despite the likelihood of higher numbers of excess payments during the first year of tax credits (even discounting the unanticipated problems arising from the new IT systems), there were no procedures in place from the introduction of the new tax credits system in April 2003 to make clear either to Revenue staff or customers the basis on which that discretion would be exercised, or the relevant circumstances which needed to be considered.

5.7. By Autumn 2003 it was apparent that tens of thousands of customers had been overpaid as a result of system problems, the use of manual payments (resulting in later duplicate payments) and early staff errors. But at that point the procedures were not fully in place to determine and then explain to people how excess payments would be recovered, and the circumstances in which recovery could be waived.

5.8. ATCs (see paragraph 2.14), also known as 'top-up' or 'hardship' payments, were only introduced in October/November 2003 in response to the then recognised difficulties facing some customers. It was not until December 2003, eight months after the new tax credits system was introduced, that COP 26 entitled *What happens if we have paid you too much tax credit?* was published. It took until February 2004, nearly a year after the launch of the scheme, for a flyer to be issued with every amended award notice, alerting customers to the possibility of the payment of ATCs if a reduction in an award was causing hardship, and drawing their attention to the COP 26. Furthermore, full guidance on how to apply the Code was not available to staff until May 2004. It was also only at this point that a dedicated team was established within the Revenue to consider claims to waive recovery of an overpayment on the grounds of official error, and standardised procedures established to handle applications in a consistent manner.

5.9. These delays meant that a considerable number of customers, who knew they had been overpaid, were left anxious and uncertain about the debt they might owe, and the arrangements to repay it. Others were wrongly reassured that an overpayment would not be recovered until the following year.

Case studies:

In April 2003 Mr and Mrs Q received four conflicting tax credit award notices in the space of ten days, and strongly suspected that they were wrongly being paid Working Tax Credit. Mr Q tried repeatedly to sort out the problem by ringing the Tax Credits Helpline. He was promised on more than one occasion that they would sort out the problem but nothing happened. Eventually Mr Q managed to speak to a supervisor who reassured him that any overpayments would only be taken into account in the following year. Mr Q was unhappy with this, because he could not properly manage his finances without knowing what his correct award should be.

Ms W, a lone parent on Income Support, visited her local Revenue Enquiry Centre (IREC) in September 2003 because she had received two girocheque payments of Working Tax Credit to which she thought she was not entitled. The Tax Credits Helpline told the IREC adviser that the overpaid Working Tax Credit would be 'held on one side' as Ms W might become entitled to Working Tax Credit again. If they wanted her to repay the money, they would send her a repayments schedule. When asked whether Ms W should hand in the girocheques, the Helpline advised that, whether she handed them in or not, the money would not be posted to her account until a later date. In fact, the next day, Ms W was sent an award notice, which drastically reduced her Child Tax Credit in order to recover the Working Tax Credit.

5.10. During this early period, it is clear that a considerable number of people who wished to challenge repayment were wrongly led to believe by Helpline staff that the correct course of action was to pursue an appeal. In fact, there is no right of appeal against overpayment decisions. This led to delay, and false expectations that the matter was being dealt with, before customers were eventually notified that there was no right of appeal.

Case study:

Mrs M is a lone parent with one child. When she started a part-time job of 16 hours in July 2003, she applied for Working Tax Credit) and Child Tax Credit. In August the Revenue made an award. They automatically backdated it by three months. Although this was correct for the Child Tax Credit element of her award, it was a mistake in relation to Working Tax Credit because she had only just started her job. On receipt of the first payment, Mrs M rang the Tax Credits Helpline to say that she thought she had been overpaid. She was told that there was nothing on the system to suggest this, and she should write to the Tax Credit Office. This Mrs M did, writing to ask if she would have to repay what she thought was an overpayment. She did not receive a reply. However, in early September, she was sent a revised award notice, showing that her Working Tax Credit award had been reduced by £1,177.25. Her employer was instructed to reduce payments by £8 per day from October 2003. At this point, Mrs M rang the Tax Credits Helpline to seek an explanation. The Helpline adviser was not able to help and advised Mrs M to appeal. Two days later, the Helpline rang Mrs M and admitted that the overpayment was their mistake in wrongly backdating Working Tax Credit. Mrs M asked for a proper decision on the overpayment and its recovery, pointing out that she had phoned and written to the Revenue alerting them to the overpayment. On the same day, the adviser rang again to say she had spoken to her supervisor who advised that Mrs M should appeal against the overpayment as they could do nothing about her reduced award. Mrs M was sent an appeals leaflet. This was despite the fact that there is no right of appeal against such decisions.

5.11. In short, the Revenue was late in putting in place procedures and adequately trained staff to handle the issues arising from the recovery of excess tax credits payments. And it was slow in effectively communicating with its customers so that they properly understood the recovery process and how they might challenge it.

Code of Practice 26: 'What happens if we have paid you too much tax credit?'

5.12. COP 26 was first published in December 2003. A revised and expanded version was published in August 2004. COP 26 gives a full explanation of the Revenue's policy when customers have received too much in tax credits, including details of:

- how tax credits are worked out, including the system for adjusting awards during the year to take account of changes to circumstances to avoid paying too much by the year-end;
- the circumstances in which ATCs will be made on request, to mitigate the effects of the in-year reduction or cessation of an award to recover excess tax credits. Such payments are made on grounds of hardship, or if there are grounds why the excess paid should not be recovered (see below). The guidance was amplified and expanded in the revised Code issued in August 2004, to spell out the amounts that would be paid and the circumstances when ATCs would not be made.
    - For families on Income Support or Jobseeker's Allowance, ATCs increase their tax credits to 90% of the amount due - so that they are paying only 10 % towards the amount owed for the rest of the year.
    - Where a family are receiving maximum Working Tax Credit, or maximum Child Tax credit, the award of ATCs means that they pay 25% of their remaining award towards the amount they owe.

- o Other families receiving ATCs effectively have their award supplemented so that they pay 50% of the tax credits due towards the excess payments of their tax credits owed.

ATCs will not be paid to someone awarded only the family element of Child Tax Credit, or where an award has been reduced because of an income rise of at least £2,500.

- the system of finalisation of awards at the end of the year when actual overpayments are identified;
- the maximum amounts by which a customer's award will be reduced to recover an overpayment from the previous year. Unlike excess payments in year, the rates of recovery are linked to family income. There are three rates of recovery:
  - o 10% for families on lowest incomes receiving a maximum award;
  - o 100% for families on the highest incomes - those receiving only the family element of Child Tax Credit;
  - o and 25% for everyone else.

Where reduction from a future award is not possible, the Revenue will request payment directly.

- the circumstances in which the Revenue can decide not to recover all or part of an overpayment due to official error, namely that the overpayment was made because of a mistake by the Revenue, and either it was reasonable for the customer to think the award was correct, or the customer notified the Revenue of the overpayment and no action was taken within 30 working days. The Code also allows for recovery to be waived, either wholly or partly, on grounds of hardship.

The automatic recovery of excess payments and overpayments of tax credits

5.13. There are two main problems with the current system of recovery of both types of overpayment. The first is that it is instigated without any prior consideration by the Revenue of whether or not the sum in question is recoverable in accordance with COP 26. The second, considered below, is that, in the case of recovery of excess payments in-year, it is done automatically without regard to customers' financial circumstances and whether they can afford the recovery rate imposed.

5.14. COP 26 states: 'We will not ask you to pay back an overpayment if it arose because we made a mistake and you could reasonably have thought your award was right.' Yet in practice, and in contradiction of the Code, excess payments during the tax year (and at the end of the tax year) *are* recovered by the Revenue as a matter of course, without prior investigation of either of these two key questions.

5.15. It is left to the customer, after recovery has begun, to ask the Revenue to apply its own Code. The onus is placed on the customer to raise the question of Revenue mistake, and to address the Revenue on the reasons why they reasonably thought their award was correct. Whilst the Revenue considers the matter - a process currently taking several months - recovery continues.

5.16. Richard Drabble QC, an expert in public law, has argued that the Revenue's current practice of automatic recovery of all overpayments, before addressing its own test for recovery as set out in COP 26, is unlawful.[33] The Revenue advised us in April 2005 that it was still awaiting its own definitive legal advice on this matter. We consider it essential that the Revenue obtain its own legal advice on the lawfulness of its current practice as soon as possible.

[33] See *Welfare Rights Bulletin 184*, February 2005, Child Poverty Action Group (CPAG)

5.17. Whatever the legal position, our view is that a fundamental unfairness arises where recovery of an overpayment takes place to the detriment of a customer before COP 26 has been considered. Effectively, the Revenue has fettered its own discretion by making an initial determination to commence recovery action, before it has considered the full facts of the case. That is maladministration. Unless customers are alerted to the existence of the provisions of COP 26 and then take steps to request that the Revenue apply its Code, they may end up wrongly paying back tax credits which should not, in fact, be recoverable.

I therefore recommend that the Revenue, having taken steps to ensure that future payments of tax credits properly take account of current circumstances, should not seek to recover either an excess payment made in the current year, or an overpayment from the previous year until it has come to a decision, based on all the relevant facts, as to whether or not the excess amount paid should be recovered in accordance with COP 26.

5.18. In his opinion, Mr Drabble suggested there might be an argument that, given the administrative complexities of tax credits, the requirements of procedural fairness could be met if the Revenue ensured that, at the time the initial decision to recover the overpayment was taken, customers clearly understood the circumstances when recovery would be waived. Certainly, we take the view that, whilst the Revenue considers the Ombudsman's recommendation above, it is very important that it has in place procedures, at the point when recovery is about to be instigated, which ensure that all customers know the circumstances in which the Revenue will consider waiving recovery, so that they can make informed representations. For it is only after the customer's position has been fully taken into account, that the provisions of the Code can be properly applied.

5.19. Unfortunately, at present, the information given to customers alerting them to the circumstances when recovery will not be sought is fairly limited, particularly for those with excess tax credit payments in-year. No mention is made of the provisions of COP 26, and in particular the circumstances when recovery will be waived, on an award notice. The notice alerts customers to their right of appeal; but in fact, the procedures for disputing recovery are different. The guidance notes which accompany an award notice state:

'If you were paid too much tax credit, if we can, we will collect the amount you owe from your current tax credit award. If you no longer have an award, you can pay us back over 12 months. For further information, please see our Code of Practice *What happens if we have paid you too much tax credit?*'

5.20. Owing sums of money - sometimes hundreds or thousands of pounds - to the Revenue is a very serious matter, particularly for families whose finances may already be limited. It is important that they are given every opportunity to understand the circumstances in which that debt may be waived, and how they can make representations on the matter.

5.21. It is deeply unsatisfactory that an award notice, whilst alerting customers to their right of appeal, says nothing on the face of it concerning procedures to challenge recovery of an overpayment of tax credits, whether in-year or at the end of the year, and the circumstances when this will be considered. The fact that the Revenue automatically institutes recovery procedures before consideration of whether the Code applies makes it a requirement of basic fairness that customers must be given the best opportunity to make representations on how the Code applies in their case. Accompanying guidance notes are helpful, but do not go far enough.

I therefore recommend that, as a minimum, on the 'payments page' of an award notice, customers are alerted to the fact that recovery of an overpayment (in-year or at the year end) of tax credits can be challenged, if the overpayment was due to official error and in circumstances where a customer reasonably thought they were being paid the correct amount. The alert should also draw customers' attention to COP 26 and the fact that, if they want to dispute an overpayment, they need to complete form TC846.

Recovery of excess payments in-year: the financial impact

5.22. The in-year recovery of excess tax credits payments is intended to ensure that the full amount of any likely overpayment is recovered by the end of the tax year. The automated system which calculates and adjusts tax credit awards has therefore been designed to reduce a customer's future payments, or stop payment altogether, in order to achieve this effect. Unlike the recovery of overpayments determined at year-end, recovery rates are not linked to a family's income. There is no limit on the amount by which weekly or monthly payments can be reduced. Although a key part of the tax credits design, for many thousands of people reliant on tax credits as a crucial element of their household budgets, the effect has been severe.

5.23. Although, starting in Autumn 2003, as has already been explained, the Revenue introduced discretionary ATCs to mitigate the harsh effects of in-year recovery, such payments have to be applied for after tax credits have already been reduced. The responsibility is put on customers to identify themselves as eligible and to come forward to claim.

5.24. Below are a small number of the accounts the Ombudsman has received from families affected by the in-year recovery of excess tax credit payments:

Case study:

Ms B, a working lone parent with two teenage children, was advised by the Revenue in June 2004 that she had been overpaid £515.06 in error. Her tax credit award was substantially reduced, leaving the family with just £40 per week to live on after all essential bills. Despite a request for reconsideration of the decision to recover the overpayment, by the time Ms B contacted the Ombudsman in September 2004, she had been living on this reduced income for over three months. She wrote:

'The frustration, anger and mental anguish I feel over this disaster is almost too difficult to put into words... I am a single parent and the distress and heartache of not having the full entitlement to tax credit has made a dramatic effect on my lifestyle. There is nothing left to cut back on except food... I have never been in debt in my life, but for the first time ever, it looks as though I will have no choice. I have already battled depression and trying to get an answer from the Revenue has almost driven me back to the doctor for more anti-depressants.'

When Ms B's case was finally investigated in January 2004, the Revenue found that, due to a' technical error', its records wrongly recorded that that she had received £907.27 tax credits from her employer, which she had not received. As a result, she had not been overpaid at all.

5.25. Particularly hard hit have been families in receipt of Income Support or Jobseeker's Allowance, where in-year reduction of a Child Tax Credit award to recover a previous excess payment of tax credits can leave them struggling below subsistence level income. For example, in one case investigated, a lone parent on Income Support found her Child Tax Credit reduced to just £17 a week from September 2003 to January 2004. Although she called the Tax Credits Helpline on repeated occasions, explaining that she was in receipt of Income Support, it was only after the intervention of the local CAB that in

January 2004 the Revenue began to pay her ATCs of £75.41 per week, backdated to the previous year.

5.26. The sudden dramatic drop in an award has caused grave problems for families who have childcare costs to pay, threatening the ability of parents to continue working. One woman (who, four months previously, had repaid a large overpayment caused by official error) wrote in December 2004:

'I received a tax credit award notice dated 14th October [2004] stating that my payments were to drop dramatically from over £400 per month to £162 per month... I have written to them several times, faxed and tried phoning to say we cannot survive with this reduction, yet we do not hear anything back except they will aim to reply in 6-8 weeks. This is extremely upsetting as we are struggling now, and although I have faxed them on two occasions informing them of this, no effort to help us has been made. At present we are paying £528 every four weeks for childminding, and I cannot see how I can keep this up with the reduced tax credits we are receiving, and at present I can see no alternative but to have to give up work...

I feel it is appalling that they are able to leave people with considerable financial problems, forcing them into debt, without even discussing it... I cannot believe that we have been left like this with no money and nowhere to turn right before Christmas. I have been unable to sleep and have been very anxious about this situation...'

ATCs

5.27. COP 26 makes clear that the onus to apply for ATCs lies with the customer. It says: 'You need to ask us if you want us to review your payments.' The difficulty, seen in a good proportion of the cases investigated by the Ombudsman, is that customers badly affected by the cut in their income, have only belatedly found out about ATCs, if at all. Therefore they have not specifically asked for them. In 2004-05 ATCs had been paid in only around 7,000 cases up until the end of February 2005.[34]

5.28. Customer information about ATCs is sparse. Customers are not automatically sent COP 26. No information about ATCs is given on an award notice. In the 17 pages of guidance notes which accompany an award notice, there is one sentence which appears in a paragraph headed 'If your award has gone down' on page 12 of the notes. The sentence says 'If your payments are reduced to a level that causes financial hardship, please contact us.' It is perhaps unsurprising that customers do not always spot this sentence, or appreciate its significance. Nor, as has been admitted in a number of the cases investigated by the Ombudsman, has the Revenue always responded to a customer's complaints about the reductions in their awards by alerting them promptly to the help available through ATCs.

5.29. The Ombudsman takes the view that, in a scheme aimed at giving financial support to families on low and modest incomes, a system of recovery of excess payments can only be a fair one if it takes account of ability to pay - whatever the time of year. Leaving it to families in hardship to make the case for ATCs will always lead to some families losing out.

I therefore recommend that in cases where it is determined that an excess payment in-year is recoverable in accordance with COP 26, recovery should be at the same rates as those for previous year overpayments (see paragraph 5.12).

5.30. As a minimum, given the grave consequences for families affected by reductions in their tax credits, the Revenue must be more pro-active in ensuring that its customers are paid ATCs if experiencing hardship.

[34] See Revenue letter to the Parliamentary Ombudsman, 21/4/05, Appendix C

We therefore recommend that steps are taken to ensure that all Revenue staff who have contact with tax credit customers are alert to the circumstances when ATCs might be appropriate, so that they can invite an immediate claim.

By definition, families in receipt of Income Support or income-based Jobseeker's Allowance will suffer hardship if their Child Tax Credit is reduced to recover an in-year overpayment.

I therefore recommend that, where in-year recovery of excess tax credits is justified, the Revenue takes steps to pay ATC automatically to families in receipt of Income Support and income-based Jobseeker's Allowance.

More needs to be done to give prominence to the availability of ATCs in the printed information given to customers.

I therefore recommend that details of the availability of ATCs is printed prominently on the 'payment' page of an award notice (where details of in-year recovery also appear); and the issue of financial hardship (and how the Revenue can help) be given greater prominence in the guidance notes which accompany an award notice.

Information about an excess payment of tax credits

5.31. For most tax credit recipients on modest incomes and tight household budgets, the news that they have been paid too much in tax credit and therefore owe money to the Revenue is deeply worrying. Not unnaturally they want to check the details - even if they accept that they have received too much in tax credits. In some cases, although informed that they have received too much tax credits, customers are confused and uncertain about the reasons. There may have been a past history of changing circumstances, or acknowledged delay/error by either customer or Revenue or both, which means that the customer has good reason to want carefully to scrutinise the Revenue's explanation and figures. In some cases, successive notices have given conflicting figures regarding the amount overpaid. Yet in practice, people can find themselves having to spend considerable time and energy contacting the Revenue, simply in order to establish exactly how much they owe, exactly why they owe it, and what the rate of repayment is.

Case study:

Ms Z informed the Revenue in November 2003 of an increase in her earnings. In January 2004, the Revenue informed her that she had been overpaid £860, and as a result her tax credits would be stopped. Ms Z wrote to request an explanation. She had kept the Revenue fully informed about her circumstances and could not understand why a small increase in salary could lead to her owing so much money. She did not receive a reply. When she telephoned the Revenue, she was advised that there had been a mistake and a new award notice would be issued. When no new award notice appeared, Ms Z rang again - to be told that her award had not been revised, and she should complain. Ms Z therefore wrote to complain. She received a reply, advising her that it would take the Revenue six to eight weeks to respond to her letter.

5.32. In the case of recovery during the year, receipt of a revised award notice is often the first notification a customer has that excess tax credits have been paid and are being recovered. Yet the notice does not - on the face of it - identify the particular reasons why the award has been revised and the notice issued. Without additional information, the award - and the excess payment - cannot be understood.

5.33. Appendix D gives an example of the payments page of a revised award notice given in 2004-05, and the information contained in the guidance notes which accompany an award notice intended to explain it. The example notice gives details of tax credits payments due for the remainder of 2004-05, taking account of payments made in the year to date, an overpayment in 2003-04 and in-year recovery of excess payments made in 2004-05. Without the detailed explanatory guide from the Revenue, it is hard to identify simple details, such as exactly how much is owed; what amount is being recovered in the current year; and what the rate of recovery is. To a non-expert, the figures - given in two columns relating to Child Tax Credit and Working Tax Credit - do not seem logically to relate to each other. Based on the information provided, it is not possible to follow the calculation. The notice does not explain the reasons which led to amounts being owed to the Revenue.

5.34. For the new tax year 2005-06, the award notice has been slightly altered in an effort to make it more intelligible (so that the sequence of figures - using the codes in the explanatory note - have been altered to now read A,C,D,B and E). It still remains a challenging document.

5.35. Telephone calls to the Tax Credits Helpline for more information are not always successful. As the cases highlighted in this report show, a Helpline adviser, looking at the customer's details on the system for the first time, is not always in a position fully to explain the different events which may have cumulatively led to the excess payment or an overpayment. In theory, if a customer finds the Helpline's explanation insufficient, the operator can arrange for the TCO's Overpayments Team to write to the customer with a more detailed explanation. In practice, the cases seen by the Ombudsman suggest that some people, unable to get a full explanation from the Helpline, seek to appeal or launch a request for reconsideration of the decision to recover the excess payment.

Case study:

Mrs J's husband works in the construction industry and has variable earnings. The couple kept the Revenue informed but it led to fluctuating awards, including notification of an 'in-year' overpayment when Mr J reported a period of overtime. At one point, they were advised that a computer error had led to an erroneously high income figure, resulting in an award which was less than their true entitlement. In March 2004 Mrs J successfully won an appeal allowing an award of Disability Living Allowance from May 2003, in respect of the couple's disabled child. She advised the Revenue, who in April 2004 paid her £1,800 in arrears. However, in September 2004, the couple were advised that they had been overpaid £1,800, although the reasons were not explained. As a result, their tax credit award was reduced by £70 per week. Mrs J asked: 'How can tax credits give a customer £1,800 in April and demand it back in September?' She requested reconsideration of the decision to recover the money, although by January 2005 her request had not been considered. The reduction in the family's award meant that they were struggling financially to care for their disabled child in the meantime.

5.36. At the award finalisation stage at the year-end, the Revenue will notify the customer of any overpayment which has occurred in the year's award as a whole. In 2004, the Revenue took steps to inform customers who had been overpaid as a result of the computer problems (discussed in Chapter 3) that a mistake had occurred. The standard letters issued notifying customers of the amount owed also included an apology, a copy of COP 26, and a telephone number to call 'if you think you had good reason to believe that your payments were correct.' This was good practice.

5.37. However, the letters were less than explicit about the cause of the mistake or when it had occurred. For example, couples who were overpaid as a result of the computer changing one partner's income to zero, and who were identified in 2004 at the finalisation stage of their first year's award, received a letter which said:

'I am writing to let you know that your tax credits have been overpaid during 2003-04 and 2004-05 because we calculated your award incorrectly, to apologise for our mistake and to explain the arrangements for repaying this money'.

Missing from the letter was any explanation of what mistake had been made by the Revenue and when the mistake had occurred. This made it difficult for customers to understand what had happened, and to make representations as to why it had been reasonable for them at the time to consider their award was correct. One customer complained that that he had tried for three weeks to get through to the special telephone number given on the letter without success.

5.38. Customers who had been paid sums directly into their accounts without any notice being sent received a letter which began:

'I am writing to tell you that your tax credits payments for 2003-04 included [£amount] which was paid in error. As this amount was substantial, we believe you could be expected to have realised that your payments did not match the information in your award notice. We are therefore asking you to repay this money... '

The letter did not explain when the amount had been paid, or the fact that the cause had been a computer error. In one case dealt with by the Ombudsman, the customer mistakenly thought the error had arisen because she had been in frequent contact with the Revenue to report changes in her employment and earnings, and had ended up having repeatedly to correct a series of mistakes it had made when updating her award. She therefore made long representations on this point, explaining how hard she had tried to keep the Revenue informed. In making representations concerning whether it was reasonable for the customer to believe their award was correct, it is often important to examine the surrounding circumstances at the date when the erroneous payment was made. The date is therefore very important if the customer is going to be able to properly put their case.

5.39. Given the considerable sums which people are required to repay, they have a right to expect clear and explicit notifications as a matter of course, enabling them to ascertain the total amount they owe; how the overpayment or excess payment in-year has arisen; and the repayment arrangements. This does not happen at present.

5.40. Better information to customers when they have been paid too much tax credits would lessen the pressure of work on the Revenue. It would mean fewer calls to the Helpline, fewer misguided appeals, and more focused representations to the TCO overpayments team, leading to better decisions first time round.

5.41. The extensive revisions to award notices from April 2006 (discussed in Chapter 4) will go some way to improving the situation. However, customers deserve more direct and explicit information referring solely to their debt to the Revenue and its recovery.

I therefore recommend that customers who have been paid too much in tax credits, whether identified during the year or at year-end, are sent a letter outlining the total amount they owe; the reasons why the overpayment or excess payment in-year occurred and the date or dates when it happened; and the repayment arrangements which will apply in their case. The letter should enclose a copy of COP 26, and draw particular attention to the circumstances when recovery can be waived and the availability of ACTs in cases of hardship.

Delays in dealing with disputed overpayments

5.42. The delays in dealing with disputed overpayments have been considerable. By the end of March 2005 some 214,000 requests for reconsideration of recovery had been recorded. As at 30 April 2005, less than half (89,000 or 41.5%) had been dealt with. Around 125,000 disputed overpayments cases were still awaiting a decision.[35] Between June 2004 and April 2005 the Revenue more than quadrupled the number of staff dealing with disputed overpayments from 105 full-time staff to 495 as at 30 April 2005. However, Revenue staff advised us in April 2005 that the then current rate of receipt of new cases was greater than the rate at which cases were being cleared, even by the large team deployed on this work.

5.43. In cases which reach the Ombudsman, it is not unusual for customers to have already been waiting for between four and six months for their cases to be looked at by the disputed overpayments team at the TCO. In some cases the delays have been longer, because people have sought to appeal against the decision to recover, and their cases have awaited action within the Revenue to deal with the appeal before being correctly referred, some time later, to the disputed overpayments team. In other instances, customers have written long letters requesting that recovery be reconsidered and explaining their reasons, only to be a sent a letter weeks later asking them to repeat the same information on a standard form (Form TC 846). Unfortunately, on some occasions, once returned, these standard forms have gone missing.

5.44. Delays matter. Given that in the majority of disputed overpayment cases the Revenue has already commenced recovery action, the fairness of the provisions of COP 26 is fatally undermined if cases are not dealt with swiftly. People's sense of frustration at the reduction in their tax credits is only increased if they know - maybe with good reason - that the overpayment in question was not their fault, or, indeed, may itself be a mistake. The long delays in investigating disputed overpayment cases, have meant that, where the Revenue has finally agreed to remit an overpayment, the families in question have already paid back a substantial amount - whilst unnecessarily living for months on reduced tax credit.

Case study:

Ms S is a lone parent who works part-time, and is reliant on Working Tax Credit and Child Tax Credit to supplement her wages and make ends meet. In March 2003 the Revenue informed her that she would shortly receive a decision notice about her tax credits claim, but it would contain an error. The Revenue had spotted it had wrongly treated her as disabled and in receipt of Disability Living Allowance - so her award notice would show the wrong amounts of tax credits to be paid. However, the Revenue assured Ms S that it had now corrected the error and a new notice would be issued shortly.

A first payment was made into the bank account of Ms S in April, but despite several calls to the Revenue and several reminder letters from Ms S, she did not receive a decision notice. In June 2003 Ms S even sent a letter by recorded delivery, emphasising that she was unable to check whether her payments were correct because of the absence of a decision notice. There was no response from the Revenue.

In early August Ms S finally received a decision notice dated 21st May, which still showed her as disabled. On the same day, she sent another recorded delivery letter to the Revenue, confirming that she was not disabled and expressing her concern at the resulting overpayment, caused by the Revenue's failure to correct an error it had itself identified.

In September the Revenue finally replied, apologising for what had happened. However, a month later, in October 2003, Ms S was informed that she had been overpaid £1,075.75 and that her remaining tax credits would be reduced from £484 every 4 weeks to £123.33 to pay it back. Ms S wrote to her MP. She had

cont...

[35] Hansard, 6/06/2005, cols 297-299 W

been left with insufficient money to pay her rent and childcare costs, and was off work suffering from stress as a result of the mistakes made on her claim.

As a result of the MP's intervention, and after a further five weeks of struggling financially, Ms S was awarded ATCs on hardship grounds - increasing her tax credits to 75% of the full award. However, no consideration was given to the question of official error. Finally, in February 2004, after further intervention of behalf of Ms S - this time by a welfare rights organisation - the Revenue acknowledged that it had known since March 2003 that Ms S was not disabled and had failed to correct her award. It also acknowledged that Ms S has tried on numerous occasions to get her award corrected. Therefore, almost four months after her tax credits payments had been reduced, Ms S had her full award restored.

5.45. Coupled with the pressure of trying to make ends meet on a reduced income for extended periods, has been the added frustration of having to repeatedly contact the Helpline to find out what is happening. The delays have impacted on already stressed lives. One customer was attempting to juggle calls to the Revenue from hospital, where her son was severely ill. She wrote:

'I have sent in a request to reconsider recovery of [overpaid] tax credit in May 04. This apparently has disappeared. I have sent another one by recorded delivery, which was received on 23 June 04 at 8.03am, but no-one knows where this one is either... I have rung 26 times since 1 June 04 to ask for the overpayments team to ring me back. Each time an e-mail request has been sent by the Helpline, and yet still no-one rings me back. According to the system my request to reconsider recovery of an overpayment has not been dealt with. I want to know what is going on... '

She told her MP:

'... it's hard to push [the Revenue] from the hospital and get them to return calls when some days my phone has to be switched off when we're at [the hospital].'

5.46. In an effort to clear the backlogs, the Revenue has introduced new streamlined procedures, effective from April 2005, as a temporary measure to deal with cases still in the queue relating to 2003-04 end-of-year overpayments, and 2004-05 in-year adjustments. The purpose is to clear the existing backlog of cases by the end of the summer. The new arrangements will not apply to new overpayments discovered in the course of the next round of finalisation of awards for 2004-05.

5.47. Under the new streamlined procedures, an initial determination of whether or not to remit an overpayment will be considered on the basis of both the size of the overpayment and the number of versions of the award there have been. At first instance, there will be no detailed investigation of individual circumstances, except in cases of larger overpayments. More detailed reconsideration will follow where a customer challenges the initial decision or supplies new evidence. The new streamlined procedures are intended to be quicker, in that they remove a lot of the judgement from the decisions, and will be more generous to customers in the sense of giving relief to more people and giving more relief on average than under the existing, detailed procedures.

Official error: consideration of remittance

5.48. There is currently no information available on the causes of overpayments, and hence the number of cases where too much in tax credits has been paid due to Revenue mistake. The Revenue's own figures seeking to quantify the overpayments relating to various identified IT system problems point to some 176,000 families facing possible recovery action as a consequence (excluding those cases where overpayments have been written off as a matter of policy).[36] Added to this figure are the families whose claims have been affected by the range of technical problems which have occurred when processing individual cases through the system; those overpaid as a result of the lack of reconciliation between manual and computer-generated payments; and cases affected by staff error.

5.49. At this stage, a very conservative estimate would be that there are likely to have been at least 250,000 families who have been paid too much in tax credit and are subject to recovery action, as a result of the variety of technical problems, errors and omissions on the part of the Revenue.

5.50. By the end of February 2005, of the 68,500 requests for reconsideration of overpayment recovery which had been decided at that date, only 15% (15.3%) had been successful in getting an overpayment written off.[37]

5.51. To apply successfully for remittance of an overpayment, it must first be established that the overpayment has been caused by a mistake or omission by the Revenue. As a matter of principle, where the Revenue becomes aware that a mistake has occurred which has led to too much tax credit being paid, it is reasonable to expect that they should notify the customer and draw their attention to COP 26. This happened, for example, during the 2003-04 finalisation process, when letters acknowledging that a mistake had been made were sent to customers affected by two early major computer processing faults.

I therefore recommend that whenever a Revenue mistake or error is identified which has led to too much in tax credits being paid, the customer is immediately notified of exactly what has happened and informed of the circumstances when recovery can be waived.

5.52. In some cases a customer already knows a Revenue mistake has occurred, or the Revenue can recognise it fairly easily. In other cases, the cause of the overpayment - and the extent to which the Revenue was at fault - is uncertain. Some of the cases coming to the Ombudsman have a long and complex history preceding notice of an excess payment in-year or an overpayment - where disentangling what went wrong and when (and who was responsible) is a difficult and painstaking task. The very process of investigation can uncover mistakes and errors, of which the customer could not possibly have been aware, and which the Revenue itself may not have realised.

Case study:

Mrs E went through a variety of changes of circumstances over a relatively short period. The family's income dropped when she went on maternity leave; she had a baby; she returned to work so the family's income increased; she left her job; she had a short period of not working; she started a new job; her childcare arrangements changed.

She reported all these changes to the Revenue, but unfortunately a number of errors were made. The wrong 'stop work' date for her old job was entered then corrected; the wrong 'start work' date for her new job was recorded then later corrected. Then technical problems arose which prevented the Revenue updating Mr and Mrs E's 2004-05 award to take account of information given on finalisation and renewal, and which also prevented the issue of accurate decision notices between May and September 2004.

Mrs E repeatedly sought advice from the Revenue about her entitlement but, as the Revenue later admitted, 'neither the Tax Credits Helpline, nor the overpayment team at the TCO, nor her local office, were able to give her clear and consistent advice'. As a result of all these errors, a substantial overpayment of over £1,700 had occurred by September 2004, and Mrs E's tax credit payments were drastically reduced

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36 See Revenue letter to the Parliamentary Ombudsman, 21/4/05, Appendix C
37 Ibid

from £500 per four weeks, to £167 causing her extreme anxiety and severe financial stress. ATCs were erroneously refused.

Mrs E's request that recovery of tax credits be reconsidered, made in October 2004, was not dealt with until March 2005. Upon investigation it became clear that a whole series of Revenue errors and technical problems had occurred which had led to the overpayment, and that Mrs E had done all she could to correct the situation. As a result, the Revenue accepted that Mrs E and her husband should not have been required to repay the overpayment.

5.53. COP 26 makes clear that, even where an excess payment has occurred due to a mistake on the part of the Revenue, it will require the money to be repaid unless the customer can show it was reasonable to think the award was correct. As can be seen from the low success rate in getting overpayments remitted, in dealing with cases up until April 2005 the Revenue took a robust line on the question of 'reasonable belief'. It has argued that there is a principle of individual customer responsibility involved. Thus, in a Parliamentary debate on tax credits in April 2005, the then Economic Secretary to the Treasury, John Healey, argued: 'people need to take responsibility for checking their tax credit awards, just as they should check their PAYE code, and they should let the Revenue know if anything is wrong.'[38]

5.54. From the evidence seen by the Ombudsman, most people understood their responsibilities to give correct information to the Revenue and to update that information if their circumstances changed. But there was an assumption on the part of many customers that, once they had provided all relevant information, the Revenue would properly determine their claim and make payment. Tax credits customers trusted the Revenue to get it right. Many were simply unaware of the degree to which there was a high risk of Revenue mistake or technical error. It is clear, for example, that not everyone appreciated the extent to which failure carefully to scrutinise an award notice could lead to an Revenue error going unnoticed - a problem exacerbated by the poor quality of award notices (which in some cases simply did not give sufficient information for a mistake to be spotted), and the fact that people could find themselves receiving a succession of award notices within a short period of time, for reasons which were not always clear. As one customer (a victim of the processing error which led to her partner's income being deleted), commented:

'Everyone believes what the Revenue say, you don't question it and this was a new thing... the general public believe that people who work in government offices are people who can do their jobs properly. So I hope you can understand why I didn't question anything.'

5.55. A question arises about the quality of initial decisions by the Revenue, when people first request reconsideration of recovery of an overpayment. The Revenue has told us that its own Internal Audit Office recently carried out a review of the Tax Credit Office's decision-making in disputed overpayment cases. It concluded that staff were making consistent, firm but fair decisions and that the quality of their decision making was well supported and controlled by managers. Nevertheless, based on the cases my office has investigated, there is some cause for concern.

5.56. The test of whether a person reasonably thought their award was correct involves the decision maker putting him/herself in the customer's shoes. It requires consideration of all the circumstances surrounding an overpayment, which might have led the customer to think that their award was correct. Yet, the cases seen by the Ombudsman suggest that the decision-maker

[38] *Hansard*, 6 April 2005, col 460WH

can sometimes focus on the factual events as they appear to the Revenue such as a particular award notice being generated or a payment being issued, without considering the sequence of events around the time of the overpayment from the customer's point of view. It is not always possible for a customer to tell whether it is the award notice which they receive before the payment, or the one they receive after the payment which is the one to tell them whether they have actually received the right payment. An award notice may be generated on one date, but may actually be sent to the customer some time later. A payment issued on a certain date may not actually be cleared through the Bankers Automated Clearing System (BACS) and paid into the customer's account until several days later. The exact sequence, as it is experienced by the customer, should determine whether they reasonably thought their award was right.

(*see 'Ms T' case study*)

5.57. Because the test is to a certain degree a subjective one, this puts an added obligation on the Revenue to consider the customer's point of view. In one case a customer's request for remittance of an overpayment was refused, on the basis that she would have known from her award notices that the Revenue had mistakenly classed her as disabled and entitled to a disability element in her award. In fact, none of the award notices did show her classed as disabled, nor did the award notice give sufficient information to show that a disability element had figured in the calculation of an award. A simple check of the customer's award notices, as was done by the Ombudsman's office, would have shown the true situation.

5.58. It has been argued by the Revenue that the fact that a decision on whether to waive recovery is revised, once the matter has been taken up by the Ombudsman, is simply because new facts have come to light. This is indeed a factor. Our concern is that those new facts come to light by virtue of the nature of the investigation which takes place once the Ombudsman is involved. The cases taken up by the Ombudsman are subject to a detailed investigation by the Revenue. A 'whole picture' of a customer's case is assembled, complete with a chronology of events from the customer's view, the series of transactions recorded on the tax credits computer, recordings of telephone conversations between the Tax Credits Helpline and the customer, the run of correspondence between the customer and the Revenue, and, if provided by the customer, the sequence of award notices received. Our concern is that, unless customers persist in disputing an overpayment and insist that it is taken up at a higher level, the full facts

Case study:

Ms T was overpaid £371.46 as a result of a computer error. Her request that recovery be waived on the basis that she reasonably thought her award was correct was refused. The basis of refusal was that, having been sent an award notice showing the payment, Ms T had not queried the amount. In fact, the reason MsT had not queried the amount was that she thought it was correct. She had received two award notices before the overpayment, which suggested that she was due the payment. The award notice which she received after the payment of £371.46 was made into her account did not mention the sum paid. When asked to look at the case again by the Ombudsman's office, the Revenue explained that this was because when the award notice was generated, the payment had not yet been confirmed by the BACS system. Therefore the payment did not appear on the award notice. The Revenue agreed to reconsider its decision, after it was pointed out by the Ombudsman's investigator that Ms T could not reasonably have known what award notice related to the payment in question. The Revenue subsequently decided to remit the full amount of the overpayment and paid Ms T compensation of £160 in recognition of the worry and distress they had caused.

are not properly considered. This raises questions about the extent to which the Revenue is fairly and consistently applying its discretion not to recover an overpayment from those customers whose tax credit claims have been blighted by official error.

Case study:

Mrs B's Child Tax Credit was stopped completely in June 2004, in order to recover an overpayment of Working Tax Credit amounting to £1,687.68. When Mrs B first disputed recovery, the Revenue agreed to write off £161.50, because they had delayed updating Mrs B's payment records at one point. However, when the case was investigated again following Mrs B's complaint to the Ombudsman, the Revenue accepted that £1,515.44 of the overpayment had been caused by its delay in stopping the payments of Working Tax Credit that were being made to Mr B via his employer - despite repeated requests from Mr and Mrs B to halt the payments.

5.59. Decisions concerning whether or not an overpayment should be recovered should be determined in a fair and transparent manner. It should be clear to the customer affected, why their request for reconsideration of recovery has been refused. At present, customers who are turned down do not always understand why. The issues they may have raised in their application for reconsideration of the decision to recover are not addressed in the computer-generated letters they receive. The result can be that a customer tries again to have the decision looked at, either using the complaints mechanism or by complaining to an MP. Clearer, more comprehensive explanations of the reasons why a request to reconsider recovery has been turned down might well diminish the number of cases where customers feel compelled to make their case again on the matter.

Conclusion

5.60. The new streamlined procedures to deal with disputed overpayments which arose during 2003-04 and which have been identified in-year during 2004-05 are a recognition by the Revenue that special measures are needed to deal with the large numbers of cases which have arisen due to the processing errors during the first two years. The Revenue is confident that, during the course of 2004-05, processing errors did reduce substantially, and that therefore the current backlogs are a 'bulge' which will not recur. We are concerned, however, about customers who have already been refused what is called 'official error relief', who may well have qualified under the new streamlined procedures - particularly those cases where the Revenue accepted that the overpayment in question was caused by 'official error', but has still declined to write off the overpayment. We also consider it would be unfair to omit from consideration those customers affected by official error during 2004-05, but where the overpayment is not identified until year-end. Fairness dictates that all cases should be treated consistently.

5.61. The cases I have investigated are striking in the sheer range and extent of processing errors affecting tax credit claims during the first two years, leading to overpayments for which customers were not responsible, but which they had to repay. A heavier burden was placed on customers than was reasonable to spot the wide variety of mistakes and omissions which occurred as a result of processing faults. Given customers' unfamiliarity with the new system, its sheer complexity - particularly when customers' circumstances change, and, above all, the wholly exceptional extent of the Revenue's processing errors during the first two years:

I recommend that consideration be given to writing off all overpayments caused by official error which occurred during 2003-04 and 2004-05.

I believe that there may well be a case for such a decision simply on value-for-money terms, given the accumulated cases which are building up for this period and which still have to be dealt with and the staffing costs involved in these. The estimated administrative cost of dealing with disputed overpayments in 2003-04 and 2004-05 is around £8.5 million.

5.62. Considerable resources have been devoted by the Revenue in the last two years to dealing with the fall-out from the extensive processing errors which have affected customers' awards in the last two years. Leaving aside the problem of the overpayment backlogs relating to this earlier period, the Revenue believes it may now have the situation under control. Now may therefore be the time to consider whether the test applied when an 'official error' has occurred, to decide whether recovery of an overpayment should be waived, is the most appropriate test to use in the context of tax credits.

5.63. Having looked carefully at the cases which have been referred to me, I am not convinced that the current test properly reflects the weight of obligation there should be on the Revenue to give prompt, accurate and reliable awards to its customers. Nor do I consider that the present internal system for determining whether sums should be repaid operates in a fair and transparent manner.

5.64. I am conscious of the fact that, within the benefits system, a statutory test for the recovery of overpayments has been applied for many years. In general, an overpayment of a social security benefit must be repaid if the claimant has misrepresented or failed to disclose a material fact. There is long and established case law on how this test should be interpreted. A claimant who is unhappy about a decision on recovery can appeal to an independent tribunal. Tax credits resemble benefits, in that they are income-related cash payments paid by a government department, intended to help people on modest incomes with their daily living expenses. Indeed, they have replaced previous benefits paid for the same purpose.

5.65. This test seems to strike the right balance between the obligations on the part of the administrators and those on the part of the recipients. It is therefore difficult to understand why this model of a statutory test should not be applied in tax credits cases, with a right of appeal to an independent tribunal.

I therefore recommend that consideration is given to the adoption of a statutory test for recovery of excess payments and overpayments of tax credits, consistent with the test that is currently applied to social security benefits, with a right of appeal to an independent tribunal.

6. Complaints and appeals

6.1. As problems within the tax credits system grew and customers became increasingly frustrated at the delays in resolving them, they turned to the mechanisms for complaints and appeals in an effort to get their cases sorted out. As a result, the volume of complaints and appeals has expanded and considerable backlogs have accumulated - causing delay and further distress.

6.2. There had been 73,000 appeals concerning tax credits lodged by February 2005, of which only 2,900 had proceeded to a tribunal.[39] As discussed in Chapter 5, some customers were wrongly advised by Revenue staff to appeal in circumstances when no appeal was possible, which led to unnecessary delays in tackling the underlying issues. It may well therefore be the case that the low proportion of cases heard reflects at least in part the fact that many of these appeals were inappropriate, made in an effort to resolve issues, such as recovery of an overpayment, against which no appeal lies. No information is available on the number of appeals which have been settled by agreement, and those still waiting either to be settled or referred to the independent Appeals Service.

6.3. In 2003-04 there were 32,000 written complaints about tax credits.[40] In 2004-05 the Revenue had received 48,500 complaints up until the end of February 2005. At that date, there were 4,400 complaints awaiting resolution.[41] The scale of the task faced by the Revenue can be seen in the increasing numbers of staff brought in to deal with complaints. Staff numbers dealing with the main body of tax credit complaints have nearly doubled in size in the last year, rising from around 200 staff to nearly 400 at 1 April 2005.[42]

6.4. Despite the extra staff, there have been considerable delays for customers in getting a response to their complaints. Some tax credit customers, desperate to get their case looked at as a matter of urgency, were frustrated to receive a standard acknowledgement letter in response to their complaint, advising them to expect to wait between 6 and 8 weeks for a substantive reply. Against a target of dealing with 80% of complaints within 15 working days, in the 11 months to the end of February 2005, only around 56% of complaints had been dealt with during this time.[43]

6.5. The Revenue literature on tax credits complaints gives customers a telephone number to contact about a complaint. In fact, cases investigated by the Ombudsman have indicated that it has proved virtually impossible to speak to someone on the number given. The Revenue answers an average of 100 calls a day on the line - a woefully small number, given the volume of complaints (see paragraph 6.3). The Revenue has confirmed that caller demand on the customer complaints line is currently exceeding its capacity to answer calls.[44] The inability to speak to tax credits staff about a complaint or appeal has added to customers' sense of a system which does not communicate with them.

Case study:

The Revenue had made three wrong payments into Mrs C's account, two in 2003-04 and one in 2004-05. When these were discovered in May and June 2004, Mrs C's tax credit award was substantially reduced to recover the money. Mrs C made a complaint, and completed and returned a request to reconsider recovery of the overpayment in June 2004. In August, she received a visit from a tax credit 'claimant compliance officer'. He noted that there were several payments recorded on the tax credits system which did not correspond to payments she had received. He told her that 'some payments have been entered in duplicate on the screen.' He gave her the number of the customer complaints line in Preston. Mrs C rang the number 85 times. She reported it was always either engaged, or out of order.

[39] See Revenue letter to the Parliamentary Ombudsman, 21/4/05, Appendix C
[40] *Hansard*, 25/1/2005, col 218W
[41] See Revenue letter to the Parliamentary Ombudsman, 21/4/05, Appendix C
[42] Ibid [43] Ibid [44] Ibid

6.6. In many cases, customers have turned to the complaints process because they have been unable to resolve the substantive (and often complex) issues concerning their tax credit award in any other way. But one of the frustrations for some customers has been that, rather than the Revenue always taking the opportunity to examine those issues, the complaint has been dealt with by way of an apology and payment of compensation - whilst the real problem or problems remain outstanding.

In the case of Mrs C (paragraph 6.5), two written complaints to the Revenue about her case in June and August led to the Revenue's complaints team sending her two payments of compensation, in July and August. However, the subject of her June 2004 complaint - that she was being financially penalised for Revenue mistakes she reasonably did not spot - was not actually dealt with until January 2005, when eventually the whole sum was written off.

6.7. Not only is this unsatisfactory from the customer's point of view, it is also an inefficient way of working. It points to the fact that the Revenue has been failing to deal with cases in a co-ordinated way; it would seem that priority has been given, once a complaint has been made, to clearing the complaint, rather than getting a case properly sorted out once and for all.

6.8. In total well over £1 million has been paid out by the Revenue in compensation for delay, hardship, inconvenience and distress. In 2003-03 10,820 tax credits customers received compensation amounting to £309,000.[45] In the nine months up until December 2004, 14,400 customers had been paid compensation, amounting to £912,000 in total.[46]

6.9. As a result of the delays in complaints being dealt with, and the failure of the complaints system often to tackle the substantive issues behind the complaints, some tax credits customers chose to escalate the matter to higher up the system - turning to their MP in many instances to intervene on their behalf. Letters from MPs to the TCO rose from 223 in April 2004, to 788 by December 2004.[47] During the same period, calls to the MP's hotline set up by the TCO to deal with constituents' tax credit claims, rose from 930 in April 2004 to 1,675 in December 2004.[48] Referrals from MPs to the Ombudsman's Office also rose substantially, from 37 in 2003-04 to 284 in 2004-05. In the Revenue's Director's Complaints Team - dealing with complaints sent via MPs and Ministers, the Adjudicator and the Ombudsman - staff numbers have risen nearly three-fold from 20 to 60 during the last year.[49]

6.10. The cases I have dealt with suggest that, in some instances, it is only at this stage that a case is finally fully investigated and all the different elements pulled together and looked at as a whole.

6.11. A customer should not have to make a complaint, then complain further to an MP, to the Adjudicator, and to the Ombudsman, before the Revenue will conduct a proper investigation into the history of a claim and what has gone wrong.

6.12. Since early 2005, the Revenue has begun to address this issue. As discussed in Chapter 4, the TCO has now established a new, dedicated team based in Liverpool, charged with the task of dealing with complex cases. The intention is to intervene, sooner rather than later, to resolve problems which arise. This is a welcome development, which it is to be hoped will reduce the number of cases where customers feel a complaint or appeal is their only route to get a problem with their tax credit award resolved. This is an area I intend to keep under review.

45 *Hansard*, 18/11/2004, col 1711-1712, and 18/1/2005, col 830W
46 *Hansard*, 18/2/2005, col 830W and 31/1/2005, col 599W
47 *Hansard*, 21/2/2005, col 75-76W
48 Ibid
49 See Revenue letter to the Parliamentary Ombudsman, 21/4/05, Appendix C

7. A wider view

7.1. Tax credits represent a new approach to delivering financial help to children and working families on modest incomes. As indicated earlier, for the majority of the Revenue's six million or so tax credits customers, the system appears to have worked well. But for a significant minority of customers there have been problems, sometimes very serious ones. This report is concerned with that minority. Although from the Revenue's perspective they represent only a small percentage of the overall tax credit customer base, there are hundreds of thousands of households who have been affected, the majority of whom are families with children and low incomes.

7.2. The Revenue is now dealing with a client group, a large number of whom rely on its payments as a crucial element in their household budgets. Working Tax Credit, for example, is an essential part of the financial package which makes work worthwhile for 1.5 million families. Child Tax Credit now supports 1.3 million children in the poorest families: those out of work on Income Support and Jobseeker's Allowance.

7.3. Such families are not only reliant on tax credits to make ends meet, they are also the ones most likely to be at risk from fluctuations in their awards (with possible under- and overpayments arising as a result). This is because of the range of different elements in their tax credits awards which makes them more susceptible to a change of circumstances affecting their level of payment.

7.4. It is clear to me that the Revenue has not taken on board the full consequences of dealing with this new customer group. When things go wrong, the effect on tight budgets, where families will generally have no reserves, can be severe. During the last two years, many families have gone through periods of uncertainty and growing debt as they struggled to deal with the problems affecting their tax credits awards. Some have ended up on a 'financial switchback' of initial non-payment, irregular interim payments by girocheque, an overpayment, then reduced payments to recover the overpayments, supplemented later by ATCs to relieve the hardship caused by recovery of the overpayment. The financial difficulties caused, not just by reductions in tax credits, but also by the repeated disruption to tight household budgets, and the effect on customers and their families, is significant.

7.5. In the cases we have investigated, problems with tax credits have led to people being threatened with eviction, having to borrow money from family and friends to support their children, using up their life's savings or running up credit card debts in order to pay for childcare costs, buy food and get to work. One woman wrote:

'I [am] frightened of debt and [do] not wish to owe any money as I do not deal with debt very well, due to the fact that my ex-partner put us in so much debt before he left us that me and my children lost our home and ended up in bed and breakfast... Since that time I have never owed anyone any money - ironic really as you can imagine how I felt when I was told I owed thousands [in overpaid tax credits] and didn't even realise it. I can't tell how ill this has made me. The pressure of owing money has brought my past back.'

7.6. When payments have been disrupted, or drastically reduced to recover earlier excess payments, people have not always known or been directed to supplementary financial help which the Revenue can make available. There is a ready assumption on the part of the Revenue that customers must take responsibility for their own claim. In principle, of course, that is correct. But the reality is that in a system as complex as tax credits, people need help. It is particularly unfortunate that the tax credits award notice, the main written communication from the Revenue to its customers about their award is such an inadequate document, being simultaneously hard to understand, yet lacking key information to make an award intelligible. When things have gone wrong, it has been hard for customers, often very worried about their financial plight, to gain access to staff at the Revenue who can deal with their situation. The accessibility of the Revenue to such customers has been poor. We can only conclude that the Revenue has still to get to grips with the new customer group it is now serving.

7.7. Particularly worryingly, in the light of the policy intentions behind tax credits, it has led in some cases to a lack of confidence among some customers that they are entitled to spend the money they are sent. In a number of cases, people have been faced with an unexplained girocheque from the Revenue and have been too afraid to spend it, because they are worried the payment will be wrong. A customer who had been notified she had been overpaid but who, after the Office's intervention, had then been found to have been underpaid wrote:

'... after careful consideration I have decided not to re-apply for tax credits in the new 2005 financial year despite being eligible to do so. The reason is that I have absolutely no confidence that the TCO will be able to administer my case efficiently or most importantly, accurately... My previous experience of the TCO shows that they are unable to cope with changes in employer or pay scales and I am not prepared to go through the nightmare of trying to get crucial information through to the TCO when the systems they have in place are woefully inaccurate... The hardship and distress that clawing back overpayments causes families... should not be overlooked.'

7.8. Computer problems and Revenue errors have undoubtedly contributed to the severe problems experienced by tens of thousands of tax credit customers during the first two years. Considerable efforts have being made to improve performance in these areas, which are having a positive effect, although I remain to be convinced, in the light of the increasing number of cases being referred to me, that all these problems are resolved. The Chairman has told me that the Revenue believes that the majority of overpayments result from customer failure or delay in reporting changes of circumstances and that the number will therefore decrease as customers' own understanding of tax credits grows.

7.9. It may, therefore, be thought that once the various technical problems and staff error rates are resolved and the residue of problems they created - backlogs in complaints and appeals and in disputed overpayments - cleared, the tax credits system will finally settle down. But our experience of dealing with tax credit complaints since the start of the new system suggests that there may be more fundamental problems in the organisation of tax credits which need to be addressed.

7.10. The business design of tax credits (see paragraph 2.16) has been built on the assumption that a tax credits claim can be dealt with in a series of self-contained one-off transactions. Work is carried out in separate silos, with no 'ownership' of individual cases. Effectively, there is no oversight of the whole of an individual's case - either the different aspects of a case being worked on, or its evolution over time. This leads to a fragmented and inadequate response when a problem arises, with delays in establishing the root cause of a problem and poor communication with customers about what is happening.

7.11. The business model for tax credits has been designed on the basis of minimal clerical intervention. As one leaflet proclaimed 'The days of caseworkers working on a claim through from receipt to payment are over.' This works for the majority. Yet tax credits can be complicated; so can people's lives. The reality is that, by default, the Revenue has found itself effectively operating an expanding caseworker system, as staff have been drafted in to work on individual complaints, appeals and disputed overpayments.

7.12. It seems to me that the Revenue needs to rethink how it manages its caseload when problems first arise. At present, it is often only when a case reaches the higher levels of the complaints procedure that all its various aspects - the full history of the award, the calls to and from the Helpline, correspondence, and award notices sent to the customer - are assembled and a complete picture established of what has happened and what went wrong. Rather than waiting until a case has been escalated into a full blown complaint before it is looked at as a whole, it would make more sense to pull the different elements together from the start in order to tackle the substantive problem effectively at an early stage.

7.13. A key element in managing 'problem' cases must be the ability to provide a considered and immediate response to customers. Rather than one-off contact with Helpline advisers, people with a complex history of a claim are in need of continuous and sustained communication at an early stage from Revenue staff who understand the whole picture. Currently, when a problem occurs, communicating with customers often appears an afterthought rather than an important part of the process of reaching a solution. Customers are often effectively kept at bay by the Helpline, unable to speak to those looking into their case. Yet, they can add useful information to explain the history of a claim. They can also point out when attempts to rectify a problem have failed.

7.14. I recommend that the Revenue reconsider the way it organises delivery of tax credits in order to deliver a better, more complete service to the customers it now serves. A different model is needed in complex cases and where something has gone wrong. More sustained and informed communication with customers about their case is essential, as is a 'whole case' approach to investigation to ensure a tax credits award is correct.

7.15. There are also important lessons for the future design of major public service IT projects, particularly in the social welfare sphere. Consideration of the customer must be a central element from the start. The intelligibility of information to customers, good communication, and effective mechanisms to deal with things that go wrong should not be afterthoughts, but central and built into this design.

7.16. As this report is published, the Revenue is about to begin its finalisation of 2004-05 awards. Later in the year, it plans to begin the process of transferring some 800,000 families with children, who currently receive Child Tax Credit via Jobcentre Plus, to the Revenue. These families, on the lowest incomes, are wholly dependent upon Child Tax Credit (plus Child Benefit) for the support of their children. It is essential that, in carrying out both processes, the financial basis of the families affected is secured. That is, after all, the purpose of the scheme.

7.17. Finally, I turn to the fact that a degree of financial uncertainty is built into the tax credits system, by virtue of its design. Excess payments will continue to arise in-year, which will need to be recovered by reducing payments for the remainder of the year. The system appears, therefore, to assume a 'savings buffer', which will enable people to survive sometimes significant and unexpected fluctuations in their income. But this is not a reality for a significant number of families within this client group. This has led to the introduction of ATCs, which are intended to alleviate the worst hardship. However, a separate claim has to be made for these payments which are then paid manually, and they, of course, also have to be repaid starting in the following tax year. In addition, overpayments identified at year-end also have to be recovered the following year. A third of tax credits awards in 2004-05 stood to be reduced below full entitlement due to the recovery of overpayments from the previous year. In many cases, due to the size of the overpayment, this recovery action for a 2003-04 overpayment would continue into 2005-06, not counting any further overpayment which might occur in 2004-05. This raises the fundamental question as to whether, for people on modest incomes who have to budget and plan their finances carefully to manage their lives, such inbuilt instability or uncertainty really works. Ultimately, this question has to do with the policy design of tax credits. It is not, therefore, a matter for me. However, in the light of the customer experience for this client group as described in this report, it is, I believe, an important issue that needs very careful consideration.

Appendix A. Complaints received by the Ombudsman against the Tax Credit Office 1 April 2003 - 31 May 2005

Total complaints =	**312**
Business year to 31 March 2004	37 = 3% of PCA workload
Business year to 31 March 2005	216 = 9.4% of PCA workload
Business year to 31 March 2006	59 = 23% of PCA workload

Proportion of completed cases upheld in whole or in part

Tax Credits cases: 79%

Parliamentary Ombudsman cases generally: c 33%

Telephone enquiries

December 2004	70
January 2005	70
February 2005	121
March 2005	132
April 2005	240
May 2005	300

Case work themes - cases will have more than one theme each

(Percentages based on cases received to 14 April 2005)

Overpayment = 69%

Problems with TCO records = 32%

Problems with information, explanations, advice, award notices etc. supplied by TCO = 36%

Complaints handling = 28%

Underpayment, ceased payments, wrong bank accounts etc = 17%

Failure to reply = 15%

Delay = 12%

Errors processing claim and calculating award = 11%

Helpline = 9%

Appendix B. Delivery of tax credits

	Number of sites	Number of staff*	Responsible for:
Policy	Two Sites London, Preston	24 including Tech Support	maintenance of tax credits policy, including changes to legislation, and providing technical advice to operations
Debt Management Service	147 Sites including Cumbernauld, Shipley, Worthing 144 local recovery offices	200	banking payments & collecting direct recovery overpayments through telephone contact, correspondence, personal call and enforcement action
Contact Centres	Seven Sites Dundee, Livingston, Bathgate, Newcastle, Peterlee, Merry Hill, Belfast	2,650 Numbers per site range from 300 - 600.	telephone contact with applicants, employers and representatives
Enquiry Centres	285 Sites		face-to-face contact, emergency payments and additional services
Tax Credits Office	Three Sites Liverpool, Preston, Belfast	Total No. of Staff: 4,100	dealing with exceptions in making or maintaining tax credit awards, including appeals (160), complaint-handling (340), disputed overpayments (620), calls back on complex cases (70)
Programme Office	One Site London	Total No. of Staff: 10	delivering the Programme and co-ordinating day to day operation of Tax Credits
Compliance	Large teams in: Preston, Longbenton Plus teams in many local offices around the country	Staff in Preston & Longbenton: 350 Staff in Local Offices: 870	risk based approach to detecting and correcting non compliance by Child Benefit and Tax Credit Customers
IT Live Service	Three Sites Blackpool, Longbenton, Telford	Total No. of Staff: 152	day to day IT support, written guidance, call process across tax credits.
IT Development	One Site Telford	Total No. of Staff: 27	changes and improvements to the tax credits computer system, determining IT architecture, requirements and testing in conjunction with our IT partners

* Staff numbers quoted are those staff working exclusively on tax credits.

Appendix C. Correspondence between PHSO and the Revenue about wider tax credits issues

Text of letter from HM Revenue and Customs (17 February 2005)

Thank you for your letter of 31 January about your plans to produce a special report on tax credits.

Before getting into detail, it may be worth remembering that the new tax credits operate in a completely different way from their predecessors. Entitlement to Child and Working tax credit is contingent on current tax year income, and is finalised after the end of the year. This means that the normal operation of the system will require end-year adjustments in many cases, either to pay out tax credits previously underpaid or to recover an overpayment. The design of the system does of course seek to minimise the numbers of overpayments, and reduce the amounts involved, by leaving out of account in calculating the current year's award the first £2,500 of a rise in income. Our initial findings indicate that the majority of the overpayments for 2003-04 are the result of changes in the family's situation (mostly increases in family income of more than £2,500 which is not surprising given that most 2003-04 awards were based on income for 2001-02) rather than of Inland Revenue or IT error.

Where an overpayment is identified at the end of the year, it is normally recovered from continuing tax credit payments, subject to the safeguards set out in our Code of Practice 26. We are monitoring the operation of the system so that we can learn how best to help claimants understand how to avoid unexpected overpayments that can lead to problems with recovery.

We have, of course, as you identify in your letter, had particular problems with the IT support for tax credits, many of them leading to overpayments outside the normal run of the system, and the cases that you are seeing will reflect those early problems. Sometimes the problems become apparent as awards are finalised so the process of renewals can also bring the effects of problems to light. Some cases can also take a while to reach your office because they have been subject to an appeal or have first gone through the Adjudicator's office. Having said that, we are now confident that the system is stable and have a number of strands of work in hand to improve claimants' experience with tax credits - I will cover those in more detail below.

You wanted information about the nature of the problems that had been experienced. In paragraphs 2.10 - 2.14 of his Standard Report 2003-04, the Comptroller & Auditor General describes the problem that was encountered when the NTC system failed to recognise that certain tax credit payments had been made, resulting in future payments being higher than they should have been. As described within that Report, payments of £300 or less were written off, not being added to the record of the claimants who had received them. Consequently, more than 80% of the households who had received additional funds did not become overpaid at the year end as a result.

In addition, an isolated system problem which meant some income figures were erroneously omitted from entitlement calculations resulted in some 60,000 households receiving incorrect (higher) payments for 2003-04 or 2004-05 or for both years in some instances. These overpayments total some £80m. The system problem has been fixed successfully and no new cases have arisen.

We have sometimes had difficulty in processing individual cases through the system or handling changes of circumstances. Where this has occurred, we have where necessary paid people clerically to ensure they were not out of pocket but this has still given rise to complaints. Our priority is to put things right and resume payment automatically via the tax credit system as soon as we can, paying compensation to claimants where appropriate to acknowledge any worry or distress we have caused them.

I would like to emphasise that cases in which problems have occurred have been the minority - the system has successfully handled millions of cases since we went live. And where there have been difficulties we have reacted quickly to handle them and mitigate the effect on claimants. Where a system fault has led to families having difficulties, because they did not receive their award at the correct time, we have issued giro cheques. Where we adjust a family's payments during the year to avoid paying them too much tax credit at the end of the year, and this causes them hardship, we have introduced additional payments to bring their tax credits back to a higher level. The Code of Practice 26, which covers our policy on handling overpayments, sets out who can receive these additional payments.

I said that I would set out the work we have in hand to make improvements. We have been working to respond positively to many of the recommendations made by the Revenue Adjudicator in her report last summer into some of the same issues I know you want to review. In addition, the Public Accounts Committee have also considered the same issues on two occasions.

A key area on which we have been concentrating is improving our complaints handling, including handling disputed overpayment cases. We have improved our processes to speed up handling and bring cases to a resolution. A dedicated team, the Tax Credit Office Resolutions Team, handles the clearance of complaint cases, such as the ones you refer to us, to the point where they are resolved.

- In addition to the measures we put in hand to deal with immediate problems, we have tried also to address wider issues, learn lessons from our experiences and achieve improvements in our overall performance. So we have, for example, opened two new contact centres, to enable us to deal with customer calls, in particular, during the renewals period. We also extended the period over which people could provide their renewals information. These actions meant that the end of year reconciliation process ran smoothly.
- We have also revised our guidance in Code of Practice 26, which covers our policy on handling overpayments, and the Adjudicator observed that it 'reflects what I consider to be a fair and proper approach to the sensitive issue of overpayments and their recovery.'
- In parallel, we are working on improving the quality and manner of our communications. The claim form is simpler than it used to be, and we have undertaken extensive testing to find out how user friendly it is, including filming people completing it to test the relevant processes. We also provide a lot of help with the form if people need it - comprehensive guidance which comes with the claim form, or on the website, advice from the Helpline and face-to-face help at IRECs and Jobcentre Plus offices.
- We are determined to improve the information and clarity given on our award notices, and we have consulted extensively with representatives of our Consultation Group about the award notice and aim to introduce a significant number of improvements towards the end of 2005-06. Some improvements will be introduced in April 2005 with other changes to come on line in tandem with the appropriate IT software changes.
- To cover the period prior to these improvements being made, we have produced an explanatory sheet intended to help advisers and claimants understand the various elements of the payments

page of the award notice. This explanatory sheet is sent out with award notices. Our Tax Credit Consultation Group has warmly welcomed the explanatory sheet that reflects a number of their suggestions.

We obviously need to continue to work on improving the service we provide our customers. However, I believe that the steps we have taken in the recent past are a good start, and I hope that you start to see some evidence of this as you carry out your review. I do however fully recognise that much of it will not be relevant to the many live cases you have been dealing with which are in fact, examples of many of the problems we have been working to address. I understand that you have recently notified us of a large number of assistance cases which you propose to pass to us shortly: if when we have had a chance to look at them it turns out that they raise new issues I will write again.

David Varney

Chairman

Second letter from HM Revenue and Customs (21 April 2005)

I am now able to provide the information you requested. For simplicity, I have followed your headings.

How are overpayments and their causes measured?

In his letter of 17 February 2005, David Varney advised that the majority of the overpayments for 2003-04 were the result of changes in the family's situation, primarily increases in income greater than £2,500. In this context, the term ‘overpayments' related only to balances identified after the end of that year, being the difference between final entitlement following the finalisation of an award, and the payments made during that year.

You asked for some further information about our statistics on the causes of overpayments. As mentioned above, overpayments are not finally determined until an award is finalised. Some claimants had until 31 January 2005 to finalise their award for 2003-04, so the collation of comprehensive statistics has only just become possible. We will be publishing details of the level of overpayments as at 5 April 2004 at the end of May 2005, under National Statistics. These will include any overpayments that occurred as a result of our error. However, as you correctly suggest, we cannot easily identify the reasons why an overpayment arose, and to examine each award would be prohibitively expensive in terms of resources. We do not yet have sufficient data to allow us to publish information on the causes of overpayments. However, we have sought early indicative data from a small-scale sampling exercise (and also conducted research with individual claimants to understand why they built up overpayments in 2003-04) and it is from these sources that we have derived our first indications of the causes of overpayments.

A summary of the main computer problems

You asked for a more detailed picture of the nature and extent of the computer problems that have occurred.

You are aware that there were some well-publicised problems in the early days when the system did not perform as expected. With a system of this size and complexity there will, from time to time, be glitches. However, the system has worked throughout the entire period since tax credits were introduced and has been stable for some considerable time now. With our IT partners we work hard to ensure the smooth delivery of tax credits and we have arrangements to deal with any problems that arise - working together to react quickly to problems, identifying and taking whatever action is required to resolve them.

There are regular, planned, upgrades and releases of software to add new functionality for the tax credits cycle. For example, during 2004-05 we successfully completed the first annual review and renewals exercise. This involved finalising millions of awards made in 2003-04 and working out whether claimants had received their correct entitlement - we did this for those whose award ended in 2003-04 as well as for those who had a continuing entitlement into 2004-05. During the renewals period, we made sure that claimants were not without money by continuing to pay them on a provisional basis, adjusting the rate of payment when each claim was renewed. Most customers only had a couple of pages of information about their circumstances to check and a very short form to complete to tell us about their 2003-04 income and to confirm that their circumstances were correct. We also allowed customers to renew by 'phone and the vast majority of our customers found this quite straightforward.

David Varney mentioned two major software problems we have faced in his letter to you of 17 February.

'Contra' cases

I don't feel I can add anything to what is in paragraphs 2.10 - 2.14 of the Comptroller & Auditor General's Standard Report 2003-04. Those paragraphs describe the problem that was encountered when the NTC system failed to recognise that certain tax credit payments had already been made, resulting in duplicate payments being issued. As outlined within that Report, payments of £300 or less were written off, not being added to the record of the claimants who had received them. Consequently, more than 80% of the households who had received additional funds did not have to repay anything. We also wrote to those households where we intended to take account of the extra payments, pointing out our error, drawing their attention to our Code of Practice 26 and asking them to call us if they reasonably believed their payments were correct.

'Incorrect Income' cases

In addition, early in 2004-05 we identified an isolated system problem, which meant some income figures were erroneously omitted from entitlement calculations. This resulted in some 60,000 households receiving incorrect (higher) payments for 2003-04 or 2004-05 or for both years in some instances. These overpayments total some £45m. The system problem has been fixed successfully and no new cases have arisen. When we corrected our error, we wrote to claimants who were affected explaining how the overpayments would be recovered and what claimants should do if they wanted us to consider writing off the overpayment under our Code of Practice 26 '*What happens if we have paid you too much tax credit?*'

Other problems

More recently, but on a much smaller scale, we have managed some other operational issues caused by IT problems. I do not believe they fall in the category of 'major software problems' but I thought it would be helpful to outline the issues.

Employer Funding Delays

A small number of employers paying tax credits through the wage packet seek advance funding from the Revenue (employers normally pay tax credits by using the funds they have deducted from their employees for Income Tax and NIC). At the end of March 2005, when we did an End of Year run, we had a system problem in calculating the funding for employers. For the majority it was successfully completed but some funding payments for April arrived in employers' bank accounts a few days later than normal. When we recognised that there could be a delay with the payments for some employers, we took positive action to contact each of the employers affected to discuss the position. Most reported that the delay would not cause them a problem and would not affect their ability to pay any credits due. We arranged prompt payments for the small number of employers who needed them urgently. And all outstanding payments were made by 13 April.

'Incorrect Payment' cases

A new issue recently came to light with regard to provisional payments for some single adult households for 2004-05. The error was an unforeseen consequence of the fix applied to correct the Incorrect Income cases mentioned above, which was a problem affecting joint claims and some single householders with multiple income sources.

Some provisional 2004-05 payments for single adult households were not based on the latest income figure the claimant had given us (most often when finalising their 2003-04 award), but on the original 2001-02 income they provided when they first applied. For the group affected, the system incorrectly treated the 2001-02 income figure as if it were the latest we have received as far as 2004-05 award calculations were concerned. It also means that the 2001-02 income was initially used incorrectly to set up the provisional payments for the 2005-06 award.

The errors affected some 36,000 awards - 32,000 have received overpayments and 4,000 who were underpaid. The estimated amounts involved are just over £21m and £3m respectively. Preliminary analysis of the overpayments show that 20,000 are of less than £600, 5,000 between £600 and £1000, 5,000 between £1000 and £2500 and 1,200 over £2500.

We discovered this matter only recently. We quickly corrected the potential underpayment cases and arranged to make additional lump-sum payments. Had we sought to correct the position for those who were being overpaid so late in the 2004-05 year, payments might have stopped altogether for some claimants. We therefore decided not to initiate any action that would have lead to a reduction in, or stopping of, payments for the rest of 2004-05. But we took effective action to re-profile awards to set up the correct level of provisional payments for 2005-06 to avoid causing an overpayment in this year, and issued fresh award notices to affected claimants showing them what level of payment to expect for 2005-06. We are currently considering how best to handle the overpayments for 2004-05 but do not propose to take any recovery action before claimants finalise those awards during 2005-06.

Annual Balance

An IT error during the Account Balance we undertook for tax credits (alongside all IR systems) in October 2004 resulted in incorrect payment posting entries being made to some claimants' records. We identified (and quickly corrected) a problem where, after we had carried out the annual balance, we had amended the records of around 60,000 claimants - for example, to note a change of circumstances they reported. Of these, around 2,000 received overpayments totalling approximately £400,000. And a further 7,000 households (where entitlement had already ended) received an incorrect notice showing an overpayment. We wrote to these two groups to tell them about our mistake, sent them a copy of our Code of Practice 26 and described what they should do if they wanted us to consider writing the overpayment off. For the vast majority who simply received incorrect information on an award notice, we corrected their records and sent them a revised award notice.

Ceased cases

We have an emerging issue where, in certain situations, the system has incorrectly overwritten the end date set on a tax credits award with the result that, when the records are subsequently amended, it appears further payments are due. We've identified fixes and are in the process of detailed investigation. I will let you have further details when we have completed our analysis, if you wish.

'Fatal errors'

You may have recently seen the Parliamentary Question concerning a 'fatal error' message that our staff sometimes see when they access a claimant's record. It means they could not see details about the customer concerned at that time and were consequently unable to make changes to the award on the computer system. It is not possible to provide the number of awards that may have been affected at some time by this type of error. The vast majority of 'fatal errors' are resolved by trying to access the records again and do not affect the claimant's payments or lead to overpayments. But we do have a small number where we either cannot calculate the award at all, or where there is no payment schedule meaning that we cannot get them into automated payment. We make arrangements for claimants to receive manual payments in these circumstances.

Conclusion

I would like to emphasise that customers who have been affected by our IT system problems have been in the minority - the system has successfully handled millions of payments day in, day out, since we went live - but, as I said earlier, with a system of this size there will, from time to time, be glitches.

Aside from the particular software problems explained above, and as David Varney mentioned in his letter, we sometimes experience isolated difficulties when processing individual cases through the system, or when handling changes of circumstances. Our priority is to put things right and resume payment automatically via the tax credit system as soon as we can but, where necessary, we will make manual payments while we work to correct the problem. But teething troubles have still given rise to complaints and the result of these types of difficulty are reflected in the examples to which you refer in your letter.

You have quoted some specific examples of the types of problems you have seen in cases referred to you. Some of these are not instances of IT problems, but result from human error. For example, on occasion, staff making changes to records have incorrectly deleted details relating to a child. These errors occur if our staff do not follow the correct process to update the tax credits computer system with more recent information about children.

Code of Practice 26

You have asked for more details on the introduction, and revision, of Code of Practice 26, including the introduction of guidance and training for staff on handling disputed overpayments and making additional top-up payments.

The Code of Practice 26 was introduced to fulfil assurances given by the Government during the passage of the Tax Credits Bill through Parliament. The first edition was published in December 2003 and a revised version was published in August 2004. We send a copy of the Code of Practice to claimants who query an overpayment, or who ask for advice on what to do if they do not feel they should pay back all, or part, of an overpayment. General guidance on dealing with overpayments and additional tax credit payments is in the New Tax Credits Manual in the sections headed 'Overpayments' and 'Additional tax credit payments', respectively. The manual is available on the Inland Revenue website at www.inlandrevenue.gov.uk.

We began to deal with requests for additional tax credits payments (atcp) in October/November 2003, when the need to top-up reduced payments arising from in-year adjustments became apparent, and we set up a dedicated team in the Tax Credit Office to deal with this work. From August 2004 revised atcp procedures were introduced, in line with the revised COP 26.

Guidance on official error relief was made available to staff in May 2004, in time for handling the finalisation of 2003-04 awards. A dedicated team was set up to consider claims to waive recovery of an overpayment on the grounds of official error so that expertise is developed and consistency maintained. The procedures were rolled out to the staff on that team after being tested.

Training was provided to both these dedicated teams by means of pre-reading and workshops and the teams had ongoing support from mentors involved in the original testing until they were comfortable with the new procedures.

Information to claimants

In his earlier letter, David Varney mentioned the improvements we are making to the award notice, and you have requested further information about these. Award notices for 2005-06 include revised formatting to present information in a clearer fashion. But the major changes will be brought in from April 2006. These include:

- a much simpler and clearer **summary** on the front page that focuses on the most relevant information for the customer - what sort of award notice it is, what it is in response to and how much money they are going to get for the remainder of the year.
- relevant personal circumstances about the claimants and their children upon which we have based our assessment of their entitlement set out in Part One. We ask them to check these carefully and also remind them to report any changes in the future. **Part One** also sets out the information about their **income** in a clearer way, showing a breakdown between different types of income. That makes it easier to check. And we have made it clear which year's income we have used and how to work out if they need to tell us about a likely change in their current year's income.
- A revamped **Part Two** that sets out in the clearest possible way how we have calculated their **entitlement** to tax credits. This will show where amounts have changed - for example, if they have had a baby during the year - and the relevant period of time that the entitlement covers. It will

now be possible for customers to check that we have taken account of the right changes for the right periods. Part Two will also show by how much their entitlement based on each element has been reduced by their annual income.

- An explanation in **Part Three** of what **payments** we will make for the remainder of the year and how this relates to the claimant's entitlement as calculated in Part Two. For many this will be very straightforward. But for a significant minority, this is more complex, requiring us to take account of overpayments from previous years, in-year adjustments to avoid hardship and the carry forward of overpayments to future years.

We believe that we will then have a good layout and structure that will cope with the large majority of individual situations and make sense to most customers and their advisers - a copy is enclosed for your information. We have worked closely with our tax credits consultation group. Several meetings and workshops have been held with national representatives and local advisers and caseworkers to take full account of their views in working up the new design. And they have since indicated both at meetings and in writing that they regard the new design as a significant improvement.

You have already seen the explanatory sheet, TC 602PE, and I can confirm that this is what is referred to on the final page of David Varney's letter. This information was incorporated into the guidance notes issued with award notices, from November 2004.

In the Annual Report of The Adjudicator 2004 there is a mention on page 14 of a 'flyer' issued with amended award notices, and you have requested a copy. The flyer is known as form TC 820 and a copy is attached. I would mention that the purpose of this leaflet was to alert claimants to the availability of additional tax credit payments and it set out the action claimants should take if the amendment of their tax credits award late in the year resulted in hardship. We started to issue the flyer on 16 February 2004. The information was then incorporated into our revised guidance notes issued with all award notices, from April 2004, at which time the issue of the flyer was no longer necessary.

You ask what information claimants receive regarding an overpayment when they are first notified and if they ask for a full explanation of how the overpayment occurred. The amount of any overpayment, and how it will be recovered, is shown on award notices we send to claimants whenever we make or amend an award. Claimants can call the tax credits helpline to obtain an explanation of their overpayment. If they want a more detailed explanation, or to receive the explanation in writing, the helpline adviser will arrange for the Tax Credit Office's Overpayments Team to write to the claimant with the details.

Complaints

You asked a series of questions seeking statistics about complaints and disputed overpayments and these may, perhaps, be best answered in a Q&A format.

Q1. How many calls to the Tax Credit Office customer complaints line are being made on average per week, and of these, what proportion are answered and what proportion are lost due to the lines being engaged?

A1. At present the customer complaints line is not supported by sophisticated call centre-type equipment, although we are looking to install that in the very near future. Consequently we do not have the same comprehensive data about callers and call volumes as we hold for the Tax Credits Helpline. Our telephone service provider cannot currently supply us with reliable figures for calls to the customer complaints line to enable us to answer this question fully. We do know that we answer an average of 100 calls a day on the line, and that demand is currently exceeding our capacity.

Over time, customers have come to use the customer complaints line as a route for resolving more complex issues that are not actually complaints at all. In order to increase our capacity to deal with calls about both complaints and more complex issues, the Tax Credit Office now has a separate, dedicated team to do this work. The existing customer complaints line has thus been freed up exclusively to handle calls about complaints. These two teams work together closely on particular queries and issues, as appropriate.

Q2. How many staff were dealing with levels 1 and 2 complaints in March 2004; and are dealing with complaints now?

A2. There were around 200 staff dealing with Tier 1 and 2 complaints as at 1 April 2004, and this had been doubled to nearly 400 at 1 April 2005.

Q3. How many staff were there in the Director's Complaints Team in March 2004, and how many now?

A3. There were around 20 staff in the Directors Complaints Team in March 2004. This had increased to nearly 60 by the end of March 2005.

Q4. How many complaints relating to tax credits have been received by the Revenue in each of the four quarters of 2004-05 to date?

Quarter	Received by TCO/Tax Credit Contact Centres[50]
April - June 2004	9,100
July - September 2004	14,100
October - December 2004	15,800
Jan to Feb (2 months only)	9,500
11 months to end February 2005	48,500

Q5. How many have been resolved?

A5. To end February 2005 around 48,600 cases have been dealt with. This includes some carried over from 2003-04.

Q6. How many complaints are currently awaiting resolution at a) level 1; b) level 2; and c) level 3? What is the average waiting time at each level?

[50] Includes Tier 3, which are handled by TCO Includes Tier 3, which are handled by TCO but may not be received directly by them, e.g. Chairman, Ministerial. but may not be received directly by them, e.g. Chairman, Ministerial.

A6. Figures to end February 2005 are a) 3,500 b) 600 c) 300. An average waiting time at each level is not available, as this is not data we collect. In the 11 months to end of February 2005 around 56% of tier 1 and tier 2 complaints handled by the TCO were dealt with within 15 working days against an aim of dealing with 80% within 15 working days.

Disputed Overpayments

Q7. What are the latest figures on cases where a decision has been made on a disputed overpayment: in how many cases has a decision been taken to remit an overpayment a) in full or b) in part?

A7. About 68,500 requests (of some 165,500 requests for official error relief received) had been decided by end of February 2005 and around 10,500 families had their overpayment written off. Presently, we are unable to provide a breakdown of those that were remitted in full or in part.

Q8. How many cases are currently awaiting a decision concerning a disputed overpayment, and what is the average time currently being taken from receipt of a request to reconsider recovery to a decision?

A8. We had around 97,000 disputed overpayment cases on hand at the end of February 2005. We have streamlined our procedures to enable us to deal with cases much quicker and further streamlining measures have been introduced from 13 April 2005, so that we can catch up the backlog over the summer. We are writing to you separately, setting out the changes we have introduced in the way we handle disputed overpayment cases.

Q9. Does the Revenue make any distinction in its statistics concerning disputed overpayments between end of year overpayments and in-year adjustments where claimants wish to challenge the amount being recovered in-year?

A9. No, the statistics we have cover both year-end overpayments and in-year requests for official error.

Q10. In what proportion of cases where remittance of an overpayment has been granted has the Director's Complaints Team been involved?

A10. This information has not been recorded and is therefore not available.

Q11. Of those cases where remittance of an overpayment has been granted, in how many cases are manual payments being made to effect the remittance because of a lack of IT functionality in this area?

A11. The IT functionality to remit overpayments has been available since 8 March 2005 and, in most cases, we are remitting overpayments on the computer system. Prior to that date, we did issue manual giro cheques in around 2400 cases to give effect to the decision to grant official error relief.

In-year adjustments

Q12. How many tax credit recipients were having in-year adjustments to recover excess amounts paid, as at 30 June; 30 September; 31 December and at present?

A12. The tax credits system is designed to be responsive to changes in circumstances during the year and adjustments to keep payments in line with latest entitlement are a feature of the system.

Information on the number of in-year adjustments is not available.

Q13. How many of these were receiving additional 'top-up payments'?

A13. Code of Practice 26 explains that, in certain circumstances, we will make additional tax credits payments where a reduction in payment causes hardship when we adjust entitlement following a change of circumstances in the year. The total number of such cases in which additional payments were made in 2004-05, to end February 2005, is around 7,000.

Appeals

Q14. How many appeals have been lodged against tax credit decisions, and how many appeals heard by tribunals?

A14. Since the introduction of the new tax credits, and up to the end of February 2005, the Tax Credit Office's Appeals Team had registered around 73,000 appeals. Around 2,900 appeals have been referred to the Appeals Service and, of those, 300 are still with them (the rest having been heard and decided).

Q15. What is the average length of time between receipt of an appeal and the appeal hearing?

A15. Most appeals do not require a hearing as they are settled by agreement with the appellant. The length of time over which we seek to reach agreement can vary significantly. In addition, we are dependent on the Appeals Service to organise any formal hearing that is required. Consequently we do not measure average times.

Nigel Jordan

Assistant Director

Appendix D. Payments page of a revised award notice and explanatory note

Child tax Credit

Amount for period

MRS LUCINDA JANE GREY will receive Tax Credit as shown below.

The full amount due for the period is	£1283.24 **A**
Amount you owe us will be collected from future years	£1584.92 **B**
Less amount we have already paid you for this period	£611.03 **C**
Less the amount you owe us from previous years	£1731.98 **D**
Amount to be paid	**£525.15 E**

Our records show that you have received too much tax credit for the year(s) 2004-2005. We will collect this from you by reducing your tax credit payments until the amount overpaid has been paid back to us.

Account details

All Child Tax Credit payments will be made into this account. So it is important to tell us immediately if these details change.

Payment dates and amounts

24/6/2004 £43.10

Your payments will then change to every 4 weeks until further notice. £39.81 J

Payments in 2005 - 2006

If your circumstances are unchanged, your payments will continue as shown below.

28/04/2005 £72.65

Your payments will then change to every 4 weeks until further notice £70.12 K

Working Tax Credit

Taking your income into account, the amount of Working Tax Credit due is reduced to nil.

Amount you owe us that will be collected from future years	£90.95 **F**
Less amount we have already paid you for this period	£83.95 **G**
Less amount you owe us from previous years	£90.95 **H**
Amount you have to pay back	£83.95 **I**

Our records show that you have received too much tax credit for the year(s) 2004 - 2005. We will collect this from you by reducing your tax credit payments until the amount overpaid has been paid back to us.

CTC means Child Tax Credit.

WTC means Working Tax Credit.

Explanation of amounts

The lettered boxes do not appear on award forms, just the amounts.

Our Code of Practice 26 *What happens if we have paid you too much tax credit?* explains the percentage rate, 25% or 10%, at which we recover overpayments for a previous year.

A This is the total amount of CTC due to Mrs Grey in the award period.

B Mrs Grey was overpaid £1731.98 CTC in the year 2003 - 2004. The overpayment is collected back by reducing the amount of CTC paid in 2004 - 2005 and later years. We work out how much of the total overpayment can be collected in 2004 - 2005. This is 25% of the net tax credits due to Mrs Grey for the rest of the period, calculated as follows.

	CTC due (item A)		£1283.24
Minus	WTC overpayment (item I)		£83.95
Minus	CTC paid to date (item C)		£611.03
	Amount due for the rest of the period	=	£588.26
	25% of £588.26 = £147.06		

The figure shown at B is the total overpayment (D) minus the amount to be collected this year.

That is, £1731.98 - £147.06 = £1584.92

C This is the amount of CTC paid from 6 April to the date the award form is issued.

D This is the total amount of the 2003 - 2004 overpayment. The difference between this figure and item B is the amount of the overpayment being collected in 2004-05, in this case £147.06.

E This is the amount of CTC that will be paid in 2004-2005. It is made up as follows.

	A minus C	£1283.24 - £611.03	=	£672.21
Minus	(D minus B)	£1731.98 - £1584.92	=	£147.06
	Amount to be paid		=	£525.15

F This is the amount of WTC overpayment of WTC that will be collected in 2005 - 2006 or later years. It cannot all be collected in 2004 - 2005 because the maximum recovery level of 25% has been reached.

G This is the provisional amount of WTC paid so far in 2004 - 2005. Mrs Grey's income is high enough to reduce her WTC payments to nil in 2004 - 2005.

H This is the overpayment of WTC in 2003 - 2004.

I This is the amount of WTC overpayment that is being collected back from CTC payments.

J Mrs Grey is paid CTC every four weeks. We work out the

- next available payment date
- the number of days between that date and the start of the next complete four weekly period, and
- the number of complete four-weekly payment periods between that date and 5 April 2005.

We round down the daily amount paid in this calculation and add these amounts to the first payment. This is why Mrs Grey receives £43.10 for her first payment and £39.81 for the remainder.

Amount to be paid in 2004 - 2004	£525.15
Deduct WTC overpayment being collected from CTC payments because there is currently no WCT in payment	£83.95
Amount left to be paid after deductions	£441.20

This is paid as one payment of £43.10 followed by ten payments of £39.81

K This figure shows what Mrs Grey's regular payments will be in 2005 - 2006 based on current tax credit rates. It takes into account Mrs Grey's circumstances at the date the award form was issued, and any known changes that will occur after 6 April 2005. For example, a child leaving full time education or a baby being older than one.

We estimate that Mrs Grey's CTC for 2005 - 2006 will be £1218.79, but we will deduct 25% because she still has an overpayment from 2003 - 2004 to be collected.

So we will pay 75% x £1218.79 = £914.09

This is paid as one payment of £72.65 followed by twelve payments of £70.12

These payments are higher than those for the rest of 2004 - 2005 because the payments for the rest of 2004 - 2005 take account of the amount Mrs Grey has already been paid this year. Mrs Grey has been paid about half of her award for 2004 - 2005 in the first few months, so her payments over the rest of that year have been reduced to pay the right amount overall.

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