

Written evidence submitted by the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

- 1.1 We welcome this opportunity to submit brief evidence to the Committee's inquiry. Our aim is to give a voice to low-income, unrepresented taxpayers and our submission focuses on the issues from their perspective.
- 1.2 We are generally supportive of HMRC's aim to be a trusted and modern tax and customs department by becoming an increasingly digital organisation. There is no doubt that, when done right, digital services¹ offer people great benefits. Digital routes are often quicker, easier, cheaper² and more convenient than postal or phone alternatives.
- 1.3 However, not everyone is able to use digital channels. Some people are digitally excluded, meaning they cannot access digital services and others may need assistance in order to move to and use digital services. People can move in and out of these groups as their circumstances change. HMRC must ensure that adequate support is provided for those who need it and that non-digital channels remain easily accessible. HMRC should not make it more difficult for those who cannot use digital channels.
- 1.4 In our view, some of HMRC's digital services (which includes online guidance) are not yet at the standard required in order to facilitate a significant channel shift. We are firmly of the view that if digital services are good, people will use them. HMRC's focus should be on building excellent digital services and improving existing services to meet customer needs and only then should they consider whether actions which effectively force people into a channel shift by giving them no other choice are necessary. If people are forced into digital channels, either before they are ready or before the services are ready, it risks providing a poor experience that may impact future engagement and compliance.
- 1.5 HMRC are facing increased resource challenges and say they are no longer resourced to deliver customer service standards through traditional phone and post channels. HMRC forecast that customer demand will need to reduce by 30% in order for HMRC to meet their standards with reduced resourcing³. This has led to HMRC making some radical and, at times, seemingly ill-thought

¹ Throughout this document where we refer to digital services this includes static guidance on GOV.UK

² Once someone has the set-up needed then it may be cheaper to transact digitally but there are costs in setting up and then often ongoing costs e.g. monthly broadband charges

out changes in order to force a channel shift from post/phone to digital. We believe this action is premature while the digital services are not as good as they need to be to properly support people navigating an extremely complex tax system.

- 1.6 We also think there are different steps HMRC could take to free up capacity on their phone and post channels which we explore further in para 5.2. For example, HMRC appear to have justified temporarily closing the Self Assessment helpline on the basis that this has allowed them to process an additional 250,000 repayment claims.¹ However some of these repayment claims are questionable (either because they are speculative or invalid) and so the solution to the excess demand on service is not just to process the claims, this just reinforces a wider problem. A better focus would be on HMRC using its powers to stop the unscrupulous agents behind these claims.
- 1.7 We explore our concerns about the decisions made by HMRC to force people into digital channels and the impact of those decisions below. We are concerned that some of these decisions have been made without a sufficient understanding of why people are using the phone (and post route) to contact HMRC. HMRC seem to believe that people are choosing to spend lengthy periods of time waiting on the phone when they could easily deal with their issue online and therefore a lot of contact through traditional routes is unnecessary. We question how robust HMRC's evidence is to reach such a conclusion; without clearly identifying the problems/what is driving current behaviour it is impossible to put in place the right solutions to achieve their aims.
- 1.8 As well as having concerns about the evidence base for making some of these decisions, we are concerned that decisions to extend initiatives appear to be based on high-level conclusions made on limited data without full evaluation and without acknowledging that there could be other conclusions that may explain the results. It is also the case that the impact of a particular change may be more significant for some groups than others and HMRC need to ensure appropriate alternatives are in place where necessary.
- 1.9 There is no doubt that in the short term, some of the recent initiatives may yield some results in terms of demand reduction². For example, it is not surprising that closing the SA helpline for 3 months reduced the amount of contact and freed up staff to deal with more items of correspondence than in the same period the previous year. But at what cost? As well as long term issues arising from potential increased error (impacting on the tax gap) and non-compliance, there is also displacement to consider outside of the department such as onto the tax charities.
- 1.10 The current customer service levels are damaging trust in the tax system. People are frustrated that they cannot get the help and support they need. Complex digital processes and guidance also

³ Q260 <https://committees.parliament.uk/oralevidence/13689/pdf/>

¹ As reported here: <https://www.accountingweb.co.uk/tax/hmrc-policy/self-assessment-helpline-jammed-after-long-awaited-reopening>

² See for example the early results from the recent trial closure of the SA helpline <https://committees.parliament.uk/publications/41662/documents/206460/default/>

provide opportunities for exploitation – such as the growth of unscrupulous tax refund companies in recent years. These developments are damaging to the health of the tax system.

- 1.11 As noted above, HMRC really need a deeper understanding of why people are not using existing digital services in order to produce a comprehensive digital strategy that addresses the issues properly. Until then, in the shorter term, HMRC need additional resources with the right skills to meet the current demand.
- 1.12 A lot of the support needed by taxpayers, especially unrepresented taxpayers, is driven by the complexity of the tax system. Complexity can be present in the legislation or in the operational processes and guidance that implement the legislation. There is sometimes an assumption that those on the lowest incomes have simple tax affairs – that is simply not the case. They have to grapple with the same complex tax system but without a professional adviser to support them.
- 1.13 It is also the case that the tax affairs of many of the population we represent are becoming more complex – it is no longer the case that people have one or two PAYE jobs for life. The rise of the gig economy sees people earning money from multiple different streams and we see more people changing PAYE jobs on a regular basis which means they are far more likely to need to understand and interact with the tax system than ever before. For these reasons, we were disappointed by the decision to abolish the Office of Tax Simplification and remain concerned that HMRC will be unable to achieve real simplification of the tax system when they have other priorities that may push against this objective.

2 About Us

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Move to digital

- 3.1 There is no doubt that digital services (including guidance) in the tax system can be greatly beneficial both to the user and to HMRC in helping them administer the system. Digital services, when done well, are often quicker, easier and more convenient to use than traditional methods such as phone, post and printed materials.
- 3.2 However, not everyone is able to access digital channels. It may be that they need support to access digital channels or they are digitally excluded. A report by the House of Lords Communications and Digital Committee¹ noted that 1.7 million households have no mobile or broadband internet at home and up to a million people have cut back or cancelled internet packages due to cost of living rises. Around 2.4 million people are unable to complete a single basic task to get online, such as opening an internet browser. Over 5 million employed adults cannot complete essential digital work tasks. The report concludes that a new Government inclusion strategy is needed alongside a cross-government unit to focus on the strategy.
- 3.3 HMRC have developed a digital inclusion strategy, but we understand that this is an internal document and there is no plan for it to be published externally. We would urge HMRC to make the strategy publicly available so they are transparent about their approach and so that services can be reviewed against the strategy and HMRC held to account where services fall short.
- 3.4 When closing the Self Assessment helpline temporarily in the Summer, HMRC initially provided some justification for the decision on the basis that only 1% of HMRC customers are digitally excluded². We have not been able to find a source for this figure and observe that HMRC removed that from their press release the following day³. HMRC must ensure they have a solid understanding of both the digitally excluded and assisted digital populations within their customer population, in terms of numbers and characteristics, so appropriate support measures can be put in place.

4 Recent initiatives and evidence base

4.1 General themes

- 4.1.1 HMRC are under resourcing pressures. At a recent Treasury Committee hearing, HMRC's Chief Executive said that contact demand is increasing – in 2022/23 HMRC got 3 million more calls than the year before and 1.4 million more items of correspondence – but resources are going down. The number of customers HMRC have is increasing and the number of those customers with complex needs is increasing. He went on to say that HMRC are not resourced to deliver customer service standards through the traditional channels of phone and post, which is why their strategy is to reduce that contact demand and push as much of it as possible on to digital self-serve. HMRC estimate they need to reduce contact demand by 30% by the end of next year, compared with the 2021-22 baseline to hit service standards with the reduced resources they have.⁴

¹ House of Lords Communications and Digital Committee, 3rd Report of Session 2022-23, Digital Exclusion <https://committees.parliament.uk/publications/40662/documents/198365/default/>

² <https://web.archive.org/web/20230608095542/https://www.gov.uk/government/news/hmrc-to-trial-seasonal-self-assessment-helpline--2>

³ Current version: <https://www.gov.uk/government/news/hmrc-to-trial-seasonal-self-assessment-helpline--2>

- 4.1.2 This shows HMRC are under significant resource pressures, but the CEO went on to say that ‘the good news is that we have plenty of evidence that, within that contact demand, there is demand that is unnecessary or that can relatively easily be self-served online’. The examples given were that HMRC get 3 million calls on ‘What is my national insurance number? What is my pay as you earn tax code? Can I change my online password’ which are all services that are offered online.
- 4.1.3 It is very difficult to get through to HMRC on the phone. There are often waits reported of up to an hour; sometimes you get disconnected and for those who do not have bundled mobile minutes the calls can be costly. It is difficult to accept that people are choosing to make unnecessary calls to HMRC when there is a quick online alternative. So far, we have not seen any evidence or research from HMRC which answers the question ‘Why?’. Why are people choosing to phone HMRC instead of going online? Is it a lack of knowledge that digital services exist? Is it that they don’t feel confident using the digital services? Or is it possible that their question is not as straightforward as HMRC suggest and so they do actually need to speak to someone.
- 4.1.4 As a result of these pressures, we have seen some radical and, at times, seemingly ill-thought-out initiatives and we have questioned the evidence base on which decisions have been and continue to be made. Whilst it may be that HMRC have robust evidence, we have not been able to get any conclusive answers nor has any of the evidence been published as far as we are aware.

4.2 ***SMS text messaging pilot***

- 4.2.1 HMRC carried out a trial where callers to HMRC were offered a digital alternative rather than staying in a telephone queue. Some callers were able to stay on the line and continue to wait to speak to an adviser if they wished – some were automatically cut-off. This trial was expanded in May 2023. HMRC report that the trial saw ‘more than 38 per cent of callers who received a text message about our quicker digital services, leaving the call without needing to call us back within 7 days. HMRC will now continue running the SMS service and expand it to more helplines and queries as part of a large trial’¹.
- 4.2.2 HMRC appear to have concluded that the fact 38% of people didn’t call back in 7 days means that they were able to get the support they needed from the digital channels. That may well be true – but equally it may be the case that they phoned back after 7 days, that they gave up trying to engage, that they went elsewhere (the tax charities or our own LITRG website or that they contacted HMRC via web chat or sent a letter). As far as we are aware, HMRC made the decision to expand without this fuller understanding and analysis of whether their hypothesis was correct.

4.3 ***Closure of the self assessment helpline***

- 4.3.1 On the 8 June 2023, with only 3 days notice, HMRC announced they were closing the SA helpline for 3 months. They announced this as a trial to pilot a seasonal model during which time SA queries from the helpline would be diverted to its online guidance, digital assistant and webchat. HMRC said

⁴ See Q260 <https://committees.parliament.uk/oralevidence/13689/pdf/>

¹ <https://www.gov.uk/government/publications/agent-update-issue-108/issue-108-of-agent-update>

that this would free up 350 advisers to take urgent calls on other lines and answer correspondence and, in the meantime, HMRC would increase the number of advisers available on webchat, the online service helpline and the extra support team helpline.

- 4.3.2 Despite reassurance to stakeholders that measures had been put in place to ensure that those who needed extra support would still be able to get through to the extra support teams by phone, our early testing showed that wasn't the case. After raising the issues with HMRC, they did improve the journey, but it is disappointing that they had not ensured support was in place when the announcement was made. As a result, we had to publish our own article¹ that tried to give people a workaround until HMRC were able to make changes to the process. Even once the changes were in place, the journey for those needing extra support was not straightforward and, in our view, changed the very nature of HMRC's extra support offering which has never relied on the individual needing to self-identify as needing extra support. The model has always put the emphasis on HMRC staff to identify, during a conversation with a taxpayer, that they may need some additional support.
- 4.3.3 The extra support service is important and going forward access to this team must be preserved and made as easy as possible for people. Although there is also an extra support webchat – telephone access to the team must remain available.
- 4.3.4 HMRC's press release also stated that 'around two-thirds of all SA calls can be resolved by customers online'. This is a figure that has been mentioned previously, when HMRC's CEO told the Chair of the Treasury Committee that 'we estimate 65% of calls to the SA helpline in the two weeks ending 8 January 2023 related to matters that customers could have resolved online'². This is a significant statistic and, if correct, lends support to HMRC's conclusion that they can meet their 30% reduced contact demand target by moving these people to digital channels.
- 4.3.5 However, we have concerns about this. Despite asking on many occasions, we have not been able to obtain any detail from HMRC as to how they made this estimate. The methodology is important. For example, if it is based on key words that people said on the IVR (voice recognition system) and HMRC assessing they have guidance on those particular topics then we would question its reliability. Often HMRC tell us that there is guidance on a certain subject but we find it lacking. Or people contact us because they have read HMRC's guidance and they cannot apply it to their own situation so need further clarification. It could be the case that HMRC's conclusion is absolutely right but equally it could be the case that a significant number of those calls were necessary because the guidance did not give the support that the taxpayer needed.
- 4.3.6 We would also like to highlight that a number of unrepresented taxpayers contact HMRC for reassurance. This may also be true when people are using digital services for the first time, and want to make sure they have taken the correct steps. They have often read the guidance, but they are simply not 100% sure and given the potential consequences of getting things wrong in the form of

¹ See our initial [press release](#) and our detailed article which was updated when changes were made to the helpline <https://www.litrg.org.uk/latest-news/news/230620-where-get-self-assessment-help-while-phoneline-closed>

² <https://committees.parliament.uk/publications/33652/documents/183920/default/>

financial penalties, they want to speak to someone to confirm their understanding and get some reassurance. So even if guidance exists for a particular topic, it may not be giving the person the reassurance and confidence they need to act on it.

4.3.7 We hope that HMRC will carefully analyse the impact of the closure and carry out a detailed evaluation before making any decisions about whether to close it again next year.

4.4 **Digital assistant and webchat**

4.4.1 HMRC's contact us page for self assessment¹ has 'Ask HMRC online' as the first entry. The page directs people to online services in the first instance and only provides phone details down the page. During the SA helpline closure, HMRC said they increased the number of advisers on webchat.

4.4.2 Ask HMRC online is HMRC's digital assistant. It allows users to ask a question and HMRC state that it will give links to relevant information. Following the closure of the SA helpline, we tested the tool (around 55 tests with different questions and words) and found in the majority of cases we were either given irrelevant/unhelpful links or the tool could not answer our question (even in cases where we knew guidance existed on GOV.UK).

4.4.3 HMRC told us that if the digital assistant could not help taxpayers they would be transferred to a web chat adviser. However, in our experience, only people who are chasing a tax refund are usually offered the option to speak to a web chat adviser. In other cases, where you don't get a suitable link to guidance, the tool says you can search GOV.UK, find out more about HMRC services and information or 'end this chat'. It does not offer the opportunity to speak to an adviser – the only way to do that is to specifically ask to speak to an adviser. In some of our tests, we had to ask on more than one occasion before we were connected to a webchat adviser.

4.4.4 We observed that taxpayers contacting HMRC via their Twitter support team were experiencing the same problem. HMRC staff would advise someone they needed to speak to a webchat adviser, give them the link to the digital assistant and the taxpayer would then come back and say they couldn't figure out how to speak to an adviser. This is what we experienced in our testing as well. We have fed this back to HMRC but as yet no changes appear to have been made. HMRC must amend the digital assistant to include an option to speak to a webchat adviser where a question is unanswered.

4.4.5 In their annual HMRC Charter report, HMRC said they had expanded the use of digital assistants and linking customers to a webchat adviser and that 'around 66% of customers who use the assistant don't need further support'². Again, we have concerns about this statistic and the assumption that people are getting what they need from the digital assistant without needing to speak to an adviser. It is possible that is the case, but it is equally possible that those people have the same experience as us and those taxpayers on social media, in that they are not offered an option to speak to a web chat adviser and may not realise that they need to specifically request to do so in the chat box. Obviously, some people are getting through to webchat – those who ask to speak to someone, those chasing

¹ <https://www.gov.uk/government/organisations/hm-revenue-customs/contact/self-assessment>

² <https://www.gov.uk/government/publications/hmrc-charter-annual-report-2022-to-2023/hmrc-charter-annual-report-2022-to-2023>

refunds and those who have been told what to do (for example people reading our articles and guidance or people going through HMRC social media channels who are told to type 'adviser' in the box). But again, we don't think you can assume that the digital assistant is meeting the needs of that 66% without doing further analysis.

4.5 ***Impact on taxpayers and stakeholders***

- 4.5.1 We have set out above our concerns about the statistics that are being used to drive current decisions around customer service provision. We also have wider concerns about some current digital services and guidance.
- 4.5.2 In early 2023, we published a detailed report called 'good guidance - the importance of effective guidance for unrepresented taxpayers'¹. The report acknowledges the steps HMRC have taken to improve their guidance and which demonstrate their commitment to continuous improvement. But the report also highlights several areas of concern about guidance ranging from missing guidance to misleading guidance to concerns about the technical accuracy of HMRC's interactive tools.
- 4.5.3 The report also raises questions about to what extent taxpayers can rely on HMRC advice in the form of interactive tools, twitter advice and advice via HMRC online forums. We are pleased that HMRC have been receptive to the report and we are regularly meeting with HMRC's guidance team to discuss the recommendations. However, it remains the case that HMRC's guidance has some way to go until it can support people adequately and help reduce the need for people to call HMRC. This must continue to be a priority for HMRC. It is likely part of the reason that our own website has grown significantly in use over the last few years – we now have over 5 million people a year accessing our free, detailed tax information via the LITRG website.
- 4.5.4 It is also the case that some of HMRC's digital processes are difficult to follow. For example, the process for claiming a tax refund online. First, taxpayers have to grapple with complex rules to answer the question of whether or not they can claim. The fact that claims sit behind the government gateway adds an extra step of difficulty for some. There is confusion about whether or not you can make a tax relief claim from inside the Personal Tax Account (PTA) and the processes for tax relief to be coded into tax codes.² The forms are also lengthy and not easy for unrepresented taxpayers to fill in. As a result, we have seen a significant increase in the number of unscrupulous tax refund companies who can exploit the complexities of the rules along with the difficulties in the operational processes to entice people to use their services (for a fee of up to 50% of the refund). This is just one example of existing digital processes that need improvement.
- 4.5.5 The other concern is that although some of the initiatives introduced may reduce demand in the short term, the long term consequences are unknown. This is particularly worrying if the underlying evidence base is not robust. For example, if someone could not get through to the SA helpline

¹ <https://www.litrg.org.uk/latest-news/reports/230404-good-guidance-%E2%80%93-importance-effective-guidance-unrepresented-taxpayers>

² We provide more information in our consultation submission on Protecting customers claiming tax repayments <https://www.litrg.org.uk/latest-news/submissions/220914-high-volume-repayment-agents>

because of the closure, they may decide to just fill in their return without getting help or clarification leading to a mistake. As part of their analysis of all of the initiatives and changes above, HMRC must ensure they fully understand the impacts and whether there are any long-term risks in terms of error (affecting the tax-gap) and non-compliance.

- 4.5.6 There is also a risk that if people have a poor experience with digital services then they will be reluctant to re-engage in future when those services are improved.
- 4.5.7 Analysis also needs to look at displacement of people to other organisations/places. For example, we know that TaxAid and Tax Help for Older People saw a significant increase in calls when the SA helpline temporarily closed. There was no notice or additional funding to deal with that. Similarly, we provide unrepresented taxpayers with detailed guidance that is filling gaps. Two recent enquirers to our website had this to say:

Website query 1

I spent hours reading HMRC Gov.Uk pages for help to complete the tax return and calculate the capital gains report. I found the information from HRMC at times confusing and ambiguous.....There was also no advice on how to complete a CGT calculation when the combined income and capital gains income had exceed the threshold for a basic tax payer. I just want to say thank you, as I found your web site following a Google search. The information you provided was clear to understand, and the examples explained everything I needed to do to complete my CGT calculations, So please accept my thanks and gratitude. Your work in explaining the complexities of the tax system is very much appreciated. If HMRC require the public to complete self assessment tax returns and the capital gains section, then they really out to make the process much simpler, so that it can be done without the requirement of specialist help, which I expect will often cost more than the tax which has to be paid!

Website query 2

I already knew various snippets of information, but one sentence on your website joined all of those bits together. Just that has really made my day as I had previously been concerned that if I made a penny over £2,000 (unearned income), I'd have to pay 9% on everything..... Thank you for simplifying the heaps of garbage that I've read about this. The government websites are all but useless as nothing is joined up. I only became aware of the £2,000 unearned income issues with student loans in passing when I saw a question listed in a Google search regarding another issue. I could see how people can just walk into problems they never anticipated.

- 4.5.8 People may also turn to family and friends and other online sources (such as social media forums) to get the help they need instead of returning to HMRC, if the digital HMRC guidance they have been directed to does not help them. This means they may not be getting accurate information. We are also aware that HMRC are encouraging people to ask them questions on Twitter or on the HMRC

online forums however we have seen incorrect information given out by HMRC on Twitter (often because the right questions have not been asked to establish the facts properly) and the HMRC community forum sometimes has answers that are incomplete and inaccurate (both from HMRC and other users).

5 What should HMRC do?

5.1 We do recognise that HMRC are trying to take other steps to make improvements to processes that will reduce contact demand. For example, they are reviewing registration requirements and other process changes to improve things for taxpayers and reduce contact. However, this work takes time.

5.2 We think there are a number of other things that HMRC could do to help reduce demand/free up capacity on the phones/post, for example:

- HMRC are currently reviewing their self assessment criteria. At present there is a mismatch between the legislative requirements around who needs to notify HMRC of their chargeability to tax and the list of people HMRC's self-assessment criteria identify as needing to file a return. For example, this means that HMRC currently ask those with income over £1,000 (before expenses are deducted) in casual/miscellaneous income to register for self assessment even if they will have no tax and NIC to pay. It is arguable that the legislation does not require this. There is an opportunity to align the ITSA criteria with legislation, minimising the number of people in self assessment without any tax to pay many of whom require support via the phone.
- When pre-populating tax returns or P800s, HMRC could give a breakdown of each source of income rather than adding it together. People need to contact HMRC to get a breakdown so they can check the tax return figure is correct.
- Expand online time to pay so that more people can use it without having to contact HMRC on the phone.
- Tighten up the rules around digital signatures on tax refund claims significantly. We have recently written an Autumn Statement 2023 representation on this issue¹. HMRC have to process hundreds of thousands of claims from tax refund companies, some of whom have concerning and unscrupulous practices. Some of these claims are speculative or inflated and we believe some are invalid because of the process used to obtain the signature. Lots of contact is also generated by the agents progress chasing, individuals questioning why refunds have been sent to a third party and then dealing with complaints.

5.3 We absolutely recognise the tough situation that HMRC are facing with their resources. We support the long term aim to encourage more use of digital services and believe that those who can confidently use digital services should. However some people, even if they can use a digital service, may still require reassurance to complete the transaction and that is a legitimate reason to seek support from HMRC. We also think that some of the digital services and guidance are not as good as they could be and do not give the support that unrepresented taxpayers need to be self-sufficient. In addition, HMRC need to have a much better understanding of why people contact them via phone

¹ <https://www.litrg.org.uk/latest-news/submissions/231017-autumn-statement-representation-2023>

and post and really challenge themselves as to whether people can self-serve currently in the way HMRC think they can.

- 5.4 We recognise that HMRC have done a lot of the work in the last couple of years to improve digital services and guidance. We think HMRC should be focusing on improving digital services and looking for other ways to reduce demand rather than forcing a channel shift too early. With these improvements, people will choose to use digital services. In the meantime, HMRC should be given enough resources to meet current demand while they carry out the work to improve and expand their digital services and guidance.

October 2023