

WELFARE REFORM COMMITTEE

THE FUTURE DELIVERY OF SOCIAL SECURITY IN SCOTLAND

WRITTEN SUBMISSION FROM THE LOW INCOMES TAX REFORM GROUP (LITRG)

1 About Us

- 1.1 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.
- 1.2 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. We are particularly interested in the potential interactions between the tax and welfare systems.
- 1.3 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.
- 1.4 In recent years LITRG has engaged with the Scottish Government concerning the setting up of Revenue Scotland, including the development of the Revenue Scotland website, and has responded to consultations on the Revenue Scotland and Tax Powers Act 2014. We have been involved in discussions on issues relating to the Scottish Rate of Income Tax and have given evidence to the Finance Committee of the Scottish Parliament on tax management issues relating to low income individuals.
- 1.5 This inquiry¹ is specifically seeking views on how the new welfare powers proposed by the Smith Agreement can be used to improve or change certain parts of the existing benefits system as well as seeking comment on new

¹ <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/90713.aspx>

benefits and potential top-ups of existing benefits. Whilst we are unable to offer views on what the changes should be, we would like to highlight some broad principles that we think need to be addressed regardless of what changes are implemented.

2 Specific comments

2.1 General principles

- 2.1.1 We would like to draw the Committee's attention to our submission¹ to the Devolved (Further Powers) Committee earlier this month which was a response to their call for evidence on implementing the Smith Agreement.
- 2.1.2 In particular we noted that it is necessary to take a holistic view of the tax and welfare systems when making any changes and that it is essential to keep the taxpayer and claimant in mind. It ought to be straightforward for taxpayers and benefit claimants to deal with their affairs and negotiate the tax and benefits systems.
- 2.1.3 These systems must be easy to understand; obligations on the taxpayer and claimant should be clear. It needs to be clear which authority they need to deal with for a particular tax or benefit. Currently DWP deal with the benefits that are to be devolved while HMRC deal with tax, tax credits and child benefit. There is often a lack of joined-up working and communication between the two departments and as benefits are devolved there is a risk of similar problems. Better communication and transfer of information between each department would be a good starting point so that if a taxpayer/claimant tells one department about a change, it would filter through as appropriate to other departments.
- 2.1.4 It is also important that claimants have certainty about their position. We often encounter people who want to understand how a life event or change will affect their position – it is important that people have access to information, guidance and tools that will provide this information. This is even more important if there are new or different entitlements in Scotland compared to the rest of the UK.
- 2.1.5 Finally, it is also necessary to consider the devolution of tax and welfare powers to Scotland within the context of the UK as a whole, as decisions taken elsewhere in the UK might affect Scotland and vice versa. We welcome

¹ This was a joint submission with the CIOT: <http://www.litrg.org.uk/submissions/2015/150814-LITRG-Scot-implement-Smith-Agreement>

the setting up of the Joint Ministerial Working Group on Welfare that will provide a forum for such discussion to take place.

2.2 ***Practical aspects of devolving welfare powers***

- 2.2.1 We were pleased to see that some of the practical aspects of devolving welfare were identified in the ‘Scotland in the United Kingdom: An enduring settlement’¹ paper.
- 2.2.2 In particular, paragraph 4.1.7 identified some key issues that must be considered. We agree that these are important areas and all need to be given some serious consideration before any changes are implemented.
- 2.2.3 We suggest that a full ‘checklist’ of key issues is drawn up and agreed upon that can be used to assess each change, to ensure that all relevant interactions have been considered fully.
- 2.2.4 As noted above, we have a particular interest in the interactions between the tax and welfare systems. Often a change in one area can have unintended consequences in another. What might appear to be a positive change to help people may have limited impact once interactions with other benefits are considered.
- 2.2.5 For example, over the last few years the tax personal allowance has increased each year. For every £1000 increase, basic rate taxpayers benefit by saving £200 a year in tax. However, when focusing on the positive impact of this change, the knock on effects to the benefits system are often forgotten. For those individuals in receipt of benefits based on net income, for each £1 increase in net income they will lose some of their benefits. If they receive housing benefit and council tax support, that could be as much as 85 pence in the £1 leaving them only £30 better off once you look at their overall situation. This is significantly less than the £200 that the change initially promises.
- 2.2.6 We note that the Smith Agreement (Paragraph 55) states that ‘any new benefits or discretionary payments introduced by the Scottish Parliament must provide additional income for a recipient and not result in an automatic offsetting reduction in their entitlement to other benefits or post-tax earnings if in employment’. Paragraph 4.3.12 of ‘Scotland in the UK: an enduring settlement’ confirms that the UK Government agrees with the principle of not offsetting new benefits with reductions elsewhere. It goes on to state that the ‘UK Government will therefore consider the introduction of new benefits or

¹ <https://www.gov.uk/government/publications/scotland-in-the-united-kingdom-an-enduring-settlement>

discretionary payments on an individual basis, to ensure the implications of any changes are assessed appropriately, and to enable the development of tailored legislation, where appropriate’.

- 2.2.7 Whilst we understand the need to look at each potential new benefit or discretionary payment on a case by case basis, it is disappointing that there is nothing in the Scotland Bill to ensure this part of the Smith Agreement is implemented.
- 2.2.8 Although we welcome the commitment of the UK Government in this respect, we think that it is too late to consider the impacts once a change has been agreed by the Scottish Parliament. Instead, such impacts should be identified in the very early stages of thinking of any new benefits or discretionary payments. It may be that the UK Government will need to amend existing benefit legislation in order to ensure this part of the Smith Agreement is met.

2.3 Disability and carer benefits

- 2.3.1 There are significant powers in the Scotland Bill in relation to disability and carer benefits. One important factor in the creation of any new benefit is whether that benefit will be taxable. Currently, Carer’s Allowance is a taxable benefit whereas Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Industrial Injuries Benefit and Severe Disablement Allowance are not taxable. Thought will need to be given as to whether any replacement benefits will be taxable or indeed whether Carer’s Allowance (or any new replacement benefit) should continue to be taxable.
- 2.3.2 Thought also needs to be given to potential consequences of any changes to these benefits in terms of passported entitlements. The disability benefits mentioned in paragraph 2.3.1 are often used to give rise to other entitlements, for example specific VAT exemptions or disabled/vulnerable trust treatment for income tax, capital gains tax and inheritance tax purposes. There would need to be detailed discussions with the UK Government to ensure there are no unintended losses in relation to matters that remain reserved if the underlying benefits are altered in any way.
- 2.3.3 Finally, when considering the development of any changes such as new benefits or top-up payments consideration also needs to be given to administrative matters such as how often people should be re-assessed, the need for forms and guidance to be as simple and clear as possible and to ensure that information is accessible for those who are not able to transact online.

LITRG
28 August 2015