

Survivors' stories

General Features



01 October 2016

Julie Cameron highlights some personal tax issues arising from bereavement and explains how the two tax advice charities helped to resolve them

Key Points

What is the issue?

The sister charities TaxAid and Tax Help for Older People help unrepresented people who can't afford professional fees to solve their tax problems.

What does it mean to me?

TaxAid and Tax Help for Older People are appealing to the profession under the Bridge the Gap Campaign to support this essential safety net for vulnerable people.

What can I take away?

Advice changes lives and by donating to the Bridge the Gap campaign, there exists the possibility that even more lives can be changed.

As tax practitioners, we constantly bemoan the increasing complexity of our tax code, while successive Finance Acts cover more and more paper. Despite an awareness of this, for many individuals, tax is not a day-to-day issue, either because they are below the threshold or perhaps because PAYE takes good care of their tax deductions. Sadly, life changes and then tax can come sharply into focus. A chain reaction can begin, whereby seemingly unconnected events can lead into horrifying tax situations with tax interest and penalties mounting for the unsuspecting individual.

Death, in that much-quoted phrase, is as inevitable as tax itself, and casts the bereaved survivor emotionally adrift, frequently vulnerable, often frightened, perhaps isolated and sometimes not digitally-aware. Elderly bereaved women in particular have often had little involvement in financial matters previously handled by the deceased husband or partner and might have still less awareness of the tax system. This vulnerability can be accompanied either by real fear of HMRC or a respect for authority, manifesting itself in a confidence that 'they' (HMRC) know what they are doing and anything received from 'them' will be correct.

Advisers naturally assume that our clients will turn to us following a bereavement, whether they need help unravelling tax problems or just someone to talk to. But for those not professionally represented and on low incomes, TaxAid and Tax Help for Older People (Tax Help) can step in. Working alongside each other under the banner of Bridge the Gap, (BtG) these two charities regularly do just that: they bridge the gap between HMRC and the taxpayer, achieving solutions before the gap can widen into an unfathomable chasm from which the individual will struggle to emerge.

The studies that follow are real cases; names have been changed but facts have not. They are typical of the issues that are brought to the two charities by the bereaved.

Maggie: a new customer for HMRC

A partner's death can change the survivor's tax status, bringing them within the scope of income tax for the first time. Maggie was one such individual. Her husband passed away in September 2014 and soon after, HMRC sent Maggie a tax refund of around £9,425. Overwhelmed with the usual post-death paperwork and assuming that HMRC would know what they were doing, Maggie banked the refund. Her house was in disrepair because her husband had been unable to deal with the maintenance, so she spent the money on a new roof and other essential repairs.

Six months later, Maggie was shocked when HMRC told her she owed them £8,389. She didn't have the money by this time and frightened, she didn't act immediately. The last straw was when she received another calculation saying she owed £10,530. In desperation Maggie sought out Tax Help. The adviser there noticed an error in that a pension was missing from the P800 statement accompanying the refund. Although the amount was only £546 a year, it was enough to make Maggie into a taxpayer. Because of this omission, HMRC, believing that Maggie was below the tax threshold, had initially refunded the tax deducted from the state pension lump sum. On realising there was more income, they issued the second computation, asking for £8,389 back. The last calculation for £10,530 was an incorrectly issued SA calculation showing the state pension lump sum as an income source.

Because of Tax Help's intervention, HMRC agreed a write off because they had not made use of information they held and Maggie was able to move forward, knowing that she was free from tax debt and its associated worry.

Helen: state pension lump sum

The second case involved a pensioner's change of state pension following her husband's death and illustrates how lack of independent tax advice and trust in the system can lead to acceptance that tax is due where it may not necessarily be.

Helen was bereaved in 2013. She had been receiving state pension for a number of years, but at the rate of only 26 pence a week; this was despite having contacted the Department for Work and Pensions several times because she felt she was due more. After her husband's death Helen was advised to claim again for state pension and in 2014/15 she received a payment of £21,500, representing pension arrears for

the period 2005 to 2014. A tax bill subsequently followed for over £4,000. Beside herself with worry, Helen approached Tax Help; she could not afford to pay the tax, having spent the money settling her late husband's debts and repairing her home.

On investigation, Tax Help realised that HMRC were treating the pension arrears as a deferment and had charged 20% tax on the full amount. Tax Help argued that it was a pension paid in arrears – although minimal, the 26p a week did represent a previous entitlement to state pension. As such, it should be accounted for in the tax years it was due and not the year it was received. HMRC agreed and the underpayment was corrected. Helen was greatly relieved, knowing that the tax burden and the accompanying worry had been removed.

Steve: mental health issues

The examples above clearly all involve older bereaved ladies, perhaps reflecting known gender-related mortality trends. But of course, death does not respect age or gender and death-related issues are not exclusively the territory of Tax Help, as my final example demonstrates.

This client, Steve, lost his mother in a freak accident and shortly afterwards witnessed his eldest son's death in a different accident. These tragic events led to severe mental health issues and drug and alcohol addiction, resulting in periods of homelessness. Steve had been self-employed throughout, working ad hoc to pay for his drug habit, but tax compliance was the last thing on his mind. His ex-partner contacted TaxAid when Steve's tax debt reached £25,000 and he was feeling suicidal. TaxAid worked with the client and his partner (they got back together) and brought his tax returns up to date, appealing against both late filing and late payment charges. HMRC agreed to cancel all penalty charges and remit the resulting small balance of tax outstanding.

The above stories present a snapshot of moments of extreme distress and anxiety and reveal other common factors: although perhaps not technically challenging for tax professionals, the tax issues involved are outside the knowledge and ability of the clients and for whatever reason, expert help is needed.

The sister charities TaxAid and Tax Help for Older People help unrepresented people who can't afford your and my professional fees to solve their tax problems. TaxAid focuses on people of working age and Tax Help concentrates on those over 55. At

the coalface of the two charities are tax professionals like you and I, some of whom are volunteers, giving their time and knowledge to advise clients and perhaps also interact with HMRC, often with a life-changing impact for the client.

The tax issues bringing people to either charity's door might be different, but one consistently connecting factor is that of meltdown, be it life- or tax-related. Attempts at interaction with HMRC, often for the first time in life, add a new vulnerability to those already in crisis.

The two charities remove the burden. Typically, help comes in the nick of time. Resolving the relevant issues enables the individual to regain control over their tax situation AND their life.

We all have a right to expect to pay the correct amount of tax under UK tax legislation. If tax were simpler, if people understood their tax responsibilities, if HMRC always got it right first time, if life were predictable. Perhaps there isn't an awful lot we can do to change these things – but we can do something. The charities are needed because they bridge the gap. What's more, the need is growing. The two charities themselves need our support to fund the helplines, pay for advisers, and meet the growing need.

Advice changes lives and with more of these essentials, there exists the possibility that even more lives could be changed. TaxAid and Tax Help for Older People are therefore appealing to the profession under the Bridge the Gap Campaign to support this essential safety net for vulnerable people.

To donate to Bridge the Gap, or learn more about this campaign, go to www.bridge-the-gap.org.uk