

## Box 1- Choatic scheme that left families relying on food parcels

### **Demands mount for overhaul of aid that led to 'debt and despair'**

Gordon Brown, the chancellor, faced fresh calls last night for a radical overhaul of the tax credit system after the Treasury published figures showing that administration costs have risen tenfold in four years to £400m.

The figures also revealed that 65.5 million award notices have been issued in just over two years – more than 10 on average for each of the 6 million households that receive tax credits.

Critics said the system was in chaos and the figures undermined the Treasury's insistence that a series of improvements were beginning to take effect.

The Liberal Democrat spokesman David Laws, who obtained the figures in answers to parliamentary questions, said low-income families were suffering severe hardship and ministers appeared to be immune to their appeals for help. He said fundamental flaws in the system meant hundreds of thousands of low-income families would still face 'debt and despair'.

To claim child tax credit and working tax credit, families must predict their income for the next financial year and tell the Inland Revenue about any changes in circumstances. Payments can reach £5,000 to £6,000 but many have been forced to pay back some or all of their tax credits.

Backbench MPs, who wrote more than 5,000 tax credit complaint letters in the first five months of this year, say many families persuaded to leave benefits and return to work by promises of tax credits take on extra commitments, including childcare costs, only to find that computer or human errors at the Inland Revenue's tax credit centre in Preston result in an overpayment and a demand for the money to be returned.

Frank Field, a former social security minister, tabled a motion in parliament yesterday calling for an independent appeals tribunal to hear cases before the Revenue claws back overpayments.

Ministers revealed that 217,000 households asked for overpayments to be written off in 2004/05 and 54,000 have already made write-off requests in the first two months of the 2005/06 financial year.

Dawn Primarolo, the paymaster general, who provided the answers, admitted last month that the system needed to become more sensitive to the needs of low-income families. David Varney, chairman of Revenue and Customs, admitted that the tax credit structure may need to be overhauled if problems persist.

He told the *Financial Times* that the policy of annualised tax credits should be reconsidered if it created the same problems year after year. His comments followed criticism from several quarters last month, including the parliamentary ombudsman and Citizens Advice.

Citizens Advice said poor administration and the recovery of overpaid tax credits had led to some families living off only £56 a week plus child benefit.

In the most extreme cases, families had been threatened with repossession or eviction, and bureau staff had to arrange Salvation Army food parcels for some who were unable to buy groceries.

The parliamentary ombudsman suggested that Revenue and Customs should write off benefits mistakenly paid to families rather than try to claw them back. In 2003–04 about 1.9 million families were overpaid almost £2bn, either because they did not report rises in income or because of administrative errors. Many were forced to repay the money, causing hardship because most had spent it.

Mr Laws said yesterday's figures also showed the £1.9bn official cost for overpayments was understated by £800m because of sums not recovered owing to a £2,500 'disregard' when income rises. So far, only £37m of overpayments have been written off.

The data also shows that 21,600 compensation payments have been made since April 2004 for bad service.

Ms Primarolo said administration costs had remained at 2.5% to 3% since 1999.

But Mr Laws called for urgent reform. 'The tax credits system is an increasingly expensive mess. Gordon Brown's flagship tax credits scheme seems to have turned into a bureaucratic nightmare,' he said.

'What we now have is a system which is complex and bureaucratic to administer and in which overpayments are endemic – driving people on low incomes into debt and despair.

'The chancellor should consider bringing back fixed half-yearly awards, as were used with family credit and working families' tax credit. Until major reform takes place, the current chaos will continue.'

The Treasury said most problems related to computer and administrative errors in the first few months of the system.

A spokeswoman said: 'If you are introducing an entirely new tax credits scheme and going from zero to 80% take-up then of course the absolute costs of administering the scheme are going to rise.

'The key measure is whether the administration costs as a proportion of the total payments have risen or fallen, and in the case of tax credits, they have actually fallen from 3.3% in 1999 to 3% in 2004.'

### **Comedy of errors**

Families who have appealed against demands by the Inland Revenue for the return of tax credits say an automated system cannot cope with the complexities of real life.

Bernadette Reddy-Oaten, a divorced mother of two who lives in Torquay, received an award for child tax credit which the Revenue later decided was too high. She had already spent the money on child care when the Revenue realised its mistake. It demanded she return the cash and even threatened to send compliance officers to 'interview' her and check on her finances.

Last year, after the Revenue stopped her tax credits, Ms Reddy-Oaten had to survive on 'hardship' payments. These payments were then deemed excessive and she faced demands that these also be returned, even though one was as compensation.

'I have spent the last two years trying to settle the situation after nearly losing my home in 2004 when they stopped my payments. This is despite letters acknowledging their fault,' she said.

'It's shocking when you ring the main tax credit help desk because the staff know very little about the system. It's no wonder the system costs so much to run when I receive two or three award notices a month, usually on the same day, always with different figures, and I have had to ring them weekly to resolve the situation. This happens each year. They end up admitting they owe money and pay it back, only for it to go wrong again.

'It's an understatement to say it has been a comedy of errors. And I'm a social worker. I know many of my clients have had terrible trouble, standing in phone boxes for hours trying to get through to the help desk.'

Last week the Revenue apologised for mistakes and cancelled the latest demands. She says the Revenue still owes her money but staff tell her they cannot override the computers to correct many of the errors she has suffered.

Critics inside the Revenue say the computer and call-centre systems were basic and unable to cope with the level of inquiries from low-income families, many facing marital strife and redundancy.

Charities suggest that since April tax officials have been allowed by the Treasury to write off overpayments dating back more than two years in an effort to clear a significant number of cases.

Ms Reddy-Oaten said: 'As a social worker, I know the system well and am articulate and confident enough to repeatedly challenge the Inland Revenue; I know too many families who would find it impossible to get what they are owed.'

Source: Phillip Inman, the *Guardian*, Wednesday 6 July 2005