Frank Field MP,  
Chair of Work and Pensions Committee,  
House of Commons,  
London,  
England, SW1A 0AA.

8 August 2019

RE Tax Credit Overpayments and Universal Credit

Dear Mr Field,

I am writing to you from Advice NI, a registered charity providing a voice for the independent advice sector in Northern Ireland and providing leadership and services our sixty-plus member organisations.

Our members, who work on the frontline of advice, have raised concerns with us about tax credit overpayments resulting from the move to Universal Credit (UC). I am aware that this is an issue you too have been highlighting and which has been reported upon by multiple parties elsewhere (for example, please see the list of web links in the appendix). Clearly, it’s a systemic and recurring problem and not a one-off incident.

Of the two million people now claiming UC across Britain and Northern Ireland, 570,000, (over a quarter) have tax credit overpayments that are being deducted from their monthly payments. These deductions can be as much as 15% of the total UC award, or 25% for people in work, leaving the average weekly deduction at around £47.67 for a single person over 25. Tax credits deductions, which may be in addition to other deductions or previous overpayments, are unsustainable for many claimants and are driving them into deeper poverty and debt.

Time and time again, the government has highlighted that safeguards are in place. They’ve said that when a tax credit overpayment is identified, they: work as quickly as possible to resolve the issue based on individual circumstances; they ensure repayments are affordable; and they have recently put in place a maximum threshold for the monthly amount that can be deducted from a UC claim. The government also asserts that claimants are told about deductions in advance and are able to negotiate deduction amounts.

However, evidence suggests otherwise and at best, claimants are told about deductions when they receive an unexpected message in their UC journal, leaving no opportunity for negotiation. That’s not advance notification, it’s after-the-fact notification when the deduction and repayment plan has already been decided. Along with this, the bureaucracy

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1 Other deductions can include rent arrears, council tax, UC advance loans.
Claimants have to face to get information and resolve the issue is often ineffective, unhelpful and frustrating. Because the problem straddles two separate bodies, DWP and HMRC, claimants have difficulty finding anyone who will take responsibility. They’re sent from pillar to post, struggle to get a straight answer and spend long periods of time on multiple calls, and still no resolution.

At the root of this problem lies the communication between DWP and HMRC. When a claimant is required to transition from tax credits to UC, HMRC will continue to make tax credit payments until they receive a stop notice from DWP. The stop notice is supposed to be automatically sent when a claim for UC is made. Under UC, claimants may end up with a reduced payment, but for a short while they continue to receive the larger tax credit payments, and this is where the thus overpayments occur. More often than not, the tax credits overpayment is not the claimant’s fault and has happened due to DWP and HMRC error. Despite this, the claimant is left with the debt.

The Adjudicator’s Office 2019 Annual Report heavily criticised HMRC’s handling of tax credit overpayments. The report stated that tax credits complaints were met with a “defensive” culture that lacked “customer focus”. The report also found that HMRC was guilty of providing incorrect advice on moving from tax credits to UC; and guilty of not considering internal guidance as per the Admin Law Manual when dealing with tax credits overpayments thus showing a “lack of common understanding and good practice”.

The government’s own statistics and research backs-up the scale of this problem, confirming that it can’t just be down to claimant error.

For example, the highest outstanding debt for UC claimants is tax credit overpayment, currently sitting at £635.113m. Employment Minister Alok Sharma admitted that despite the ‘safeguards’, only 9% of UC claimants with a tax credits overpayment successfully managed to reduce the amount deducted. While DWP and HMRC have ample room for improvement when it comes to avoiding tax credits overpayments, they seem to perform well when it comes to recovering these overpayments from the lowest paid in our society. In 2018/19, they recovered close to £95m in tax credits overpayments, and another £150m from benefit and other tax credits-related debt. If only HMRC’s recovery record were so impressive when it comes to recovering tax debt from unpaid, avoided or evaded taxes which the Tax Justice Network estimates is between £80 and £120 billion annually.

Furthermore, DWP and HMRC carried out research for a report entitled ‘Transition from tax credits to Universal Credit: qualitative and quantitative research with claimants’. Although

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dated November 2017, it was only published in 2019. The report reveals that more than 60% of claimants moving from tax credits to UC who were having financial difficulties said these difficulties started at or following the time they began claiming UC. And 75% of claimants with tax credits overpayments said they found out about it after their UC claim started. The report conceded that there was room for improvement, for instance by raising more awareness about UC and what’s entailed in the transition from tax credits, and by providing more information on a range of areas, from what triggers a UC claim to the implications UC has for tax credits. The report makes some specific recommendations, among them: sending a UC transfer pack in advance of UC starting/benefits being stopped; adding additional information to the Debt Transfer letter explaining overpayments and how they’re paid back; providing information about budgeting advice and advance payments.

I’m know you are as deeply concerned about this problem as we and our members are, and about the unnecessary hardship it’s causing claimants. I urge you to use your influence to resolve the problem and I have made some suggestions for doing so:

1. Following through on the recommendations from the Adjudicator’s Office 2019 Annual Report and from the DWP-HMRC research report, particularly when it comes to improving communication between DWP and HMRC.
2. Seeking no recovery for overpayments which arise due to official error or delay in stopping tax credit payments.
3. Waiving overpayments in each case – the criteria for waivers are discussed in the parliamentary written question 272129 and I believe the problem outlined in this letter fits those criteria.
4. Making minimum UC deductions where a waiver is not applicable.

For information, I have sent this letter to several other relevant elected representatives and bodies. I look forward to receiving your response.

Kind regards,
Kevin Higgins,
Head of Policy,
Appendix

https://www.bigissue.com/latest/570000-people-on-universal-credit-are-repaying-tax-credits-overpayments/
https://www.mirror.co.uk/news/politics/dwp-cutting-570000-peoples-universal-16233097
https://www.politics.co.uk/comment-analysis/2018/01/09/tax-credit-debt-the-universal-credit-problem-nobody-is-talki
http://www.cpag.org.uk/content/overpayments-and-tax-credits-what-now