Priority areas for further review and consideration of reform.

This response is to the recommendations from the OTS Interim Report 6th March 2012:

Report to the Office of Tax Simplification - Update on progress

31 July 2012.

This response provides an update to OTS on HMRC's progress in considering the recommendations from the OTS Interim Report of 6th March 2012: http://www.hm-treasury.gov.uk/d/ots-review_of_pensioners_tax_060312.pdf. Matters of policy are outside HMRC's jurisdiction and this response therefore focuses on those areas which relate to the operation of the tax system.

HMRC appreciates the positive working relationships which it shares with OTS and the Department for Work and Pensions (DWP). HMRC will continue to work with them to better understand and improve the service to those customers who receive, or will shortly receive, pension income.

OTS Proposal	HMRC Response	
Age-related allowances		
HMRC could review its records for cases where the allowances might be due but not claimed	HMRC does not hold enough information about PAYE customers' incomes (e.g. interest they receive on investments) to accurately identify people who are eligible for age-related allowances. The alternative would be to write to all customers but as many would not be entitled, HMRC believes this would cause unnecessary concern and confusion.	
Married couple's allowance (MCA)		
HMRC could review the forms relating to Married Couple's Allowance and provide clearer explanations of it on the P2 Notice of Coding	The notes on MCA have been reviewed with input from OTS consultative committee members. IT change timescales mean HMRC will introduce the revised notes by the end of 2012. This will ensure that all P2 notes are updated prior to next year's annual recoding exercise.	
R85s following bereavement		
HMRC and the DWP could review booklet DWP1027 (What to do after a death in England and Wales) to include this issue along with other improvements to it on tax-related matters	HMRC is working with DWP to provide joined-up information for bereaved customers and pensioners. Revised information on taxation, including the R85, will be introduced in an updated DWP booklet 1027.	
State retirement pension		
HMRC should undertake to review all records where a basic amount of State pension has been coded out in the	DWP and HMRC has introduced a new data feed process which electronically transfers details of all new State pension claims and updates the record automatically with the	

absence of a final figure, and ensure that those cases are reconciled after the year end using final, accurate figures from the DWP or contact the pensioner if there is any doubt amount in payment. This is designed to reduce the number of requests for information issued to customers and allows updates to tax codes to be made more quickly and accurately.

The data feed also provides details of any amendments to the amount of State pension a customer receives and the uprated amounts each year.

Receiving this information during the year and applying the changes automatically to tax codes should negate the need for final review after the end of the year.

Raising awareness of how the State pension is taxed

HMRC and the DWP could review current information, particularly addressing the immediate anomalies the OTS has identified in chapter 3 of the report HMRC is actively reviewing the way in which it communicates with those approaching retirement age. In particular, HMRC is simplifying guidance and liaising with DWP to identify the most appropriate channels for delivering this guidance.

Interaction between tax and benefits

HMRC and the DWP could review the guidance available to pensioners on the tax status of welfare benefits, particularly those paid with the State pension, with the aim of moving towards providing a P60 benefits

Small Pension Pot: Tax repayments relating to trivial commutation

HMRC should review form R43 as a matter of priority as, for example, it still includes reference to the first £70 of interest on a NS & I Ordinary Account being tax exempt

HMRC has a project to improve the R43 form and guidance and will take on board these comments. An April 2013 update is planned.

HMRC is also reviewing the P53 form which customers use to claim a tax repayment following trivial commutation.

This will improve the quality of guidance HMRC gives to pension scheme members, redesign the form and simplify the associated process for claiming repayment.

Overseas pensions paid to UK resident pensioners

HMRC should review its guidance, particularly to help those with cross-border issues between Northern Ireland and the Republic Since the interim report was published HMRC and OTS have discussed this in more detail and agreed that the information on exchange rate fluctuations is an area outside of HMRC's control.

	HMRC's review of communications and guidance will include the remaining issues.
Collecting toy DAVE	
As this is likely to be a longer term objective, HMRC could consider reviewing existing guidance on complex areas (K codes, for example) as a first step towards simplification	HMRC is continually reviewing its guidance on complex areas and is assisted in this work by external stakeholders
Eliminate errors remaining in NPS	 HMRC is on track to clear all PAYE arrears by the end of 2012/13. On the basis of the information HMRC holds, tax codes are now over 98% accurate. PAYE gets things right in year for 85% of customers. The DWP State pension data feed and the information supplied from employers and pension providers, especially with the introduction of Real Time Information (RTI), will mean that HMRC gets more recent and accurate information on which to base tax codes.
A single, reconciled statement to replace multiple P2 Coding Notices	HMRC will continue to review the P2 process generally to identify and review improvements.
Starting to receive a pension - HMRC should consider the operation of the PAYE Regulations together with RTI	The DWP State pension data feed and the information supplied from employers and pension providers will mean that we get more timely and accurate data on which to base tax codes. The introduction of RTI provides an opportunity to build on this in the future. The PAYE Regulations have been amended to provide for RTI and occupational pension payers will have to deduct PAYE under RTI in the same way that they do now.
Annual reconciliation and tax calculation forms 'P800'	 HMRC continues to look at potential changes to the P800 process This year HMRC started the reconciliation process for the tax year ended April 2012 two months earlier than previous years so that many customers will get their money back quicker. This also provides certainty sooner for those who have additional tax to pay. Where tax is underpaid, HMRC usually recovers the underpayment automatically in 12 monthly instalments over the subsequent tax year through the customer's annual tax code. Where this causes financial difficulty, people may be able to spread the payments over a longer period (up to 3 years).

Ceasing work in the tax year and claiming a repayment – HMRC could review the extent to which form P50 is used by pensioners and its practicality in such cases.	HMRC does not have the data necessary to carry out this review.	
Determining pensioners' PAYE codes and form P161	HMRC has recently reviewed the purpose of the form P161 and changed this into an Age Allowance request, as HMRC now receives information about State pension and occupational pension from elsewhere. The new version of the form was developed in consultation with customers and is now available.	
Collecting tax – self assessme	ent	
Consider operational improvements	HMRC wants to try to ensure that Self Assessment (SA) only includes customers who need to be in it and that the SA criteria remain relevant and up to date. This year, under a new initiative, HMRC has invited people who don't think they should be in SA to contact them – as a result, over 250,000 customers have been taken out of SA.	
Support for bereaved taxpayers		
Support for bereaved taxpayers	 In April 2012 HMRC introduced: a priority telephone service and a single Post Office Box address for people on PAYE and SA matters relating to bereavement a dedicated team which is responsible for processing the main form which customers use to finalise a person's estate a redesigned form with supporting notes which is easier for customers updated standard letters for customers following bereavement with improved style, tone and clarity. 	
	HMRC is continuing work in this area on improvements in the quality of our call handling; increasing the efficiency of our processes; and joining up relevant services across HMRC.	
Other administrative issues		
Face to face services, including home visits	Recent research commissioned by HMRC has given a much better understanding of customers who could do with more help if they are to get their tax right and claim their entitlements. That understanding is being used to help design a better service for those customers that more closely reflects their needs.	
Digital exclusion	Government's 'Digital by Default' Strategy	

	means ensuring all new services are designed from the outset to be delivered digitally, and redesigning existing services in the same way, when the opportunity arises. HMRC is looking at the support needs of people who are less able or unable to use online services and will factor this into the design of services for customers with the greatest need.	
Pensioners retiring abroad		
HMRC should review the problems noted in S.1 of chapter 3 to see if any		
improvements can be delivered		
Overseas communications and repayments	HMRC is aware of a problem relating to automatic communication with some customers who have an overseas address. Funding is not, however, available to rectify this issue. Currently the most common HMRC method of making repayments abroad is to post a payable order (cheque) to the taxpayer at their foreign address.	
Inability to use free online filing software to submit Residency pages	The associated costs mean HMRC does not plan to introduce a facility to permit non-UK residents to file online.	
Navigation and simplification of guidance	HMRC is exploring this as part of the general consideration of communications and guidance.	