



HM Revenue
& Customs

Research report

Tax Credits: debt transfer

Debt Product Testing III

(Customer requirements to support Debt Products Testing)

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Debt Product Testing III***About Benefits and Credits (B & C)***

Benefits and Credits (B&C) group is responsible for developing and delivering service to tax credits and Child Benefit customers. They make sure families receive the payments they are entitled to, make it easy for customers to get it right first time and reduce losses from error and fraud. B&C work closely with the Treasury, Ministers, customer units and operational colleagues to deliver the policy, business design and processes that deliver the right outcome for the customer.

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Research requirement (background to the project)

Tax credits are being phased out and replaced by Universal Credit (UC); eventually all Tax credit customers will have either migrated to UC or otherwise left the tax credits system. This migration has begun (April 2013 for a limited number of claimants). Numbers are steadily increasing as the gateway opens – but currently remain low. This will increase as the UC roll out continues.

A large proportion of tax credits customers have outstanding tax credits debts involving single and joint claims (which customers can be unaware of). These debts will transfer across to UC for recovery when the customer migrates. The transfer of these debts is new to UC and new products and IT systems are being developed to support the management of this. In addition to these changes, HMRC will also be able to consolidate debts covering a number of years into one document and to allocate these to individuals rather than households. The document which customers will receive is the 'Individual Debt Statement' (TC1131).

Earlier research tested 'mocked' up versions of the letter and found that understanding of the product and its purpose was mixed. HMRC has developed guidance products to aid comprehension of the Individual Debt Statement; this guidance will be made available as webpages hosted on gov.uk.

This research tested four webpages of guidance (see below) to assess how effectively they dealt with queries arising from the Individual Debt Statement, with the aim of understanding which aspects of the guidance supported Tax Credit customers' understanding of the letter, and areas where the content or design may need reviewing. Customers were also asked to follow the same steps after being presented with the 'Notice to Pay' (TC610); looking for answers in the guidance arising from the letter. Details of all the documents reviewed as part of this study are outlined below:

- Individual Debt Statement
- Guidance pages titled:
 - 'Tax credits overpayments'
 - 'Universal Credit'
 - 'End your tax credits'
 - 'Tax credits: appeals and complaints'
- Notice to Pay (TC610)
- Annotated Individual Debt Statement
- Universal Credit online statement

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When the research took place

The fieldwork was conducted between Monday 18th January and Monday 1st February, 2016.

Who did the work (research agency)

The research was undertaken by the Employment Welfare and Skills (EWS) team working in Ipsos MORI's Social Research Institute.

Method, Data and Tools used, Sample

A total of 20 depth interviews and one focus group were undertaken in the Greater London area. Participants were recruited to include a cross section of tax credits customers including:

- Those claiming as a couple and as a single claimant;
- Employed and unemployed claimants (including those who still claimed tax credits and those who no longer did);
- Those claiming Working Tax Credits or Child Tax Credits;
- A mix of age and gender.

Participants were recruited by specialist recruiters using free-find methods. A purposive sampling approach was adopted, whereby key quotas were set and participants were recruited according to these using a screening document. The interview data were fully analysed using a robust inductive approach, as part of which the data were synthesised thematically and interrogated for patterns and relationships.

Participants were shown paper versions of materials (including web-based guidance) in interviews and the focus group.

Main Findings

1. Initial reactions to the Individual Debt Statement tended to be positive; customers felt the letter was clear and well written. The purpose of the statement was clearly understood and on the whole customers could interpret what they were being instructed to do.
2. However, certain aspects of the letter did cause confusion:
 - There was awareness that a debt had to be repaid, however there was a lack of certainty over **who owed the debt** – that is whether this debt was owed exclusively by the recipient of the letter or shared with a (former) partner.
 - The sentence explaining who was responsible for the debt was either missed or the word 'personally' was misunderstood.
 - Preferences for terms such as 'halved' or 'split' were expressed, to make it clear that the debt was shared.

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- Customers were able to interpret the debt table. They understood these were **historic debts across different years**. However, there were queries about why these debts were owed.
 - Information was sought to explain why older debts had not been paid off already.
 - There was uncertainty over the status of these debts; for example customers were unsure if they could contest the debts, or if they were final.
 - Understanding of **how the debt would be repaid** and next steps tended to be clear.
 - Customers understood from the letter that if they moved to Universal Credit, any debt would be recovered from their UC award. They understood they were not required to do anything.
 - There was some confusion over who held the debt – HMRC or DWP.
 - The difference between Standing Orders and Direct Debits was not universally understood, therefore there was some confusion over whether customers or HMRC would cancel payments.
3. When presented with the online guidance materials, customers' responses were favourable. The language was thought to be clear and the information easy to understand.
4. However, the guidance was said to have answered some but not all queries arising from the Individual Debt Statement. Furthermore, not all the guidance was perceived to be relevant and this caused confusion. In places, customers wrongly thought that the guidance was applicable to their situation, leading to misunderstandings.
5. Looking at the guidance, customers were able to find helpful information about **who owed the debt** in the 'Tax credits overpayments' material. However, the terminology used affected understanding of how the debt would be split as this differed from that used in the Individual Debt Statement. For example, the letter refers to 'your share of the debt', and the guidance says 'the debt will be split in half between you' and 'you will receive a letter with details of your half of the debt.'
- This was confusing because customers may have interpreted 'share' as a proportion of the debt, but not necessarily half; the guidance contradicts this by stating the debt will be divided in half.
 - This raised particular issues for those in a joint claim who receive different amounts from HMRC for their tax credit claims; they were unsure if they would be required to pay back the debt associated with their own tax credit claim, or a combined total.

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6. In relation to **historic debt**, 'Tax credits overpayments' guidance advises that each overpayments debt from previous years must be repaid which helped to clarify that the debt presented in the table on the Individual Debt Statement is final.
7. However, 'Tax credits: appeals and complaints' details how to dispute overpayments; it states 'you can ask the Tax Credit Office to reconsider an overpayment decision' and to send a dispute 'within 3 months of... the date on the first letter.' This caused considerable confusion; customers wrongly assumed that this referred to the Individual Debt Statement, not a separate letter detailing the overpayment debt.
8. The guidance 'Tax credits overpayments' clarified that DWP now own the debt; however, confusion remained over the difference between standing orders and direct debits – causing customers to question whether they would be required to do anything.
9. 'End you tax credits' firstly describes what to do if your details are wrong, then what to do if your details are correct. The sequencing caused some confusion, as customers wrongly assumed that the first set of instructions applied to them – that is that they needed to follow up. Customers suggested that the preferred course of action should be presented first ('you won't have to do anything else if the details on your award review are correct'), followed by details of what do to if they are not.
10. The guidance was found to cause confusion where it was ambiguous or vague; for example, customers were unsure if references to 'you' were singular or plural and they were unclear if reference to 'the letter' related to the Individual Debt Statement or another letter entirely.
11. Guidance should make explicit what, who or which type of customer is being referred to, using specific terms, names of documents or reference numbers to aid comprehension.
12. Customers made a number of suggestions for further improving understanding. These included:
 - An explanation of historic debt – with information about why customers may have to pay back debt over a number of years.
 - An explanation of penalties, interest and other charges.
 - A section dedicated to single/joint debt – customers tended to find single and joint debt the most confusing aspect of the letter, so further guidance explaining the different outcomes and scenarios would be helpful.
 - FAQs / Troubleshooting page – a resource offering brief answers to the most frequent questions.
 - Connections and links to other sources – certain terms and phrases caused confusion; hyperlinks could be used to give definitions of these.

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- Signposting and labelling of text – some confusion arose when customers didn't know if the guidance referred to their situation or not. Signposting the guidance with label clearly explaining who the instructions are for would help to avoid this.
13. During the interviews, other materials were presented to customers for review:
- The Notice to Pay was generally understood and well received; customers understood that the debt remained with HMRC and they had to organise repayment.
 - The main difficulty encountered was text describing how debt is recovered from a joint claim. Customers tended to cite this as the most confusing text across all materials seen.
 - Reading the guidance did not provide sufficient information or advice on this; there was low confidence in how debt would be recovered from joint claim.
 - Customers found the annotated Individual Debt Statement to be very helpful in explaining the Individual Debt Statement.
 - The language used was direct which customers found easily to understand.
 - The information presented in the speech bubbles was said to be relevant and more tailored than the information provided in the guidance sheets.
 - The design of the annotated letter was also viewed positively; all the information was drawn together in one place which made it easier to identify relevant information and the speech bubbles referred to specific aspects of the letter making accessible and easy and quick to navigate.
 - The Universal Credit online statement was well understood, and customers liked the concept of being able to manage their benefit claim online.
 - The word 'deductions' was not always understood, although this was not widespread.
 - There was a suggestion to separate the amount owed for each type of deduction (Advance payments; rent arrears; overpayments), for clarity and transparency.

Conclusion

- Understanding of the Individual Debt Statement was good, on the whole customers knew what to do next, how the debt would be recovered and by whom.
- Customers liked the guidance; they thought it was written clearly.
- The breadth of the guidance created uncertainty and resulted in misunderstandings.
- It did not consistently answer all queries raised – more information was needed on single and joint debt and historic debt.