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How does the HMRC affect the financial hardship of claimants? A critical discourse analysis of power asymmetries in the UK tax credits system

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This briefing summarises part of a study[1] that explores the unintended consequences of the new tax credits system by focussing on the discursive relationship between tax credit claimants and HMRC officials. Its main purpose is to understand how these public encounters dynamically enact and adapt the wider organisational, political, and cultural discursive system in which they take place. This study uses ethnography which allows the researcher to collect data directly from tax credit participants, such as interviews with tax credit claimants, HMRC officials, Citizen Advice Bureau advisors, and Members of Parliament (MPs). In addition to offering theoretical reflections on power inequality, targeting practices, and neo-liberal discourse, this study also highlights problems and aspects of good practice in order to design future government programmes that are not based on abstract, system world assumptions about "the people", but work for actual claimants.

[1] This briefing paper forms part of a PhD thesis written by the main author, Sara Closs-Davies. This research has been presented at the following conferences for which conference papers may be available on their websites: The British Accounting and Finance Association (BAFA), Annual Conference, 21 to 23 March 2016, http://bafa.ac.uk/events/upcoming-events/annual-conference.html; The Tax Research Network (TRN) Annual Conference, 9 & 10 September 2015, http://trn.taxsage.co.uk/hull2015; and The Interpretive Policy Analysis (IPA) International Conference, 8 – 10 July 2015, http://ipa2015.sciencesconf.org. Further information can be obtained by e-mailing the author at: s.closs-davies@bangor.ac.uk; and the author's profile can be obtained at: https://www.bangor.ac.uk/business/staff/sara-closs-davies.

The state engages in both welfare and labour activation policies. The UK tax credit system is an attempt to integrate both policies within one system (Hodgson & Boden, 2008[2]). The new tax credits system was introduced by the New Labour government in April 2003 with the aim of reducing child poverty, encouraging people to work, and providing financial support to working families (HM Treasury, 2002, p14[3]). Tax credits are based on two elements: Child Tax Credit (CTC) that is given to individuals who have an independent child(ren) and the Working Tax Credit (WTC) that is given to individuals who work a government-set minimum number of working hours per week. Both elements use a means-test approach based on the level of income per household. It replaced the Working Families' Tax Credit (WFTC) and promised to provide a simpler and more responsive administrative process without causing "unnecessary burdens on those claiming tax credits" (HM Treasury, 2002, p. 19).

These promises raised expectations of both government officials and claimants. However, within a few years of operation, around a third of tax credit claimants experienced financial difficulties, as they found themselves having to repay some or all of their tax credit income to the HM Revenue and Customs (HMRC)[4], as the result of a so-called "overpayment".

An "overpayment" occurs when a claimant has received too much tax credits. The tax credit award is initially based on estimated information for the current tax year (e.g. level of income and the number of hours worked per week). The HMRC recalculates the award at the end of the tax year based on more accurate information, and this is when the "overpayment" usually occurs, after the end of the tax year for which it relates. According to the Parliamentary and Health Service Ombudsman "almost a third of all tax credit awards had once again been overpaid, and almost half a million awards (494,000) had been overpaid by over £1,000; some 25,000 of those by over £5,000 in that one year alone. Of most concern is that individuals or families on low or very modest incomes, i.e., with a household income

[2] Hodgson, H. and Boden, R., 2008, Not-so-Distant Cousins: Family benefits in the United Kingdom and Australia, International Social Security Review, Vol. 61, pp. 29 – 46

[3] Inland Revenue, 2002, "The government's expenditure plans 2002-2004, Cm 5428. http://www.hmrc.gov.uk/about/explan2002.pdf

[4] Her Majesty's Revenue and Customs is the UK tax authority that administers tax credits in the UK.

was less than £10,000" (2007[5]) were disproportionately affected by overpayments (363,000). In fact, overpayments became such a big problem that they prompted government intervention[6] in April 2006, which resulted in a drop of overpayments to 19.77% in 2006/07. However, overpayments continued to increase, namely to 23.86% in April 2011, to 26.83% in April 2012, and to 30.28% in April 2013, when the New Coalition government made further changes to the programme. This resulted in a drop of overpayments back down to levels in 2003.

The tax credits system targets the most socially and economically vulnerable citizens with the intention of improving their lives. However, it had the unintended effect of many claimants experiencing further financial hardship, emotional distress and considerable uncertainty, as they lived in fear of losing further money in future. Overpayments have a tremendous impact on claimants, as they have to find additional money to repay the overpayments and readjust their household expenditure by cutting back on basic costs, such as food and heating, and who have to resort to using Foodbanks and 'crisis loans'. This has resulted in some individuals choosing to refrain from claiming tax credits (RevenueBenefits, 2015[7]) and others falling into debt to help them through periods of financial difficulty (The Independent, 2014[8]). It was also reported that some claimants suffered from anxiety, depression and contemplate suicide ("Voices of the Victims", 2008[9]). The consequences of the new tax credits system in reality go against its main aims by intensifying, rather than alleviating the financial hardship of some claimants.

The UK has seen a significant shift in UK political discourse, in particular under Margaret Thatcher's administration, from a 'dependency on the state' to 'self-dependency' (Peters,

[5] "Tax Credits: Getting it wrong?", 5th Report, Session 2006-2007, Parliamentary and Health Service Ombudsman, 8 October 2007, Ordered by The House of Commons

[6] The government increased the disregard limit by ten-fold from £2,500 to £25,000 from April 2006.

[7] "Tax Credits: Renewals" RevenueBenefits, 2015, Available at: http://www.revenuebenefits.org.uk/tax-credits/guidance/how-do-tax-credits-work/the-yearly-cycle/renewals/ Accessed on: 31.05.201

[8] "More families fall into debt with HMRC after tax credit overpayment soars", The Independent, 30.05.2014, Available at: http://www.independent.co.uk/money/tax/more-families-fall-into-debt-with-hmrc-after-tax-credit-overpayment-soars-9463244.html, Accessed on: 30.06.2014

[9] Voices of the Victims, 2008, Tax Credit Casualties Organisation, Available at www.taxcc.org.

2001[10]), and has continued during the new Labour period, coalition and to the post coalition austerity period we face today. Although the tax credit system is designed to help and financially support citizens, it forces claimants to become self-responsible for their own lives. The administration of the tax credit system in reality makes it difficult for vulnerable claimants to become self-responsible e.g. those who lack in capital (money, knowledge, and skills), disabled claimants or claimants with learning difficulties. These claimants are forced to find help and information about their claims and overpayments themselves in order to check, make sense and challenge their tax credit overpayments. This is because tax credit officials are unable to provide claimants with help and clear information they need. Early findings suggest this is because tax credit officials have restricted access to information at work and are under pressure to reach performance targets.

Self-responsibilisation is one of the key themes of neo-liberal governance (*ibid*). This resulted to a gradual shift from the values of equality and fairness associated with the traditional welfare state to a doctrine of value-for-money which entails targeting individuals who are subjected to means-testing and eligibility tests, making some individuals become better off than others. Accounting technologies, underpinned by neo-liberal ways of thinking, facilitate such procedures. However, this neo-liberal model shows significant deficiencies, when applied within the tax credits context. Claimants fail to be successful at being 'privatised objects' and managing their own economic state, because they are structurally disadvantaged in gaining access to capital (information and knowledge) by HMRC officials. As a result, they become permanent members of the 'underclass' and remain poor and dependent on welfare. They also become portrayed as citizens who do not conform towards socio-political discourse and become stigmatised. For example, claimants are not provided with information and explanations from officials. This results in claimants being forced to accept and repay overpayments and are made financially worse off. Although claimants try their best to gain more information, their capital is restricted by officials. Thus, claimants are unable to become successful at being self-responsible for their own financial hardship and welfare.

[10] Peters, M., 2001, Education, Enterprise Culture and the Entrepreneurial Self: A Foucauldian Perspective, Journal of Educational Enquiry, Vol. 2, No. 2

This study offers three main preliminary findings and conclusions. It finds that the tax credit system contributes towards reinforcing neo-liberal thinking within welfare. The preliminary findings suggest that tax credit claimants are forced to become self-governing. First, tax credit overpayments and waiting times for tax credit income worsen the financial hardship of claimants. This is contrary to its aims. Claimants are made responsible for pursuing the HMRC for information about their tax credit claims and overpayments; and are made responsible for finding out and having to reapply for tax credits, when HMRC lose their claims. Claimants are made responsible for their financial hardship, and are made accountable for overpayments even when not caused by them. Here we see elements of tax credit claimants having to become self-responsible.

Second, a large number of claimants decide to give up on challenging tax credit overpayments, ending up accepting (giving-up) and having to repay thousands of pounds to the HMRC. This is because HMRC do not provide information to claimants. Not only do claimants end up being financially worse off, but they also lose out on being able to increase their knowledge of tax credits and understanding of overpayments to avoid future problems. As a result, claimants lack in knowledge. The HMRC withhold information and thus hold more knowledge than claimants. Such practices disempower claimants who remain powerless in relation to the HMRC.

Finally, claimants do not get the help and support needed from HMRC officials on the tax credits helpline. Claimants attempt to find help from others (e.g. family, friends, and practitioners) to increase their knowledge. Thus, such practices encourage claimants to become self-responsible, by forcing them to increase their knowledge themselves, as the state does not provide it to them.

One of the key characteristics of neo-liberalist thinking is to force people to become self-governing. We see aspects of this in this study, when individuals become less dependent on the state for their welfare by means of making themselves responsible for their own welfare and to make their own choices. This means that individuals have to invest their own capital (knowledge, skills, time and money) to make themselves better off. Thus, welfare recipients, promoted by the neo-liberal model, are encouraged to become privatised objects, who are responsible to manage their own economic state.

As an accounting technology of governance, in terms of how citizens are accounted, categorised and treated according to their categorisation by government using numbers and bureaucratic procedures, the tax credit system tests the limits of accounting to achieve government aims. This study finds that the tax credit system fails to engage with 'real people' leading 'real lives' and thus does not achieve its main aims to improve financial hardship. In reality, the tax credit system also sustains asymmetry in accountability: Claimants are forced to become self-responsible for their own financial hardship, carefully crafted so that claimants are made accountable for tax credit overpayments and eligibility for tax credit payments, whilst the HMRC are not made accountable for claimants' financial hardship. Although claimants are encouraged to become self-responsible, they are unable to become successful at managing this because they are unable to gain access to capital. Access to capital is restricted by tax credit officials who do not provide claimants with compassion and information.

The state engages in both welfare and labour activation policies. The UK tax credit system is an attempt to integrate both policies within one system in order to resolve key issues (Hodgson and Boden, 2008[11]). The tax credit system enables the HMRC to administer government policy to encourage people to work. This ultimately results in claimants becoming objects that are susceptible to social, political and administrative rules and policies, rather than human-beings who are in need of financial, and other, support. It seems that recipients are given the autonomy to become self-responsible for their own welfare under a neo-liberalist discourse. However, their autonomy is restricted by the practices of welfare officials. Thus, claimants become trapped in welfare and the stigma associated with it.

[11] Hodgson, H. and Boden, R., 2008, Not-so-Distant Cousins: Family benefits in the United Kingdom and Australia, International Social Security Review, Vol. 61, pp. 29–46

Looking back at our findings so far, this study broadens our understanding of the role of public administration. It looks deeper into practices of knowledge/power and how understandings of eligibility, deservingness, poverty, accountability for outcomes, and acceptance of outcomes are crafted and their results. This study also examines the nature, quality and real world consequences of encounters: Communicative practices and emotions emerging in-between officials and claimants are key to what happens and the ways they are mediated by digital processes (phone, IT systems, automatically generated letters) through which they meet.

This research is based on the administration of the UK tax credits system however its findings are relevant and applicable towards the administration of other welfare government programmes worldwide to include the UK's new Universal Credits system. The results of the research will be used to inform policy-makers in the design and development of future welfare programmes in order to improve the way they are administered so that they become more effective in reaching their main aims to improve financial hardship for citizens. In addition, this research aims to improve the experiences of welfare administrators (officials) and claimants so that they become more informed, knowledgeable and empowered.