Low Incomes Tax Reform Group

A voice for the unrepresented

House of Commons Public Bill Committee
Savings (Government Contributions) Bill 2016-17
Response from the Low Incomes Tax Reform Group (LITRG)

1 Overview

1.1 Attempts to incentivise individuals to save both for their short term and longer term financial security are welcome. This briefing recommends careful consideration of some key points in the design of the scheme proposed under the Savings (Government Contributions) Bill 2016-17 ('the Bill'). These points are:

1.1.1 Many points of detail are left to Regulations. We recommend that these are published for consultation (see Para 2.4)

1.1.2 Government bonuses to the Lifetime ISA and Help to Save are to be exempted from tax. We recommend that provision is also made, in consequential regulations, for them to be disregarded from income calculations for tax credits and means-tested benefits. (see Section 3)

1.1.3 Introduction of both schemes could have an impact on opt-out rates for auto enrolment – we recommend careful monitoring of this impact. Guidance will need to be very clear so that individuals understand the different treatment between saving in pensions, Lifetime ISAs and Help to Save. (see Section 4)

1.1.4 Savings in Lifetime ISAs and Help to Save accounts should be disregarded from the assessment of capital for means-tested benefits purposes, so as not to disincentivise savings. (see Section 5)

1.1.5 We express concern that a single provider model for Help to Save could be a disincentive for some who need or prefer to engage face-to-face. (see Section 6)

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1.1.6 The 'UK connection condition' for Help to Save must be aligned with existing similar provisions in tax credits and benefits legislation. (see Section 7)

1.1.7 We suggest that having two eligibility criteria dates for Help to Save is excessive and unnecessary, and that meeting the criteria at the time of application would be adequate. Also, if a person is turned down for Working Tax Credit (WTC) or Universal Credit (UC) but the decision is overturned on appeal, this must not affect their ability to open a Help to Save account. (see Section 8)

1.1.8 Government bonuses may be lost or reduced if withdrawals are made from both schemes. Further, there are strict penalty provisions, particularly for the Lifetime ISA scheme as regards dishonesty. Guidance for savers on both the Lifetime ISA and the Help to Save scheme and the importance of providing accurate information must therefore be accessible, comprehensive and clear. (see Section 9)

1.2 Further detail is given on each below.

2 Background

2.1 The Bill introduces two government-incentivised savings schemes – The Lifetime Individual Savings Account (Lifetime ISA) and Help to Save Accounts. The two schemes have different objectives – the former helping people to save towards purchase of a first home or retirement; the latter to incentivise those with little or no existing savings to put something aside for a rainy day.

2.2 Given LITRG's focus on taxpayers on low incomes, it is Help to Save on which we offer most comments, but we also put forward some observations relating to Lifetime ISAs.

2.3 LITRG gave a detailed response to the consultation on implementation of Help to Save.[1] We were disappointed that the Government response[2] to this consultation was very brief, and did not cover the range of peripheral issues and detailed points we raised in our submission.

2.4 Indeed the Bill itself gives scant information to anyone aiming to understand the final detail of the scheme, with much left to Regulations which – as far as we are aware – have yet to be published. Given that the devil is in the detail, we recommend that Regulations are published for consultation. For example, our response to the Help to Save consultation outlined various detailed points, such as how eligibility to open an account would be decided

[1] The full submission is available on our website http://www.litrg.org.uk/latest-news/submissions/160712-help-save-%E2%80%93-consultation-implementation

[2] See https://www.gov.uk/government/consultations/help-to-save-consultation-on-implementation

in cases where joint claims are made to WTC and UC.[1] These points are still unclear as they are left to Regulations.

3 Treatment of Government bonuses for tax credits and other state benefits

3.1 Whilst it is welcome that Clause 3 of the Bill specifically excludes the Government bonuses added to both Lifetime ISAs and Help to Save accounts from being treated as taxable income (something we recommended in our response to the Help to Save consultation), it is not immediately obvious how such bonuses will be treated under the benefits system. We therefore recommend that Parliament ensure that consequential Regulations are made to disregard them from the calculation of income for tax credits and means-tested benefits.

3.2 For example, in the Tax Credits (Definition and Calculation of Income) Regulations 2002,[2] to disregard the Government bonuses as income for tax credits, it appears that an addition would need to be made to Regulation 10, Table 4. Indeed, there is precedent for such treatment in that number 14 of that table disregards from the calculation of tax credits income 'Any income arising from or payment made in respect of a Saving Gateway account'. [The Saving Gateway was a government-incentivised scheme for people on low incomes trialled in the late 'noughties' and was planned to be rolled out after the Saving Gateway Act 2009[3] was passed, but was subsequently scrapped.] Similar changes would be needed in the benefits legislation.

4 Universal credit – comparison of Help to Save with pension contributions

4.1 The debates that have already been held on the Bill indicate there is some concern about individuals' ability to save into the new Help to Save scheme. Up to £50 a month may be unachievable for many who are reliant on state support and struggling to make ends meet.

4.2 One way of further aiding their ability to save would be to make Help to Save contributions deductible from income for the purposes of calculating UC entitlement. This would mirror the deduction for pension contributions already permitted, however it might also encourage people to opt out of auto enrolled pensions. On balance, it may be better to offer incentives by disregarding capital in Help to Save accounts for the purposes of means-tested benefits assessment (see Section 5).

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[1] See our response, para 4.2ff: http://www.litrg.org.uk/latest-news/submissions/160712-help-save-%E2%80%93-consultation-implementation

[2] SI 2002/2006

[3] See http://services.parliament.uk/bills/2008-09/savinggatewayaccounts.html

4.3 In any event, guidance on both Help to Save and Lifetime ISAs must be very clear to illustrate the differences in benefits treatment as compared to pensions. As pension contributions are deductible from income in the UC assessment, up to 65% of the contribution may be returned in increased UC. Coupled with tax relief and employer contributions for auto-enrolled employees, this may make pension contributions an overall better long term financial prospect than Help to Save. Yet many may prefer the short term accessibility of Help to Save.

4.4 Our response to the Help to Save consultation therefore recommended close monitoring of auto enrolment opt-out rates (and if an increase is seen, to investigate the reasons behind it) after Help to Save is introduced.

5 Treatment of capital

5.1 A further incentive to savings would be to ensure that any monies saved into Government-promoted schemes are disregarded from the capital assessment for means-tested benefits.

5.2 For those using Help to Save, this could truly encourage regular saving, without fear that it could later give rise to loss of other support. The assessment of 'tariff income', in UCfor example, begins when a claimant has capital of £6,000 or more (unless that capital is otherwise disregarded). Whilst even the maximum saved into Help to Save plus bonuses would not exceed this amount, a specific disregard would mean that the Government could promote the scheme as not being counted for restriction of means-tested benefits – a selling point that could encourage maximum take up.

5.3 We recommend that the Government also disregards savings in the Lifetime ISA from the assessment of capital for means-tested benefits purposes. Otherwise someone who is saving towards a first home deposit, or choosing to save into a Lifetime ISA rather than a pension, could find they have to draw on those monies if, for example, they lose their job. This would be a serious disadvantage to someone who has chosen to save into a Lifetime ISA over a pension, given that untouched pension savings are usually entirely disregarded when assessing entitlement to UC. This disregard could apply until Lifetime ISA savers have reached age 60, such that they are able to draw on those savings without penalty.

6 Single provider model for Help to Save

6.1 We understand that Help to Save will initially be rolled out on a single provider model, using NS&I. Concerns have already been expressed in the Second Reading debate that this could limit access to the scheme, and some assurance has been given that the Bill does not prevent others offering the scheme later.[1]

6.2 We reiterate concerns expressed in our response that NS&I depend on internet or telephone contact, both of which are expensive, especially to the low earners who cannot afford broadband or landlines. We are therefore concerned that this remoteness will discourage participation, and that many would prefer face to face accessibility, through local outlets like banks, building societies and Post Offices.

7 UK connection condition for Help to Save

7.1 Schedule 2, Part 2, Para 7 includes a 'UK connection condition' in that individuals must be 'in the United Kingdom' to be eligible to open a Help to Save account. Detail of this condition is left to Treasury Regulations.

7.2 We recommend that this condition is aligned to similar provisions already in existence in tax credits and benefits legislation. For example, the Tax Credits Act 2002 Section 3(3) uses exactly the same phrase 'in the United Kingdom' with further detail found in the Tax Credits (Residence) Regulations 2003.[2]

8 Help to Save – eligibility assessment dates, and potential complexities arising in benefits appeals cases

8.1 Schedule 2 Para 3(4) of the Bill envisages two dates on which eligibility criteria must be met – the date of application and the date of acceptance. We are not convinced of the merit of having the second date as part of the criteria. If the aim is to encourage people to save, surely demonstrating qualification at the time of application is adequate? If, for example, there is a delay in processing the application and applicant gets a better-paid job in the meantime so ceases to qualify for UC, why prevent that person from opening an account? After a period of reliance on the state, it would seem sensible to allow them to use Help to Save to amass a small safety net for the future.

8.2 Equally, it is necessary to provide for what happens where a person loses entitlement to, or is not awarded, WTC or UC and that decision is overturned on appeal or other official correction. Their entitlement to open a Help to Save account must be unaffected.

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[1] See question raised by Gareth Thomas and response from Jane Ellison: https://www.theyworkforyou.com/debates/?id=2016-10-17a.605.4#g607.3

[2] SI 2003/654

9 Penalties

9.1 Schedule 1 Part 5 outlines penalty provisions relating to the Lifetime ISA scheme, for example penalties for dishonesty of up to the greater of £3,000 or the amount of bonus dishonestly obtained or sought to obtain. It is therefore essential that guidance for people about Lifetime ISAs is really good and clear, and it must stress the importance of providing accurate and complete information.

9.2 Similar penalty provisions for dishonesty do not seem to feature in Schedule 2 of the Bill for Help to Save accounts. This is presumably because the administrators will have a means of checking with HMRC or DWP to confirm eligibility criteria are met on opening accounts, and because there are no restrictions as to use of the funds on withdrawal. Nonetheless, clear guidance will still be needed, particularly concerning withdrawals, given the proposal to calculate the government bonus on the highest balance achieved.[1]

10 About Us

10.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

10.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

10.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

LITRG
24 October 2016

[1] Government response to the Help to Save consultation, para 3.2:
https://www.gov.uk/government/consultations/help-to-save-consultation-on-implementation