

**Money and Pensions Service (MAPS) – Listening document
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 As a group of tax specialists with an interest and expertise in the tax and related welfare issues facing those on low incomes, we welcome the opportunity to input into the MAPS' listening phase.
- 1.2 This submission is largely restricted to answering one key question: 'What are the top priorities the Money and Pensions Service should focus on over the next three years?' Although there are many suggestions that we could usefully make, we actually highlight just one which we believe is of the utmost importance and should therefore be MAPS' main priority.
- 1.3 This recommendation is that people exercising pensions freedoms need **advice** and that MAPS should play a central role in delivering it. The existing 'guidance' model offered through Pension Wise is inadequate to meet this need.
- 1.4 Without advice, we have seen people take money out of pensions, thus triggering tax charges and benefit withdrawal issues that could have been mitigated through proper planning. For those with only small pension pots, for whom every penny counts, such additional charges increase their risk of slipping into poverty in older age.
- 1.5 We think that there are two possible ways in which advice could be delivered, being either:
- to upgrade the Pension Wise service from giving guidance to giving advice, fully funded by MAPS; or
 - to subsidise the provision of advice through the creation of a charitable body to which financial advisers might give some time for free, in the same way as the tax

profession provides access to professional tax services for those who cannot afford it – via the charities Tax Help for Older People¹ and TaxAid.²

- 1.6 LITRG originally established the Tax Help for Older People service which then became a separate charity, and we would be very willing to share our experience.
- 1.7 Even if the above recommendation is not taken up, we urge MAPS to ensure that people get better support on the tax and welfare benefits consequences of their pension decisions. In a tax context, this could be done by linking to specialist guidance (in which we include reference to the LITRG website), and by working with Tax Help for Older People and TaxAid to offer specialist support (subject to them having sufficient funding to cater for any resulting increase in demand).

2 About Us

- 2.1 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.
- 2.2 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.
- 2.3 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.

3 Introductory comments

- 3.1 We welcome the opportunity to provide input into MAPS' listening phase. We do so as tax specialists, with a particular focus on the low-paid and unrepresented, who often experience difficulties in their financial dealings because of lack of knowledge, skills or confidence,

¹ Tax Help for Older People provides pro bono help and advice on tax to people of retirement age on modest incomes. See <http://www.taxvol.org.uk/>

² TaxAid provides a parallel service to people of working age. See <https://taxaid.org.uk/>

mental or physical disabilities, or literacy or numeracy shortcomings. It goes without saying that MAPS must concentrate on reaching out to these disadvantaged groups.

- 3.2 We would like to start by commenting on the absence of the word tax from the entire listening phase document.¹ Tax (and National Insurance) is a major financial consideration for most people, especially for those in work and around pensions, so this omission is disappointing.
- 3.3 In our submissions on the topic to date,² we have put forward various ideas for the new body, such as:
- it should provide the oversight and co-ordination of advisory bodies; and
 - it should maintain a central website as a starting point for enquirers, helping to paint a broad picture and explaining different interactions, with each segment clearly linking to relevant expert advice service and specialist websites.
- 3.4 From a tax perspective, a pointer to free and independent information here could well include a reference to the LITRG website³ which provides the most comprehensive, up-to-date primary source of information and guidance for people on tax, National Insurance contributions, tax credits, and on universal credit (where there are interactions between it and the tax system).
- 3.5 With regards to specialist tax advice, we outline in section 4 below how the charity Tax Help for Older People might be able to provide further assistance in the context of the tax implications of exercising pensions freedoms. Similarly, tax debt is an area in which the public are not currently well served because unlike most areas of general debt, a specialist investigation is often needed to establish whether it is correctly due in the first instance. All too often when HMRC are challenged by qualified tax advisers, the supposed debt turns out to be wrong or non-existent. With sufficient funding to enable it to cope with additional referrals, MAPS could link to the separate charity TaxAid for them to offer people help with tax debt and other tax problems.
- 3.6 In terms of MAPS' aims around raising awareness of financial matters and boosting financial capability, we wholeheartedly agree that these are very worthwhile aims. We believe that this **must** include taxation and associated matters, particularly in light of the upward trend towards non-standard work, such as low-paid self-employment, agency and zero hours

¹ <https://moneyandpensionsservice.org.uk/wp-content/uploads/2019/04/Listening-Document-Executive-Summary.pdf>

² For example, <https://www.litrg.org.uk/latest-news/submissions/170127-single-public-financial-guidance-body-sfgb>

³ www.litrg.org.uk

contract work. All of these types of work can come with complex tax and related benefit considerations that they need to understand and manage.

- 3.7 If you would like to discuss how LITRG and the tax charities could work with MAPS to help support people to make the most of their money going forward, please do not hesitate to get in contact. For the rest of our submission we concentrate on one key question: ‘What are the top priorities the Money and Pensions Service should focus on over the next three years?’
- 3.8 Although we feel there are many suggestions that we could usefully make, we actually go on to highlight just one – which hopefully makes it clear that we think it needs to be given the highest priority.

4 Question 1 – What are the top priorities the Money and Pensions Service should focus on over the next three years?

- 4.1 We represent ‘low-income’ taxpayers, but we use the term ‘low income’ as a proxy for people with limited means generally, that is those who only have a small amount of ‘capital’ and savings. Often, they may not be financially savvy and find pensions a difficult and confusing subject. However, under pension freedoms, they are required to make more complicated decisions than ever.
- 4.2 We think there is an urgent need for a free source of pension advice for those who are unable to afford to pay an IFA or who have smaller pension pots that make finding an IFA difficult.¹
- 4.3 While some guidance is available to help them, for example, via Pension Wise, some people can find it incredibly difficult to understand, assimilate and knit it all together to find the best course of action to take based on their individual circumstances. The consequences of not fully understanding the implications of your actions can be seen in the real-life case study of Bill.
- 4.4 Bill is low income recent retiree. He had worked hard to build up a pension pot of £40,000. Upon his retirement, he withdrew his entire pension pot. Bill bought a new car for £20,000 (which he admitted he did not really need) and put the remaining £20,000 in an ISA which he plans to drawdown in his remaining years.
- 4.5 Although Bill received some pension freedoms guidance from Pension Wise, his hasty decision has cost him heavily in the form of an unnecessary tax charge and the withdrawal of his council tax support. While his savings were in his pension, they were not reckoned as

¹ It is worth noting that going to an IFA for a full fact find, analysis of needs and expectations, etc. and search for an optimum solution(s) is likely to cost at least four figures. We have indeed heard reports of IFAs refusing to take on clients with less than £50,000 in their pension pots and some require even more.

capital for means-tested benefits, whereas the £20,000 in his ISA now is for council tax purposes. The pot was also invested tax efficiently, whereas 75% of Bill's £40,000 withdrawal is taxable as income on him. If he had taken it in stages, spread over a number of tax years, he could have avoided paying so much tax. His tax situation is compounded by the fact that he did not realise his state pension was taxable and thus he did not have as much of his personal allowance available as he thought.

- 4.6 Additionally, it should not be forgotten that Bill took his money out of his pension and put it in the bank. While stressing that we are not investment advisers, it is probable that this might not be the best outcome for Bill in investment terms, for example due to the rate of inflation exceeding interest rates. Thus, the cash will dwindle in value over time.
- 4.7 The key point that has tripped Bill up is the difference between 'advice' and 'guidance'. The current Pension Wise service is limited because it offers only general guidance. However, for individuals like Bill, who are approaching retirement and need to make the most of their money, there can really be no substitute for considered, one-to-one advice.
- 4.8 Our thoughts on this accord with a recent interview with an IFA who became a Pension Wise guidance giver.¹ We quote:

'Stone says Pension Wise is a good guidance service for the public. 'I saw lots of people making the right decisions that had come in with the completely wrong idea. They may have potentially made some detrimental choices had they not looked for guidance.'

But she says the topic of tax seemed to come up more than most. 'People don't understand anything about tax. You don't have a choice, and it's taken out of your payslip. You can't change it, so nobody really questions it.'

At retirement, the tax implications can be huge and this is where Stone felt many people were a little clueless. She saw people who were planning to withdraw their pension in one go.

'You have to shake them and say: "no, you're going to pay a disgusting amount for that". And they just didn't know that at the time.'

But working at Pension Wise came with its limitations. 'I was a bit frustrated that I couldn't advise people into making the right decisions,' says Stone. With each session lasting only an hour, she felt there was only so much she could do. She adds: 'Ultimately what planners do and the decisions our clients make take more than an hour. It just wasn't enough for me.'

¹ <https://citywire.co.uk/new-model-adviser/news/pension-wise-to-chartered-planner-one-ifas-inside-story/a1201920>

- 4.9 We would urge MAPS to seriously consider how it can ensure that those accessing their pensions have access to detailed and personalised advice on the consequences of their decisions, based on a full fact find, from a qualified and professional source.
- 4.10 This might be through MAPS funding (or at least subsidising) the direct provision of regulated financial advice for those who cannot afford it via Pension Wise, or by persuading those in the financial services industry to establish a charity and to engage and share a few hours of their time for free. In the context of the latter, the parallel tax charity models (TaxAid and Tax Help for Older People – the latter of which originally being established by LITRG) have been working well for over 25 years. Together we could share our experiences of the establishment of these tax support services, as a starter for doing something similar in a financial services context.
- 4.11 It goes without saying that advice should cover tax interactions, and some warnings should be given about the need to take advice on welfare benefits impacts. If the financial advisers themselves do not have a thorough grasp of these systems, then the separate charity Tax Help for Older People, subject to suitable funding and ‘warm handover’ arrangements being put in place, could offer a pathway to specialist support.
- 4.12 Advice on taxation matters is important not just for understanding the tax impact of different pensions choices and how they might be mitigated but also to inform how and when the tax due will be collected. It needs to be stated that it is highly unlikely that any tax collected under the PAYE system, particularly in respect of larger lump sums or irregular payments, will be correct.
- 4.13 Even if taking your money has no direct tax consequences, for example if your taxable income remains below the personal allowance (£12,500 for 2019/20), it could nevertheless have a deleterious effect on benefits if the income or capital goes above a threshold where benefits become restricted or simply unavailable.
- 4.14 Additionally (although we appreciate that the idea has recently been dismissed by the government) we recommend that in terms of its policy shaping ability, MAPS keep under review the option to automatically default people into an advice appointment, to provide an extra layer of protection for the most vulnerable.
- 4.15 We make this call as new figures from the ABI¹ and the IFS² are released. These show respectively that one-third of people are accessing pension cash without ever taking advice and that there has been a small increase in pensioner poverty, after decades of almost continuous falls. It is therefore vital that people are helped to protect and make best use of whatever pension savings they have.

¹ <https://www.abi.org.uk/news/news-articles/2019/05/tens-of-thousands-entering-retirement-without-ever-taking-advice-each-year-abi-warns/>

² <https://www.ifs.org.uk/publications/14193>

- 4.16 We are very willing to discuss any aspect of our response in more detail if that would be useful.

LITRG

1 July 2019