HM Treasury: Help to Save Reform
Response from the Low Incomes Tax Reform Group (LITRG)

1 Executive summary

1.1 We are pleased that the Help to Save scheme has recently been extended to April 2025, and that the government is exploring options to continue and hopefully improve the scheme thereafter.

1.2 We feel that a review of the wider savings landscape would be worthwhile, and it is a shame that there is no opportunity to explore this within the current consultation. The taxation of savings is an area fraught with complexity that many unrepresented savers are likely to find difficult to understand – in particular, the starting rate for savings and the personal savings allowance. We would encourage the government to consult on the simplification of the taxation of savings generally.

1.3 The current eligibility criteria for Help to Save, though not perfect, does appear to strike a logical balance between aiming the product at its stated target population while avoiding potential abuse. We do not venture any ideas for change in this area.

1.4 The monthly savings limit does not currently provide flexibility to allow for the changing circumstances of the low-income saver, and therefore building in the ability to roll over monthly saving limits would provide savers with a continued incentive to bolster their savings as and when they are able to.

1.5 The bonus, though generous at its headline rate of 50%, can be difficult to achieve in full and its design may not always cater well for 'real life' (sometimes shorter term) savings objectives that some low-income savers might have. We think it would be sensible to review the current bonus structure to allow for further flexibility for shorter term withdrawals, perhaps with a slightly lower headline rate of bonus applied so that the scheme remains cost effective to the taxpayer.

1.6 We understand that a key barrier to take up of the existing scheme is lack of awareness. Therefore, to get the best from Help to Save or any successor scheme, it would be beneficial to consider wider

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promotion to ensure that all who are eligible are aware of it. This could include looking at more creative ideas such as harnessing functionality in HMRC's Single Customer Account (currently under development), the Universal Credit digital account and the automatic opening of accounts for eligible individuals.

1.7 On maturity of Help to Save accounts, it may be preferable for saved funds and any bonus payments to be transferred into a follow-on savings account, rather than directly to the individual's current account. Such a follow-on product could offer a continued incentive to save, while being aimed at educating individuals about how more mainstream savings products work – for instance, rather than offering a tax-free bonus, a follow-on account could offer taxable interest, but perhaps at a slightly preferential rate. This may offer a greater level of ongoing saving success for the individual.

1.8 It is observed that access to the Help to Save scheme can stem from a claim for Universal Credit, yet the savings themselves can have an impact on the Universal Credit award. This could reasonably be seen as an additional barrier to eligible individuals making use of the scheme.

2 About Us

2.1 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.

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.

2.4 Any recommendations in this paper are highlighted in bold text.

3 General Comments

3.1 LITRG has been a stakeholder throughout the development and implementation of the Help to Save scheme, providing comment on behalf of low-income unrepresented taxpayers. As explained in section 2 above, we do not support taxpayers directly, in connection with Help to Save or any other matter.

3.2 We provide guidance related to the Help to Save scheme on our website, setting out the eligibility criteria and scheme mechanics.[1]

3.3 We receive queries and comments from the public via the 'contact us' facility on our website,[2] which can inform our understanding of the practical implications of tax legislation and other initiatives aimed at the lower income population. However, Help to Save is not an area on which we have received a great deal of feedback or queries. This *might* be for all or any of the following reasons:

- The overall awareness of the scheme is low.
- For those who use the scheme, they feel it is simple, easily understood, and without tax consequences that would lead people to make contact with us.
- The target population is not, to a particularly large extent, able to make use of the scheme, due to having low disposable income, and it is therefore felt to be irrelevant.

3.4 We comment further on awareness of the scheme in answer to question 14 below.

3.5 Before answering the specific questions, one general point is that this consultation is perhaps focused too narrowly. There is discussion of the complexities of the Help to Save scheme but more widely, the way in which savings are taxed is very complex – perhaps unnecessarily so – and it would seem a missed opportunity to look only at the future of Help to Save without addressing the wider savings landscape. For instance, the starting rate for savings is extremely difficult to explain to non-tax experts given that it can be 'used' up by the individual's non-savings income. Furthermore, the 'personal savings allowance' is a misnomer, given that it isn't a true allowance as such – it is a nil rate of tax which sits within an individual's other tax bands.[3] **We therefore recommend that the government should consult more widely on simplification of savings taxation.**

4 Question 1: Considering the focus on working people with low incomes, what changes, if any, would you recommend making to the eligibility criteria to reach the target group? How could that be implemented? Please provide details.

4.1 We find it challenging to make any better suggestions than the current eligibility criteria, as other options are problematic. Linking eligibility to working tax credit or universal credit claims seems

[1] https://www.litrg.org.uk/tax-guides/savers-property-owners-and-other-tax-issues/savings-and-tax/help-save-savings-scheme

[2] https://www.litrg.org.uk/contact-us

[3] We discuss some of these complexities in our December 2020 paper 'A better deal for the low-income taxpayer', see page 13 of the main document: https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer

broadly logical in the context of targeting the scheme at low-income workers, as is the stated intention.

4.2 There is some disparity in the current eligibility rules, given that some tax credits claimants may have other substantial savings which they might use to pay into the Help to Save scheme and benefit from the 50% bonus. It may be perceived therefore that those qualifying for Help to Save by virtue of working tax credit entitlement have an ‘unfair’ advantage in terms of potentially making greatest use of the scheme. This is because tax credits are assessed using a measure of income only and capital is not included. Universal credit claimants, by contrast, will have limited other savings as the assessment of means includes both income and capital. It is assumed, however, that this disparity will eventually disappear, as tax credits claimants migrate to universal credit.

5 Question 2: Do you think savers should be able to open another account after their first Help to Save account matures or is closed? Should there be any restrictions to doing so? What are your reasons?

5.1 Under the current construct of the scheme, if a person withdraws their savings early or otherwise decides to close their account, forfeiting any bonus under the scheme, they are not able to open a new account. This is arguably a barrier to giving low-income savers sufficient opportunity to form their savings habit. **We therefore recommend that low-income workers should have a second attempt at opening a Help to Save account if they have not received any bonus and their saving journey suffers a false start, or if an unexpected turn of events has prevented them from deriving any benefit.**

5.2 Given the 50% bonus rate for the scheme, it would seem reasonable to prevent savers who have received bonus payments previously (perhaps subject to a certain limit) from opening a further account after the initial 4-year term. We comment further below, however, on follow-on savings possibilities.

6 Question 3: To what extent does the limit on monthly savings act as a barrier to maximising the benefits and or objectives of the scheme? Without making the scheme substantially more costly to taxpayers, how could this be overcome? Please provide details.

6.1 We would suggest that the target population is very likely to be hit by fluctuations in their ability to save, it therefore seems unrealistic to expect a consistent level of savings. **We would therefore recommend that Help to Save savings limits be made more flexible, rolling over saving limits, so that savers could have the option to ‘catch up’ on missed savings.** This might be needed if, for example, savers have had an unexpected bill; or indeed over the course of a year – for instance if outgoings are lower in the summer months due to the higher costs of heating and lighting in the winter. We appreciate that maintaining consistent savings aligns to the scheme’s goal of establishing a ‘regular habit’ but **flexibility over the course of a year, with an annual cap on the amount saved, may provide greater long term success for the saver.**

7 Question 4: To what extent does the restriction on replacing savings that have been withdrawn act as a barrier to maximising the benefits and or objectives of the scheme? How could this be overcome? Please provide details.

7.1 If the objective of the scheme is to encourage its users to build up a 'rainy day' fund, then it does seem somewhat counterintuitive that there is no ability to replace funds which might be called upon when the rainy day arrives. In addition, the withdrawal will impact on the future bonus accrual (until such time as the original highest balance is exceeded). This seems to doubly penalise those savers who have achieved a modicum of financial resilience by being able to draw on savings – for example, to replace a household appliance or fix the car when it has broken down.

7.2 **We recommend that consideration should be given to including within Help to Save rules the ability to withdraw a capped amount (say £500) which the saver can replace within a certain period (say within a year)**. This would seem to fit better with the objectives of the scheme than the present veto on replacement.

8 Question 5: Do you think the current limitations on ways to pay money into a Help to Save account presents a barrier for savers? If so, how could this be overcome? Please provide details.

8.1 **We recommend that the possibility of making deposits to Help to Save accounts in other ways be explored – including whether more traditional methods such as cash deposits would be beneficial, together with more innovative suggestions such as deposits being made via the individual's employer.**

8.2 It is clear that cash is decreasing in popularity.[1] However, a survey conducted by Which? suggests that cash is used most commonly among those on lower incomes, as a more tangible way to track spending and budget.[2] That being the case, it may be that such low-income savers who do use cash to help manage their spending would benefit from a facility to deposit any surplus cash into a Help to Save scheme if eligible.

8.3 Further innovative measures could be taken. For example, we would suggest that:

- comparisons might be drawn with the NEST work on 'sidecar savings', through which we understand that short term savings could be set aside for employees out of their salary by their employers in a similar way to auto-enrolment into workplace pensions;[3]

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[1] BBC report that cash use is forecast to drop – accounting for 6% of payments by 2031: https://www.bbc.co.uk/news/business-62576024

[2] https://www.which.co.uk/news/article/more-people-could-turn-to-cash-to-help-budget-as-cost-of-living-rises-aada54Q9HEAk

[3] See https://www.nestinsight.org.uk/liquidity/#1675271766586-a56b52ef-1c06

- it would be worth exploring whether universal credit claimants could request that a fixed sum from their award is diverted directly to their Help to Save account before they are paid the balance;
- HMRC might look at whether they could pay amounts direct into Help to Save accounts if the individual were due a tax refund or, with effect from the 2024/25 tax year, a top-up payment under the new section 193A FA 2004.[1] (See also our answer to question 14 below.)
- There are certain apps and offerings by banks where the cost of purchases are 'rounded up' to the nearest £1, with the extra being directed into savings – could this technology be harnessed to help savers make contributions to their Help to Save accounts?[2]

9 Question 6: Do you think running the scheme for 4 years provides the best value for money for the taxpayer?

9.1 Running the scheme over four years could perhaps be seen as both a positive and a negative. Since the spirit of the scheme is to establish long-term saving habits, 4 years would appear to be suitable. We cannot offer any particular insight of the psychology of savers and creating 'habits', but it feels like a reasonable timeframe. However, this timeframe needs to be balanced with the fact that the targeted group of savers are likely to be in a more precarious financial position and, for some, four years is a long time to have cash tied up.

9.2 As such, it is a welcome feature of the current scheme that savers are still able to access their saved funds (subject to a 3-day delay) and **we would therefore recommend that funds in Help to Save accounts remain accessible to the saver in any future iteration of the scheme**. However, the scheme may provide further benefit for savers if the approach to bonus entitlement (and/or the ability to open a new account if the full bonus has not previously been achieved) is reviewed.

10 Question 7: Could incentivising a regular, long-term savings habit be better achieved over a different time period? Please provide details.

10.1 As mentioned above, we are not able to offer any insight into savers' behaviour or the psychology of creating an established pattern of behaviour. However, it is our view that a scheme which takes a flexible approach to the changing fortunes/spending needs of lower-income savers is likely to maximise take up and deliver the most success. Clearly this needs to be balanced against the overall cost and 'taxpayer value'.

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[1] See https://www.gov.uk/government/publications/pensions-relief-relating-to-net-pay-arrangements/relief-relating-to-net-pay-arrangements

[2] As seen with apps such as Plum: https://withplum.com/

11 Question 8: To what extent does the bonus structure or calculation method for savers act as a barrier to maximising the benefits and or objectives of the scheme? How could this be overcome? Please provide details.

11.1 We appreciate that the current bonus structure achieves a compromise between (a) providing individuals with an incentive to keep money in the savings account and (b) allowing the money to be accessed if the funds are needed without an entire forfeiture of their bonus.

11.2 Given the calculation of the bonus structure is split into two 2-year 'terms', it can be easy for savers to suffer a far reduced second bonus, or simply get no bonus at all, if sizeable withdrawals are made from their savings before the commencement of the second 2-year term. This could therefore be seen as a negative factor of the scheme and one that is less likely to encourage continued saving into the second 2-year term, with any incentive to continue saving effectively being removed in certain circumstances.[1]

11.3 Additionally, the calculation of the bonus (particularly as it applies to the second 2-year term) is not straightforward and could lead to confusion for savers. It is particularly important to note that these savers will not have the benefit of paid advisers such as IFAs to help them understand the scheme or how to maximise their benefit from it. As such we think there is a case for simplifying the bonus payments under the scheme.

11.4 As already mentioned, we are pleased that the current scheme has been designed to ensure savers can access their savings at any time and that they are able to access a bonus at the half-way point. However, the scheme in its current form is targeted at encouraging lower income people to have a 'rainy day fund' which is left untouched. As mentioned in our comments in answer to question 4 above, we would question whether this is entirely relevant or appropriate, considering the possible overall circumstances of those on lower incomes.

11.5 The design of the scheme (and in particular the calculation of the bonuses) doesn't cater well to savers who might be saving towards shorter term goals – or simply to have an 'emergency' fund to cover unforeseen events – and we see this as a limitation. Why should savers be less able to benefit from the scheme when wishing to develop a saving habit which is for a shorter term and/or known reason – for example to buy a car; or to cover unforeseen breakdowns/replacement of household appliances? Such saving would still be regular, habitual and should surely still be encouraged, particularly as it improves financial resilience and may reduce the need to get into personal debt to otherwise support the additional spending. **We recommend that the government develops Help to Save to be a more flexible product that would allow savers to benefit from better bonus accrual where shorter term access is required.**

11.6 We appreciate however that the scheme must deliver overall value for money to the taxpayer, and that increasing the parameters of bonus qualification might lead to additional cost. This could

[1] We give an example of the issues arising in our website guidance: https://www.litrg.org.uk/tax-guides/savers-property-owners-and-other-tax-issues/savings-and-tax/help-save-savings-scheme#how-is-the-bonus-calculated-and-paid

perhaps be mitigated by reducing the headline bonus in any new scheme. Clearly, the current 50% potential bonus is very generous, but savers might still be motivated by a bonus of a lesser amount (perhaps 30%), particularly if the scheme had more lenient requirements attached and qualifying for the maximum bonus was more achievable overall.

12 Question 9: Without making the scheme substantially more costly to taxpayers, what changes, if any, would you suggest to the bonus structure or calculation method to improve customer understanding and uptake? Please provide details.

12.1 **We would like to see the Help to Save bonus structure adjusted to work on at least an annual basis, to allow for shorter term saving goals.**

12.2 **We would also encourage the government to consider treating the annual bonuses as self-contained based on the annual saving deposits**, removing situations where savers are unable to qualify for subsequent bonuses due to making withdrawals from their Help to Save Account for a previous year's savings. However, we appreciate this might lead to people simply 'recycling' saved funds, and therefore careful consideration would need to be given as to how this could be managed practically.

12.3 One possibility to limit such 'recycling' of savings might be to introduce a fixed cap on an amount that can be withdrawn without impacting on subsequent bonuses – such as, say, £500. Another might be to allow a percentage of funds saved in the initial period to be withdrawn without affecting subsequent bonuses – the most straightforward percentage might be half, for example. Coupled with a lower headline rate of bonus, as discussed in answer to question 8 above, the overall cost to taxpayers might not be greatly increased as compared to the existing structure.[1]

13 Question 10: Do you think a change in bonus frequency would make it simpler to understand and/or create a bigger incentive for the target group to save? Please provide details.

13.1 As discussed above in our response to questions 8 and 9, yes, we think a more frequent bonus payment could increase take-up and act as a more useful incentive.

14 Question 11: Are any complexities or barriers caused by paying the bonus to the saver outside of the Help to Save account? What changes would you suggest to the way the bonus is paid to the saver? Please provide details.

14.1 Since the intention of the scheme is to create a long-term savings habit among lower income workers, it does seem counterintuitive that the bonus and final pay out on maturity are paid into the

[1] We have not done any modelling to confirm this. The figures/percentages are suggestions to illustrate the point. Further examination of the underlying figures would be required.

nominated current account of the saver. **We suggest the government could explore the possibility of Help to Save funds (both savings and accrued bonuses) being transferred on maturity into some sort of legacy savings account (perhaps set up automatically by NS&I).** These savings should still be easily accessible by the saver.

15 Question 12: Are there alternative options to encourage and make it easy to continue the savings habit?

15.1 **We recommend that the government explores various options to support continued saving on maturity of Help to Save accounts – for example, rolling over the savings into a new or legacy account with NS&I, or even encouraging individuals to think more broadly about their ongoing savings options, such as pensions or ISAs.**

15.2 As mentioned in answer to question 11, one suggestion might be for the saver to automatically become eligible at the end of the term for a new NS&I account (or simply preserving the Help to Save account as a legacy savings account) and for this to benefit from a favourable rate of interest as compared to the market in general. This could encourage continued saving for a roll-on period. Interest on such an account could be taxable in the normal way and this could provide an opportunity to educate account-holders about how savings interest and how it is taxed. This might therefore help them continue their path to longer term financial resilience and maintenance of a savings habit.

15.3 Even broader innovation could encompass thinking about whether on maturity, the saver might be given the opportunity to roll over all or part of their Help to Save pot into a pension, or to convert it into a Lifetime ISA. Simply paying the matured funds into the saver's current account appears to be a missed opportunity to encourage development of their savings habit and to highlight other savings opportunities which might secure their longer-term financial stability.

16 Question 13: Are any complexities or barriers caused by there being one provider of Help to Save accounts? How could this be overcome? Please provide details.

16.1 We have no comment to offer on this question.

17 Question 14: Are there any other areas of complexity, barriers or any changes you would suggest for Help to Save that have not been covered in this consultation?

17.1 The recent research published by the Resolution Foundation in their briefing paper 'ISA ISA Baby'[1] indicates that only approximately 10% of those eligible for a Help to Save account are making use of

[1] https://www.resolutionfoundation.org/publications/isa-isa-baby/

it, and that overall awareness is low. Clearly, if those eligible simply do not know that the scheme exists, then its uptake will not be maximised.

17.2 **Government should therefore ensure that Help to Save is adequately promoted, thinking creatively about how awareness might be raised amongst the eligible population**. We understand that those moving onto universal credit are not currently provided with any literature of the scheme, though work coaches are briefed to make claimants aware of the scheme.[1]

17.3 Government should consider more creative ways of promoting the scheme and encouraging those eligible to open a Help to Save account. For example, it occurs to us that this could tie in well with relief relating to net pay arrangement pensions.[2] Pension savers entitled to a top up payment under the scheme might be specifically targeted to ask if they would like to check their eligibility for a Help to Save account, and if so, perhaps even have their entitlement paid directly to that account.

17.4 It would also seem sensible if HMRC were to incorporate messages about Help to Save in the new Single Customer Account that is being developed, to draw people's attention to the scheme.

17.5 It has been suggested by the Resolution Foundation that a Help to Save account could be opened automatically for eligible individuals. Though we do not entirely object to this and can see the benefit of raising its awareness and take up rate in this way, we would caution that Help to Save might not be appropriate for all those who are eligible. It is possible that the temptation of shorter-term bonuses offered by the Help to Save scheme might drive savers to opt-out of pension auto-enrolment in order to direct savings to Help to Save instead. Any knock-on effects on pension auto-enrolment opt-out rates should be carefully considered. It would be unfortunate if lower-income people were putting their longer-term financial security at risk in order to make use of the Help to Save scheme.

17.6 We have already mentioned, but it is a point that bears repeating, that with the rising cost of living, eligible savers may simply not have any spares funds available to save. This may to be an unavoidable barrier for some low-income workers.

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[1] This was discussed at the Help to Save Roundtable meeting hosted by HM Treasury on 1 June 2022, at which LITRG were present

[2] As included in Clause 25, Finance (No. 2) Bill 2023. From April 2024, low-income net pay pension contributors will be offered 'top up payment' by HMRC to equalize the position with those paying into relief at source pension schemes. Many of the same population may be eligible to open a Help to Save account. When the top-up payments are offered, this could therefore present an ideal opportunity to promote Help to Save.

17.7 Finally, one key issue with the scheme is that its aim is to encourage a savings habit for low-income workers, yet any savings accumulated under the scheme might have an overall impact on any universal credit award.[1] This could feasibly be seen as a barrier for some low-income savers who may wish to ensure their universal credit award is preserved.

LITRG
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[1] For example, under the current scheme rules, if a couple claiming universal credit were both to open a Help to Save account and save the maximum over a 4-year period, with the bonuses added, they would amass £7,200 between them. They would then have household capital above the lower capital threshold of £6,000, after which the DWP start to calculate a notional income or 'tariff income' based upon the amount exceeding £6,000.