

Simple financial products

Response to the Treasury consultation

Issues for consideration

We are pleased to be able to offer input into this consultation, but only from a narrow perspective. Many of the consultation questions are outside our usual remit and we only wish to make a plea for tax and benefit issues to be considered at the same time.

Very often, where financial products are launched for those on low incomes there is a general tendency to consider any practical tax (or benefits) issues as a matter for later consideration. We would like to see such issues taken into account at the design stage so that a fuller understanding of the day-to-day problems created can be addressed early on.

We put forward the following for early consideration:

- The tax exempt (or otherwise) status of the income and capital growth; and the disregard (or otherwise) for tax credits and benefits bearing in mind the changes outlined in the Welfare Reform Bill.
- The administration necessary to receive the income without tax deduction at source for non-taxpayers.
- The timing of tax liability, especially in products which “roll up” the income yield and the different tax problems that this may create.
- The declaration responsibilities to HMRC for these new income sources, especially if individuals are within the PAYE system.

- Sufficient advertising/promotion if the products are to be tax-free so as to reach the people who need to know (for example, we see tax exempt sources of income mistakenly included in tax returns by pensioners).
- The tax consequences of joint holdings and of holdings as a nominee on behalf of someone else such as a minor or other vulnerable person.
- An understanding of what the accumulated capital/income from these simple products may have on the basic means-tested benefits that the individual may be receiving (or may be due to receive in future) or on a range of passported benefits.
- With insurance products, a simple guide to the issues of changes of household relationships and creation of trusts.

About us

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.

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

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