



**HM Treasury consultation on the abolition of 36 tax reliefs
Comments from the Low Incomes Tax Reform Group**

1. Executive summary

- 1.1. In general, we welcome moves which simplify the tax system. Most of the proposals in the current consultation either seem to achieve that or fall outside LITRG's area of interest.
- 1.2. We have therefore commented on only those reliefs where we are concerned that abolition might result in adverse impacts or be counter-productive in terms of broader government policy.
- 1.3. We recommend:
 - retaining the relief for late-night taxis and failed car-sharing arrangements, unless there is strong evidence to support the rationale for its abolition outlined in the consultation document
 - retaining life assurance premium relief, to be reviewed again in, say, five years' time
 - that further work and research is carried out regarding the relief for mis-sold pensions compensation prior to deciding on its abolition.

2. Introduction

2.1. About us

- 2.1.1. 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.

- 2.1.2. 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.

2.2. **General comments**

- 2.2.1. LITRG welcomed the formation of the Office of Tax Simplification (OTS) and its review of tax reliefs.
- 2.2.2. For the unrepresented taxpayer, simplification of the tax system and its interactions with other arms of government would go a long way towards improving their chances of compliance. Abolishing redundant and little-used reliefs could help, but there is also a risk that this could result in adverse impacts, particularly on those at the lower end of the wealth distribution.
- 2.2.3. We commented to the OTS that take-up is not necessarily a proxy for the perceived value of a tax relief. A relief that is little known, perhaps because it is highly complex or badly publicised, might be very valuable to those who do find out about it and make use of it. Its value might be greatly enhanced by simplifying it, or publicising it better.
- 2.2.4. Our comments below follow on from our earlier comments to the OTS¹.

3. **Specific comments on the reliefs to be abolished**

- 3.1. We have commented on only those reliefs which fall within our area of interest and where we have concerns that their abolition could be counter-productive or impact unfairly on low-income taxpayers.
- 3.2. **Late-night taxis home from work (Relief 6)**
- 3.2.1. We disagree with the proposed abolition of this relief for various reasons.
- 3.2.2. First, although the wording of the consultation document focuses on the late-night element of the relief, the further arm to it is equally important – for car-sharing arrangements.
- 3.2.3. Section 248(3) also allows an employer to pay a taxi fare for an employee to get home where car-sharing arrangements have failed:

'248(3) The car-sharing failure conditions are that–

¹ See <http://www.litrg.org.uk/submissions/2011/ots-tax-reliefs>

- (a) the employee regularly travels to work in a car with one or more other employees of the employee's employer under arrangements for the sharing of the car with them, and
- (b) the journey is made on an occasion when the employee is unable to use the car because of unforeseen and exceptional circumstances.'

- 3.2.4. The consultation document states that the relief is only likely to benefit well-paid and city-based (primarily London-based) employees, but we doubt whether that is true in relation to the car-sharing relief.
- 3.2.5. Car-sharing arrangements are far more likely to be in place between low-income taxpayers, particularly with the present high cost of fuel and running a car. They are also likely to apply in rural areas where the availability of public transport is either limited or non-existent.
- 3.2.6. The relief for an employer to pay for a taxi for an employee who gets stuck at work because the colleague they shared a lift to work with has had to leave early to collect a sick child from nursery or school, say, seems not unreasonable. Its removal would be counter-productive in that it could discourage people from car-sharing, having knock-on consequences which work directly against other government policy on climate change and local government policies to reduce congestion in town centres.
- 3.2.7. Moreover, abolition of this relief would affect employees on low incomes more than those on higher incomes if the tax payable on the taxi ride exceeded their usual commuting costs, or if abolition caused employers to withdraw the benefit altogether.
- 3.2.8. Turning to the late-night arm of the relief, the policy objective would seem to be to ensure the safety of employees (particularly female employees) when travelling to or from work at unsocial hours, and the need for that remains¹. Indeed, it has been emphasised in view of the recent widespread social disorder. Withdrawal would place low-income employees at greater risk compared with those who could afford their own taxi.
- 3.2.9. In this regard, the exact impact on employees depends on employers' reactions to withdrawal of the relief. This could be:
- to stop paying for or reimbursing taxi fares altogether (in which case the employee bears the full cost out of net income)
 - to pay the taxi company direct and then either report the item on a P11D (so the employee pays the tax and the employer pays NICs) or use a PAYE Settlement Agreement (a costly option for employers, grossing up the value of the 'benefit' and the employee's tax liability thereon), or
 - to reimburse the employee's expense and payroll the reimbursement (so either

¹ Various independent research can be found on this subject. See for example *Factsheet 3 – Late night transport*, by the Centre for Public Health, Faculty of Health and Applied Social Sciences, Liverpool John Moores University
<http://www.cph.org.uk/showPublication.aspx?pubid=295>

employee pays tax and NICs on the amount reimbursed, or the employer will have to gross up the amount so that, net of tax and NICs, the employee is no worse off – again, this last option is the costly for employers).

3.2.10. None of these possibilities is terribly satisfactory and employers (perhaps particularly small businesses) may well take up the first option as the simplest and least costly for them.

3.2.11. We therefore recommend that this relief is retained unless there is strong evidence to support the assertion in the consultation that its beneficiaries are chiefly those who work in large cities and in highly-paid sectors such as financial services. More research needs to be done into its use to test the fairness and distortion arguments put forward.

3.3. ***Life insurance premium relief (Relief 18)***

3.3.1. Arguably, for individuals with affected policies, removal of this relief does not achieve 'simplification'. In fact, it creates complexity as, from our reading of the proposals, they will have to make a choice about what happens to their existing policy.

3.3.2. Furthermore, what role will the government take to ensure that affected policyholders are contacted and their options are explained to them? In our experience, for example concerning 'trivial commutation' of pensions, insurance company communications are not always easy to understand and are inconsistent, particularly when it comes to explaining the tax implications of a transaction.

3.3.3. Also, in the absence of a response from the policyholder, what will the default action be by insurance companies? To continue to collect the same premium (the current 'net' amount) then to reduce the policy benefits accordingly? Or to start collecting the full amount and preserve the level of cover? Who will advise those who cannot afford to pay for help which is the best option for them?

3.3.4. We are also concerned at the impact figures quoted in terms of cost for policyholders. An 'average' of '£14 per policy per year' is suggested, which *prima facie* sounds negligible. But an 'average' figure could be misleading – it could hide larger impacts on some policies when averaged against smaller sums on others. What breakdown of this 'average' does HM Treasury have? Also, individuals could hold multiple policies so the impact on them is greater. For taxpayers on low incomes, small sums can be important.

3.3.5. Given that there are still 1.5million policies in place, albeit numbers are reducing year on year, we recommend that abolition of this relief is shelved for the time being. The position could be reviewed in another five years' time, say.

3.4. ***Compensation for mis-sold pensions (Relief 33)***

3.4.1. We are not entirely clear as to the benefits of introducing a sunset clause on this relief at the present time. The suggestion in the consultation document could achieve the direct opposite of simplification, if extra legislation is needed to cover transitional arrangements.

3.4.2. We suggest that, in the absence of the evidence HM Treasury confirms it lacks at present in

order to properly assess the use of the relief, the relief is left in place for the time being.

- 3.4.3. Indeed, our earlier comments on take-up not being a proxy for the validity of the relief are relevant here. How well-known is the relief? What efforts have been made to contact individuals who took out pension contracts between the dates covered by the relief to alert them to the possibility of a compensation claim for mis-selling?
- 3.4.4. Removing the relief could impact on low-income taxpayers whose financial awareness is unsophisticated and who therefore relied upon poor advice, for example opting out of occupational schemes and instead contributing to personal pensions.
- 3.4.5. Moreover, if the relief is removed, it could be argued that individual cases become more complex, as the tax treatment of compensation payments could then be far more subjective – perhaps being non-taxable under broader principles relating to compensation ‘depending on the facts’. Is it not simpler to have a clear statement of their treatment in the legislation, than to have to establish the facts in individual cases and impose a burden on those individuals to self-assess their tax position correctly?
- 3.4.6. We therefore recommend that further research is carried out before a decision is taken to abolish this relief.

LITRG

30 August 2011