Low Incomes Tax Reform Group

A voice for the unrepresented

Public Financial Guidance consultation
Response from the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

1.1 There must be in place a publicly-funded advice network to assist those who cannot afford to pay professional fees with the help they need to make major financial decisions in their best interests.

1.2 That network must be multi-channelled to meet the differing needs of consumers but especially must include face-to-face interviews for the digitally-excluded and those with poor literary or numerical skills or those for whom English is not a first language.

1.3 Since few advisers, especially volunteers, on such a network are likely to have sufficient breadth of skills and experience to be able to cover the whole range of necessary knowledge, the system must be designed with seamless handovers to relevant experts, in the fields of tax, debt and pensions, for example, who can take up the client's case or advise the adviser.

1.4 The three tax charities[1] offer a nation-wide service in their specific field, as do Citizens Advice (CAB) particularly in the field of debt. There is a compelling case for setting up and supporting a further charity to provide professional financial advice pro bono to those who

[1] The Low Incomes Tax Reform Group (www.litrg.org.uk) researches and campaigns on tax matters on behalf of all those on low incomes. Tax Help for Older People (www.taxvol.org.uk) provides telephone and face-to-face advice to older people on low incomes. TaxAid (www.taxaid.org.uk) provides telephone and face-to-face advice to working age people on low incomes.

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cannot afford to pay for it and also one to provide the pensions advice which Pension Wise as currently structured is unable to.

1.5 A restructured Money Advice Service could co-ordinate the various agencies participating in PFG and handle the distribution of funding from Government and industry to the frontline.

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 and 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 General comment

3.1 We welcome the opportunity to respond to the Government's consultation document on the provision of Public Financial Guidance (PFG). Our desire to add our comments is enhanced by the fact that the word "taxation" only occurs once throughout its 46 pages (3.1). Although financial advice or even guidance is outside our remit and sphere of professional competence, nevertheless there are tax implications for the majority of financial decisions and not infrequently benefit ones as well. By way of example we list below a few areas, all of potential interest to those on low or modest incomes who acquire further means through pension crystallisation, inheritance, downsizing, equity release, premium bond wins, etc, where the consumer/adviser must take into consideration the realm of taxation, immediate, continuing and future. This list, incidentally, is compiled from the many examples we have seen in practice within our constituency.

- Property letting: tax relief on mortgage interest; capital gains tax (CGT); inheritance tax (IHT); income tax (IT); self-assessment (SA); stamp duty (SDLT); rules for furnished holiday lets (FHL).

- Rent-a-room: the conditions which apply and the different routes of taxation.
- Stock market investment: CGT; treatment of dividend tax and corporate bond tax; benefits/limits of ISAs; IT; IHT.
- Investment bonds: the tax treatment of insurance-based bonds for non-taxpayers, basic rate and higher rate taxpayers; top slicing; offshore bonds.
- Passing on assets: IHT, Potentially exempt transfers (PETs); gifts with reservation of benefits (GRB) and pre-owned assets tax (POAT); trusts.
- Pensions flexibility: IT, emergency codes; death before and after 75; pension commencement lump sums (PCLS); possible secondary annuities market (SAM).
- Tax shelters: NS&I products; ISAs including new rules for inheritance by spouses; 0% band on savings interest and the new Personal Savings Allowance (PSA).

3.2 Any of these areas can be of relevance to those of the most meagre income and savings, but require expert skills to identify the tax advantages and disadvantages to any financial decision. To take the simplest illustration from the last bullet, the consumer needs to be aware of the level of his earned income and savings interest plus appropriate tax bands to be able to decide whether to opt for a lower-rate ISA savings account or a higher-rate taxable ordinary savings account.

3.3 ***Case study Mrs D, aged 82***

- one of her small occupational pension providers has written asking if she would like to cash in her pension (in payment) in full;
- pension is £76 a month (index linked) and cash offer is £7,700. Mrs D had worked out that meant they must think she will live another eight and a half years, which she did not think she would;
- she had chatted with a friend and her son and both said that she should take the money as she could do more with a lump sum than a pension of £76 a month;
- she had already worked out that she has more income coming in than she spends, so "losing" £76 a month would not cause her hardship, but she had no need for, nor any idea what to do with, a cash lump sum of that size;
- her total income, incidentally, is less than her personal allowance so she is a non tax payer;
- the pension provider's documents mention that she might have to pay tax on the payment, and recommend she seeks advice;
- Another son (pensions partner with a Big 4 accountancy firm) worked the numbers with her, and once she realised that there would be tax to pay on the lump sum (after

a small balance of PA was offset), and that she would lose about £20 a week of pension credit, she came to the conclusion for herself that as the net sum was only really worth six years of lost income (and that ignored annual increases and the small death benefit which came with continuing the pension) that she would continue to take the £76 a month.

3.4 It can be seen that the need for tax expertise is inseparable from financial decisions, be they pensions, investments or savings. At present there is a limited amount of pro bono tax help available in the voluntary sector but not nearly adequate enough to satisfy the current demand for assistance among those on low incomes; sufficient funding must be provided to meet the additional demand which would be generated by the establishment of a pro bono financial advice service.

3.5 Furthermore, although IFAs are undoubtedly better equipped to consider tax implications in financial decisions than were previous generations, the effect of Retail Distribution Review (RDR) has driven considerable numbers of firms out of the market and the survivors are not surprisingly unwilling to take on clients of small resources, typically below £50,000. One large financial services company recently told a potential client with a pension pot of “only” £80,000 that they could not help with anything less than £100,000. This means that paid professional advice is beyond the reach of our low incomes constituency who cannot afford IFAs fees or can only gain access to their advice at disproportionate cost.

3.6 The above observations underline the pressing need for free professional help with financial matters for a large segment of the population. Our preference is for advice rather than guidance because generalisations are of limited value to those on low incomes who have little or no previous experience of handling large sums of money. We expand on that in more detail below.

4 Responses to individual points and questions

4.1 We welcome the opening sentence “This consultation will consider how…etc” rather than “consider whether…etc”. Life throws up a constant stream of financial questions from the simplest “Do I take out annual or one-off travel insurance?” to “What do I do with this large redundancy payment?” and the more complex the question, the more tools are needed to answer it. The first can be simple arithmetic “How often do I intend to travel this year?”. The second for a 58 year old man with a sudden £28,000 and no job after 35 year loyal service with United Widgets presents a host of possibilities which he is ill-equipped to explore. Does he pay off the mortgage and take early retirement? Does he set up his own widget corner shop? Does he hand it to a “wealth consultant” who can offer him fantastic returns from snake oil wells in a country he has never heard of? Does he purchase a safe but low-value annuity (and if so, what sort)? And so on. Whatever decision he makes, he is going to need expert and impartial help at a price he can afford. It is unlikely that an IFA would be willing to take him on as a client with such modest capital and no income, and if he did, it would be at disproportionate cost. Note also that tax will be a relevant consideration in any of these choices.

4.2 Not only the individual but also the public purse has an interest in sensible and beneficial financial decisions being taken. The launch of Pensions Freedom this year has extended the range of choices for new pensioners. Those making the wrong decisions face a significant risk of running out of money before they die, throwing an extra burden on the State.

4.3 Only Government and industry between them can support a free PFG network.

4.4 As mentioned above, normal commercial providers cannot economically meet the needs of those on low incomes. IFA firms and practitioners must make a profit in order to survive and they cannot do so from our example above. There is, however, a route which has been well explored by the tax charities which could be followed by financial professionals. Below a certain income, those in need can approach the charities for free professional advice on the same terms as fee-paying clients. This levels the playing field for the vulnerable and disadvantaged. Since the service provided by the professional volunteers is free, the main costs are those incurred by the national call-centres and their staff and it is, of course, the professional advisers' fees which ramp up the costs in commercial practices. These charitable services therefore offer remarkable value for money, money which is generally provided by a mixture of grants from their own profession, grant-making foundations and Government, not to overlook voluntary donations from grateful clients. It is, of course, not only the monetary value of the service; it is importantly also the professional standard of the advice.

4.5 It is difficult to see any reason why the financial advisers' profession should not also set up their own charity to offer an equivalent service to those on low incomes who need but cannot afford professional advice. Part of the industry levy funding Pension Wise and MAS could match Government funding to run a nationwide service alongside (and working closely with) the tax charities. There is no financial loss to practitioners because the clients could not afford to walk through their doors in the first place and one would hope that a couple of hours a month of using their skills for the public good would not be too demanding.

4.6 We note that the PFG document excludes discussion of the nature of advice and guidance but simultaneously states that both this and the associated Financial Advice Market Review (p6) offer a complementary and comprehensive consultation. We do not believe that it is possible to suggest a route or solution without being specific about what should be provided and we therefore adopt a firm position in our next comment.

4.7 There must be clarity of aim in what the Government intends to provide and support, Guidance or Advice, generic pointers or information tailored to the individual. The sign beside a river saying Danger, Deep Water, is of limited value depending whether the reader is a six-footer facing four foot of water but a non-swimmer and a three-footer who swims like a fish. Nor does it distinguish the level of danger depending on the temperatures of the water or the local currents. Likewise online calculators will only provide a possible answer depending on the information put in. Can, for instance, a booklet or online system advise you whether you are eligible for an impaired life annuity? Or if you are, whether you might still do better to leave your about-to-be bereaved spouse a tax-free drawdown fund?

4.8 We have seen examples from Pension Wise where this generic guidance is of limited value. If the Government is satisfied with this level of PFG, then no doubt a similar financial service parallel to Pension Wise could be set up economically. We do not, however, believe that this would suit the needs of those on low incomes or disadvantaged in other ways – rural or digital exclusion, educationally, linguistically, etc – who are more likely to need much more detailed advice directing them towards the answer most appropriate for them.

4.9 If, however, our recommendation of a suitably-funded IFA charity were to be adopted, then it would be possible to deliver advice rather than guidance to those without the means to pay professional fees.[1]

4.10 Regarding question 1, we have no doubts whatsoever that the vulnerable – we use this term to cover the whole range of the disadvantaged mentioned in the question – have great need of public financial guidance and also have difficulty finding and obtaining that financial advice. Recent research into the public's grasp of the operation of tax on savings highlights the problems.[2] We confidently assert this on the basis of many years of experience of the tax charities who hear a daily chorus from their clients of "I wish I had heard of you earlier" and "I had no idea what to do about this (tax)". The lack of financial and fiscal education combined with the fact that very often the need for specialist advice is a first-time or one-off experience means that the vulnerable have no knowledge or skills of their own to deploy and little idea where to turn for help. Hence the steady stream of enquirers to the higher profile and nationally known charities such as CAB and Age UK who can advise in their own fields or signpost to the appropriate source of expert advice.

4.11 We would draw attention at this point to the lack of financial and fiscal education mentioned above. While the National Curriculum in England does set out very specific goals in relation to mathematics, for example, nowhere does it seem that basic budgeting and cashflow are taught, let alone how the fiscal system works.

4.12 Over the past number of years, children from an early age are introduced to computers and the functions they may perform. Many of us will have observed even quite young children demonstrating simple functions to their parents and/or grandparents. Thus educating the children has helped educate older generations. We would suggest that basic cash management should be included on the curriculum in schools, even from an early age. Our hope is that some of the activities might also help educate their parents.

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[1] Unbiased give £150 an hour as a rough guide but several of their examples run into thousands of pounds.

[2] https://www.gov.uk/government/publications/awareness-and-understanding-of-taxation-of-savings-interest

4.13 Anecdotally we have heard from teachers at primary schools where some sort of 'business game' has been played, for example to raise funds for schools or charity, and the children have developed a real interest in how to calculate costs and profits, thus improving their mathematics and, perhaps more importantly, showing them the practical importance of the subject.

4.14 Both Young Enterprise[1] and the Royal Bank of Scotland,[2] among others, have already developed some materials for use in schools. This could be built upon. While we understand that school curricula are already crowded, financial capability is a skill that could improve the lives of many families. An awareness of the impact of certain decisions, for example failing to contribute to a pension scheme, could engender better savings habits among the young and prepare them for the rest of their lives.

4.15 Further, while basic financial education uses mathematical skills, an appreciation of the operation of the fiscal system and the impact it may have on their future earnings (and so financial well-being), could form part of cross-subject working since it includes mathematics, problem solving, social education and economics. Arguably this introduction to financial knowledge might prove a more useful skill to less – able pupils than a more 'academic' subject.

5 Chapter 3: Pensions

5.1 Regarding paragraphs 3.4 et seq, we note that a legislative framework is in place to regulate the funding, standards and signposting but that this is entirely designed for free guidance. As detailed above, we believe that guidance is insufficient for our constituency and that there is a clear need for providing, signposting or referring to independent advice, both free and paid for. We therefore repeat our recommendation that a professional financial advice charity be established to provide that advice free to the low-income vulnerable.

6 Chapter 5: What does Government need to provide?

6.1 In brief, two things – a funding structure and oversight of standards.

6.2 Government has no place in the front line of delivering individual advice. It lacks both experience and people. What it can usefully provide is the funding structure, probably a mixture of public money and industry levy, delivered by an arm's-length body (a revised MAS?) to support third sector agencies working with volunteers from appropriate professions to man the front line and give specialist advice to the clients. Those agencies can

[1] http://www.young-enterprise.org.uk/what-we-do/primary-programmes/

[2] https://www.mymoneysense.com/

then concentrate on what they do best, helping the clients, instead of devoting half their time and energy fundraising and only engaging short-term staff to match short-term funding. As mentioned in paragraph 1.3 reliable and adequate funding is key to an economic and effective service.

6.3 It goes without saying that there must be national supervision of the professional standards, service efficiency, reporting and customer-focus of the scheme by an appropriate body (FCA?).

6.4 Apart from this, Government should leave suitably-qualified and locally-based agencies to deliver a free, impartial and entirely client-orientated service geographically and socially accessible to their needs.

7 Chapter 6: How should it be provided?

7.1 We have already offered our recommendations above but would wish to emphasise that the service should be for individual advice, not just generic guidance. Guidance has a place for those with the ability to understand and pursue possible options, including paying for more detailed advice, but those lacking the means and capacity to do so – our core constituency of the low incomes of all kinds – deserve the benefit of a publically-funded service across the range of money advice, debt and pensions. Individual tax advice is already available through the tax charities, albeit woefully underfunded to meet the need, debt likewise through Citizens Advice, but Pension Wise lacks experienced staff to give individual advice and there is virtually no source of free professional financial advice. Suitable charities should be established by both pensions and financial advisers to match the tax charities and all should be securely funded as we suggest in Chapter 5.

7.2 The existing charities achieve both economies of operations as well as effective networking across the advice field by sharing face-to-face facilities with both the public and voluntary sectors – CAB, Age UK, libraries, sheltered housing, etc – thereby sharing their area of expertise alongside other specialities to the greater benefit of the clientele. This model should be followed by a financial advice charity, not only to keep costs down but also importantly to give reassurance to first-time clients in the surroundings of a trusted agency.

7.3 Such a solution can provide a well-connected network of adviser abled to give free professional advice, regulated, insured and of equal standard to normal commercial advice.

LITRG
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