

TISA RESPONSE TO

Deduction of income tax from savings income: implementation of the Personal Savings Allowance

18th September 2015



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INTRODUCTION

TISA is a not-for-profit membership association operating within the financial services industry.

TISA's membership comprises over 145 member firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including banks, stockbrokers, asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers and pension providers.

TISA has a highly successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for consumers. Policy and regulation continues to be the major focus for our members with regard to corporate responsibility.

What makes TISA unique is that we cover the entire industry, incorporating cross sector policy, industry and technical expertise. Whilst we maintain a solid partnership with government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects, which improve industry performance and puts us in the unique position of being able to constantly challenge the status quo to bring about material improvement.

At the forefront in all of our recommendations and actions is to consider the national interest and consumer outcomes.



RESPONSE TO CONSULTATION

Summary of response

TISA welcomes the introduction of the Personal Savings Allowance. We believe this will simplify the tax affairs of millions of people, reduce cost and complexity from firms and cut the cost of tax compliance for HMRC.

It seems right to us that income from savings, made from after tax income, should not be taxed twice. We look forward to seeing the limit raised, to keep millions of basic rate and non taxpayers from having to worry about the modest income from savings being taxed, or, in the case of non taxpayers, having to complete confusing forms to avoid paying a tax for which they have no liability in the first place. It cannot be right that people with insufficient income to pay tax are suffering tax because of the current system.

There are risks of non compliance. But these can be overstated. Most higher rate or additional rate taxpayers will be subject to self assessment. The changes may mean that they have a slightly larger tax liability than if the present system was retained, but we do not consider that this is a significant risk to the Exchequer.

TISA favours a move to gross payment across the board. The only individuals then required to take any action in order to pay the correct amount of tax would be:

- Basic rate taxpayers with over £1,000 of Savings Income (likely to be few in number);
- Higher rate taxpayers with over £500 of Savings Income (who are already required to declare and pay further tax on such income);
- Additional rate taxpayers (the majority of whom are probably already completing Self Assessment Tax Returns).

In particular, non-taxpayers and most basic rate taxpayers would have no further action to take.

We accept that there is some increased risk of tax leakage in such a gross payment world. However, there will also be significant administrative savings for HM Revenue & Customs (fewer tax reclaims, less ISA administration, fewer CT61 Returns, no need to audit interest payers) and those budgetary savings could be re-directed towards policing the system.

In the longer term, we should like to see the scope of PSA extended to include annual payments and royalties and any other regular payments made by intermediaries to customers, as suggested under Option 6.

In the short term, we favour Option 2.



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Response to the consultation questions

- 1. Other than the issues identified in this consultation, are there other key issues that need to be considered in relation to the interaction of the PSA and rules on deduction of income tax from interest and other savings income?**

We do not believe there are any issues to be considered other than those already identified in the consultation.

- 2. Which of the issues identified in this consultation do you consider most important, and why? Comments on implications for particular kinds of non-TDSI income, or particular categories of payer or recipient are welcome. Please provide quantitative evidence where available.**

TISA considers the impact on taxpayers to be the most important issue with the desired solution to provide the best, and most easily understandable, outcome for the majority of customers.

- 3. Chapter 4 sets out options for change. Which of those options do you think is likely to provide the best balance between:**
 - **Making it as easy as possible for recipients to pay the right tax;**
 - **risks to the Exchequer if the right tax is not paid;**
 - **administrative burdens and costs for payers of interest and other amounts; and**
 - **costs to HMRC of operating and policing the tax system?**

Please explain the reasons for your view.

In the longer term, TISA believes that Option 6 provides the best solution, as this would allow for Annual payments and royalties to be included within the scope of the PSA.

- 4. Of the options set out in Chapter 4, which is your preferred option or combination of options? Please explain why.**

We believe that Option 2 is the simplest for taxpayers, firms and HMRC.

Implementing Option 2 from April 2016, or soon as practically possible thereafter, would provide a good platform to move towards Option 6 as a longer term solution, which would be facilitated by the introduction of digital tax accounts for individuals.

Our preferred option is Option 2, gross payment across the board. This option:

- Is simple;
- Treats all interest income consistently, regardless of the source of that interest;



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- Results in the greatest number of taxpayers paying the correct amount of tax without the need for further action;
- Avoids those with modest incomes suffering a tax burden over and above their true tax liability;
- Gives scope for the abolition of the ISA10 procedure, with associated administrative savings;
- Should significantly reduce the number of companies required to complete a quarterly Form CT61.

Our comments on the specific options are as set out below:

Option 1 – continuation of the status quo – all non-TDSI interest paid net –

We welcome the introduction of the Personal Savings Allowance; so regard this option as a non starter.

Option 2 – all interest paid gross

We believe this option is likely to result in the greatest number of customers paying the correct amount of tax without the need for them to take action. We accept that some additional HMRC policing activity might be thought necessary, but it should be possible to finance this from other administrative savings.

And, in any event, we believe that the current returns into HMRC, i.e. BBSI and perhaps more importantly Other Interest, together with the fact that Interest Payers will provide customers with Tax Certificates of all Interest Income, means that in practical terms the risks of tax loss are low. We know from practical experience how HMRC's use the information of these returns to perform their compliance checks.

We believe the benefits to HMRC, firms and customers from a simpler and more straightforward system will outweigh any loss.

An example of potential benefit for funds might be the need to do away from gross and net tax paying interest distributing funds. This would simplify matters for firms and customers and reinforce the position of the UK as a good domicile for funds.

Option 3 – pay gross to individual recipients

Under Chapter 11, ITA 2007, payments of interest to UK resident companies, ISA Managers, charities and pension schemes can already be made gross. Hence there are very few categories of recipient under Option 3 who would receive their interest net of tax, those net recipients primarily being (non-pension or charity) trustees. We do not consider that the tax collection benefits of making interest payments to trustees net of tax outweigh the significant administrative burden of identifying all such trustees amongst our customer base.



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Option 4 – pay gross if below a “specified amount”

This is a terrible option. It would be expensive to administer and police and could lead to many customers paying tax unnecessarily as well as be confusing to them.

Option 5 – allow customers to elect for net or gross payment –

We also oppose this option in both its guises, primarily because it would impose onerous record keeping obligations on the paying companies, with very limited advantages for customers.

Option 6 – wider changes to deduction of tax at source

We believe there would be substantial administrative efficiencies, with very little tax cost, if annual payments, including fund rebates, and royalties were included within the definition of Savings Income and brought within the scope of gross payment.

5. Are there are other options that should be considered? If so, please say what they are and why they should be considered.

We cannot readily identify any other options that should be considered.

6. Chapter 5 considers potential impacts on payers and recipients of savings income, and on government. Do you have any comments on the assessment of impacts, either generally or in relation to the specific options set out?

NO.