Response from ICAS to the HMRC consultation document

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

18 September 2015
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About ICAS

1. The Institute of Chartered Accountants of Scotland (ICAS) is the oldest professional body of accountants. We represent over 20,000 members who advise and lead businesses. Around half our members are based in Scotland, the other half work in the rest of the UK and in almost 100 countries around the world. Nearly two thirds of our members work in business, whilst a third work in accountancy practices. ICAS members play leading roles in around 80% of FTSE 100 companies. ICAS is also a public interest body.

General comments

2. ICAS welcomes the opportunity to comment on the consultation ‘Deduction of income tax from savings income: implementation of the Personal Savings Allowance,’ issued by HMRC on 15 July 2015.

3. The introduction of the Personal Savings Allowance (PSA) is welcomed as a simplification of the tax system for the majority of individuals and institutions affected.

4. The proposals simplify the situation for low income individuals who have been ineligible for R85 procedures. The introduction of the PSA and ending of TDSI will remove the need for repayment claims in such cases.

5. ICAS favours option 1, retaining the current deduction rules for non-TDSI interest, as this would appear to offer the best balance. It has the advantages of simplicity and clarity. It would impose no new or additional burdens on payers of interest.
Specific questions

Question 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?

There are issues about the effectiveness and accuracy of coding out as a means of collecting tax due on untaxed income. The number of individuals affected will be determined by the Consultation option chosen.

Question 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.

The key issues are the impact on:

- the 95% of savers who are expected to have no liability after the PSA is introduced
- the institutions which hold the majority of such savers’ investments
- unrepresented taxpayers
- overseas taxpayers with UK savings income

The taxation of non-TDSI interest is a complex area. It would appear to be outwith the scope of the present consultation to overhaul this area of taxation. That is better left to the more specific consultations, such as those on peer to peer lending and privately placed debt. Hence the key areas for this consultation are those which affect the generality of individuals and institutions. In particular, many individuals affected by the introduction of the PSA are unlikely to have professional representation. This means that simplicity and facilitation of compliance are key priorities.

Changes to taxation of non-TDSI income should be made in the context that many of the individuals will have professional representation, though not all. Those likely to be least able to identify the impact of the changes are likely to be basic rate, rather than higher or additional rate taxpayers.

Question 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.

Option 1, retaining the current deduction rules for non-TDSI interest, would appear to offer the best balance. It has the advantages of simplicity and clarity. It would impose no new or additional burdens on payers of interest.

As regards taxpayers, due to the nature of non-TDSI investments, the majority of recipients of non-TDI interest are likely to be higher or additional rate taxpayers.

Such taxpayers are likely to be aware of their obligation to pay additional tax on investment income which has been taxed only at basic rate at source. They may already be within the
remit of self-assessment and have a professional tax adviser who can assist with compliance and complexity.

Continued deduction of basic rate tax at source will mean that self-assessment tax demands will be lower. This should assist with budgeting and payment of tax on time.

For basic rate taxpayers, the risk of non-compliance due to one off events, such as the receipt of compensation payments which include an interest element, is minimised.

Though there is a risk that some individuals on low income may not recognise that they are due a refund if basic rate deduction at source is continued on non-TDSI interest, this risk would seem to be moderate. Investors in non-TDSI investments might be expected to take professional advice due to the potentially complex nature of such investments.

Monitoring and compliance by HMRC would be more straightforward under this option. In particular, potential loss of revenue due to payment of interest to overseas beneficiaries who are not covered by a double tax treaty would be avoided.

Option 2, removing the current deduction obligations for all non-TDSI interest has the advantage of simplicity, but would make compliance more problematic. There would be an increased risk of non-compliance for non-UK resident recipients. In addition, there would be an increased risk of accidental non-compliance by UK resident individuals.

Accidental non-compliance would be a particular risk for elderly and low income taxpayers. Such taxpayers are unlikely to be aware of their obligation to notify HMRC of income on which additional tax is due. The introduction of the PSA will encourage the idea in the public mind that tax is not normally due on savings income. Such individuals would therefore be less likely to spot that additional tax is due on one-off sources of non-TDSI income or on low levels of on-going TDSI income where tax has previously been deducted at source.

Options 3 and 4 - removing tax deduction on non-TDSI interest for individuals or for payments of interest below a particular level. These options would add considerable complexity both for payer and recipient, without providing any particular advantages. It is likely that these options would cause confusion.

Option 5 – giving individuals the right to opt in and out of tax deduction. This might appear attractive at first sight, but would add very considerable complexity for both payers and recipients. Given the very reduced numbers of taxpayers to whom it would apply following introduction of the PSA, any potential advantages would not seem proportionate to the disadvantages. (The Consultation suggests that 95% of savers would no longer be liable to tax).

The re-introduction of an R85 type procedure would seem retrogressive.

Options 3 to 5 would each increase complexity for all participants without any tangible advantage for the few.

Option 6 is considered in response to question 4.

**Question 4**

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

ICAS’s preferred option is option 1. The main reasons for preferring this option are as outlined in the response to question 3.

Option 6 is one that may have advantages in the longer term, but would need a longer consultation and implementation time frame. There are a number of other consultations mentioned, peer to peer lending and privately placed debt, which are likely to impact the rules
for non-TDSI income. The issues covered by these would need to be resolved before meaningful progress could be made on the inevitably detailed proposals that option 6 would require.

**Question 5**

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

The options proposed have wide scope and appear comprehensive.

**Question 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?

The impact assessments seem reasonable.