



TAXREP 48/13

(ICAEW REP 129/13)

ICAEW TAX REPRESENTATION

WITHDRAWING RELIEF FOR INTEREST ON LOANS TO PURCHASE LIFE ANNUITIES

Comments submitted on 26 September 2013 by ICAEW Tax Faculty in response to HM Revenue & Customs consultation document *Withdrawing Relief for Interest on Loans to Purchase Life Annuities* published on 8 July 2013

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation document [Withdrawing Relief for Interest on Loans to Purchase Life Annuities](#) published by HM Revenue & Customs (HMRC) on 8 July 2013.
2. We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.
3. Information about the Tax Faculty and ICAEW is given below. We have also set out, in Appendix 1, the Tax Faculty's Ten Tenets for a Better Tax System by which we benchmark proposals to change the tax system.

WHO WE ARE

4. ICAEW is a professional membership organisation, supporting over 140,000 chartered accountants around the world. Through our technical knowledge, skills and expertise, we provide insight and leadership to the global accountancy and finance profession.
5. Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards. We develop and support individuals, organisations and communities to help them achieve long-term, sustainable economic value.
6. The Tax Faculty is the voice of tax within ICAEW and is a leading authority on taxation. Internationally recognised as a source of expertise, the faculty is responsible for submissions to tax authorities on behalf of ICAEW as a whole. It also provides a range of tax services, including TAXline, a monthly journal sent to more than 8,000 members, a weekly newswire and a referral scheme.

KEY POINT SUMMARY

7. We are concerned that the financial impact on some individuals may be quite significant. Withdrawal of the relief would be retrospective taxation; the individuals affected will have taken out their loans in good faith and built the tax relief into their financial budgets.
8. As this relief is of such limited application the removal is not a genuine simplification.

RESPONSES TO CONSULTATION QUESTIONS

Q1: Do you agree that the relief on loans used to purchase life annuities should be withdrawn?

9. Whilst we agree that the relief is an anachronism, the financial impact for the Treasury is minimal and the removal of swathes of legislation is an advantage it is our view that the impact on some individual taxpayers may be quite considerable.
10. For some elderly people the loss of £6.80 or £8.76 per week will be significant, for others the reduction in income will be compensated by an increase in benefits. The sum of £8.76 per week is the same as a reduction of nearly 8% in the basic state pension which could mean the difference between being warm or cold, eating or not eating.

Q2: Do you agree with the proposed date for withdrawal? If not, what do you consider an appropriate date?

11. The withdrawal of the relief in 2019 means that the youngest claimant will be 85, delaying the withdrawal by a further five years would mean even fewer individuals will be affected.
12. As the lending institutions will save on administration could they be persuaded to bear say 50% of the cost of the lost relief thereby sharing the burden with the individuals?

Q3: Do you agree that the proposed change will have no impacts other than those outlined? If not, what additional impacts do you think will result from the proposed change?

13. We do not believe there will be any other impacts but are concerned that the impact on some individuals has been underplayed.

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APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see icaew.com/en/technical/tax/tax-faculty/-/media/Files/Technical/Tax/Tax%20news/TaxGuides/TAXGUIDE-4-99-Towards-a-Better-tax-system.ashx)