FINANCE BILL 2016: CLAUSE 4: SAVINGS ALLOWANCE AND SAVINGS NIL-RATE

Briefing for the Public Bill Committee debates on Finance Bill 2016
submitted on 4 July 2016 by ICAEW Tax Faculty

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Internationally recognised as a source of expertise, ICAEW Tax Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

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PUBLIC BILL COMMITTEE BRIEFING

Savings allowance and savings nil-rate (Clause 4)

- **Measure:** Clause 4, Finance Bill 2016 introduces the savings nil-rate and the personal savings allowance.

- **Background:** From 6 April 2016 the majority of interest receivable will no longer be taxed at source (namely bank and building society interest), and a new nil rate of tax will apply to savings income falling within an individual's personal savings allowance. The personal savings allowance is determined based on the individual's adjusted net income, as defined in s 58, Income Tax Act 2007 (ITA 2007). The personal savings allowance is available as follows:
    - £1,000 if a basic rate tax payer
    - £500 if a higher rate tax payer
    - £nil if an additional rate taxpayer

- **Our view:** When setting new tax rates and allowances we believe that policy makers should consider how their intended modifications interact with the rates and allowances already in existence. While they may appear to simplify the system when considered in isolation, overall they bring more complexity to the tax system and result in an increase in admin burdens and costs.

- **Our concerns**: While we understand the policy rationale for the introduction of the new personal savings allowance, we believe that the introduction of new rates and allowances will actually increase the level of complexity faced by many taxpayers. Finance Bill 2016 introduces the new dividend nil rate (clause 5) in addition to the personal savings allowance, which will cause further complications for many.

  We are concerned that the personal savings allowance is determined based on an individual's adjusted net income and that the reduction in the allowance creates a 'cliff edge' effect with a very high marginal rate. For example, a basic rate tax payer who receives an £1 of additional income so that they become a higher rate tax payer will lose £500 of the personal savings allowance. So £1 of income could result in a tax charge of £100, a tax rate of 10,000%.

  Individuals with a small amount of non-savings income will also be eligible for the starting rate band which applies to the first £5,000 of taxable income. This must be used before the personal savings allowance, however it is a fixed amount and does not apply to dividend income.

  The measures introduced are likely to bring individuals into self assessment who would have previously been taxed at source. This increases the risk of non-compliance by those who cannot afford to seek professional help and will also impose compliance costs on taxpayers where none exist presently.

  The allocation of the personal allowance to different sources of income will now become more important, as the availability of the starting rate band and personal savings allowance should be taken into consideration.

  We note that this clause applies to 2016/17. We question whether this provides sufficient lead time for software developers to design, build and test software to applying this provision. As confirmed in Lord Carter of Coles' report *Review of HMRC Online Services* published in March 2006, software developers require 18 months lead time.

- **Our recommendations**: To help keep things simple, we recommend that the personal savings allowance is a fixed amount irrespective of the individual's adjusted net income.

  We suggest that a comprehensive audit of HMRC and private sector software is undertaken to ensure it can automatically allocate the personal allowance in the most tax efficient way so as to minimise the taxpayer's liability to tax, in accordance with s 25 ITA 2007, failing which implementation of this provision should be delayed to allow sufficient time for public and private sector software developers to design, build and test the necessary software.

FURTHER INFORMATION

As part of our Royal Charter, we have a duty to inform policy in the public interest.
ICAEW offers impartial expert briefing on the Budget, the Finance Bill and ad hoc policy issues for MPs, Peers and parliamentary staff.

To request further information or a briefing from one of our Tax Faculty experts, please contact:
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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 via http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/tax).