

TAXREP 15/01

SAVINGS AND ASSETS FOR ALL.

*Text of a memorandum submitted in July 2001 to the Treasury in response to a
Discussion paper issued in June 2001*

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SAVINGS AND ASSETS FOR ALL.

Comments on the Discussion Paper issued by HM Treasury in June 2001

Introduction

1. Set out below are the comments of the Tax Faculty of the Institute of Chartered Accountants in England and Wales on the paper issued by the Treasury in 2001.

General comment

2. We have confined our comments on the points raised by the discussion paper to the tax consequences of the suggestions as outlined. We note that further detailed consultation is planned for autumn 2001 and would welcome an opportunity for an early meeting to discuss the scope of these proposals in more detail.

Specific comments – Child Trust Fund

Potential features of a Child Trust Fund

3. We do not think it is desirable that a progressive element should be introduced into the basic endowment, based on the income of a child's parents. Whilst there is often a link between parental wealth and a child's savings at the age of 18, this is not automatically the case, and circumstances could easily change over such a long period. In order to keep the proposal simple and fair to all in the longer term, we think that only one rate should be used, with no progressive element.
4. If a progressive approach is to be adopted, we would question whether a two tiered system is progressive enough.

Contributions

5. We do not understand the reference to a 'tax incentive based on the ISA model'. There is no tax incentive for contributions made to an ISA. The capital growth and income earned by funds within an ISA are not taxed, but we would assume this to be an essential feature for the Child Trust Fund to exist.
6. A tax incentive for additional contributions to a Child Trust Fund should only apply where it would not jeopardise the tax exempt nature of the other assets in the Fund. Whilst tax relief is always welcome, its practical implementation can further complicate an already difficult tax calculation. Basic rate tax relief on contributions, which would have been paid gross, would be easiest to administer. Relief would follow either by an adjustment to the payer's PAYE code or on the Tax Return. We would not recommend relief at source as this would impose a considerable administrative burden.

7. If the aim of the Child Trust Fund is to ensure that all children have a common minimum level of capital at the age of 18, there will need to be a limit imposed on parental contributions.
8. To avoid excessive complications, parents should not be allowed access to additional contributions to a Child Trust Fund.
9. Income accruing to capital contributed by parents would need to be exempt from the current parental settlement income tax limit.
10. A possible simplification could be to extend the concept of the ISA to children rather than setting up separate Child Trust Fund Accounts. This would have the added advantage of encouraging the saving habit as the child passes the age of 18.

Investment options

11. Costs associated with a fund of £500 per child throughout the UK would be prohibitive. We suggest that the most suitable choice of investment would be a unit trust.

Improving financial literacy

12. We are in favour of a general programme of education aimed at improving financial literacy, however, we believe that this would need to extend beyond savings products if it is to make sense. The complexity of the current tax and benefits system makes even a basic level of financial awareness difficult to achieve. A general programme of simplification, particularly in relation to the low income sector, will also be needed.
13. We suggest that linking community service with the Child Trust Fund will impose a significant administrative burden and further complicate the scheme. We suggest that if a link is thought essential, it could be linked to funds being withdrawn for poor behaviour.

Specific comments – Saving Gateway

Targeting

14. We agree that tax based incentives are largely irrelevant to lower-income households.

Developing a saving habit

15. Most tax limits are set as annual amounts. It is often more practical to administer annual incentives, particularly where the individuals targeted earn close to the minimum wage.

Duration

16. It is unclear how the Savings Gateway with a minimum duration would work if the funds are to be available for a rainy-day.

Access and flexibility

17. See paragraph 7 above re suggested use of Child ISAs.

AM

14-5-107

31 July 2001