January 2017

The writing on the wall

HM Treasury has issued a new factsheet titled “Ways to save in 2017”, which describes Premium Bonds and the various forms of ISA but omits any reference to pensions.

A similar factsheet issued in 2016 contained no such omission, and this has prompted suggestions that the government may be seeking to position ISAs – and in particular the new Lifetime ISA - as a more attractive medium than pensions for retirement savings.

Apart from riskier investments such as Venture Capital Trusts, pensions are the only form of saving which provide tax relief on contributions, and the cost to the Treasury is massive. They also offer relief from National Insurance contributions and permit employer contributions. ISAs, by contrast, simply offer exemption from tax on the proceeds, plus a potential 25% bonus on Lifetime ISAs (‘LISAs’) at the age of 60.

Since tax relief on pension contributions is available at savers’ highest personal rates of tax, the current system favours the higher paid, which is inconsistent with the government’s aim of encouraging the less well-off to save for retirement.

There have been suggestions that a standard rate of tax relief of say 30% should be introduced (which would benefit 20% taxpayers) and even that tax relief on contributions might be scrapped altogether.

We will discover in the Chancellor’s Budget statement on 8 March whether the Government proposes to grasp this nettle, but for the time being it clearly makes sense for higher-rate taxpayers to take full advantage of the current pension regime while it lasts.

Lifetime ISA penalties deferred

The government has announced that the penalties resulting from the withdrawal of funds from LISAs before age 60 or for purposes other than the purchase of a first home will not apply until the tax year 2018/19. However, the Financial Conduct Authority has warned that these penalties would make LISAs unsuitable for anyone who might be likely to incur them.

HMRC’s ‘snooper computer’

The ‘Connect’ computer system created by HM Revenue & Customs to assist in identifying people who are paying less tax than is due is being used for the first time in the current tax year.

Instead of relying purely on information provided by taxpayers through their tax returns, Connect draws from many government sources, banks and other financial jnstitutions to produce a composite picture of taxpayers’ financial affairs.

Sources include credit card companies, telecoms companies, Airbnb, eBay and the Land Registry, through which property sales and purchases can be tracked and further links revealed to data on letting arrangements. Questions of affordability and the source of funds may then be raised.

Discrepancies between the resulting figures and what has been declared will be investigated, and 10,000 letters have already been sent to taxpayers in relation to the tax year 2014/15.

The so-called ‘snoopers’ charter’, which enables such surveillance, is not confined to the UK. HMRC can also access information from the authorities in 60 overseas countries.

Bank of England loose cannon

In the past the Bank of England has usually confined its public utterances to periodic pronouncements from the Governor,and has disdained to engage in populist discussion. However, its chief economist, Andy Haldane, has recently broken cover, with results which do little to enhance the Bank’s reputation.

Last Autumn, Mr Haldane admitted that he did not understand pensions, and he subsequently underlined his ignorance by suggesting that property represented a better method of providing for retirement than pensions.

In his latest comments, Mr Haldane has succeeded in antagonising members of his own profession (or is it an art or a science?) by effectively apologising for the Bank’s doom-mongering in advance of the Brexit vote and saying that economists’ predictions are often wrong.