Technical Connection

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THE LATEST ISA MANAGER BULLETIN

In the most recent ISA manager bulletin it is stated that the format of the guidance notes for ISA managers has changed. It replaces the previous PDF format and is basically set out as a series of guides for ISA managers.

The collection contains 26 guides which cover all aspects of ISA management for ISA managers, including information requirements, how to open accounts, manage subscriptions, the different types of account, making transfers etc…

While this information is primarily aimed at ISA managers, the content is also helpful to advisers dealing with queries in relation to ISAs.

The bulletin also contains some information regarding a request to reverse a Junior ISA subscription where a payment has been made in error. In summary, the provider would need to contact HMRC via email to reverse such a subscription.

Finally, there is also some information regarding reporting on Lifetime ISAs.

FIRST-TIME BUYERS' RELIEF SAVES BUYERS £159 MILLION

According to the Government's latest figures, in the period to 31 March this year, 69,000 first-time buyers have benefited from the abolition of stamp duty land tax (SDLT) on properties valued at up to £300,000.

As a reminder, the rates of stamp duty on residential property in England and Northern Ireland are as follows:

On slice of value	Rate¶
£125,000 or less	Nil
£125,001 to £250,000	2%
£250,001 to £925,000*	5%
£925,001 to £1,500,000*	10%
Over £1,500,000*	12%

* *15% for purchases over £500,000 by certain non-natural persons.*

¶ *All rates increase by 3% for the purchase of additional residential property if value is £40,000 or more.*

First-time buyers relief (FTBR) applies to purchases of dwellings for £500,000 or less, provided the purchaser has never owned a property and intends to occupy the property as their only or main residence. Under the relief, such purchasers are not liable to SDLT on transactions valued at £300,000 or less as mentioned above. On transactions valued at more than £300,000 but less than £500,000, they are liable to pay 5% SDLT on the portion over £300,000. If the purchase price exceeds £500,000 then stamp duty is due on the whole purchase price in the normal way.

19% of all residential transactions to 31 March this year included a claim for FTBR. The total amount of SDLT relieved is estimated to be £159 million; half of which (49%) was, perhaps not surprisingly, seen in London and the South East.

19% of all FTBR transactions were in the South East; 13% were in London. The average amount of relief was £2,300: London had the highest average of £4,300; Northern Ireland had the lowest average at £800.

The Government estimates that FTBR will help over 1 million people to get onto the housing ladder over the next five years.

Despite the Government's optimism, the Resolution Foundation's report 'Home improvements - Action to address the housing challenges faced by young people' calls for a further reduction in stamp duty. The Foundation argues that the 'main way to change the relative bargaining power of first time buyers would be to cut stamp duty across the board, while maintaining the surcharge for UK-based buyers of second and additional homes at current levels'.

OTS IHT REVIEW

Back in mid-January the Chancellor wrote to the Office of Tax Simplification (OTS) asking it to review IHT. A month later the OTS published a document setting out the scope of its 'IHT General Simplification Review', ahead of a call for evidence.

That call for evidence was published on 27 April, with a final response date of 8 June – a period of six weeks. The document has 20 questions, spread across seven areas:

1. IHT forms, administration and guidance;
2. Lifetime gifts to individuals;

3. Businesses;
4. Farming businesses;
5. Charitable giving;
6. Other areas of complexity; and
7. A wider IHT system.

The questions are largely as expected, probing the complexity and distortions caused by interacting reliefs and other taxes, while seeking ideas to “remove complexity”. The brief ‘Other areas of complexity’ section is interesting, if a little worrying, as it states ‘You may, for example, wish to comment on the residence nil rate band, the IHT treatment of trusts, the IHT treatment of personal pensions and life insurance products…’

Alongside the formal document is an on-line survey which appears to be designed to highlight initially the insignificance of IHT – representing less than 1% of government revenue and affecting fewer than 5% of estates.

The short time for responses reflects the OTS’s aim to publish a report in Autumn 2018, to feed into the Autumn Budget.

COMMENT

There is not much political mileage for the Chancellor reducing the IHT take, so any simplification can be expected to be revenue neutral.

SIMPLE ASSESSMENT ROLL OUT PUT ON HOLD BY HMRC

Under Simple Assessment, HMRC use information that it already holds to produce an income tax calculation for certain groups of taxpayers, removing the requirement for the submission of a self-assessment tax return. The first Simple Assessments were issued in 2016/2017 to:

- New state pensioners with income of more than the personal tax allowance in the tax year 2016/2017; and

- PAYE taxpayers, who had underpaid tax and who could not have that tax collected through their tax code.

It’s understood that Simple Assessment will continue for these taxpayers. However, the intention was that all existing state pensioners who complete a tax return because their state pension is more than their personal allowance would also be removed from Self Assessment in the tax year 2018/2019.

This roll out has now been delayed indefinitely.

At a Public Accounts Committee hearing on 30 April, HMRC confirmed that it had decided to “stop or considerably slow down” 39 of its 237 projects “in order to create the capacity and capability necessary for the incoming Brexit projects”, saying:

> “The criteria we used were: which projects were urgent because of Brexit; which delivered us additional receipts; which delivered us cost-efficiency; plus four others in relation to people, reducing risk, the impact on customers, and alignment to the overall goals of

> HMRC. We very clearly prioritised Brexit, receipts and efficiency. If they did not meet those criteria, they got a lower priority."
>
> "We gave a triple weighting to Brexit, a double weighting to receipts, and a double weighting to cost-efficiency, so that those would be prioritised over the others—those with lower rates of driving receipts or those with lower rates of cashable efficiency would be further down the list."

HMRC later confirmed the delay to the roll out of Simple Assessment in an email to various professional bodies.

THE INTERGENERATIONAL COMMISSION FINAL REPORT

The final report from the economic think tank Resolution Foundation's Intergenerational Commission runs to 229 pages. Here are their "ten key policy recommendations":

1. Increase public funding for social care by £2.3bn from reformed taxation of property (see 6). There should also be an increase in property-based contributions towards care costs, with a ceiling that the maximum individual contribution is a quarter of personal wealth.

2. Introduce a £2.3billion 'NHS levy' via National Insurance on the earnings of those above State Pension age and on occupational pension income. The latter would be set at a 6% rate, with an uplifted pensioner primary threshold matching the personal allowance.

3. Boost employment security via the right to a regular contract for those doing regular hours on a zero-hours contract; extended statutory rights for the self-employed; and minimum notice periods for shifts.

4. Introduce a £1bn 'Better Jobs Deal' that offers practical support and funding for younger workers most affected by the financial crisis to take up opportunities to move jobs or train to progress; and £1.5bn to tackle persistent underfunding of technical education routes. The expenditure would be funded by cancelling half of the 2% corporation tax cut due in 2020.

5. Make indeterminate tenancies the sole form of private rental contract, with 'light-touch' rent stabilisation limiting rent increases to inflation for three-year periods and disputes settled by a new housing tribunal.

6. Replace council tax with a progressive property tax (at up to 1.7% of value above £600,000) with surcharges on second and empty properties; halve stamp duty rates to encourage moving; and offer a time-limited capital gains tax cut to encourage owners of additional properties to sell to first-time buyers.

7. Piloting community land auctions so local authorities can bring more land forward for house building, underpinned by stronger compulsory purchase powers; and introduce a £1.7bn building precept allowing local authorities to raise funds for house building in their area.

8. Require firms contracting for self-employed labour to make pension contributions; lower the earnings threshold for auto-enrolment to £6,000 a year; and provide greater incentives to save among low and middle-earners by flattening the rate of pensions tax relief, capping the

pension lump sum at £40,000 and exempting employee pension contributions from National Insurance.

9. Develop a legislative framework for new ‘collective defined contribution’ pensions that better share risk; and reform pension freedoms to include the default option of a government-backed guaranteed income product purchased at the age of 80.

10. Abolish inheritance tax and replace it with a lifetime receipts tax that is levied on recipients with fewer exemptions, a lower tax-free allowance and lower tax rates. Use the extra revenues to introduce a £10,000 ‘citizen’s inheritance’ – a restricted-use asset endowment to all young adults to support skills, entrepreneurship, housing and pension saving.

COMMENT

The chances of any political party including this shopping list within their next manifesto are nil. At the last election turnout was 77% for the age range 60-69 and 84% for those aged 70 and over against 69% for the overall population. Nevertheless, there may be (post-election) cherry-picking of some of the proposals as a way to raise additional revenue.

LONGEVITY - BEING REALISTIC ABOUT LIFE EXPECTANCY IS ESSENTIAL TO REALISTIC FINANCIAL PLANNING

The Institute for Fiscal Studies (IFS) have recently published findings showing the extent to which various age groups are misjudging how long they are likely to live.

It seems that, on average, those aged in their 50s and 60s underestimated their chances of survival to age 75 by about 20 percentage points and to 85 by around 5 to 10 percentage points.

According to the analysis, men born in the 1940s who were interviewed at age 65 considered that they had a 65 per cent chance of making it to age 75, far lower than the official estimate of 83 per cent. For women, the equivalent figures were 65 per cent and 89 per cent.

In all of the above the IFS researchers compared individuals’ reported expectations of survival with official survival rates from the Office for National Statistics.

And the “underestimation” of longevity can have a serious impact on financial planning strategies.

Self-evidently, if you plan on the basis you will live until X but you actually live until Z you could be “caught short” (financially speaking) and estimating T but surviving to Z makes it even worse – we could go on – you get the picture. Cashflow modelling and tools are designed to expose and make clear this false optimism – usually articulated in big red blocks on a graph or chart. It seems though (perhaps unsurprisingly) that not everyone is a user of such tools! Gamification maybe has a role to play here.

The IFS say that “when people underestimate their chances of surviving through their fifties, sixties and seventies they may save less during their working life, and spend more in the earlier years of retirement than is appropriate given their actual survival chances.”

“In contrast, people who overestimate their survival chances at the oldest ages may show an undue reluctance to spend their remaining wealth near the end of life. By misjudging their longevity, individuals risk having a lower standard of living in retirement than would otherwise be possible.”

The analysis also found that some groups were more pessimistic than others about their survival chances, including widows and widowers at age 60. While their official chances of surviving to age 80 were 77 per cent and 67 per cent respectively, responses from these groups found they thought they had a 49 per cent and 39 per cent chance of reaching 80 – a huge gulf in both cases.

This implies that widows and widowers could be more prone to prematurely exhausting their retirement income.

Conversely, the analysis found older people in their 70s and 80s were, on average, overly optimistic about the likelihood of living to age 90 and beyond. This could mean they spend too little of their income in the belief it will have to stretch out much longer.

COMMENT

These findings are helpful and insightful and serve as a strong reminder to advisers of their responsibility to their clients to ensure, as far as they can, that they are as aware as they can be about the size of their personal retirement funding challenge.

Before you even get to designing a tax effective "accumulation and then drawdown plan", though, there is the absolute need to found the planning on a clear understanding of what the reality is likely to be in relation to your expected lifespan. Of course, nothing is certain though, so while it's essential to "start somewhere" and, ideally, base that start on as close to what reality might look like for you as possible, it's absolutely essential to commit (with the benefit of that advice) to review.

OPTIONS FOR REFORMING INHERITANCE TAX

A recent report from the economic think tank Resolution Foundation's Intergenerational Commission considers options for reforming inheritance tax.

The underlying premise for the report is that inheritance tax is 'unpopular and unfixable'. It articulates clearly the dichotomy represented by a tax that is, in their view, easy to avoid but also generates anger.

The report also explains how the tax, in its current format, does little to encourage meaningful redistribution of wealth and, as a result, perpetuates the consolidation of wealth in currently wealthy families. Some of the "highlights" underpinning these conclusions are as follows

- Inheritances and other gifts totalled £127 billion in 2015/16
- Inheritances have more than doubled over the past 10 years
- Inheritances (especially in the form of inherited housing from baby-boomer parents) are substantially boosting the wealth of millennials
- The average age for "millennial inheritance" is 61
- Among older millennials (born 1981-85) the top 10% owned 54% of the group's net wealth by age 30

- IHT is now limited in scale. For every £100 raised in taxes nationally (£708 billion in total) only 77p comes from IHT – approximately £5bn

- Although wealth transfers are increasingly important – see above in relation to increasing inheritances – the IHT yield is relatively low. Of the £127bn of inheritances and other gifts the £5bn in IHT represents an effective rate of about 4%. Between 2006/7 and 2022/23 IHT, receipts are forecast to grow less than a quarter as fast as inheritances.

The Resolution Foundation's "big idea" is to shift IHT to a "lifetime receipts"- based tax - a tax on the recipients as opposed to a tax on the "givers". They believe that such a change would deliver both practical and perceptual benefits. They accept that IHT is a very politically sensitive tax, with Parties' views being about the effect on the electorate. However, Resolution believe that for the good of a greater intergenerational fairness a change has to be made.

A "lifetime receipts" tax would not, in principle, be without precedent as a receipts-based tax is currently in operation in Ireland and France. The proposal is founded on the following two principles:

- A person would need to keep track of cumulative receipts excluding gifts of £3,000 or less and would exclude gifts from spouses/civil partners

- There would be a cumulative lifetime gift allowance of £125,000 – so up to this amount could be *received* tax free in a lifetime. With the tax founded on this basis Resolution's modelling shows that a much lower rate than 40% could be used while bringing in substantially more in tax revenue. A basic rate of 20% and a top rate of 30% is suggested. And, based on this, assuming currently forecast rates of inheritances and gifts, the receipts tax would generate £11bn annually in tax compared with the forecast £6bn under the current system.

  According to Resolution

  - a progressive recipient-based tax could give donors an incentive to leave bequests to those that haven't received much before

  - the "lifetime receipts" basis (with no more seven year only cumulation) would remove many ways to avoid tax; and

  - business relief (cost £710 million pa) and agricultural relief (£515 million pa) could be reviewed and better targeted to remove any predominantly tax-driven motivation for owning the assets

So, some pretty radical stuff, and with the timing as it is all of these suggestions will not go unnoticed by the OTS in carrying out its review of IHT. Though it is by no means certain that any of what has been put forward by Resolution will be incorporated into the OTS review. A fundamental shift to a lifetime-receipts basis of taxation may be a bit beyond their brief.

So, in summary, and taken from the Resolution report, here is what has been suggested by them:

'Abolish Inheritance Tax and replace it with a Lifetime Receipts Tax, paid by the beneficiary

Give each person a Lifetime Receipts Tax Allowance of £125,000 (indexed to inflation)

Beyond the Lifetime Receipts Tax Allowance, apply a progressive rate schedule with a basic rate of 20 per cent and a higher rate of 30 per cent above £500,000

Lifetime gifts would be included in the tax, excluding those of £3,000 or less (per donor per year) with the current additional exemption for "normal gifts out of income" abolished

Transfers to spouses and charities would be exempt

Restrict Business Property Relief and Agricultural Relief (including within trusts) to small family businesses by:

- Introducing a cap (eg £5 million) for the value that can receive relief
- Increasing the minimum ownership period from two years (eg to five), and introducing a period after receipt in which tax relief can be clawed back if the inherited assets are sold on
- Introducing a "farmer" test for Agricultural Relief, as in Ireland and France, whereby the overall assets of the beneficiary (including the inheritance) must comprise at least 80 per cent agricultural property; and a "family business" test for Business Property Relief whereby the beneficiary must receive at least 25 per cent of the business and the donor must have had a demonstrable working relationship with the company

Redesign the trusts tax regime to reflect the Lifetime Receipts Tax

Remove the tax-free treatment of pension pots inherited on deaths before 75, and for recipients other than spouses levy both the Lifetime Receipts Tax and Income Tax on pensions to give parity with other assets

Scrap forgiveness of Capital Gains Tax upon death, at least for additional residential properties and assets qualifying for Business Property Relief or Agricultural Relief.'

COMMENT

Whatever may or may not result from the review we are reminded of the importance of inheritance tax in intergenerational planning. As for all tax planning, while it is essential for advisers to have an eye to "what might be" plans can only be built on "what is" but with an absolute commitment to keep the plan under regular review in the light of changing personal objectives and changing legislation.

INCOME WITHDRAWAL RATE FOR MAY 2018

The appropriate gilt yield, used to determine the 'relevant annuity rate' from HMRC's tables for an adult member commencing income withdrawals (or reaching an income withdrawal review date), in May 2018 is 1.75%.