

Association of Accounting Technicians (AAT) response to House of Lords Committee on Intergenerational Fairness and provision

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to this Call for Evidence published on 23 July 2018.
- 1.2. AAT is submitting this response on behalf of our 140,000 strong membership, especially the 30,000 students who are under the age of 25 and the 3,000 students who are over the age of 50.
- 1.3. AAT is also responding for the wider public benefit of achieving sound and effective taxation.

2. Executive summary

- 2.1. **There are a wide range of taxes and benefits that could be changed to ensure a greater distribution of wealth between young and old, to deliver greater intergenerational fairness or simply to be more effective.**
AAT has identified several areas where billions of pounds could be saved. This money could be used for deficit reduction and therefore reduce taxes for future generations. Alternatively, it could be invested in a range of different policy areas of benefit to young people from education to infrastructure.
- 2.2. **Switching Stamp Duty liability from the buyer to the seller will help first time buyers and ensure only those who are downsizing - who are often older and have little or no mortgage - will pay more.**
- 2.3. **Pensioner benefits have become a sacred cow amongst political parties, primarily due to increased voter turnout amongst the older generation.**
Many aged between 60 and retirement age are still working, earning a reasonable income and could easily afford to meet the costs of free eye tests and prescriptions rather than having this paid for by the younger generation.
- 2.4. **To try and future proof tax policy against intergenerational unfairness, policymakers should consider making this issue a compulsory part of any HM Treasury impact assessments for new taxes.**

3. AAT response to the call for evidence

What changes, if any, should be made to the tax system to achieve a fair intergenerational settlement?

Stamp Duty

- 3.1. The new Stamp Duty subsidy for first time buyers, effective since November 2017, means that first-time buyers (typically the younger generation) can claim a discount (relief) so they don't pay any tax up to £300,000 (less than the average cost of a home in London) and 5% on the portion from £300,001 to £500,000.
- 3.2. Despite the ups and downs of the property market, evidence suggests the number of first time buyers has been increasing every year for more than a decade.¹ This brings into question the need for a system that singles out only one group of home buyers but also makes an analysis of the Government's first time buyer subsidy difficult given the number of first time buyers have been increasing anyway.
- 3.3. AAT has long recommended that switching Stamp Duty liability from the buyer to the seller would be a simpler, fairer, more effective system which would remove every single first-time buyer across the country from Stamp Duty liability whilst crucially also helping those already on the property ladder to move up. The only sector of society that such a move may have cost implications for are those who are downsizing – typically the elderly.
- 3.4. As such, switching liability would make a tangible contribution to addressing the issue of intergenerational fairness.
- 3.5. In most cases, although not all, downsizers will have little or no mortgage to pay and will have significant equity. Downsizers are therefore likely best placed among all homeowner types to pay a little extra, certainly better placed than first-time buyers who are typically the younger generation.
- 3.6. It could also be argued that once liability has been switched and the system has been in place for a few years, downsizers are likely to have benefitted from the seller pays regime to have got to where they are on the ladder anyway.
- 3.7. HM Treasury forecasts its new first-time buyer's policy introduced last November is already costing £560m a year and will rise to £670m by 2021-2022.²
- 3.8. Switching Stamp Duty liability from the buyer to the seller would therefore save the taxpayer £670m a year by 2021 whilst protecting the £9.3bn³ currently generated in tax receipts. This is because although those paying will change, the amount will not.
- 3.9. Finally, it is worth noting that those with an interest in housing for the older generation, such as retirement developer McCarthy Stone, have called for Stamp Duty for "last movers" who downsize to be scrapped. This would cost hundreds of millions of pounds both in lost duty and in administrative costs and would be far from straightforward to implement and monitor. It would again be an additional, costly intervention that benefits only a small group, like the Government's costly and bureaucratic first-time buyer exemption.

¹ Halifax First-Time Buyer Review (January 2018):

<https://static.halifax.co.uk/assets/pdf/mortgages/pdf/2018-01-27-number-of-ftb-highest-since-2007-HPI.pdf>

² HM Treasury, November 2017:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661428/Autumn_Budget_Policy_costings_document_web.pdf

³ Office of National Statistics, June 2018:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730387/Quarterly_SDLT_2018Q2_Main.pdf

Pensioner benefits

- 3.10. Pensioner benefits have become a sacred cow amongst political parties, primarily due to increased voter turnout amongst the older generation. This is evidenced by voter turnout statistics from the 2017 General Election which show 64% of 25-29-year olds voted compared to 77% for those aged 60-69⁴.
- 3.11. The effect of increased turnout, and therefore a perceived increased political value, is adequately demonstrated by the various parties' 2017 election manifesto commitments to protect universal pensioner benefits irrespective of their cost or effectiveness. The Conservative Party did go as far as to suggest the Winter Fuel Allowance (WFA) would be means tested for higher rate taxpayers but even this commitment was scrapped because of their post-election agreement with the Democratic Unionist Party.
- 3.12. Considering the increased demand for public service spending and the deficit, as outlined in the introduction to this paper, as well as increased pensioner incomes and increased recognition of the importance intergenerational fairness, AAT believes the time has come for a more rational, facts led debate around universal pensioner benefits.
- 3.13. Raising the age of eligibility for certain pensioner benefits such as free eye tests and free prescriptions to match the state pension age (and ensuring they rise with any rise in the state pension age), as well as removing the WFA, would save a substantial sum of money for the taxpayer, continue to ensure all pensioners enjoy free eye tests and prescriptions, provide greater clarity to all as to when eligibility begins and help address the issue of intergenerational fairness. There is already a clear precedent in the form of free bus passes which are only provided upon reaching state pension age (except in London).

Prescriptions & eye tests

- 3.14. Everyone aged over 60 is entitled to free prescriptions and eye tests despite often having many more years before retiring or becoming eligible for the state pension.
- 3.15. 90% of the 1bn prescriptions issued in 2016 were provided at the tax payers' expense rather than the individual recipient i.e. because they were young enough, old enough, qualified due to a low income or had a long-term health condition that qualifies for free prescriptions.
- 3.16. Unfortunately, the precise cost of free prescriptions to pensioners is no longer known as the data is not collected. However, it was £4.5bn over a decade ago in 2007 when the information was last collected and is therefore likely to be considerably higher still today.
- 3.17. The cost of free eye tests for the over 60's is more than £100m a year and again this is difficult to justify for the same reasons as above – many aged between 60 and retirement age are still working, earning a reasonable income and could easily afford to meet this cost. £100m may appear to be a small sum but it is five times greater than the £20m Government recently allocated for funding to help isolated people and those suffering from loneliness⁵.
- 3.18. It is also worth noting that those on low incomes who might be affected by this change (those currently aged between 60 and the state pension age) would be protected because those on low incomes (anyone with savings of less than £16,000 and anyone in receipt of income related benefits) receive free prescriptions and eye tests anyway. Any change must be aligned to the state pension age rather than a specific figure of 65,66 or 67 to ensure it rises in line with any changes to the state pension age in the future i.e. to ensure it is future proofed.
- 3.19. These changes would likely save in the region of £1bn, money that could be used for deficit reduction and therefore reducing taxes for future generations. Alternatively, it could be invested in a range of different policy areas of benefit to young people, perhaps most importantly, education.

⁴ How Britain voted at the 2017 General Election, YouGov:

<https://yougov.co.uk/news/2017/06/13/how-britain-voted-2017-general-election/>

⁵ £20m investment to help tackle loneliness, 18 June 2018:

<https://www.gov.uk/government/news/20-million-investment-to-help-tackle-loneliness>

Winter Fuel Allowance (WFA)

- 3.20. Every November, millions of elderly people are automatically given between £200- £300 tax free by the Government in the form of WFA.
- 3.21. There have been increasing calls for WFA to be removed from wealthier pensioners (higher rate taxpayers) or that it should at least be classed as taxable income and taxed accordingly.
- 3.22. The removal of WFA from over 200,000 higher-rate taxpayers would be effective in saving the Government money (approximately £250million) but this does not consider the significant costs of administrating such a change.
- 3.23. There are strong arguments for scrapping WFA completely. Firstly, the payment is very poorly focused, in that it is a cash payment, whilst intended for fuel payments, that can effectively be spent on whatever the individual likes.
- 3.24. It also fails to consider the significant changes to both pensioner income and to myriad steps to address fuel poverty.
- 3.25. Pension Credit now ensures a minimum level of income for pensioners on a low income or struggling to make ends meet. This ensures a guaranteed minimum level of weekly income (£163 for single pensioners and £248.80 for a couple). In addition, energy companies are required by law to pay a combined £640m a year on energy efficiency measures, a large part of which is made available to those in fuel poor households, to help them reduce their bills, heat their homes and keep warm. Furthermore, 5m prepayment meter and vulnerable households are protected by Ofgem's "Safeguard tariff" which protects them from overpaying for their energy or from any unjustified price rises. This was not the case when WFA was introduced in 1998 and so further undermines arguments for its retention.
- 3.26. Given the reasons for introducing WFA have now largely been addressed, serious consideration should be given to ceasing payment of WFA to all households, irrespective of income.
- 3.27. This would save over £1bn that as stated in the executive summary above, could be used for deficit reduction and therefore reduce taxes for future generations. Alternatively, it could be invested in a range of different policy areas of benefit to young people from infrastructure to education.

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

- 5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:

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