

# Association of Accounting Technicians response to Deduction of income tax from savings income: implementation of the Personal Savings Allowance

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## 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation paper on Deduction of income tax from savings income: implementation of the Personal Savings Allowance (condoc), released on 15 July 2015
- 1.2. AAT is submitting this response on behalf of our membership and from the wider public benefit perspective of achieving sound and effective administration of taxes.
- 1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.
- 1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.
- 1.5. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by our operationally skilled members in practice.

## 2. Executive summary

- 2.1. The Chancellor announced as part of the March 2015 Budget that the Personal Savings Allowance is to be introduced from 6 April 2016 and that tax will no longer be deducted at source from bank and building society interest paid on deposits that have been lodged with them.
- 2.2. The condoc seeks views on a series of options, ranging from retention of existing rules to outright abolition.
- 2.3. After reviewing the options set in the condoc, AAT's preference would be to implement Option 2 (3.12-3.18, below) but recognises that Option 6, with its wider considerations also has merit. It is AAT's consideration that Options 3 to 5 will introduce as many problems as they solve (4.28, condoc) and for those reasons, AAT does not favour them. Option 1 retains too many inconsistencies and does not achieve tax simplification.

## 3. AAT response to the consultation paper on Deduction of income tax from savings income: implementation of the Personal Savings Allowance

- 3.1. The following paragraphs outline AAT's response to the proposals detailed in the consultation paper. Only those sections/questions where AAT has a comment to make have been listed below.

### Question 1

**Other than the issues identified in this consultation, are there other key issues that need to be considered in relation to the interaction of the PSA and rules on deduction of income tax from interest and other savings income?**

- 3.2. There are no other substantial issues that AAT would wish to comment on at this stage as the consultation document appears to have identified and addressed all of the major issues.

## **Question 2**

**Which of the issues identified in this consultation do you consider most important, and why? Comments on implications for particular kinds of non-TDSI income, or particular categories of payer or recipient are welcome. Please provide quantitative evidence where available.**

- 3.3. AAT considers that the main impact on taxpayers will be that for some, their actual savings income will go up as the gross amount of their savings income will not exceed their PSA exemption limits.
- 3.4. AAT is cautiously optimistic that the majority of taxpayers in receipt of savings income in excess of the PSA limits will understand their tax obligations. However, there is some risk of tax-leakage to the Exchequer from those who do not.
- 3.5. It should be noted however that the risk of significant tax-leakage is greatly reduced due to HMRC's data gathering capabilities.

## **Question 3**

**Chapter 4 sets out options for change. Which of those options do you think is likely to provide the best balance between:**

- making it as easy as possible for recipients to pay the right tax;
- risks to the Exchequer if the right tax is not paid;
- administrative burdens and costs for payers of interest and other amounts; and
- costs to HMRC of operating and policing the tax system? Please explain the reasons for your view.

- 3.6. All of the options have advantages and disadvantages therefore no single option gives the "right" answer. However as previously mentioned in 2.3 (above) and given the advantages and disadvantage of each of the options, AAT's preference is for Option 2 for the reasons outlined in 3.12-3.18 (below) and AAT also recognises that Option 6, with its wider considerations also has merit. Further comment relevant to this question is provided in paragraphs 3.7 to 3.28 below.

## **Question 4**

**Of the options set out in Chapter 4, which is your preferred option or combination of options? Please explain why.**

***Option 1: retain the current rules for deduction of tax from non-TDSI interest.***

- 3.7. Retaining the current rules has the advantage that they are largely understood and accepted by most taxpayers and advisers.
- 3.8. However, Option 1 does not result in tax simplification.
- 3.9. By comparison removing the deduction requirement from TDSI income alone, together with the introduction of the PSA, is likely to be a welcome and relatively easily understood simplification for most taxpayers, so aligning the treatment of non-TDSI interest with this could be seen as a tax simplification measure.
- 3.10. Indeed the condoc acknowledges that the ending of the deduction of tax under TDSI will reduce the administrative burden and costs for financial institutions and other persons paying savings income (3.9, condoc). Furthermore, the removal of deduction obligations in respect of non-TDSI interest could similarly be expected to reduce administration and costs.
- 3.11. Conversely, maintaining deduction arrangements for non-TDSI interest after TDSI deductions cease would mean that institutions would be in the invidious position of being required to deduct income tax from some but not others and this will, at least temporarily, increase their administrative burden.

- 3.12. AAT is in favour of consistency of tax treatment where possible, so for this reason AAT does not support Option 1.

***Option 2: remove the obligation to deduct income tax from all non-TDSI interest.***

- 3.13. The advantage of the approach outlined in the second option is that it confers a consistent treatment of all savings income and, as mentioned in 3.12 (above), AAT is in favour of consistency of tax treatment where possible.
- 3.14. The comments made in response to Option 1 (3.9 and 3.10, above) are equally applicable in respect of Option 2 and should therefore be taken into consideration at this point.
- 3.15. AAT acknowledges that savings income accruing to a non-UK resident is chargeable to UK income tax under Part 4 of ITTOIA 2005 if it is from a source in the UK.
- 3.16. AAT also acknowledges that deduction of tax from interest paid overseas is an important safeguard against leakage of tax where the recipient is not entitled to the benefit of relief under a double taxation treaty (3.27, condoc).
- 3.17. However, AAT notes that UK taxing rights over UK source interest are often over-ridden where the recipient is resident in a territory with a double taxation agreement in force with the UK (3.26, condoc). Such agreements generally allocate taxing rights to the territory of residence for the taxpayer concerned. AAT does not therefore consider that the leakage point to be as significant as it may be.
- 3.18. Option 2 is therefore AAT's preferred option

***Option 3: remove the obligation to deduct income tax from non-TDSI interest paid to individuals only.***

- 3.19. AAT notes that payers of such interest will have an extra administrative burden in determining whether a person is an individual and as such AAT would not be in favour of this option.

***Option 4: remove the obligation to deduct income tax from non-TDSI interest below a specified amount.***

- 3.20. For the reasons stated in the 4.17 condoc, this would be an attractive option.
- 3.21. However, AAT considers that this option would place an unwanted administrative burden on the payers of such interest and as a result AAT would not be in favour of this option.

***Option 5: allow individuals to elect to receive interest with or without deduction of tax.***

- 3.22. This option has some merit as it gives taxpayers the choice over the timing of their tax payments and a possible cashflow advantage if they were to opt to receive their income gross and to pay any tax due at the appropriate time.
- 3.23. Some basic rate taxpayers will find paying tax on interest at source an attractive option in that it will mean that they will not have any further charge to tax on the monies received at a later date.
- 3.24. If Option 5 was to be taken forward it would be more administratively complex than Option 2 as the banks and building societies would be required to administer the depositors' elections. For this reason AAT's preference would be Option 2 ahead of Option 5.

**Option 6: modify the obligation to deduct income tax from non-TDSI income, as part of wider changes to deduction of tax obligations in Part 15 ITA 2007.**

- 3.25. AAT considers that this option has potential and would have outcomes that are likely to be well received.
- 3.26. Arguably, through the lifting of any obligation to deduct tax in respect of all forms of non-TDSI income and other payments, a level of consistency would be afforded that might appeal to taxpayers and the deposit takers alike. The introduction of a consistent “gross” treatment would be easier to understand and to operate.
- 3.27. AAT acknowledges, as previously observed (3.4, above) that the move to taxpayers receiving gross interest could result in tax-collection leakage, however, AAT considers for the reason set out at 3.5 (above) that the risk would be greatly reduced.

**Question 5**

**Are there are other options that should be considered? If so, please say what they are and why they should be considered.**

- 3.28. AAT considers that these options cover the proposals adequately and a consequence does not wish to suggest any further alternatives.

**Question 6**

**Chapter 5 considers potential impacts on payers and recipients of savings income, and on government. Do you have any comments on the assessment of impacts, either generally or in relation to the specific options set out?**

- 3.29. AAT has no specific comment to make on the assessment of impacts.

**4. Conclusion**

- 4.1. AAT is in favour of tax simplification and for that reason and notwithstanding the higher risk of tax leakage, favour a blanket option – Option 2, with the complete abolition of the current obligation to deduct tax from non-TDSI interest.
- 4.2. It is AAT’s view that this option would be the simplest option for payers to implement and for recipients to understand.

**5. About AAT**

- 5.1. AAT is a professional accountancy body with over 49,300 full and fellow members<sup>1</sup> and 76,400 student and affiliate members worldwide. Of the full and fellow members, there are over 4,100 members in practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. 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.

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<sup>1</sup> Figures correct as at 30 June 2015

## 6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

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