



HM Revenue  
& Customs

# **Withdrawing relief for interest on loans to purchase life annuities**

**Summary of Responses**  
10 December 2013

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# 1. Introduction

Between 8 July and 30 September 2013 the Government consulted on the proposal to withdraw from April 2019 relief for interest on loans taken out to purchase life annuities by people aged 65 or over before 1999. This document provides a summary of responses to the consultation and sets out the Government's next steps.

## Background

Earlier this year the Office of Tax Simplification (OTS) recommended the withdrawal of this relief as it would provide the opportunity to repeal complex legislation relating to interest relief itself and to Mortgage Interest Relief at Source (MIRAS) in Part IX of the Income and Corporation Taxes Act 1988 and the Income Tax (Interest Relief) Regulations 1982. There would also be a number of minor consequential repeals. The OTS reported that the relief offered limited benefit to a small and rapidly decreasing group of older people and that any action should follow a consultation on the likely impact of withdrawal.

At Budget 2013 the Government announced that it would consult over the summer on the impact of the future withdrawal of relief for interest on loans to purchase life annuities taken out by people aged 65 or over before 1999. A consultation was published on 8 July 2013 seeking views from interested parties on withdrawing the relief and on the proposed date for withdrawal.

The Government expected the proposals to impact on a small number of individuals (fewer than 1,000) for whom the OTS estimate the relief is worth between £6.80 and £8.76 per week. The Government also anticipated that withdrawing the relief would remove an administrative burden for lending institutions who would no longer need to claim relief back from HMRC. The consultation document also sought views on any additional impacts to those outlined.

The consultation closed on 30 September 2013 and the Government is grateful for the seven written representations received from four professional bodies, a charity, a financial institution and the industry body for the equity release sector. See Annex A for a list of those who responded.

## 2. Responses

The consultation document asked three questions. Responses to individual questions are set out in summary below.

### **Question 1: Do you agree that the relief on loans used to purchase life annuities should be withdrawn?**

Six of the seven respondents advocated maintaining the relief, arguing that the impact of withdrawal on a small number of elderly and vulnerable people outweighed the benefits of simplification.

A number of respondents suggested that the consultation document underestimated the value of the relief in terms of both the number of people benefitting and how much the relief was worth to them. Estimates of around £550 per annum per individual were put forward compared to the £456 set out in the consultation document. One respondent pointed out that the £8.76 per week (estimated by the OTS) was equivalent to 8% of the basic state pension.

Some respondents expressed the view that the proposed change would be unfair as individuals have entered these long-term arrangements in the expectation that they will receive relief. Furthermore, due to their age recipients would be particularly concerned about the impact of the change as they would not be able to make arrangements to compensate for the loss of income.

Only one respondent agreed that the relief should be withdrawn, on the basis that it was a *'true simplification measure with little fiscal impact on the wider taxpayer community.'* This respondent also considered that withdrawal would reduce the administrative burden for HMRC and lending institutions. It suggested amending the proposal so that cost savings to lending institutions could be passed on to annuitants to compensate them, at least to some extent, for the removal of the relief.

### **Question 2: Do you agree with the proposed date for withdrawal? If not, what do you consider an appropriate date?**

The majority of responses stated that it was unnecessary to plan a date for withdrawal given the natural decline of the relief and proposed that the relief stay in place until it was no longer used.

The respondent who supported the withdrawal of the relief agreed with the proposed date.

**Question 3: Do you agree that the proposed change will have no impacts other than those outlined? If not, what additional impacts do you think will result from the proposed change?**

In general respondents agreed with the impacts outlined in the consultation document. They also identified two additional impacts. Several identified an administrative burden for providers in updating their systems and having to apply changes. The other concern raised was the cost of communicating any change to annuitants.

## 3. Next steps

### The Government's response

The Government has listened to the views and comments put forward at consultation. It is grateful for the additional information stakeholders have been able to provide to HMRC. In light of the responses and, in particular, concerns that the change could have a significant financial impact on those individuals affected, the Government has decided not to legislate to withdraw from April 2019 relief for interest on loans taken out to purchase life annuities by people aged 65 or over before 1999 .

### Next steps

The Government has no immediate plans in this area but will keep the matter under review. HMRC will know when the relief is no longer in use, because the lenders will stop claiming any repayment of tax deducted from interest payments.

# Annex A: List of stakeholders consulted

Association of Accounting Technicians

Age UK

Chartered Institute of Taxation

Equity Release Council

Institute of Chartered Accountants of England and Wales

Institute and Faculty of Actuaries

Zurich Insurance plc