



Withdrawing relief for interest on loans to purchase life annuities

Consultation document

Publication date: 8 July 2013

Closing date for comments: 30 September

Subject of this consultation:	This consultation considers the impact of the future withdrawal of relief for interest on loans to purchase life annuities taken out by people before 1999.
Scope of this consultation:	At Budget 2013 the Government committed to consulting on the impact of withdrawing this relief. This consultation is being undertaken to gather information about the extent to which individuals continue to benefit from the relief and to ask when might be an appropriate time to withdraw it.
Who should read this:	The Government would like to hear from individuals, businesses and other interested parties who have a view or may be affected by the withdrawal of this relief.
Duration:	This consultation opens on 8 July and will run for 12 weeks. The final date for responding to this consultation is 30 September.
Lead official:	Judith Diamond, CTISA, CT and Business Income Tax, HMRC
How to respond or enquire about this consultation:	Please address all enquiries and responses to: Judith Diamond Room 3C04 HMRC 100 Parliament Street SW1A 2BQ Judith.diamond@hmrc.gsi.gov.uk
Additional ways to be involved:	None
After the consultation:	The Government will set out its intentions once all responses to the consultation have been considered. Legislation to remove relief for interest on loans to purchase life annuities taken out by people before 1999 is proposed for Finance Bill 2014 with repeal of the relief taking effect from a fixed date in the future.
Getting to this stage:	In their review of pensioner taxation the Office for Tax Simplification considered this relief and in January 2013 recommended that it should be abolished. The Government committed to consulting on this at Budget 2013.
Previous engagement:	None

Contents

1	Introduction	1
2	Effect of withdrawing the relief	3
3	Assessment of Impacts	3
4	Summary of Consultation Questions	4
5	The Consultation Process: How to Respond	5
Annex A	Relevant (current) Government Legislation	6

On request this document can be produced in Welsh and alternate formats including large print, audio and Braille formats

1. Introduction

The Government is inviting views on the withdrawal of relief for interest on loans to purchase life annuities taken out by people aged 65 or over before 1999, the withdrawal to take place from a fixed date in the future. These loans are often referred to as 'home income plans'.

Background

Mortgage interest relief was introduced in 1969 to give relief for the interest paid on loans for the purchase or improvement of land. These categories of interest relief were subsequently expanded to include the relief for interest on loans to purchase life annuities where the annuitants were over 65.

Initially relief was given for interest on the full amount of a loan of any size. The relief was subsequently restricted and is now limited to interest on £30,000 of a loan.

Before April 1983, the allowable interest was deducted from taxable income, either in an assessment or by increasing the PAYE (Pay As You Earn) code number. In April 1983 the mortgage interest relief at source scheme (MIRAS) was introduced under which the borrower pays the lender the interest less the tax relief. The rate of relief given has varied since its introduction. Currently the payer is entitled to deduct 23% from payments of interest qualifying for relief. HMRC subsequently reimburses the lender for the amount deducted.

Relief for interest paid on loans other than those to purchase an annuity was withdrawn by April 2000. Interest relief for those aged 65 and over taking out new loans to buy a life annuity was withdrawn from 9 March 1999. However, existing loans continue to qualify for the remainder of the loan period.

The proposal

Earlier this year the Office of Tax Simplification (OTS) recommended the withdrawal of this relief. This would enable the repeal of a considerable amount of legislation relating to interest relief itself and to 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 considered that there would be little taxpayer hardship as a result of withdrawing the relief.

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.

The Government is proposing the withdrawal of MIRAS from April 2019 to enable this simplification whilst allowing the small number of those who may still benefit by then plenty of time to take account of the change.

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

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

2. Effect of withdrawing the relief

The Government understands that withdrawing this relief would impact on the small number of people who were aged 65 or above in 1999 who will no longer have access to relief on loans used to purchase life annuities. In February 2000 there were just under 15,000 loans to people that would qualify for this relief. Current estimates suggest that in 2012-13 there were fewer than 1,000 individuals benefiting by around £400 per annum from this relief.

The Government estimates that the fiscal impact of withdrawing the relief is negligible. As set out in the table below there has been a significant decline in the number of claims from lenders for reimbursement and the amounts repaid by HMRC over the past few years.

Year	Number of claims made by financial institutions (to nearest 5)	Total amount repaid (to nearest 0.1million (m))
2003/04	100	£2.3m
2004/05	115	£2.5m
2005/06	Numbers not available	Numbers not available
2006/07	90	£1.5m
2007/08	90	£1.7m
2008/09	85	£0.9m
2009/10	85	£0.6m
2010/11	85	£0.6m
2011/12	80	£0.4m
2012/13	75	£0.3m

The amount repaid depends on the number of individuals benefitting from tax relief at source on interest payments and also reflects changing interest rates. No information is available on the number of people benefitting from the relief. However, the available data provides a strong indication that there has been a significant steady reduction in the benefit from relief in recent years.

The amount of relief in each case is relatively low. The OTS estimate that on a typical low interest rate of 5.9 per cent the relief is worth little more than £354 per year or £6.80 per week, given the £30,000 loan limit. Where interest is charged at a typical high rate of, say, 7.6 per cent the relief is worth £456 a year or £8.76 a week.

Withdrawal of the relief will remove an administrative burden for the lending institutions who will no longer need to claim back from HMRC the amounts of relief deducted by borrowers from interest payments. The Government does not consider that withdrawal of this tax relief will affect other individuals, households or businesses. The estimated costs of administering MIRAS are negligible and the withdrawal of the relief will lead to a modest reduction in HMRC costs.

3. Assessment of Impacts

The table below sets out the Government’s view on the impact of withdrawing the relief. This section gives all interested parties the opportunity to comment on what impact the changes will have and to point out anything that may have been overlooked. A final assessment will be published as part of a Tax Information and Impact Note alongside draft legislation in the autumn.

Summary of Impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	Negligible	Negligible	Negligible	Negligible	Negligible
Economic impact	This measure is not expected to have significant economic impacts.				
Impact on individuals and households	HMRC does not hold information on the number of individuals benefiting from MIRAS. Estimates based on the values of claims and a typical interest rate suggests that there could be fewer than 1000 individuals affected by the change. Estimates by the OTS suggest that the relief is worth a maximum of £456 a year to these individuals, but the amount of relief given will vary with commercial interest rates. This measure will not increase the admin burden on individuals and households.				
Equalities impacts	This change will remove a tax relief from a small number of people aged 85 or above and will have an impact on them and their carers.				
Impact on businesses and Civil Society Organisations	There will be administrative savings to the financial institutions as they will no longer need to make MIRAS claims to HMRC. These savings are quantified as negligible.				
Impact on HMRC or other public sector delivery organisations	There will be some changes to HMRC’s guidance and processes but costs are expected to be negligible. There will be ongoing HMRC cost savings following removal of the bespoke claims but these are quantified as negligible.				
Other impacts	No other impacts have been identified,				

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?

4. Summary of Consultation Questions

1. Do you agree that the relief on loans used to purchase life annuities should be withdrawn?
2. Do you agree with the proposed date for withdrawal? If not, what do you consider an appropriate date?
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?

5. The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- Stage 1 Setting out objectives and identifying options.
- Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3 Drafting legislation to effect the proposed change.
- Stage 4 Implementing and monitoring the change.
- Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

How to respond

A summary of the questions in this consultation is included at chapter 4.

Responses should be sent by 30 September 2013, by e-mail to Judith.diamond@hmrc.gsi.gov.uk

or by post to:

Judith Diamond
Room 3C/04
HM Revenue & Customs
100 Parliament Street
SW1A 2BQ

Telephone enquiries 020 7247 3422 (from a text phone prefix this number with 18001)

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from [HMRC Inside Government](#). All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

This consultation is being run in accordance with the Government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website: <http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

If you have any comments or complaints about the consultation process please contact:

Amy Burgess, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

Please do not send responses to the consultation to this address.

Annex A: Relevant (current) Government Legislation

Income and Corporation Taxes Act 1988 Part IX,
Income Tax (Interest Relief) Regulations 1982

These provisions can be found at:

www.legislation.gov.uk

