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The writing on the wall

HM Treasury has issued a new factsheet titled "Ways to save in 2017", which describes Premium Bonds and the various forms of ISA but omits any reference to pensions.

A similar factsheet issued in 2016 contained no such omission, and this has prompted suggestions that the government may be seeking to position ISAs – and in particular the new Lifetime ISA - as a more attractive medium than pensions for retirement savings.

Apart from riskier investments such as Venture Capital Trusts, pensions are the only form of saving which provide tax relief on contributions, and the cost to the Treasury is massive. They also offer relief from National Insurance contributions and permit employer contributions. ISAs, by contrast, simply offer exemption from tax on the proceeds, plus a potential 25% bonus on Lifetime ISAs ('LISAs') at the age of 60.

Since tax relief on pension contributions is available at savers' highest personal rates of tax, the current system favours the higher paid, which is inconsistent with the government's aim of encouraging the less well-off to save for retirement.

There have been suggestions that a standard rate of tax relief of say 30% should be introduced (which would benefit 20% taxpayers) and even that tax relief on contributions might be scrapped altogether.

We will discover in the Chancellor's Budget statement on 8 March whether the Government proposes to grasp this nettle, but for the time being it clearly makes sense for higher-rate taxpayers to take full advantage of the current pension regime while it lasts.

Lifetime ISA penalties deferred

The government has announced that the penalties resulting from the withdrawal of funds from LISAs before age 60 or for purposes other than the purchase of a first home will not apply until the tax year 2018/19. However, the Financial Conduct Authority has warned that these penalties would make LISAs unsuitable for anyone who might be likely to incur them.

School fees planning

Parents wishing to give their children the benefit of a private education face startling costs. The average fee for a boarding school is over £30,000 a year for a single pupil, and for day pupils over £17,000. Then there are the costs of extras such as clothing and equipment.

After school, the costs of university education are considerable, and many parents are keen to assist their children to avoid the burden of student loans.

One way in which either or grandparents can provide for educational costs in a tax-efficient manner is to invest in an offshore investment bond. Because the insurance companies which provide these bonds are based outside the UK (though many are subsidiaries of UK companies) their products enjoy special tax treatment.

If £100,000 were invested in an offshore bond, this could be divided into 1,000 segments of £100 each so as to facilitate part-disposals. The bond would be transferred into a bare trust of which the parents would be the trustees and the child or grandchild the beneficiary.

Bare trusts are tantamount to gifts. The beneficiary has an absolute right to the assets held in the trust, but can only exercise this right when they reach the age of 18. Meanwhile the parents act as nominees for the child.

The funds held within the bond would be invested in a suitably diversified portfolio, and when the educational fees became payable the trustees would encash an appropriate number of segments. Tax on whatever investment growth had accrued would be

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assessed on the child, who would normally be a non-taxpayer.

The gain could be offset against the child's personal tax allowance, which is currently £11,000 p.a.. The child would also have the benefit of both the £5,000 starting tax rate for savings income and the £1,000 personal savings allowance.

For optimum tax-efficiency the gift should be made by a grandparent, because income in excess of £100 p.a. received by minor children which arises from gifts made by parents will be regarded as the parent's income for tax purposes.

HMRC's 'snooper computer'

The 'Connect' computer system created by HM Revenue & Customs to assist in identifying people who are paying less tax than is due is being used for the first time in the current tax year.

Instead of relying purely on information provided by taxpayers through their tax returns, Connect draws from many government sources, banks and other financial jnstitutions to produce a composite picture of taxpayers' financial affairs.

Sources include credit card companies, telecoms companies, Airbnb, eBay and the Land Registry, through which property sales and purchases can be tracked and further links revealed to data on letting arrangements. Questions of affordability and the source of funds may then be raised.

Discrepancies between the resulting figures and what has been declared will be investigated, and 10,000 letters have already been sent to taxpayers in relation to the tax year 2014/15.

The so-called 'snoopers' charter', which enables such surveillance, is not confined to the UK. HMRC can also access information from the authorities in 60 overseas countries.

Bank of England loose cannon

In the past the Bank of England has usually confined its public utterances to periodic pronouncements from the Governor,and has disdained to engage in populist discussion. However, its chief economist, Andy Haldane, has recently broken cover, with results which do little to enhance the Bank's reputation.

Last Autumn, Mr Haldane admitted that he did not understand pensions, and he subsequently underlined his ignorance by suggesting that property represented a better method of providing for retirement than pensions.

In his latest comments, Mr Haldane has succeeded in antagonising members of his own profession (or is it an art or a science?) by effectively apologising for the Bank's doom-mongering in advance of the Brexit vote and saying that economists' predictions are often wrong.

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