

## Automating tax returns

HM Revenue & Customs is launching a new simplified system for calculating tax bills, which will result in thousands of taxpayers being relieved of the chore of filling out tax returns.

Taxpayers affected by the change will receive letters saying that in future their tax assessments will be based on information already held by HMRC.

These letters will enclose details of State benefits, savings interest and employment benefits known to HMRC and the resulting tax calculations. Anyone wanting to query the figures must do so within 60 days. This compares with the current situation whereby taxpayers have up to nine months after the end of the tax year to assemble and check their own information and submit their return.

Some 400,000 people are expected to be included in the first phase of the roll-out of the new system, but ultimately 2 million out of the 11 million who complete returns will be included. First to be included will be people who are drawing State pension for the first time and some PAYE taxpayers with under-paid tax which could not be collected via their tax code. All existing taxpayers whose State pension exceeds their personal allowance will be included in the tax year 2018/19.

Although the new system is intended to help people, particularly the elderly, who have difficulty in completing tax returns, tax experts are warning that HMRC is estimated to make mistakes in one case out of ten, and that consequently it will be very important to double-check HMRC's figures. The conclusion might be drawn that the main beneficiary of the system could be HMRC rather than the taxpayer.

## Cash ISAs

Cash ISAs have declined in popularity, not only in relation to stocks and shares ISAs, but also in relation to other forms of deposit. Interest rates have fallen and the attractions of cash ISAs have also

been undermined by the introduction in April 2016 of the personal savings allowance ('PSA'), which permits basic rate taxpayers to receive up to £1,000 and higher rate taxpayers up to £500 savings interest each year tax-free.

The PSA applies to income from banks and building societies, annuities, government and company bonds and unit and investment trusts and is additional to the personal allowance and the starting rate for savings.

The personal allowance (this year £11,500), is available to all taxpayers and exempts from tax all types of income, while the starting rate for savings permits up to £5,000 of savings income to be received tax-free in cases where the taxpayer's total income does not exceed £16,500. The allowance reduces by £1 for every £1 of income above £16,500, so that it ceases to be available to people whose total income exceeds £21,500.

With interest rates at current low levels, deposits and investments of reasonably significant levels will produce interest which can be received tax-free as a result of the PSA. Interest of 1.2% p.a. would generate income on £83,333 which would be covered by the allowance, and for a higher rate taxpayer the corresponding figure would be £41,667.

The prospect is for interest rates to increase, which could tilt the advantage back in favour of cash ISAs, particularly for higher rate taxpayers. However, it might be unwise to lock into fixed-term ISAs at current rates

## Pension sharing on the rise

Pension rights are usually the second most valuable asset, after the family home, which need to be considered on divorce, and three options are available to divorcing couples:

- Pensions can be off-set against other matrimonial assets
- Courts can make Attachment Orders, directing pension trustees to pay all or part of the pension

to the ex-spouse on retirement or death

- Courts can make pension sharing Orders under which benefits are transferred at the time of the divorce.

Figures produced by the Ministry of Justice show that the number of pension sharing Orders rose from 8,027 in the year to March 2016 to 11,503 in the year to March 2017.

Legal experts ascribe the increase largely to the increased size of pension pots. The average transfer value of a final salary scheme is now more than £210,000. This makes offsetting less practicable, though pension sharing does involve higher costs.

George Osborne's 'pension freedoms' have also had an effect. It is no longer necessary to apply pension funds to buy annuities, and a shared pension could now be withdrawn in the form of cash.

Another factor favouring sharing is that Attachment Orders leave ownership of the pension and the control of benefits in the hands of the ex-spouse scheme member.

## Pension annual allowance

The Finance Bill 2017 confirms that the so-called Money Purchase Annual Allowance ('MPAA') has been reduced from £10,000 to £4,000 p.a. with retrospective effect from 6 April 2017. The MPAA limits the pension contribution on which people who have drawn income benefits from their personal or other "money purchase" pension arrangements are able to claim tax relief. The change stems from government concerns that pension holders might be re-cycling their savings and claiming tax relief twice on the same contribution.

## Lasting Powers of Attorney

The retired senior judge in the Court of Protection commented recently on the Today programme on BBC Radio 4 that people should think twice before

executing a Lasting Power of Attorney ('LPA'), because they might be served better by the appointment of a Deputy of the Court of Protection.

Lawyers have rushed to contradict this opinion, pointing out that the cost of a Deputyship is considerably greater, as is the likelihood of delay; and that most people would prefer their own appointee to one appointed by the Court. They also point out that LPAs are about more than money and can also provide the means of delegating decisions on health and welfare.

The judge's comments may have been influenced by the fact that many of the cases which come before the court are ones in which LPAs have gone wrong, with appointees abusing their position.