Draft Finance Bill 2016 Inquiry Response

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Building Societies Association

Executive Summary

This inquiry response outlines the views of the Building Societies Association, representing its members in relation to the draft Finance Bill 2016.

In essence we welcome the removal of the majority of customers from savings income tax; outline the likely costs for building societies and highlight the importance of customer communications as the new regime is due to begin.

Building Societies

The Building Societies Association (BSA) fulfils two key roles. We provide our members, all 44 building societies and two credit unions, with information to help them run their businesses. We also represent their interests to audiences including regulators, the Government and Parliament, the Bank of England, the media and the general public.

Although building societies compete with banks in the cash savings and residential mortgage markets, they do so with a very different fundamental purpose. As customer-owned mutuals, building societies have a social purpose by providing a safe home for savings and finance for home ownership, working in the interests of their customers, not seeking to maximise profits for the benefit of external shareholders.

Our members have total assets of over £330 billion, and account for approximately 20% of both UK mortgage and savings balances. It is estimated that over 20 million consumers has a financial services relationship with a building society. Between 2012 and the end of September 2015, building societies provided £56 billion new mortgage lending net of redemptions (80% of the total) out of a total of £70 billion net by the mortgage lending sector as a whole.

Building societies range in size from the Nationwide with over 14 million members, around 17,000 staff, £190 billion assets to our smallest society with 61,400 members, 18 staff and assets of £93 million.

General Comments

We note that these proposed changes will take effect at the start of the tax year. This is helpful for our members, as it requires one set of changes at a fixed point in the year when change is always required, rather than numerous changes spread throughout the year.

Proposed changes to the taxation of savings and dividends

On the matter of the new personal savings allowance, which will result in the first £1000 of interest each year being tax free for basic rate taxpayers and the first £500 for higher rate taxpayers, the removal of 95% of customers from savings income tax is clearly welcome both for building society customers and for the general economy in which the sector operates.

Impact on building societies

The estimated cost to implement the TDSI changes range from around £3-£3.5 million for each of the larger societies down to tens of thousands for each of the smaller members. These cost estimates include both system changes and customer communications.

The removal of the R85 and R105 schemes is welcome and over time is expected to reduce operational costs by around £150,000-£180,000 a year for the larger societies down to tens of thousands for the smaller societies.

The continuation of the payment of non-TDSI interest as net is a disappointment since this reduces some of the simplicity of the new approach. Our members would like to see the decision re-considered.

Customer Communications

The onus should not be only rest with financial institutions to communicate these changes to customers. Instead there should be a broader awareness campaign that lets those who exceed their PSA know what will happen.

Our members are concerned that they may receive a high volume of inquiries from customers asking how they need to report interest above the PSA threshold to HMRC and then how to pay the appropriate level of tax. Our members do not provide tax advice and would like HMRC to provide a leaflet – not all customers have internet access - with this information clearly included covering the three main categories of customer:

- those customers whose tax is paid under PAYE.
- those customers who are required to complete a self-assessment tax form.
- those customers whose tax is not paid under PAYE and are not currently required to complete a self-assessment tax form.

Simple Assessments

We have no comment on this issue.

Making tax digital

We have concerns about HMRC's ability to deliver this fundamental change.

Office of Tax Simplification

We have no comment on this issue.

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