Title: Savings (Government Contributions) Bill **IA No:** **RPC Reference No:** **Lead department or agency:** HM Treasury and HMRC **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 01/09/2016 **Stage:** Development/Options **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** SavingsBill2016@hmtreasury.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: Not Applicable

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANDCB in 2014 prices)	**One-In, Three-Out**	**Business Impact Target Status**
£m	£m	£m	Not in scope	Not a regulatory provision

What is the problem under consideration? Why is government intervention necessary?

Increasing savings is important both to create stable, long-term economic growth and for households to help people meet their aspirations, support living standards and reduce the risk of families falling into crisis with the need of state support.

Additionally, responses to the government's recent consultation on pensions tax relief highlighted a need for increased flexibility for young people looking to save for the long-term.

What are the policy objectives and the intended effects?

The government is committed to creating a nation of savers and these policies will help individuals plan for their future.

The Lifetime ISA will help young people save flexibly for the long-term. Help to Save will help working families on low incomes to build up a rainy day savings fund.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The government could have done nothing more, relying on existing tax incentives to promote saving among younger people and working families on low incomes. However, this would have failed to provide the necessary level of support for those who are unable to use existing support to plan and save for their future.

Therefore, the government will introduce legislation to deliver Lifetime ISAs and Help to Save. The Lifetime ISA will help younger people to save flexibly for the long-term. It responds to calls made during the 2015 consultation on pensions tax relief to provide additional support to this group of savers. Help to Save will provide a cash incentive for low income families to build up a rainy day fund, reflecting the fact that tax incentives tend to be less relevant for people on low incomes. The Bill imposes no mandatory regulatory burdens on business.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** Month/Year

Does implementation go beyond minimum EU requirements?	N/A			
Are any of these organisations in scope?	**Micro** No	**Small** No	**Medium** No	**Large** No
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded:** -		**Non-traded:** -	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Jane Ellison Date: 10.10.16.

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:** Optional

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	Optional		Optional	**Optional**

Description and scale of key monetised costs by 'main affected groups'

The main cost to government in both of the schemes will be the bonus paid to individuals. For the Lifetime ISA, the Exchequer costs are estimated below, reaching £830m in 2020-21. Help to Save is expected to cost £70m in 2020-21. These are transfers from government to savers. There will also be administrative costs to both HMRC and providers that choose to offer the products, which will be clearer closer to the launch and once the FCA has consulted on its proposed regulatory framework.

Other key non-monetised costs by 'main affected groups'

No significant non-monetised costs.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	Optional		Optional	**Optional**

Description and scale of key monetised benefits by 'main affected groups'

The Lifetime ISA will give savers a 25% bonus, up to a maximum of £1,000 per year. It is estimated that there will be over 200,000 Lifetime ISA savers in 2017-18, saving on average £3,500 per year. Under Help to Save, individuals will receive a 50% government bonus, up to £1,200, over 4 years. It is estimated that 500,000 people will open accounts in the first two years, saving on average £27.50 per month. The bonuses are a direct benefit to savers in the form of a transfer from government.

Other key non-monetised benefits by 'main affected groups'

The Lifetime ISA will help people to save flexibly for the long-term, which will have wider social and economic benefits to those savers and to the government. Financial providers will be able to benefit from offering Lifetime ISA accounts. The government will benefit from the increased financial resilience for families provided by Help to Save which reduce the risk of families falling into crisis with the need of further state support.

Key assumptions/sensitivities/risks | **Discount rate** |

The Lifetime ISA will be introduced from April 2017. Help to Save will be introduced no later than April 2018. All costings are highly sensitive to take-up predictions.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: Optional	**Benefits:** Optional	**Net:** Optional	-

Background

1. Not everyone in the UK is saving, particularly young people. The Money Advice Service last year found that 21 million adults (roughly 4 out of every 10 people) have less than £500 in savings, which is less than an average week's wages.[1] Additionally, 82% of ISA holders are over 35.[2] Responses to the government's recent consultation on pensions tax relief highlighted that young people could be better supported to save flexibly for the long-term.

2. The Centre for Social Justice estimates that 3 million low income households have no savings at all, and 3.9 million lower income families would be unable to pay their rent or mortgage for more than a month if they lost their job.[3] Problem debt is a big burden on the economy and is closely linked to whether households have savings: StepChange estimate that the odds of a family falling into problem debt are 44% lower if the family has at least £1,000 of cash savings[4], and estimate the social cost of problem debt to be £8.3bn.[5]

Lifetime ISA

3. The Lifetime ISA was announced at Budget 2016. The policy will help young people save flexibly for the long-term. The Lifetime ISA is designed to work with the grain of existing ISA products and will be simpler for savers to use, harnessing the simplicity and popularity of the ISA model, where contributions are made out of post-tax income, but investments growth on savings and future withdrawals are tax-free.

4. From April 2017, adults under the age of 40 will be able to open a Lifetime ISA and pay in up to £4,000 each tax year. The government will add a 25% bonus to contributions. This means that individuals who save the maximum will receive a £1,000 bonus each year from the government. They will be able to continue making contributions up to the age of 50.

5. Funds in a Lifetime ISA, including the government bonus, can be used to buy a first home worth up to £450,000. The funds can be withdrawn from the Lifetime ISA from age 60 tax free for any purpose, and Lifetime ISA holders can access their savings if they become terminally ill. Savers will also be able to make withdrawals at any time for other purposes, but with a 25% government charge applied to the amount of withdrawal. This returns the government bonus element of the fund (including any interest or growth on that bonus) to the government with a small extra charge.

Exchequer Impact

6. The tax base for the Lifetime ISA consists of income and/or wealth which could be saved into this product and could receive the bonus. The tax base, including taxpayer numbers and incomes, is expected to grow over the forecast period in line with OBR Budget 2016

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[1] Reference: https://www.moneyadviceservice.org.uk/en/corporate/four-out-of-10-adults-are-not-in-control-of-their-finances-new-strategy-launched-to-improve-uks-financial-capability
[2] Reference: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/519418/Table_9.11_2013-14_for_publication.pdf
[3] Reference: http://www.centreforsocialjustice.org.uk/publications/maxed-out
[4] Reference: https://www.stepchange.org/Portals/0/documents/Reports/BecominganationofsaversStepChangeDebtCharityreport.pdf?timestamp=1438852274147
[5] Reference: https://www.stepchange.org/policy-and-research/social-cost-of-debt.aspx

forecast determinants. The costing figures below do not factor in the wider effects of any changes in the overall level of household savings.

7. The estimated Exchequer impact of the Lifetime ISA (in conjunction with the raise of the ISA limit to £20,000) was set out on page 9 of "Budget 2016: policy costings"[6] and was certified by the Office for Budget Responsibility. The estimated Exchequer impacts of the Lifetime ISA are as follows:

£ millions	2016-17	2017-18	2018-19	2019-20	2020-21
Lifetime ISA[7]	*neg*	*-170*	*-330*	*-580*	*-830*
Of which is tax relief	*neg*	*neg*	*10*	*10*	*10*
Of which cost of bonus	*0*	*-180*	*-340*	*-590*	*-850*

8. These figures do not assume that any individuals opt out of workplace pension schemes to save into a Lifetime ISA. They assume that some individuals choose not to save into personal pensions and save into a Lifetime ISA instead, where this could be in their interest to do so, as set out below (e.g. self-employed basic rate taxpayers). The consequential small savings in pension tax relief have been taken into consideration in the table above.

Impact on Individuals

9. Take up of the Lifetime ISA is voluntary. To estimate demand for the Lifetime ISA, the relative incentives to save into the Lifetime ISA compared to alternative pension and savings products were considered. The following groups are expected to save into the Lifetime ISA:

- those saving for the long-term into ISAs and other non-pension savings products;
- those saving into private pensions whose tax and employment status means that the Lifetime ISA offers an attractive retirement saving option, such as some self-employed individuals, some individuals constrained by their employer's willingness to contribute to a pension beyond their statutory obligations, and some individuals constrained by the current pension system but who wish to save more for retirement; and
- those looking to purchase their first home.

10. Based on the assumptions above the total number of people expected to save into Lifetime ISA accounts in 2017-18 is over 200,000.

11. Take-up of the Lifetime ISA is expected to grow over time, and by the 2020 to 2021 tax year, over 800,000 are expected to contribute into Lifetime ISAs. The increase in take-up will be driven by a number of factors, including increasing market coverage of the product and those who wish to use the Lifetime ISA to save for their first home after Help to Buy: ISA closes to new applicants at the end of 2019.

12. The Lifetime ISA offers a way to save for retirement and benefit from a 25% match on contributions. It may be an attractive retirement savings vehicle for some people depending on their tax and employment statuses, for example for the self-employed or as a

[6] Available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508147/PU1912_Policy_Costings_FINAL3.pdf
[7] These figures may not sum completely due to rounding.

complement to pension saving for those already automatically enrolled into a pension by their employer.

13. The Lifetime ISA also offers a way to save for a first home. Around half of first time buyers between now and 2020 expected to be under 30 years old. The Council of Mortgage Lenders estimates of the characteristics of first time buyers are available here: https://www.cml.org.uk/news/news-and-v/723/.

14. In 2017-18, those saving into the Lifetime ISA are expected to save on average around £3,500 per year into their accounts. This broadly aligns with observations of first time buyers saving into a Help to Buy: ISA, where the average bonus value paid out as of June 2016 (£479) suggests that many savers are taking advantage of the full allowance, depositing close to the maximum of £1,200 in the first month of opening their accounts and the full £200 in subsequent months.[8]

15. As noted by the Office for Budget Responsibility[9], there is a high level of uncertainty to the costings as the modelling requires assumptions to be made over likely take-up and the amounts individuals will save.

Impact on Businesses

16. Financial providers will not be required to provide Lifetime ISA accounts. However, those who do will face costs relating to functions such as calculating, claiming and paying bonuses, checking whether withdrawals are liable to a charge and - where appropriate - collecting and paying the charge to HMRC. There will also be costs associated with reporting, information and scheme compliance. The costs are likely to be in line with those associated with comparable products.

17. As with other ISAs, the Financial Conduct Authority will regulate the product and will publish a consultation in the autumn, which will inform the regulatory framework and, therefore, the impact on businesses above and beyond the current ISAs regulations.

Impact on Government

18. In relation to Lifetime ISA, HMRC will face additional costs associated with the payment of government bonuses and collection of withdrawal charges on unlisted withdrawals. This will require the development of IT and systems to check and pay claims for bonus amounts from account providers and compliance activity in relation to the charges that will apply to unlisted withdrawals. It is also anticipated that there will be additional customer contact for HMRC as a result of the introduction of the new account, as well as costs associated with the approval of account providers. Total costs to HMRC are currently estimated to be around £3m to £3.5m, which is comparable to other similarly sized HMRC change programmes.

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[8] Reference: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/556455/H2B_ISA_stats_sept_16_final.pdf
[9] Reference: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508147/PU1912_Policy_Costings_FINAL3.pdf

Help to Save

19. As well as the recent reforms to promote saving, the government also recognises the need for more targeted incentives to promote savings among particular groups. During the last Parliament, the government helped over a million pensioners save through NS&I's market-leading 65+ guaranteed growth bond. Similarly, Help to Save will target working families on the lowest incomes to help them build up their savings.

20. The scheme will be open to 3.5m adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage, or those in receipt of Working Tax Credit. It will provide a 50 per cent government bonus on up to £50 of monthly savings into a Help to Save account. The bonus will be paid after two years with an option to save for further two years meaning that people can save up to £2,400 and benefit from government bonuses worth up to £1,200. Accounts will be available no later than April 2018.

Exchequer Impact

21. The estimated Exchequer impact of this measure was set out on page 62 of "Budget 2016: policy costings" and was certified by the Office for Budget Responsibility[10]. The estimated Exchequer impacts are as follows:

£ millions	2016-17	2017-18	2018-19	2019-20	2020-21
Help to Save	*0*	*0*	*0*	*-20*	*-70*

Impact on Individuals

22. Help to Save is a voluntary scheme. Around 3.5 million people from 2.5 million low income households will be eligible to open a Help to Save account when the scheme is launched. It is estimated that over 90% of eligible people will come from households with an annual income of less than £30,000 when the scheme is launched. Approximately half of households with income below £30,000 have no savings according to the Family Resources Survey[11].

23. It is expected that around 500,000 people will open accounts in the first two years that accounts are available, saving on average £27.50 a month. These estimates were informed by information from similar savings schemes and government savings pilots[12].

24. As noted by the Office for Budget Responsibility[13], there is a high level of uncertainty to the costings as the modelling requires assumptions to be made over likely take-up and the amounts individuals will save.

[10] Reference: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508147/PU1912_Policy_Costings_FINAL3.pdf
[11] Reference: https://www.gov.uk/government/statistics/family-resources-survey-financial-year-201415
[12] Reference: http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/savings_gateway_evaluation_report.pdf
[13] Reference: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508147/PU1912_Policy_Costings_FINAL3.pdf

Impact on Businesses

25. Financial providers will not be required to provide Help to Save accounts. However, those who do will face costs relating to functions such as calculating, claiming and paying bonuses. There will also be costs associated with reporting, information and scheme compliance.

Impact on Government

26. For Help to Save, HMRC's costs are likely to include set-up costs, checking the eligibility of individuals wishing to open an account, processing and paying claims for government bonus, compliance activity in relation to these claims and costs for customer support. The Department for Work and Pensions and Northern Ireland's Department for Social Development may also face additional costs in providing HMRC with information about Universal Credit claims , which is relevant to an individual's eligibility for a Help to Save account. It is not currently possible to quantify these costs although further updates will be set out in future assessments of the impact of Help to Save.