wbg WOMEN'S BUDGET GROUP

Tax on savings and investments: gender issues

*Briefing from the **UK Women's Budget Group** on the impact of changes in the tax treatment of savings and investments from a gender perspective*

Key points

- *The government spends £9 billion a year on tax reliefs for non-pension saving and this will rise by almost another £1 billion with the introduction of the Lifetime ISA. This is a regressive use of taxpayers' money that only benefits people who can afford to save.*
- *Evidence shows that women, once they have children, are more likely than men to have little or nothing in the way of savings and investments. This is due to both immediate and persistent effects of the work-life balance they typically juggle in order to care for children and also frail adult family members.*
- *The £9 billion for savings-related tax reliefs would be better spent on improving the provision of affordable, good quality childcare, promoting flexible working and supporting unpaid work by both men and women.*

Savings-related tax reliefs – a gendered issue

In 2016-17, the government spent over £9 billion on non-pension savings-related tax reliefs (see Figure 1). While this is far less than the cost of pension tax reliefs or the exemption for gains on the sale of homes, it is almost ten times the amount spent on tax relief for employer-sponsored childcare.[1]

It may be tempting to suggest that tax reliefs on savings and investments are not a gendered issue, since men and women are equally eligible to use them. Indeed, the government seldom refers to gender in the impact assessments that accompany new savings-related tax initiatives[2]. However, this misses the point that the availability of tax-efficient savings is not the same as the opportunity to use them. Women's life experiences typically differ from those of men because women are more likely to take on the responsibility of caring for children and frail adult family members, and this reduces their opportunity to save.

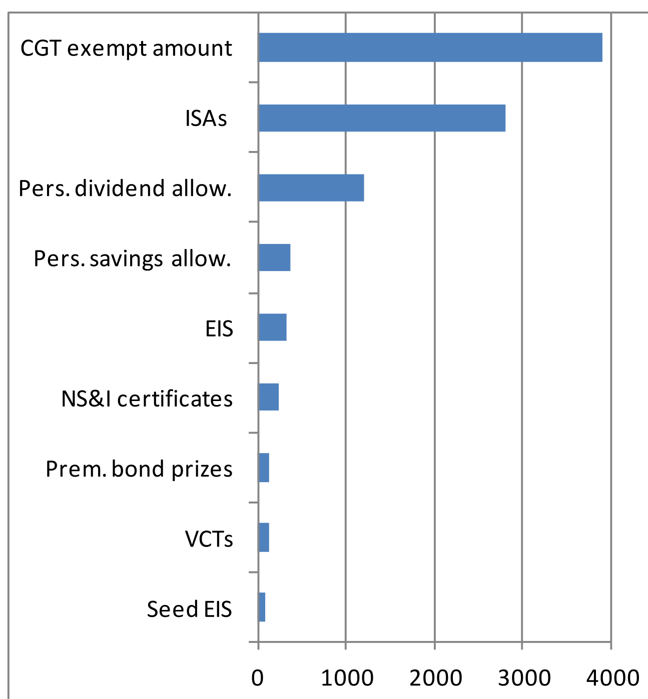
Data on women's wealth is difficult to obtain because often analysis is at the household rather than the individual level. A key UK source, the ONS Wealth and Assets Survey[3], finds that household wealth for single women and women in couples is similar to that of men. However, differences for households that have experienced relationship breakdown suggest women may have had less claim to household financial assets than their former male partners. For example, 54 per cent of separated women have net financial wealth of less than £500, compared with 45 per cent of separated men; similarly 41 per cent of divorced women have less than £500 compared with 38 per cent of divorced men. These statistics describe the breakdown of formal marriages and civil partnerships, where partners have some legal property rights; the position of women when a cohabiting relationship breaks down is likely to be worse, because of the lack of any legal rights to a share of a former partner's assets.

[1] HM Revenue & Customs (2017) *Principal tax reliefs* (http://bit.ly/1OqtXzO)

[2] For example, any mention of gender is entirely absent from the impact assessment accompanying legislation to introduce the Lifetime Individual Savings Account (ISA) and Help-to-Save scheme from 2017-18. (http://bit.ly/2epzDiu)

[3] Office for National Statistics (ONS) (2015) Wealth in Great Britain Wave 4: 2012-14 (http://bit.ly/2nyJRTg)

Figure 1: Cost of main non-pension savings-related tax reliefs, 2016-17 (£ million)



Source: data from HMRC[4]

A study by Westway and McKay[5] in 2007 for the Fawcett Society used the British Household Panel Survey (BHPS) to examine savings and investments separately for women and for men. The researchers found that the saving behaviour of men and women was similar until the birth of a first child, with 46 per cent of women and 45 per cent of men saving. When a child arrives, saving for both genders drops sharply, but, one year on, 42 per cent of men are saving compared with just 34 per cent of women. This difference persists such that, ten years after the birth, 46 per cent of men are saving compared with 40 per cent of women. Subsequent research by Kan and Laurie[6] also used BHPS data and found that, while women are slightly more likely than men to have savings (73 per cent of women compared with 71 per cent of men), they are less likely to hold investments (38 per cent of women compared with 42 per cent of men) and the median value of both savings and investments is lower for women than men (£2,200 for men against £1,510 for women). Within couples, generally only savings are referred to as being held jointly, while investments are typically held independently. Joseph and Rowlingson[7], based on interviews with 80 individuals in 40 couples, found that savings and investments perceived as joint were often legally held in just one name, a discrepancy that is unimportant while couples are together but becomes salient if the relationship breaks down. The conclusions from these and other studies are that women's savings are more vulnerable to lifecycle changes, such as becoming a parent or relationship breakdown and that the distribution of ownership of financial assets within households tends to reflect gender inequalities in paid and unpaid work.

Over two-thirds of childcare in the home is carried out by women and just under two-thirds of cooking and cleaning.[8] 10 per cent of women provide informal adult care compared with 7 per cent of men[9]. The Office for National Statistics[10] tries to measure the value of unpaid care and puts the value of unpaid childcare at around £320 billion a year and unpaid adult care at around £57 billion a year, equivalent in total to about a fifth of UK GDP. Recent research by PwC[11] puts the UK gender pay gap at 17 per cent. PwC suggest two key factors that drive women's lower pay: different work-life patterns due to caring responsibilities with time out of the workforce and a resulting loss of pay progression over the longer term; and occupational segregation, with women more likely to work in low-pay sectors and occupations, often because these are the areas where they can find the flexibility needed to balance work with their caring responsibilities. These are the realities of women's lives that reduce their opportunities to save and skew the advantage of savings-related tax reliefs in favour of men.

The implications for women

The rationale for savings-related tax reliefs is varied – for example, those for venture capital trusts and the Enterprise Investment Scheme aim to encourage

[4] Ibid.

[5] Westway, J. and McKay, S. (2007) *Women's financial assets and debts* (http://bit.ly/2mWug1C)

[6] Kan, M. and Laurie, H. (2010) *Savings, investments, debts and psychological well-being in married and cohabiting couples* (http://bit.ly/2mWnwAT)

[7] Joseph, R. and Rowlingson, K. (2011) 'Her house, his pension? The division of assets among (ex-) couples and the role of policy' in *Social Policy and Society*, 11:1, pp. 69-80.

[8] The Fatherhood Institute (2016) *Fairness in Families Index* (http://bit.ly/2mWj1X0)

[9] Department for Work and Pensions (2015) 'Table 5.2' in *Family Resources Survey* (http://bit.ly/2nM8R8O)

[10] Office for National Statistics (ONS) (2016) *Household satellite accounts: 2005 to 2015* (http://bit.ly/2nM8WJE)

[11] PwC (2017) *Women in Work Index: closing the gender pay gap* (http://pwc.to/2mk995Y)

support for new and growing businesses, while the Help-to-Buy ISA aims to promote homeownership. Some other initiatives, such as ISAs, aim to promote saving more generally and, unlike pension tax reliefs, which have a matched funding element for non-taxpayers[12], have not, to date, offered any extra help to savers on a low income. Matched funding for low-income savers *is* a feature of two new non-pension-savings initiatives:

- **Lifetime ISA**. A type of ISA, available from April 2017 and open to anyone aged 18 to 39, inclusive. Whether the saver is a taxpayer or not, the government adds a 25 per cent bonus up to a maximum of £1,000 a year to the amount paid in until age 50. Savings can be withdrawn without charge from age 60 or earlier if used as a deposit on a first home. Any other withdrawals are subject to a 25 per cent charge (which claws back the tax relief and related investment growth plus a 5 per cent penalty charge). The government has reserved the right to create by regulation additional circumstances for charge-free withdrawals. Savings within the ISA build up free of income tax and capital gains tax and are tax-free on withdrawal. The cost to taxpayers is expected to reach £830 million by 2020-1.
- **Help-to-Save**. A matched savings scheme, available no later than April 2018 and open to individual adults in households claiming either Universal Credit with earnings at least equal to 16 hours at the National Living Wage or Working Tax Credit. Savers can pay in up to £50 a month and, at the end of two years, the government will add a 50 per cent bonus (maximum bonus of £600 on maximum savings of £1,200). The account can then be rolled over for a further two-year period.

While matched saving is to be welcomed, it is still of no help to people whose income is so low that they are unable to save at all, who will often be women, or for whom the particular features of the product are unsuitable.

The Lifetime ISA is largely intended as a long-term product which is unlikely to be suitable for savers with modest means whose first priority for non-pension savings will typically be precautionary saving (an 'emergency' or 'rainy-day' fund) that can be accessed quickly in the event of an unexpected expense or fall in income. By contrast, the Help-to-Save scheme *is* well designed for low-income precautionary savers, but unhelpfully restricted to individuals in households whose earnings are so low that they are being topped up with means-tested benefits and who are thus, by definition, struggling to make ends meet. The government's own cost projections reveal that they expect relatively low take-up and for few to be able to save the maximum permitted: 3.5 million adults will be eligible but only 0.5 million are expected to open an account, saving an average of £27.50 a month.

The government has failed to give a gender breakdown of those eligible for a Help-to-Save account or those expected to open one. WBG[13] has previously raised concerns about the way that Universal Credit will be paid to couples as a single sum to one bank account, so that non-earning partners have no income over which they have financial autonomy (unlike tax credits where the Child Tax Credit and childcare elements are paid to the main carer even if the rest goes to the other partner). This could result in money that is needed by the main carer for supporting children or her own needs being used by her partner for Help-to Save.

The opening paragraph of the impact assessment for the Lifetime ISA and Help-to-Save schemes includes as an aim: to *'reduce the risk of families falling into crisis with the need of state support'*[14]. Building up some savings can help to reduce the risk of problem debts[15] and is sound financial planning for individuals who can afford it. However, we are extremely concerned that these schemes are just another part of the transition from collective risk as a society to individualising risk and imposing an expectation of personal responsibility for financial resilience on people who really cannot afford it.

[12] Where contributions are made to a private pension through the relief-at-source arrangement, the contributions are treated as paid net and the scheme provider claims and adds basic-rate income tax relief to the saver's pension pot. This happens even if the saver does not pay tax. Finance Act 2004, s192.

[13] Women's Budget Group (WBG) (2012) *Universal Credit* (http://bit.ly/2nuG4te)

[14] HM Treasury and HM Revenue & Customs (2016) *Savings (Government Contributions) Bill. Impact Assessment* (http://bit.ly/2epzDiu)

[15] StepChange (2015) *£1,000 in savings would protect 500,000 households from problem debt* (http://bit.ly/2mPLITJ).

Figure 2: HM Treasury & HMRC rationale for the Lifetime ISA and Help-to-Save schemes

> ***"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."

Source: HM Treasury and HMRC[16]

The tendency towards individualising risk is clearly evident in the Help-to-Save scheme with its restriction to households that are already cash-strapped. As noted above, the Lifetime ISA legislation[17] allows the Government to introduce early withdrawals without penalty for reasons other than house purchase. That starts to look very similar to a scheme tried in the Netherlands called the Life-Course Savings Scheme, which aimed to help employees finance periods of unpaid leave. From 2006, employees could build up savings, tax-free, through deductions from their salary, and the savings could be withdrawn, amongst other reasons, to pay for periods of caring for a frail relative or for the cost of childcare. Again, that may look like a sound way to plan financially for people who can afford to save, but risks creating financial exclusion for those who cannot. An evaluation of the Dutch scheme found that fewer women and part-time workers took part, despite being the people most likely to have caring duties, and the scheme was used mainly by higher earners as a way to finance early retirement. The scheme was abandoned in 2012.[18]

A call to action

Tax reliefs for saving are a regressive way to spend public money, benefiting only those who can already afford to save. Women are among the most likely to have incomes that are too low and priorities, such as feeding their families, that are too pressing to enable them to save. The principle factor that underlies women's position is the work-life pattern they often have to adopt due to caring responsibilities.

One set of solutions would be to improve women's opportunities to work on an even footing with men, for example, doing more to promote flexible working in higher paid jobs and improving the provision of affordable, high-quality childcare and adult social care.

At the same time, steps should be taken to encourage men to take on greater responsibility for caring, for example through a 'use it or lose it' parental leave provision, so that caring is not perceived as predominantly the responsibility of women.

While the annual £9 billion (and rising) spent on non-pension-saving tax reliefs would be just a start, it is money that could be better spent addressing rather than magnifying gender inequalities.

Written by

Jonquil Lowe (Senior Lecturer in Economics and Personal Finance, the Open University):

jonquil.lowe@open.ac.uk

UK Women's Budget Group, March 2017.

WBG is an independent, voluntary organisation made up of individuals from Academia, NGOs and trade unions. See www.wbg.org.uk

Contact: Eva Neitzert or Mary-Ann Stephenson (WBG Co-Directors):

eva.neitzert@wbg.org.uk

maryann.stephenson@wbg.org.uk

[16] Ibid.

[17] Savings (Government Contributions) Act 2016, Schedule 1, Part 3, paragraph 7(2).

[18] Delsen, L. and Smits, J. (2014) *The rise and fall of the Dutch savings schemes* (http://bit.ly/2m9qsLq).

wbg WOMEN'S BUDGET GROUP