Tax on savings and investments: gender issues

Briefing from the UK Women's Budget Group on the gender implications of recent trends in education funding

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

Key points

- *The government spends nearly £10 billion a year on tax reliefs for non-pension saving. 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 even less in investments. This is due to both the immediate and persistent effect that caring for children and frail adult family members has on paid work.*
- *To foster greater gender equality, the £10 billion currently spent on savings-related tax reliefs would be better used to improve the provision of affordable, good quality childcare, promote flexible working in higher-paid jobs and measures that foster a move away from the current gendered distribution of unpaid work.*

Savings-related tax reliefs – a gendered issue

In 2018-19, the government spent around £9.6 billion on non-pension savings-related tax reliefs (see Figure 1[1]). While this is far less than the cost of pension tax reliefs or the exemption for capital gains on the sale of homes, it is almost ten times the on the estimate for steady-state spending on the Tax-free Childcare scheme.[2]

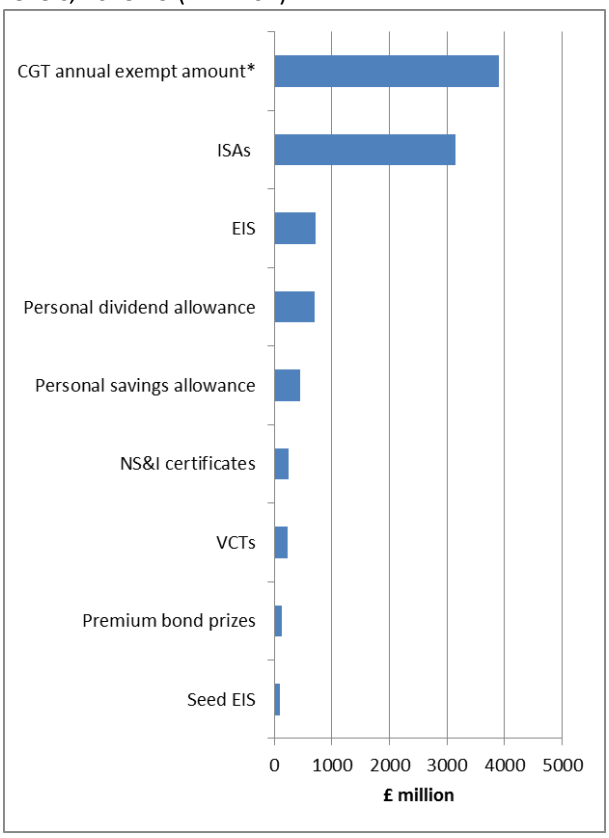
At first glance, tax reliefs on savings and investments may not appear to be a gender issue, since men and women are equally eligible to use them. Indeed, the government seldom refers to gender in the impact assessments that accompany new savings-related tax initiatives. [3] However, the *availability* of tax-efficient savings is not the same as the *capacity* to use them. Women's life experiences typically differ from those of men because women are more likely to take on the responsibility for caring for children and frail adult family members. This reduces their capacity to save.

Data on women's wealth is hard to come by because so often analysis is at the household, rather than the individual, level. A key UK source, the ONS Wealth and Assets Survey,[4] 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 (2019) *Principal tax reliefs* (https://bit.ly/32VACAG)
[2] HM Revenue & Customs (2017) *Childcare Payments Act 2014 Impact Assessment* https://bit.ly/2pU4Sxj
[3] For example, any mention of gender was 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)
[4] 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, 2018-19 (£ million)



*CGT figure is for 2016-17; subsequent figures are unavailable because HMRC deems the cost of data collection is uneconomic.

(Source: data from HMRC, 2019)[5]

A study by Westway and McKay[6] in 2007 for the Fawcett Society used the British Household Panel Survey (BHPS) to examine savings and investments separately for women and 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 sexes 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[7] 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).

This pattern is also borne out by data for holdings of individual savings accounts (ISAs), where slightly more women than men are paying into ISAs, but for women 80% of these are cash ISAs compared with 72% for men.[8]

The distinction is important because, over the longer term, investment returns tend to exceed cash returns by a substantial margin.[9] So, not only are women saving less, but their savings are likely to grow more slowly than men's and even lose value once inflation is taken into account. Superficially, this may seem like women's choice, but research suggests a diverse range of systemic gendered factors are at play. For example, women are more likely to be saving for their children or family rather than themselves (and so a more risk-averse approach might be appropriate).

Moreover, women say that work and caring responsibilities mean they do not have enough time to get to grips with the complexity of investments, and investment advertising typically uses male stereotypes. Similarly, magazines use different language and tropes around money when addressing women as opposed to men, depicting women as spenders/small savers and men as investors. Research has also found that women frequently find investment firms patronising and often perceive them as untrustworthy. [10] However, studies suggest that, when women do invest, they tend to do slightly better than men because they are less likely to choose higher-risk, more speculative stocks and trade less frequently keeping down costs.[11]

Within couples, generally only savings are referred to as being held jointly, while investments are typically

[5] Ibid.
[6] Westway, J. and McKay, S. (2007) *Women's financial assets and debts* (http://bit.ly/2mWug1C)
[7] Kan, M. and Laurie, H. (2010) *Savings, investments, debts and psychological well-being in married and cohabiting couples* (http://bit.ly/2mWnwAT)
[8] HMRC (2019) *Table 9.8 Individual savings accounts* (ISAs) (https://bit.ly/32Tyutt)

[9] See for example *Barclays Equity Gilts Study 2018* [unpublished but data available on request to Barclays Bank plc].
[10] Kantar (2017) *Winning over women* (http://bit.ly/2NLH3Os); Starling Bank (13 March 2018) 'Why we need to make money equal' (http://bit.ly/2Cq3jLK); Fidelity (2018) *The financial power of women* (http://bit.ly/2pXX6zd).
[11] Warwick Business School (2018*) Are women better investors than men?* (https://bit.ly/36auMxq) ; Hargreaves Lansdown (2018) *Women who invest tend to outperform men*. (https://bit.ly/2pjagKk)

held independently. Joseph and Rowlingson,[12] 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; more likely to be eroded by inflation; and that the distribution of ownership of financial assets within households tends to reflect gender inequalities in paid and unpaid work.

These inequalities in the distribution of paid and unpaid work remain marked. Over two-thirds of childcare in the home is carried out by women and just under two-thirds of cooking and cleaning.[13] 10 per cent of women provide informal adult care compared with 7 per cent of men[14]. The Office for National Statistics[15] puts the value of unpaid childcare at over £350 billion a year and unpaid adult care at around £60 billion a year, equivalent in total to about a fifth of UK GDP.

When it comes to paid work, the UK has the fifth largest gender pay gap in Europe at 20.8 per cent[16]. Research by PwC[17] suggests 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 many women's lives that reduce their capacity 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 support for new and growing businesses, while the Help-to-Buy ISA aims to promote homeownership.

Some other initiatives, such as ISAs, aim at promoting saving more generally and, unlike pension tax reliefs which have a matched funding element for non-taxpayers,[18] have not usually offered any extra help to savers on a low income. Matched funding for low-income savers *is* a feature of two recent non-pension-savings initiatives:

- **Lifetime ISA**. A type of ISA, available since 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, launched in September 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

[12] 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.
[13] The Fatherhood Institute (2016) *Fairness in Families Index* (http://bit.ly/2mWj1X0)
[14] Department for Work and Pensions (2015) 'Table 5.2' in *Family Resources Survey* (http://bit.ly/2nM8R8O)
[15] Office for National Statistics (ONS) (2018) *Household satellite account, UK: 2015 and 2016* (https://bit.ly/2BLKSzJ)
[16] Unadjusted pay gap, comparing average hourly earnings of all male and female employees. European Commission (2017) *Eurostat. Gender equality* (http://bit.ly/2q0pgK6)
[17] PwC (2017) *Women in Work Index: closing the gender pay gap* (http://pwc.to/2mk995Y)
[18] 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.

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 still does not help people whose income is so low that they are unable to save at all, many of whom are women, or for whom the 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 for the Help-to-Save scheme reveal that they expect relatively low take-up and for few to be able to save the maximum permitted: 3.5 million adults are eligible but only 0.5 million are expected to open an account, saving an average of £27.50 a month. By July 2019, only 132,000 accounts had been opened.[19]

The government has failed to give a gender breakdown of those eligible for a Help-to-Save account or those who have opened one. WBG[20] has previously raised concerns about the payment of Universal Credit as a single sum to couples. A single payment means that non-earning partners do not have a dedicated share 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'*.[21] Building up some savings can help to reduce the risk of problem debts[22] 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 of moving away from the collective risk that society bears to individualising risk and imposing an expectation of personal responsibility for financial resilience on people who cannot afford it.

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[23] allows the Government to introduce early withdrawals without penalty for reasons other than house purchase.

This provision shares similarities with the Life-Course Savings Scheme trialled in the Netherlands, 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. While this may look like a sound way to plan financially for people who can afford to save, it 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.[24] We urge the UK government to learn the lessons of the Dutch scheme and refrain from using the Lifetime ISAs as a way of shifting from collective to individual responsibility.

Conclusions

Tax reliefs for saving are a regressive way to spend public money, benefiting 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 need to adopt because of caring responsibilities.

[19] HMRC (2019) *Help to Save August 2019 official statistics* (https://bit.ly/32UOewf)
[20] Women's Budget Group (WBG) (2012) *Universal Credit* (http://bit.ly/2nuG4te)
[21] HM Treasury and HM Revenue & Customs (2016) *Savings (Government Contributions) Bill. Impact Assessment* (http://bit.ly/2epzDiu)
[22] StepChange (2015) *£1,000 in savings would protect 500,000 households from problem debt* (http://bit.ly/2mPLITJ).
[23] Savings (Government Contributions) Act 2016, Schedule 1, Part 3, paragraph 7(2).
[24] Delsen, L. and Smits, J. (2014) *The rise and fall of the Dutch savings schemes* (http://bit.ly/2m9qsLq).

One set of solutions would be to improve women's opportunities to be employed on an even footing with men. To this end, the £10 billion currently spent on tax reliefs for savings and investments could be used to promote flexible working in higher paid jobs, improve the provision of affordable, high-quality childcare and adult social care, and encourage men to take greater responsibility for caring work.

In addition to spending government monies in this way to reduce gender inequalities (rather than magnify them), there is also a need for a fundamental cultural shift in the way society and the investment industry engages with women around personal finance. We welcome the moves in this direction being made by some firms, and urge the government to take active steps to support this cultural shift. This could include, for example: using its own advertising and case studies to promote new norms, such as men contributing to their female partners' savings during periods when her earnings are constrained due to caring responsibilities; and making available investment products designed specifically for people (whatever their gender, though women will predominate) with caring responsibilities, that work with the reality of their different life experiences, for example linking matched saving to receipt of child-related benefits.

Written by

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

joquil.lowe@open.ac.uk

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

Contact: Mary-Ann Stephenson (WBG Director):

maryann.stephenson@wbg.org.uk