

EXPLANATORY MEMORANDUM TO
THE SAVING GATEWAY ACCOUNTS (No. 2) REGULATIONS 2009

2009 No. 2998

1. This Explanatory Memorandum has been prepared by H.M. Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 The Regulations provide tax relief for interest and other income earned on Saving Gateway accounts. They also: provide for an account provider to act on behalf on an account holder in relation to certain tax matters; set out HM Revenue and Customs' power to recover tax relief that has been given incorrectly; and make procedural arrangements in relation to Saving Gateway appeals on tax matters.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 No Commencement Order has yet been made to bring the Saving Gateway Accounts Act 2009 (which only received Royal Assent on 2nd July 2009) into force. These Regulations are made in reliance on section 13 of the Interpretation Act 1978 (anticipatory exercise of powers). A Commencement Order will be made when the precise starting date for Saving Gateway Accounts is known. The definition of "appointed day" in the Regulations refers to section 8 of the Act, simply as a central provision of the Act (compare section 26(5) of the Act, which similarly refers to section 6, but section 6 may be brought into force slightly early to allow for applications to open a Saving Gateway account).

4. Legislative Context

4.1 These Regulations set out the tax arrangements for Saving Gateway accounts, which the Government has announced will be available from 2010.

4.2 The Regulations are made under powers conferred by sections 14 and 28(1) and (2) of the Saving Gateway Accounts Act 2009. The Regulations are the first use of these powers since the Saving Gateway Accounts Bill received Royal Assent on 2 July 2009. Under the terms of section 28(5) of this Act, these Regulations are being made under the affirmative resolution procedure.

4.3 The main features, processes and requirements in relation to Saving Gateway accounts are set out separately in The Saving Gateway Accounts Regulations 2009. Regulations covering appeals on Saving Gateway matters in Northern Ireland will be made at a later date.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Exchequer Secretary to the Treasury, Sarah McCarthy-Fry M.P, has made the following statement regarding Human Rights:

In my view the provisions of the draft Saving Gateway Accounts (No. 2) Regulations 2009 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 The Government's objectives for the Saving Gateway are: to kick-start a saving habit among working age people on lower incomes by providing a strong incentive to save through a contribution for each pound saved; and to promote financial inclusion by encouraging people to engage with mainstream financial services.

The Government intends that Saving Gateway accounts will be provided by financial institutions, such as banks, building societies and credit unions. It estimates that around 8 million people will be eligible for a Saving Gateway account. Once a Saving Gateway account matures the account holder will be entitled to a government contribution, calculated at 50p for each whole pound in the highest qualifying balance achieved during the 24 month maturity period for the account. The Government intends that this contribution, as well as any interest, dividends or other income earned on a Saving Gateway account, will not be subject to tax.

The Saving Gateway Accounts Act 2009 provides that regulations may make provision for relief from income and capital gains tax of payments made by an account provider to, or in relation to, a Saving Gateway account. These Regulations are necessary to provide this tax relief.

- ***Consolidation***

7.2 Not appropriate to this instrument.

8. Consultation Outcome

8.1 The Government consulted on the principles of the Saving Gateway in 2001. In March 2008 it published a further consultation: *'The Saving Gateway: Operating a National Scheme'* in which it sought views on proposals for the operation and administration of a national Saving Gateway scheme. This consultation ran for 12 weeks from 12 March to 4 June.

8.2 In total 32 written responses were received to this consultation. In general, respondents supported the objectives of the Saving Gateway and were positive about its potential to kick start a saving habit and promote financial inclusion. Most respondents that expressed a view suggested that Saving Gateway accounts should be relieved from tax, in the same way as Individual Saving Accounts (ISAs).

8.3 Further details of the formal consultation, and of the responses received to this consultation, can be found in *'The Saving Gateway: operating a national scheme'* (March 2008) and *'The Saving Gateway: operating a national scheme, Summary of Responses'* (December 2008), both of which are available from the HM Treasury website.

9. Guidance

9.1 H.M. Revenue and Customs are currently preparing detailed guidance for eligible persons, account providers and other interested bodies. This guidance will be the subject of informal consultation and user testing prior to its formal publication ahead of the launch of Saving Gateway accounts.

10. Impact

10.1 The impact on business, charities or voluntary bodies will depend upon whether they choose to offer Saving Gateway accounts, or offer advice on Saving Gateway accounts. There is no requirement upon any business, charity or voluntary body to participate in the Saving Gateway.

10.2 The main impact of the Saving Gateway on the public sector will be the Exchequer cost of government maturity payments (which will not be subject to tax) and a negligible amount of tax relief on any interest or other income earned by account holders on accounts. The tax relief on interest or other income earned by account holders is expected to be negligible, given the maximum amount that can be deposited in an account (£600) and the fact that account providers will be not be required to offer interest or other returns on Saving Gateway accounts.

10.3 An Impact Assessment is attached to this memorandum.

11. Regulating small business

11.1 This legislation applies to small businesses to the extent that they choose to offer Saving Gateway accounts, or to advise on the Saving Gateway. There will be no requirement on any small business to participate in the Saving Gateway.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the approach taken is for H.M. Revenue and Customs and HM Treasury to continue to discuss operational processes for the scheme with potential providers and their representatives, and to consider any appropriate measures that would be consistent with the minimum requirements set down in these Regulations.

11.3 The basis for the final decision on what action to take to assist small business will be to ensure that any such action is consistent with the requirements for providers set out in these Regulations. These requirements are considered to be the minimum necessary for the effective operation and assurance of tax relief on Saving Gateway accounts.

12. Monitoring and Review

12.1 The Saving Gateway Accounts Act 2009 provides for independent review of the effect of the scheme on attitudes to saving, saving behaviour, involvement with financial institutions and other matters. A report setting set out the conclusions of this review will be presented to Parliament by HM Treasury within 7 years of section 6 of the Act coming into effect.

13. Contact

John McLoughlin of H.M Revenue and Customs, tel: 0207 147 2382 or email: john.mcloughlin@hmrc.gsi.gov.uk can answer any queries regarding the instrument.