

# Tax incentives in other countries to promote personal saving

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# Personal Savings Objectives

- General/Unrestricted
- Targeted
  - Retirement
  - Home ownership
  - Other (education, medical, etc.)

# Tax Considerations

- Eligible investments
- Eligibility requirements for individuals
- Annual and/or lifetime limits on contributions/accumulations
- Treatment of contributions
- Treatment of withdrawals
  - Possibility of early withdrawal penalty?

## Countries to Discuss

- United Kingdom
- France
- Japan
- Other similar after-tax contribution regimes
- United States

# United Kingdom

- Individual Saving Accounts (ISAs)
  - Launched in 1999 and replaced other accounts such as Personal Equity Plans (PEPs)
  - Adult ISAs – generally for anyone 18 and over
  - Junior ISAs – for anyone younger than 18 (replaced Child Trust Fund)
    - convert to Adult ISAs at 18
- Lifetime Individual Saving Accounts (LISAs)
  - Launched on 6 April 2017
  - May be opened only by persons under age 40

# UK Individual Savings Accounts (ISAs)

- Types of ISAs

- Cash ISAs (essentially designated bank accounts)
  - Help To Buy (HTB) ISAs – receive government bonus if money used for deposit on first home purchase; HTB ISAs being replaced, as discussed below, by Lifetime ISAs (LISAs)
- Stocks and Shares ISAs (stocks, bonds, unit trusts, and investment funds)
  - No «location of investment» restrictions
- Innovative Finance ISAs (peer to peer loans)

# UK Individual Savings Accounts (ISAs)

- Eligibility to contribute is restricted to individuals who are:
  - 16 or over for a cash ISA;
  - 18 or over for other types of ISAs;
  - A UK resident
  - A Crown servant or spouse/civil partner if resident outside of the UK

# UK Individual Savings Accounts (ISAs)

- Contributions made with «after-tax» amounts
- Tax-free return on all three types of ISAs
  - Cash ISAs – no tax on the interest received
  - Stocks/Shares ISAs and Innovation Finance ISAs – no tax on income or gains
- No tax on withdrawals
  - and, as discussed below, no restrictions on when amounts can be withdrawn



# UK Individual Savings Accounts (ISAs)

- Contribution limit: £15,240 per year (increased to £20,000 for 2017/2018)
  - may be spread over multiple accounts
- Holding period: No minimum holding period
- Transfers from one provider to another: permitted
  - Entire amount of current-year contribution must be transferred
  - All of part of prior-year contributions may be transferred
  - To receive continued tax-free treatment, an ISA transfer form must be completed

# UK Individual Savings Accounts (ISAs)

- Life events:
  - If change residence (leave UK)
    - no new contributions (unless Crown employee/spouse/civil partner) until resume UK residence;
    - May keep ISA open and retain UK tax relief
  - Death:
    - No income or capital gains tax – but ISA becomes part of estate for inheritance tax purposes
    - Can be inherited by spouse/civil partner

# UK Lifetime ISAs (LISAs)

- Launched on 6 April 2017
- Longer-term tax-free savings account
  - Two penalty-free uses: first time home purchase and retirement
  - Because the LISA is an individual product, each spouse/partner can have one
- Distinguishing features from «regular» ISA:
  - «Tighter» age restrictions for opening and contributing to a LISA
  - 25% government contribution bonus
  - Early withdrawal penalty

# UK Lifetime ISAs (LISAs)

- Eligibility
  - To open LISA: between ages 18 and 39
  - To contribute: until reach age 50
  - As with ISA, must be: UK resident, Crown Servant, or spouse/civil partner of Crown Servant
- Contribution limits:
  - £4,000 per year
  - 25% government bonus (up to £1,000 per year) on contribution only
    - £32,000 government contribution if make maximum contribution from ages 18 to 50
  - LISA contribution reduces ISA contribution amount (from £20,000 limit for 2017/18).

## UK Lifetime ISAs (LISAs)

- Withdrawals prior to age 60
  - 25% withdrawal charge imposed on amount withdrawn
  - 25% charge also applies if amount transferred to another type of ISA
- Withdrawal penalty will not apply when:
  - using the money to purchase a first home (subject to various conditions);
  - terminally ill (with less than 12 months to live);
  - transferring to another LISA with a different provider;
  - reach age 60.

## UK Lifetime ISAs (LISAs)

- LISA balances, like those in an ISA, are inherited tax-free but are part of the estate for inheritance tax purposes

# France – Plan d'Epargne en Actions (PEA)

- Launched in 1992
- At least 75% must be invested in equities from EU + Iceland, Liechtenstein, and Norway; cash also is a permitted investment (although bonds are not)
  - A UCITS meeting the investment requirements can, itself, be a PEA-eligible investment
- Contributions made with «after-tax» amounts
- Minimum holding period for tax-free treatment: 5 years
  - If withdrawal made between 5 and 8 years, lump sum required and account must be closed
  - If no amounts withdrawn during first 8 years, partial withdrawals can be made indefinitely
- After 5 years, no income or capital gains tax (but the social security levy applies)
- Lifetime contribution cap of €150,000 per individual

## France – PEA PME-ETI

- The PME-ETI variation of PEA, available since 2014, encourages investments in small and medium companies (PMEs) and mid cap companies (ETIs)
- Contribution limit is €75,000 per individual
  - This limit is in addition to the €150,000 limit on PEA contributions
- A UCITS can be an eligible investment for a PEA PME-ETI so long as:
  - the fund invests at least 75% of its assets in eligible companies; and
  - at least 50% of the securities issued by eligible entities are equity
- Practical impact: within the 75% ratio, 25% of the assets can be bonds issued by PMEs and ETIs
- Thus, unlike with a PEA, bonds may be held by a PEA PME-ETI



# Japan – Nippon Individual Savings Accounts (NISAs)

- Modeled on UK ISA
- Launched in 2014
- Developed as temporary (10 year) programme
  - scheduled to run from 2014 through 2023
- Investment period is limited to five years
- Workplace NISA – extension of NISA
  - automatic contribution from employee wages
- Junior NISA launched in 2016 (with slightly lower contribution limits)

# Japan – Nippon Individual Savings Accounts (NISAs)

- Eligibility to contribute is restricted to any individual aged 20 or above who is a:
  - Japanese resident or
  - A non-resident with a permanent establishment in Japan
- Eligible investments are stocks and investment trusts
  - no cash alternative

# Japan – Nippon Individual Savings Accounts (NISAs)

- Contributions made with «after tax» amounts
- No tax on withdrawals

## Japan – Nippon Individual Savings Accounts (NISAs)

- Contribution limit: ¥1.2 million (originally ¥1 million)
- Tax-free investment period limited to 5 years
- For every year beginning at the end of Year 5, one-fifth of amount in account must be withdrawn
- No tax on withdrawn amount

# Japan – Nippon Individual Savings Accounts (NISAs)

## *Example*

- During each of Years 1-5, individual contributes ¥1.2 million to NISA
- At the end of Year 5, individual's NISA balance is ¥7 million
- Amount that must be withdrawn is ¥1.4 million (20% of ¥7 million)
- Individual may contribute ¥1.2 million to NISA in Year 6

# Japan – Nippon Individual Savings Accounts (NISAs)

- Modifications being considered
- Extend investment period (perhaps to 20 years)
  - Would address, in part, relatively limited use of NISAs by younger individuals
- Contribution limits might be reduced as a consequence
  - Lower contribution limits would reduce revenue loss

## Other similar after-tax contribution regimes

- Canada – Tax Free Savings Account (TFSA)
  - TFSA «contribution room» currently is \$5,500
  - Contribution increases every year – so you can «catch up» if do not make maximum contribution in each prior year
  - Withdrawal does increase contribution room
- South Africa – Tax Free Savings Account (TFSA)
  - Annual contribution limit of R30,000
  - Life-time contribution limit (of R500,000); would take 17 years to hit
  - Withdrawals do not increase cap
- Korea ISA
  - After-tax contributions not as beneficial (since Korea already provides exemption for capital gains)

# United States

- Defined contribution accounts (individual or employer-based programs)
  - Individual retirement accounts (IRAs)
    - Traditional «deductible» IRA
    - Roth «non-deductible» IRA
  - Section 401(k) «qualified cash or deferred arrangement» plans
- Section 529 Qualified Tuition Programs (college savings accounts)
- Section 529A ABLE Act Programs
- Section 530 Coverdell Education Savings Accounts
- Section 223 Health savings accounts



# United States

- Universal Savings Account (USA) Proposal
  - 2017 proposal
    - Allow contributions, on an «after-tax» basis, of up to \$5,500 per year
    - Amounts can be withdrawn tax-free at any time
  - One concern raised by some pension advocates
    - Might discourage small employers from setting up retirement plans for their employees

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Mille grazie!