Financial Conduct Authority consults on how to deal with vulnerable customers

General Features Personal tax

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The Low Incomes Tax Reform Group outlines how Financial Conduct Authority-regulated firms need to consider lack of tax knowledge or capability as a driver of vulnerability in relation to personal financial planning matters.

Every tax adviser knows that getting the tax consequences of personal financial decisions wrong can be costly. Even those individuals who do have tax agents often do not seek their counsel early enough, and only realise their mistake when they present an investment decision to their tax adviser as a fait accompli (perhaps with the information for their annual self-assessment return). However, the risk of getting it wrong can be even higher for those who are entirely unrepresented. They may not realise their mistake at all, leaving them open to penalties for non-notification or non-disclosure.

The Low Incomes Tax Reform Group (LITRG) often gets enquiries from the public via our main website and our three satellite websites, Disability Tax Guide, Revenue Benefits and Tax Guide for Students. Through these enquiries, we see people who have little in the way of capital and a low household income, but have created a tax liability and/or tax compliance issues through financial decisions. One key culprit is the ability under pension freedoms to take significant lump sum withdrawals, through which people can trigger unexpected tax liabilities – including the high income child benefit charge – and loss of welfare benefits such as tax credits.

On seeing that the Financial Conduct Authority were consulting on 'Guidance for firms on the fair treatment of vulnerable customers' (GC 19/ 3), LITRG pointed out that this guidance needs to be clear that lack of knowledge or capability when it comes to dealing with tax and welfare benefits is a key driver of vulnerability.

We stress in our response that firms offering financial products and financial advice must consider the individual's financial circumstances in the round: their tax position; whether they are a welfare benefits claimant or potential benefits claimant; what their understanding of tax and benefits matters is; and whether they are capable of dealing with them without further support.

It is important for firms to realise that tax and benefits knowledge and capability are essential parts of overall financial capability. Vulnerability in relation to them is hard to identify in advance, as an individual often does not know that they have an issue until it is too late. Therefore, anything that can be done by way of identifying potential vulnerability – and thereby preventing problems arising – would be welcome.

Examples we give of actions that firms could take to ensure better outcomes for vulnerable customers include:

- giving training to staff on how tax and welfare benefits issues can drive vulnerability;
- always thinking of the tax and welfare benefits consequences of products when they are being designed and when producing communications;
- flagging up in the guidance that tax advice is a specialist area in which support might be needed, for example working in partnership with organisations like LITRG to deliver training to staff (or potentially TaxAid and Tax Help for Older People if customers need to be referred to charitable organisations for frontline support);
- directing those who can afford support to suitably qualified tax advisers.

The full consultation response can be found on the LITRG website.