CHAMPAIN
FINANCIAL SERVICES

Bawtry
Selsfield Road, Ardingly
Haywards Heath
West Sussex RH17 6TJ

T: 01444 229 520
F: 01444 229 521
info@champain.co.uk
www.champain.co.uk

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**Saver / Investor / Property Owner / Business Owner**

## HMRC digital tax effect

HMRC has entered into a new phase as it moves out of its – nearly year-long – testing period for its 'Making Tax Digital' Income Tax pilot. Essentially, anyone who is self-employed can now enter the pilot. Those who choose to join will be able to start filing quarterly updates of their trading income and expenditure figures through the system. It is expected that unincorporated landlords will also be able to follow in the pilot shortly. Given that there are only two Income Tax update filing solutions available at the moment – and mandation has meant the focus is on VAT – it is unlikely that there will be a rush for the self-employed to on-board for Income Tax purposes. However, experts expect that if the VAT MTD pilot is successful then self-employed businesses will gradually join the Income Tax pilot.

**All**

## The downturn – a question of when not if?

As long as growth continues into the second half of the year – which is highly likely – we'll be entering the tenth year of economic recovery. The question on everyone's lips (and fear in their hearts) is when will the real downturn start in earnest – when, not if. Britain's factories suffered an unexpected drop in output during February, marking the first fall for nearly a year and fuelling fears of a slowdown in the wider economy. Now the Office for National Statistics (ONS) said that manufacturing output dropped 0.2% month on month in February, while a downward revision to previous data showed it also stagnated in January. Official figures also revealed another sharp drop in the construction sector, marking the largest annual fall since March 2013. These worrying figures fuelled suspicion that GDP growth likely slowed to 0.3% quarter-on-quarter in the first quarter and that the downturn is around the corner.

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## Market earthquake on its way?

The market meltdown in early February — when US stocks had their biggest one-day fall in six years — proved to be more of a financial tremor, but the threat of an actual earthquake remains. That's according to Ruffer LLP, the British asset manager that was revealed to be behind a series of trades last year betting on a rise in market volatility, via the purchase of 50 cent options contracts. In a quarterly investment note to clients, Ruffer said that if a more significant event does occur, it's likely to be soon. In the fallout from February's market correction, questions about the extent of the market's exposure to low-volatility trades was a key talking point. Ruffer says that if an "earthquake" does occur, "volatility will be a key issue in a market unwind." In effect, the extended period of low volatility has created a self-perpetuating cycle which spells danger ahead.

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## Tackling inequality of wealth – IHT in the line of site?

Leading think-tank OECD has suggested Governments use the tax system to tackle wealth (rather than income) inequality and inheritance tax is the preferred route. The argument follows that wealth inequality is much more serious and much more important in many ways than income inequality, because wealth inequality generates more income inequality, and rich people have more power and influence and opportunities. One of the facts it points out in the report is that someone working for, say, twenty thousand euros a year and getting their money from capital is a much more powerful position than somebody having to work for twenty thousand dollars a year. Getting income without doing anything at all is easy, and yet it also gives you much more power. So wealth accumulation reinforces the situation. Wealth begets wealth, says the report. And that gets more power. Hence the call to action.

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## Self-employed march on to what sort of retirement?

Since 2001 the number of self-employed has risen from around £3m to £5m today. This is great but at a time where the self-employed are not yet compelled to save by auto-enrolment, and the financial capability of individuals remains in question, experts have highlighted the possibility of an 'impending pensions crisis' for this growing sector of the UK labour force. With no employer to fall back on, the self-employed are on their own when it comes to retirement saving. Irregular income patterns can make it harder to save regularly into a pension and commit to locking money away until age 55. Those who are building a business may see that as their biggest asset and prefer to invest in it rather than a pension. However, there is a growing feeling that something must be done to help the self-employed save for retirement. The Office for National Statistics (ONS) recently published figures on the wealth and savings of those in self-employment and they make pretty grim reading.

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## Build-to-rent profits off generation rent

Into the growing gap between social housing and home ownership the build-to-rent model has given property developers a new way to profit from Generation Rent. The number of Build-to-Rent homes complete, under construction and in planning across the UK has increased by 30% in the last year, according to the first annual data on the sector to be published. More than £2bn was invested in purpose-built rental flats last year – but this won't do much to solve the UK housing crisis. In 2017, the build-to-rent market attracted £2.4bn in investment and is forecast to grow by a further 180% over the next six years. The attraction for large pension and insurance funds is clear – they have the capital to develop large blocks of flats, which are let out and managed long term by a single company rather than being sold to individual landlords. This provides institutional investors with a fairly stable, long-term income stream.

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## BTL investors – beating stricter rules

Stringent new rules for mortgage lending to buy-to-let investors with multiple properties are making it challenging for some to borrow to fund their businesses. Investors with four or more properties are affected as tough lending regulations were introduced by the Prudential Regulation Authority. Landlords who seek finance now have their entire property portfolio assessed for viability, as opposed to just the individual property concerned. As limited companies are unaffected by both these regulatory changes and the separate tightening of tax relief, it will be tempting for new landlords to choose this structure. Borrowing as a limited company will mean you pay higher mortgage rates and have the other administrative costs involved in running a company, but is likely to be cheaper in the long term. The downside, though, is that it would be very expensive for established landlords to transfer their portfolio to a company as it would create stamp duty and capital gains tax liabilities.

**All**

## Britain gets a pay-rise

After a year long squeeze on real incomes figures released on Tuesday by the Office for National Statistics is expected to reveal average wages in February are 3% higher than the same time last year – and above inflation currently at 2.7%. If true this would also be the first time wage increases have beaten consumer price index rises since January last year.

**All**

## Threat to global economy

The head of the IMF has waded into the US-China trade spat damning tariffs and protectionism and warning governments that global growth will eventually slow. As tensions between the US and China on trade remain fierce Christine Lagarde told an audience in Hong Kong that governments need to steer clear of protectionism, pointing out that the imposition of tariffs hurt everyone, especially poor customers. In a stinging critique of US economic policy, Ms Lagarde said the country could resolve its trade deficit with the world by curbing public spending and increasing revenue.

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## Small businesses cry out for help on pensions' burden

Barely two months after the last small businesses moved into the auto-enrolment pensions regime, the clock is now ticking to a big increase in the cost of the scheme. From 6 April, the first day of the 2018-2019 tax year, the minimum contribution employers must make to the pension pots of their employees will double from 1% of pensionable pay to 2%. The smallest businesses, which may only just have got used to paying pension contributions, may find the higher costs particularly hard to deal with. One possibility is to seek to reduce costs elsewhere. Research published by the DWP suggested some employers plan to deal with the higher bill for pensions by offering less generous salary increases, keeping their overall pay and benefits costs down.



If you have any questions related to this update or indeed anything else then please contact your adviser at Champain.

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