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Tax system too hard says the Office of Tax Simplification

There is no shortage of commentary on the increasing complexity of our tax system. While some of that complexity is undoubtedly inevitable, there are some matters which would benefit from a fresh look with a blank piece of paper. These are mostly where multiple changes have been implemented to existing legislation or certain rules are used to serve more than one purpose. Add to this certain key life events, such as starting a new job or retiring and taxpayers can find themselves very confused or even unknowingly disadvantaged. With changes mounting, will it get any easier? This is a trend not lost on the Office of Tax Simplification (OTS) which on 11 October 2019 issued a report considering whether the tax system adds unnecessary complexity when taxpayers are tackling certain key life events. For example, new parents have an array of new responsibilities to get their heads around when a baby arrives (mostly not tax-related). They may decide, quite reasonably, to not add 'Complete Child benefit application' to their to-do list – perhaps even more so if their earnings are above the threshold so they would ultimately have to repay it all anyway. However, are they aware that by not applying for this (even if they later choose not to receive payment), this means that they can lose out on national insurance credits towards the state pension? The OTS report does set out recommendations to improve the position and even if taken, the Government needs to keep this principle in mind when implementing new changes.

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Investor / Saver / Retired

'Greenwashing' so-called ethical funds

The FCA has been urged to launch an urgent review of the UK ethical investment sector as high-profile funds such as L&G Future World and Vanguard SRI products are revealed to have notable exposure to sectors like tobacco, gambling and defence. Wealth manager SCM Direct examined a number of areas of the ethical investing space, including fund holdings and the classification of ethical funds on direct-to-consumer platforms. It argued the misclassified funds are being mis-sold to the UK public. The ESG sector has been accused of being akin to the Wild West. Already, Fidelity has removed the "socially responsible" funds search category on its platform after the report revealed it created a shortlist of 49 funds despite only two – the FT Sustainable Water and Waste and Fidelity FIRST ESG All Country World funds – having any explicit reference to being specifically tailored towards ESG in their key information documents. Elsewhere the report raised concerns about funds touting themselves as socially responsible while still having exposure to sin stocks. The L&G Future World ESG UK Index was named as the worst fund for exposure to tobacco, alcohol, gaming and defence sectors despite its "ethical" label. The passive fund has a 5.25% weighting in Diageo and 3.05% in British American Tobacco. It had smaller weightings in companies like gambling business William Hill and defence company BAE Systems. The sin stock exposure comes despite the fact LGIM ran a high-profile advertising campaign, Own Your World, in 2018, whereby it highlighted the social and environmental impact investors could have with their funds.

Investor / Saver

China stockmarket the world's best performing

China is on pace to be the world's best-performing major stock market in 2019, with the benchmark CSI 300 index up by a third this year as investors shrug off the country's slowing economy and bruising trade war with the US. Bourses in Shanghai and Shenzhen have added $1.4tn in market capitalisation so far, taking the total value of onshore equities to about $6.8tn this year, buoyed by a revival of domestic investor confidence and continuing international inflows. The 31% advance by the index of major Shanghai and Shenzhen-listed stocks outpaces the 8.5% rise by the UK's FTSE 100, the climb of 11.5% by Japan's Topix and the gain of 22.3% by the US S&P 500. Even after accounting for weakness in China's renminbi, the country's stock benchmark is up more than 28% this year in dollar terms. The resurgence follows a dismal 2018, when the CSI 300 fell 25%. That made China the worst-performing major stock market as equities were battered by the intensifying trade war and a deleveraging campaign by Beijing that tightened domestic liquidity. However, Caroline Yu Maurer, head of greater China equities at BNP Paribas Asset Management, said further upside for stocks was probably limited this year, thanks partly to the smaller scope of stimulus planned for the economy.

Business Owner

Call to scrap entrepreneur's tax relief

A tax relief for entrepreneurs should be scrapped and the money diverted into supporting start-ups and those firms looking to grow, says an accounting body. Entrepreneurs Relief enables business owners to pay a reduced 10% rate of capital gains tax on all gains on qualifying assets, rather than the standard 20% rate. But the Association of Accounting Technicians (AAT) says it has numerous shortcomings and wants it abolished. AAT, a professional body with over 140,000 members – including 4,250 licensed accountants serving more than 400,000 British SMEs – has urged the Government to scrap ER on numerous occasions over the last three years. Some supporters of the relief say it encourages investment, but the AAT points to HMRC commissioned research in 2017 indicating that 92% of claimants were not influenced to invest after receiving it.

Investor / Saver / Retired / Parent

Is a million pounds enough to retire on?

In the past few weeks, there has been a confluence of gloomy surveys warning British workers about the inadequacy of their pensions savings. While final salary or defined benefit pensions provide a steady income throughout later life, workers saving into defined contribution (DC) pension plans should by now be painfully aware that the risk of saving enough for their future retirement rests on them. In short, we need to be realistic about money milestones. Will we really need to hit that £1m target? Since 2015, pension freedoms have allowed more income flexibility in retirement and there is growing evidence that this has changed our attitudes towards when we stop work — or if we will at all. Now the answer to whether £1 million is enough depends on your retirement aspirations. The FT paints some scenarios. For example:

The Pensions and Lifetime Savings Association this month put together a set of three retirement living standards — basic, moderate and comfortable — based on research by Loughborough University. It hopes these will resonate with pension savers in the same way that being told to eat "five a day" encouraged fruit and vegetable consumption. If you want a "comfortable lifestyle" that allows you to be spontaneous with your money and have two foreign holidays a year, as a single person you'll need to generate an income of £33,000 a year. The lump sum needed for that?... £1.1m.

All

Gender pensions' gap

Women are paid just £380,000 on average over their lifetimes compared with £643,000 for men, according to official figures that lay bare the scale of Britain's gender pay gap. The figures in the Office for National Statistics' Human Capital Estimates report revealed huge inequality between men and women even at the highest levels of educational attainment. It said women with a master's or PhD degree still made one-third less over their lifetimes than men with the same qualifications. Women aged 26 to 35 years with higher degrees have average lifetime earnings of £803,000, whereas men of the same age with undergraduate level qualifications have average lifetime earnings of around £1,160,000," the ONS said on Monday. It said there had been a small improvement over the last 15 years: "The gap in average lifetime earnings for men and women has narrowed, with women now receiving, on average, 59% of men's average lifetime earnings; this is up from 56% in 2004." The findings are contained in an ambitious attempt by the ONS to assess Britain's entire "human capital" in financial terms. It said that even after adjusting for hours worked, women were paid about a fifth less than men over their lifetimes.

Investor / Saver / Retired

What could Corbyn do to your pensions?

The Labour party's proposed plans to renationalise industries like water and rail would not only cost the taxpayer up to £200billion, but also directly affect pensioners, a tax expert told the Telegraph. During the Labour Party's conference in Brighton, Shadow Chancellor John McDonnell revealed proposals to renationalise industries in the UK. Mr McDonnell outlined his Marxist ideas to take water and energy utilities, train companies and the Royal Mail into public ownership. The CBI had a report out that almost £200billion would be the cost of taking over industries like water, rail and so forth. Actually running those in public hands would be very costly. A lot of pension funds in this country are invested in some of the largest companies in the UK. So obviously renationalisation of these industries would directly affect a lot of pensioners, or soon to be pensioners, who have a lot of their income tied up in these companies. Additionally if there are plans for a 10% expropriation of shares in listed companies, which aren't nationalised, and 10% of shares eventually go to workers who then have the more direct say over the running of the company in theory. Again that affects basically anyone who has a pension that isn't derived from taxes. So teachers, doctors, nurses, everybody else, and there are almost 20 million people have a private sector pension would be directly affected by such changes.

All

What the general election could mean for your finances

After numerous failed votes, weeks of political posturing and frayed tempers in parliament and the country, Britain is finally heading for a general election. The manifestos haven't been published, but commentators have scoured past announcements and proclamations to put together a guide to what we might reasonably expect.

The FT covers a broad range but let's focus here on tax.

While the parties offer competing visions on the UK's relationship with the EU, a stark difference also exists on attitudes towards taxation where there is clear blue water between the parties. Since Boris Johnson secured the leadership of the Conservative Party this summer, and appointed Sajid Javid as Chancellor, there has been a clear shift in rhetoric within the Conservative Party towards a renewed tax cutting agenda. However, the postponement of the Budget planned for 6 November has delayed the chance for voters to assess how quickly cuts to tax might be delivered against a competing backdrop of large spending commitments covering policing, schools and building new hospitals. Will the Conservative manifesto set out some measurable commitments to reduce tax? We will have to wait and see. In contrast, the current Labour leadership are firm advocates of higher taxes for business and individuals. On personal taxation, Labour policy is to aggressively slash the threshold at which the 45% income tax rate begins to £80,000 (just above the current salary of an MP at £79,468) down from £150,000. Additionally, the party proposes reintroducing a 50% income tax rate for earnings in excess of £123,000. The Institute for Fiscal Studies estimate that such measures would hit 1.3 million individuals. This would have a knock-on impact for the economy and affluent families, especially when combined with other measures such as slapping VAT on independent school fees. Labour also want to take business tax policy in a different direction, reversing the trend towards reductions in corporation taxes. Instead Labour is committed to raise the main rate of corporation tax from the current rate of 19% (which is currently scheduled to reduce to 17% in 2020/21), to 26% over three years. This would see the UK make an abrupt about turn from being on target to become one of the countries with one of the lowest tax rates in Western Europe, to one of the highest.

Investor / Saver / Retired / Employer / Employee

Pension freedom withdrawals hit £30bn

A total of £30 billion being withdrawn 'flexibly' from pensions, new figures published by HM Revenue and Customs (HMRC) show, taking advantage of the "pension freedoms" introduced in 2015. In this quarter, 327,000 individuals withdrew from pensions - up 27% from 258,000 in the same period of 2018. The latest withdrawals statistics is a 3% decrease from 336,000 individuals in the second quarter of this year. Figures show the average amount withdrawn per individual in this quarter of 2019 was £7,250. This has fallen by 5% compared to last year - which stood at an average withdrawal of £7,600. Since reporting first became mandatory in the second quarter of 2016, average withdrawals have fallen "steadily and consistently", HMRC said, with peaks in the second quarter of each year. Experts believe that the falling average withdrawal rate suggested that people are thinking carefully about how to spend their hard-earned pension rather than risking retirement ruin with an ill-advised binge.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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