CHAMPAIN
FINANCIAL SERVICES

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

01444 229 520
info@champain.co.uk
www.champain.co.uk

Technical Update No. 69 7th January 2021

All

Financial New Year Resolutions

Over half of people over 45 say they don't set a new year's resolution. But small changes today could make all the difference to your future. Here are three common goals for people at different stages of their saving and investing journey and how you can make them work for you too.

1. A new saver's starting point – clear debts, then build savings, then invest: The fourth most popular New Year's resolution is to save more money. It's a great goal, but don't stuff that cash under your mattress. How you save is important. For example, small debts like overdrafts can carry hefty fees and interest rates. It's usually a good idea to pay these off before building your cash pot. When you're in a position to start saving, you'll want to start on an emergency fund. An emergency fund should be in cash savings you can access easily. It's there to cover unexpected costs like a broken boiler or car repairs or a short-term loss of income. Three to six months' worth of essential expenses is usually a good place to start, but you might want more depending on your circumstances. If you're in or close to retirement, it's usually best to have closer to 1-3 years' worth of expenses. Once your high-interest debts are paid and you have rainy day savings to fall back on, think about dividing your money into pots. Experts suggest a 'Goldilocks' approach to saving in the form of short, medium and long-term goals with pots to go alongside them.
2. Make your long-term savings work harder: How often have you heard "if you just gave up your daily coffee you'd have…"? But having financial stability and resilience doesn't always mean giving up the things you love. If you know that your morning coffee usually costs £2.50 per day, set up a monthly standing order to a savings account that matches the amount. Think about investing that money for the long-term (5 years or more) in something like a Stocks and Shares ISA or a pension. When you invest, you need to be comfortable with the value of your investments going down, as well as up. Unlike cash, you could get back less than you started with.
3. Make better investment decisions: Spreading your money, diversifying, is one of the most important things when investing. Lots of us know we should do it, but how do you know you're diverse enough? Start by checking you have the right mix of investments in your portfolio. Spreading your money across different assets and markets. Here's a checklist to help you make sure you're on the right track. Check:
   - The types of investments you own – do you own some shares and bonds?
   - The variety of sectors you own, like technology or retail
   - The countries or regions you're investing across.

All

Popular thumbs up for a wealth tax but no green light for Rishi

More than 45% of Times readers would be happy to pay a wealth tax as long as it did not include the value of their main home. A poll of 2,000 readers of The Times and The Sunday Times found broad support for increased taxes on assets and second homes as a way to help the economy recover. However, the Government is being urged to reform the UK's tax system before pushing ahead with a controversial levy on wealth. Chancellor Rishi Sunak should focus on sorting out 'badly designed' charges such as pensions tax, council tax, inheritance tax and capital gains tax before introducing yet another levy, the Institute for Fiscal Studies (IFS) has warned. It comes after the Wealth Tax Commission, made up of economists, lawyers and academics, suggested a tax on people with assets of more than £500,000, or £1million for a couple, including their family home and pension. Furthermore, experts point out that valuing people's homes, pension policies and stakes in family businesses would be incredibly difficult. The tax would surely generate significant opposition, and risks sending out the wrong message. Government will be keen to project confidence and promote investment as the country seeks recovery from this crisis. A 'soak-the-rich' approach is unlikely to do much to achieve this. But a report by the IFS this week laid bare just how badly poorer communities have been affected by the pandemic, which could increase pressure to charge the wealthy.

Property Owner

The end in sight for leasehold sales?

Leasehold property sales could soon be scrapped in favour of commonhold, in accordance with recommendations made in The Law Commission's 'Residential leasehold and commonhold' report in July 2020, after the government announced that it is to establish a commonhold Council. The new council will be a partnership of leasehold groups, industry and government that will prepare homeowners and the market for the widespread take-up of commonhold. The commonhold model is widely used around the world and allows homeowners to own their property on a freehold basis, giving them greater control over the costs of home ownership. Blocks are jointly owned and managed, meaning when someone buys a flat or a house, it is truly theirs and any decisions about its future are theirs too. The creation of the Commonhold Council should help to reinvigorate commonhold, ensuring homeowners will be able to call their homes their own.

The government says that it will bring forward a response to the remaining Law Commission recommendations, including commonhold, in due course. Instead of a freeholder owning the land, flats would be commonhold which gives the owners of homes in shared buildings more autonomy and broader rights. The only legitimate income stream from the whole leasehold game is ground rents. Once you strip that out the whole business of ground rents comes to an end. Therefore, most commentators believe housebuilders will be quite amenable to commonhold.

Parent

Bank of Mum and Dad tightens lending

House buying funds supplied by the Bank of Mum and Dad has dropped dramatically over the last two years, shows government data. In 2019/20, the English Housing Survey describes 28% of first-time buyers as having received finance from family and friends to help with their purchase. This is down from 39% in 2018/19. Experts say there is reason to believe that this figure will decrease further. Funding from the Bank of Mum and Dad could dry up even faster now that parents and grandparents have to think more carefully as to whether they can afford to plunder their own finances to help their children onto the property ladder. It means the vast majority of people who buy a home of their own have to do so under their own steam, and with an average deposit of £42,433, that's an awful lot to ask – especially when those who are privately renting while they save for a place of their own spend almost a third of their income on rent. The data shows that mortgage holders spend 18% of their income on their loan, whereas renters spent 32% of their income on keeping a roof over their head. Almost half of households have no savings (45%) but this is particularly acute among renters. Three in five private renters have no savings at all. This means not only do they have nothing to fall back on in a crisis, but that they aren't getting any closer to owning a property of their own.

Business Owner

Tax fears trigger insolvencies

A flood of businesses are voluntarily closing down due to the economic uncertainty around covid-19 and fears over a possible increase in capital gains tax (CGT), according to analysis by Price Bailey. In Q3 2020 - 3,126 businesses voluntarily appointed liquidators, a 52% increase on Q3 2019, when 2,058 businesses voluntarily appointed liquidators. The number of voluntary liquidations in Q3 2020 represents the highest Q3 total on record. Price Bailey said that it has seen a surge in enquiries from business owners in the past quarter looking to close down their businesses in an orderly way and take cash out. In many cases, however, business owners are acting in haste and could take more cash via a trade sale or management buy-out. The firm points out there has been speculation that CGT will be increased to a maximum rate of 40% as the Chancellor looks to shore up the public finances in the wake of the coronavirus pandemic. Many business owners are currently eligible for Business Asset Disposal Relief, previously known as Entrepreneurs' Relief. This reduces the amount of CGT they are legally required to pay when taking cash out of their businesses to 10%. Many of these business owners are a decade or more before retirement age and their businesses are perfectly viable. Closing them down in many cases will result in job losses, which will have a knock-on effect on the wider economy. There is a large ecosystem of potential buyers with cash to spend, and many of these businesses will have built up intangible value, such as goodwill, which will be lost if they simply cease to trade.

Investor / Saver

What does 2021 hold in store for oil stocks

BP (BP.L) and Shell (RDSB.L) rose amid reports that the Organisation of the Petroleum Exporting Countries (OPEC) and its allies were close to agreeing a freeze on oil output. OPEC is nearing a consensus, according to Bloomberg, after rejecting Russia’s proposal for a production increase. If confirmed, any agreement would be a surprise to the market, which had been expecting an output increase of 500,000 barrels a day for February. The only outcome that could seriously threaten prices is a total collapse but that's extremely unlikely, with another compromise likely to keep all sides happy for now, most commentators believe. The fast-spreading, newly-discovered variant of COVID-19 has led oil market players to be increasingly cautious about global economic recovery efforts, as most of the world continues to struggle to contain the spread of cases. Despite the dramatic rise in oil stocks, prices may not make much of a recovery in 2021 in light of the new COVID-19 variant and subsequent travel restrictions that will limit the use of gasoline-fuelled transportation, such as cars and airplanes. A Reuter’s poll of 39 economists and analysts conducted in the second half of December forecast Brent crude prices would average $50.67 per barrel the following year.

Property Owner

House price growth at six year high

UK house prices climbed 7.5% in 2020, the highest growth rate for six years, building society Nationwide found. Prices ended the year 5.3% above the level prevailing in March, a resilience that seemed unlikely at the start of the pandemic, it said. Housing demand has been buoyed by a raft of policy measures and changing preferences due to the pandemic. House prices were 0.8% higher in December than November, with the average property valued at £230,920. The outlook remains highly uncertain though. Much will depend on how the pandemic and the measures to contain it evolve as well as the efficacy of policy measures implemented to limit the damage to the wider economy, including a possible extension to the Stamp Duty holiday. Though rising unemployment levels are an obvious threat to property values, demand should remain relatively strong as it still costs less to own than to rent and money is about as cheap as it gets. Predictions are that during 2021 people will continue to change their living arrangements as companies adapt their remote working policies on a more formal basis. However, housing market activity is likely to slow in the coming quarters, perhaps sharply, if the labour market weakens as most analysts expect, especially if the Stamp Duty holiday is not extended.

Past performance is not a guarantee to future performance. You may get back less than invested.
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.

The content of this newsletter is for information only. It does not represent personal advice or a personal recommendation and should not be interpreted as such. Please do not act upon any part of it without first having consulted an Independent Financial Adviser.

For information about our services please contact Champain or view online.

END