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All

Taxing times

Thousands of people may believe that the date for filing tax returns has been extended, and as a result could face fines and other penalties, say leading tax and advisory firm, Blick Rothenberg. Despite the rumours that have been circulating, the deadline for submitting self-assessment tax returns has NOT been extended beyond 31 January 2021. Taxpayers should therefore be doing their utmost to comply, not least to save the time and possible expense involved in appealing penalties for late submission. It appears to be a popular misconception that the deadline has been extended but that is not the case. Some professional bodies have lobbied HMRC for an extension, while others have merely asked HMRC to waive late filing penalties in relation to returns filed before 1 March 2021, at this already difficult time. So far, HMRC have not agreed to waive late filing penalties but Jim Harra, HMRC's Chief Executive and First Permanent Secretary has written to professional bodies confirming that:

- No-one will have to pay a penalty if they cannot file on time because of the impact of the pandemic.
- HMRC will accept pandemic-related personal or business disruption as a reasonable excuse.
- Pandemic-related delay on the part of an agent will also be a valid reasonable excuse.
- HMRC are extending the penalty appeal period by three months.

This is positive news, but although Mr Harra has suggested that HMRC will be supportive, there are of course a number of reasons for taxpayers to ensure that their returns are submitted on time. Not only do these include the possibility that HMRC will not consider that a particular delay was Covid related and therefore refuse to waive penalties, but there may also be circumstances where taxpayers cannot pay their full liability and need to ask for a time to pay (TTP) arrangement. This might be particularly pertinent for those whose July 2020 tax payments were postponed and become due this month in addition to the amounts that would now be due anyway.

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Investor / Saver

Stock market bubble fears

Shares in London have closed at their highest level since late February as investors ignored record Covid-19 deaths and warnings from a veteran City guru that an epic bubble of Wall Street crash proportions was bound to burst. Stock markets around the world rose as optimism that mass vaccinations would ensure a rapid global economic recovery was strengthened by signs that the Democrats had won both vacant Senate seats in Georgia. With Joe Biden installed as US president this month, news that the Democrats would control both houses of Congress boosted hopes of a bigger-than-expected US stimulus package. The FTSE 100 index closed 229.61 points higher at 6,841.86, after a rise of almost 3.5% that took it to within 800 points of its pre-crisis level. The rally was underpinned by a surge in oil prices, which made shares in energy companies more attractive, and by strong demand for shares in banks. What investors are trying to figure out is how quickly the Democrats would be able to introduce their tax agenda and would they be more likely to act on regulation on big tech. The optimistic mood on stock markets came despite evidence that record infection rates in the US were leading to a slowdown in the jobs market, and hints from ministers in the UK that the lockdown could last until at least March. Jeremy Grantham, the British co-founder of the US investment firm GMO, said in a letter to clients that current investor behaviour bore the hallmarks of the mood in the run-up to the 1929 Wall Street crash. Featuring extreme overvaluation, explosive price increases, frenzied issuance, and hysterically speculative investor behaviour, some believe this event will be recorded as one of the great bubbles of financial history. If, indeed it is one, these great bubbles are where fortunes are made and lost. For positioning a portfolio to avoid the worst pain of a major bubble breaking is likely the most difficult part.

Property Owner

Leasehold revolution

The government's announcement regarding leaseholds took many by surprise, and has caused some confusion about the intended ambit of the new rules. Although many important details remain unclear, the direction of travel is far easier to discern, and indeed has been for some time now. In 2017, the then communities secretary, Sajid Javid announced measures to root out unfair and abusive practices within the leasehold system, including banning leaseholds for almost all new-build houses and setting ground rents for new leases at zero. Three years later, the Law Commission produced three substantial reports on leasehold enfranchisement, commonhold and the right to manage. The government's announcement on 7 January grew out of those earlier proposals. One of the less contentious proposals is for leaseholders of flats and houses to be given the right to extend the term of their leases by 990 years with a zero ground rent. Abolishing ground rent on a lease extension represents no change for leaseholders of flats, but the very long term length sends out a clear message that the government wants leasehold to be a right enjoyed by tenants and their successors effectively in perpetuity. Proposed reforms that would overhaul property law could bring windfall £50,000 house price jumps for leaseholders, according to Capitol Economics.

Investor / Saver

A slow road to recover for dividends

UK dividends are unlikely to match their pre-Covid highs until 2025 at the very least and pay-outs could fall for a second consecutive year, Link Fund Solutions has warned, as climbing coronavirus cases and renewed lockdown measures paint a bleaker picture for the year ahead. UK plc dividends stood at £61.9bn at the end of 2020, according to the firm's latest Dividend Monitor – down 44% from 2019 and the lowest annual total since 2011. Between Q2 and Q4, two-thirds of companies cancelled or cut £39.5bn worth of dividends compared with a quarter of businesses that increased pay-outs. The remainder held dividends steady. Though Link said the worst of the Covid-induced dividend cuts were over, the resurgent pandemic and renewed lockdown mean the outlook for 2021 is "significantly more subdued". In its best-case scenario, pay-outs would rise by 8.1% to £66bn on an underlying basis this year, with special dividends taking the headline figure up 10% to £68.1bn. But in its worst-case scenario, pay-outs would fall for a second year in a row to £60.7bn, or £61.5bn including special dividends. This means UK stocks would be yielding between 2.8% and 3.1% this year. Despite Link's bleak projections, some UK equity income managers have remained more optimistic about the prospects for dividend growth this year. Simon Young, manager on the Axa Framlington UK Equity Income fund, is forecasting dividend growth of 5% to 10% in 2021, off expectations that the vaccine roll-out will boost the chances of an earnings recovery.

All

More pain for the self employed

Customer service at HM Revenue & Customs (HMRC) has collapsed, just as the tax deadline approaches. Delays in dealing with online tax returns have caused a huge backlog and average waiting times for callers have increased from less than five minutes to more than 12 minutes in a year. This adds to the burden many are under - some groups of UK taxpayers have not received any financial support that has been offered to others by the government throughout the coronavirus pandemic due to "quirks" in the tax system, according to a new report. The report points to freelancers and other groups of taxpayers that have missed out on more than £80bn in support that has been given to businesses and individuals, including through the employment support furlough scheme. Self-employed taxpayers who moved onto payrolls because of HMRC's IR35 rules — a piece of legislation that allows HMRC to collect additional payment where a contractor is an employee in all but name — but were not employed at the relevant time may have become ineligible to COVID-19 support schemes, the report found. Some commentators point to what they believe to be the UK's outdated tax system as playing a key part in ensuring over 1.5 million self-employed people were excluded from support. Because of the many quirks of this system, government has claimed it is too complex or prone to the risk of fraud to help people such as sole directors of limited companies, PAYE contractors and the newly self-employed. However, HMRC has never clearly explained the obstacles to getting support to these groups. Some of those who moved onto payrolls, because of the pre-emptive actions of employers, could have received help through the Self-Employment Income Support Scheme had they remained self-employed. Similarly, some other freelancers, with verifiable employment and tax records declared to HMRC, may also have been left out from the government's Coronavirus Job Retention Scheme as in some sectors, such as the creative industries, freelancers often work on a series of short-term employment contracts with gaps in between. A Committee is calling on the government to publish an explanation of why it can't help those who have been excluded from receiving financial support and to consider the support it can provide for those taxpayers that have missed out on support from the COVID schemes.

Property Owner

What’s next for house prices?

Whatever way you look at it, the property market had an exceptional year in 2020. It went from trundling along quite nicely in the first three months of the year, to a complete three-month shutdown during lockdown - during which time dire predictions were made about a coming crash. Against the odds, house prices surged after the market re-opened in July, thanks to the Government's stamp duty holiday and lockdown fuelling people's desire to move. In the UK as a whole, the average price of a home rose to a record £249,633 in November, up from £231,100 a year earlier, said the Office for National Statistics. It was the highest annual rate of growth since the Brexit referendum in June 2016. The blistering annual price growth recorded in November is a huge leap on the rate seen in October, but commentators warn that price growth could now slow, with the January lockdown leaving the market ‘more like a parked car, with the handbrake on but the engine revving loudly’. Current thinking is that the withdrawal of the furlough scheme, mortgage payment holidays and the return of the stamp duty threshold to former levels was likely to leave prices about 2% lower by the end of the year. But there are mitigating forces at play. The pandemic forced many of us into stay-at-home lifestyles, which made people discontented with their existing properties and keen to move to a bigger and better place. Crucially, many middle-class professionals can afford to turn those desires into reality, having hung on to their jobs and racked up large sums in lockdown savings. The EY Item Club, which bases its forecasting on Treasury models, is predicting a 5 per cent fall by the end of this year, as does respected think tank the Centre for Economic and Business Research. But if the vaccine roll-out is successful and the economy is brought out of the deep-freeze, the market may well prove the pessimists wrong, as it has consistently done over the last 30 years. Mortgages are likely to remain affordable and interest rates are not expected to be hiked any time soon – indeed, they may even fall further. And, with returns on savings virtually non-existent, for many, property will continue to look like an attractive investment.

Investor / Saver / Retired

The over 55s pensions experiment

The Financial Conduct Authority (FCA) is introducing the investment pathways initiative to ensure that anyone with a pension drawdown account has access to simple, good-value investments that broadly match their retirement income goals. The reforms are designed to help savers make better decisions on how to invest their drawdown fund and ensure they don't end up holding large portions of their pension in cash over the long-term. While drawdown has been available for many years, historically it was mainly used by those with larger pots who opted for drawdown after taking professional financial advice. But since the pension freedoms were introduced, the number of individuals going into drawdown with smaller funds and without the benefit of advice has rocketed. As a result the FCA is worried people who hold too much cash in their pension risk missing out on valuable investment returns and having the real value of their pension eaten away over time by inflation. There will be no obligation on people to invest in pathways, and many will prefer to choose their own investments to better meet their attitude to risk, retirement plans and long-term goals. The new rules will impact people who don't take financial advice and choose to keep their money invested while taking an income in retirement (i.e. 'drawdown'). Customers who enter drawdown or transfer to a drawdown account will initially be given the three options:

1. choosing investment pathways
2. choosing their own investments
3. sticking with the investments they already have.

If they choose the investment pathway route, pension companies will be required to offer customers four investment pathway options. These will not be tailored based on their personal circumstances, but rather designed around four very broad retirement income objectives. One of the central aims of pathways is to reduce the number of customers holding cash or cash-like investments for the long term and seeing the value of their money whittled away by inflation. They also aim to ensure people engage with their investments when going into drawdown so they remain appropriate to their needs.

Investor / Saver

Caution over swinging Bitcoin

Once the preserve of "basement-dwelling libertarians" who hoped to upend the financial system, today bitcoin is close to becoming a mainstream investment, says The Economist. It turned out to be a poor payment option: the network can only handle a few transactions per second. Instead, the new hope is that it could emulate gold as a store of value that sits beyond the reach of government mismanagement. Younger investors appear to prefer digital wallets to the hassle of managing physical bullion. Yet "fraud and theft" are still "rampant" in the world of bitcoin trading. What's more, the cryptocurrency's price tends to move in line with stockmarkets, undermining its credibility as a "safe-haven" asset. The value of bitcoin has more than tripled since October, and valuations surged past $40,000 before falling in a weekend sell-off as investors dumped holdings. On Monday alone, cryptocurrencies lost more than $150bn in value, according to data from Coin Metrics. By Thursday, bitcoin had recovered much of the lost ground, trading at over $39,000. Commentators still stand by the guidance that "Anyone who invests in cryptocurrencies should be prepared to lose their shirt or a considerable portion of it". The fear is that consumers are leapfrogging stocks and bonds and going straight from cash to bitcoin, in the mistaken belief it's much the same. Slowly but surely, though, bitcoin is being "domesticated" and the latest bitcoin run has felt positively "staid" compared to the unbridled mania of the 2017 boom and crash, when investors burnt their savings on unrealistic promises of endless revenues.

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.

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