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. 71 7th February 2021

Property Owner

The end to the stamp duty holiday is no death knell to the property market

The UK's housing market suffered from early Covid rules, as the Government introduced the first nationwide lockdown in spring. Measures kept people inside while industry leaders adapted to the pandemic. The market has had mixed success since then, but vaccination has introduced some hope. UK health workers have now vaccinated more than 10 million people and nearly 30 percent of adults. At their current direction, the programmes should cover the first five priority cohorts laid out by the Joint Committee on Vaccination and Immunisation (JCVI) in the next two weeks, NHS leaders have said. As immunity spreads, the country can look forward to fewer Covid measures which should eventually revitalise the economy. Experts believe the path ahead for housing is uncertain, with several factors likely to impact activity. Commentators believe the same appetite for homes remains, which has led lenders to axe interest rates. But house prices have started to dip, and how the market performs depends on several factors. With the housing market benefitting from Covid conditions in some respects, mortgage lenders have been gradually returning products with lower interest rates and higher loan to value ratios to the market every day. This trend looks set to continue while the appetite for new homes is strong, but long term, things are far from certain. There have already been signs that house prices are beginning to dip as the stamp duty relief deadline looms. Whether the market remains strong in the longer term depends on a range of different variables. New measures promised to help stimulate first-time buyer activity could counterbalance any lull from the stamp duty relief deadline, but the longer-term economic impact of the coronavirus crisis is still taking shape. The Government's efforts to vaccinate as many people as possible can only help the situation, and while many other factors are adding to the uncertainty right now, including Brexit and global economics, we remain optimistic about the next 12 months.

Investor / Saver

Tax on investments

If you're among the army of retail investors who have made big money trading in shares of GameStop and other previously downtrodden stocks, one thing is certain: The taxman will come.

Trading by small investors caught fire in 2020, as boredom brought on by pandemic lockdowns combined with convenient, no-fee mobile investing apps like Robinhood. In recent weeks, some of those investors, fuelled by social media chatter, have driven up the price of GameStop, a brick-and-mortar video game retailer that has been losing money. Their reasons for buying the stock vary, but some wanted to thwart the big investors that were betting that the share price would fall — otherwise known as shorting the stock. Trading in other mundane stocks, like Blackberry and the AMC theatre chain, has surged as well. Some individual investors may already have notched tens of thousands of dollars in profits — even millions, if online boasting is to be believed — as share prices soared. Here's the thing: Those investors may have to pay hefty capital gains taxes. The gains are on paper, of course, until the holder sells the shares. And taxes for stock sales occurring this month wouldn't be due until April 2022. If those investors want to cash in on their gains, they may be caught off guard by how much they owe the government, accountants say. Unlike employment income, there's no automatic deduction of taxes. Someone who bought and sold GameStop shares quickly, in the midst of the trading frenzy that began in early January, would probably pay very high tax rates.

All

The gender pension gap

Retirees seeking mortgages are suffering a gender pension gap that is seven times worse than the national average, according to new research by Responsible Life. The gender pension gap is the percentage difference between pension income for men and women. Responsible Life found that the average gender pension gap among retirees applying for a mortgage is 269.5% — compared with 40% for the population at large. The retirement mortgage specialist says this suggests a two-speed retirement in which wealthier couples own their homes outright and can live off pension income while a more vulnerable group of retirees who still have a borrowing requirement suffer a large gender pension gap that makes it very difficult to secure loans. More than half — 53.5% — of retired couples making a mortgage application have a gender pension gap of more than 100%, according to the research, and the worst gap that Responsible Life came across was a staggering 4,433%. The gender pension gap can be as damaging as the gender pay gap, particularly when it comes to borrowing against your home. That problem worsens the older you get, until couples unexpectedly find themselves unable to borrow what they think they can afford because sole survivorship suddenly becomes the dominating factor for lenders. Most studies on the gender pension gap focus on the average statistics between men and women or all ages but this analysis looks at the consequences of this problem for those at an age when it can be really damaging. As couples approach retirement, providers become less willing to lend. They are almost always reluctant to accept the sale of the property as a valid repayment plan should the mortgage payments become too much of a burden or unexpected costs including care costs begin to eat into their ability to pay.

Investor / Saver

What next for the silver surge?

After squeezing hedge funds shorting GameStop stocks, the online mob is now hoping to do the same with the silver price. But this time, things aren't quite so simple. Never, in the history of financial markets, has there been a commodity with as much potential as silver. And yet, never has a commodity disappointed its investors so consistently. It's trading at the same price today as it was 40 years ago. It's affectionately known to commentators as 'the metal that always lets you down'. Like gold, silver is a monetary metal. A pound was once a pound of sterling silver; one US dollar was once an ounce of silver – and, perhaps as a result, the metal has a tendency to arouse a certain patriotic sentiment in some quarters. And so one investment case for silver is the same as the case for gold – it is an inflation hedge in an era of monetary debasement, it is nobody else's liability. Meanwhile, silver has a plethora of exciting industrial uses, especially in multiple new technologies, from medical to electrical. Every smartphone has silver in it; every computer; every jet engine; every solar panel (demand for silver on photovoltaic cells has gone from one million ounces in 2000, to around 50 million ounces last year – about 5% of silver's annual supply). It finds widespread use in battery technology and in 3D printing. The question is not so much which modern technologies contain silver, as which don't. Most silver is produced as a by-product of lead and zinc mining, which has suffered dramatic underinvestment over the last decade, leading to a paucity of major new discoveries. There are some pure silver mining plays, but, with two or three exceptions, most have struggled to make money in recent years, either through inept management or a flawed business model. The result is perennially disappointing share price performance with most trapped in a perpetual cycle of disappointment. Silver seems to have so much going for it, and yet, silver's all-time high was $50 in 1980. It re-tested that level again in 2011 and failed. And here we are today at $30. The silver story has been about for as long as anyone can remember. It just never seems to deliver on its potential; not for any extended period anyway. For years it doesn't move; or, worse, it sinks. But when it runs, it really runs. And now this "it's the next GME" narrative is out, it looks like another run has potentially started.

Investor / Saver

Crash prospects

The volume of articles by analysts warning of another stock market crash is growing. This may strike you as odd, because a few short weeks ago, plenty of analysts were talking up the forthcoming 2021 stock market rally instead. There is only one thing investors can do when faced with such conflicting views. Ignore them, and stick to their plan. Experts believe stocks and shares remain the best way to build long-term wealth for your retirement.

It wouldn't be uncharacteristic for the stock market to crash in this year. As we saw after the tech boom and financial crisis, a correction can last a couple of years. In the middle, there will be boomlets as well. Maybe we had one last year. That shouldn't worry you. If your retirement is at least another 10 years away you potentially have longer to try and recover losses. Also, remember you have the option to remain invested in retirement rather than scoop all your savings together and buy an annuity. This means your money could be in the market for another 30 years, and the longer the timescale, the lower the risk tends to be.

There are good reasons why the stock market may crash again. There is a good argument that the euphoria after November's vaccine breakthrough was overdone. We face a sticky route out of lockdown, as countries close their borders. But if markets do crash, you could see that as an opportunity to buy shares at reduced prices. Possibly avoid the really high-risk sectors, such as airlines and hotels, but consider buying in banking, mining, technology, telecoms, energy, consumer staples, as well as lower-risk sectors such as healthcare and utilities. That might not be suitable for every investor, but it is certainly a robust possibility. Then simply hold on and let your dividends roll up, while waiting for the recovery. Like the stock market crash, that will come as well. They always do, given time.

Financial advice is always recommended to determine individual suitability.

All

Pension pathways

Hundreds of thousands of savers face a retirement income lottery as providers are poised to put their pension pots into a hotchpotch of 'one-size-fits-all' investment funds. From now, over-55s who dip into their pension for the first time without getting financial advice – and who have not indicated a wish to manage their pension fund themselves – could have the remainder of their pot funnelled into one of four funds offered by their provider. The move is part of a new 'investment pathways' experiment launched by the financial regulator. It is designed to make it easier for savers who do not take financial advice to do the right thing with pensions. But some experts warn the new system could lead to poorer retirements for some and cause financial harm. They say people should pay for financial advice instead. Others warn that savers could be ripped off by pension providers who put their pots into expensive funds to boost their profits. Yet, the pathways will at least mean that investors get some form of guidance in putting their money to work in a fund. When over-55s raid their pension pots for the first time without financial advice, they will be questioned about what they plan to do with their money. They will be asked which of these four categories they fit into:

1. I have no plans to touch my money in the next five years;
2. I plan to use my money to set up a guaranteed income annuity within the next five years;
3. I plan to start taking my money as income within the next five years;
4. I plan to take out all my money within the next five years.

Depending on their answer, savers will have their pension funds funnelled into one of four default funds – labelled pathways 1, 2, 3 and 4. The regulator has tasked every pension firm to come up with four funds that fit the bill. Most experts agree there is no substitute for good financial advice in the approach to retirement – and, once retired, as savers manage their pensions and Isas. However, many savers either do not want advice or feel they can't afford it. Thus investment pathways are seen as an imperfect, poorer alternative, but one that will help avoid the worst pitfalls.

All

Tax rises on the horizon?

Chancellor Rishi Sunak will set out plans to boost the UK economy in his Budget next month. This could mean tax rises as the government looks to balance the books after borrowing a record £284.7billion following the coronavirus crisis. For this Budget, there has been talk of tax changes to repay the UK's borrowing and boost the coronavirus-hit economy, but there are fears that it could be too early to hit households with increased bills. The Conservative Party had a manifesto commitment, called the "triple tax lock", that pledged to not raise the rates of income tax, national insurance or value added tax. Mr Sunak is reported to want to keep to this, according to the Financial Times, but any changes - if any - won't be confirmed until the Budget. Here are some of the tax changes the Chancellor could make and how they could hit your wages and your wallet:

1. Capital gains tax: Currently, everyone has a yearly allowance that lets them sell assets such as shares or a second property with the first £12,300 free of capital gains tax. Mr Sunak asked the Office for Tax Simplification (OTS) to review the current capital gains tax system last year. The OTS released its review in November 2020 and suggested the rate could be doubled from the current 10% for basic rate taxpayers to 20%. For high earners, they suggested doubling the rate from 20% to 40%. The OTS also proposed lowering the tax-free threshold and said the current system "distorts behaviour" as people try to lower their bills. Mr Sunak hasn't given any indication of changes.
2. Inheritance tax: Currently, an individual can pass on £325,000 of their wealth tax-free to their loved ones. There is also a £175,000 allowance for their main home, giving an individual £500,000 in total. Families have to pay 40% inheritance tax on anything above this. HMRC also provides a gifting allowance of £3,000 that lets you pass down assets such as cash tax-free each year while you are alive. There is also a £5,000 allowance for parents. This means an older relative can see their loved ones enjoy hard-earned money that they would have passed on. But MPs on the all-party parliamentary group for inheritance and intergenerational fairness last year suggested putting a limit on how much can be given away tax-free in someone's lifetime.
3. Corporation tax: Businesses currently pay corporation tax of 19% on their profits. It is the fourth lowest rate in the Organisation for Economic Co-operation and Development. But Mr Sunak is rumoured to be considering hiking the rate to 24%.
4. Wealth tax: Academics and economists on The Wealth Tax Commission proposed a 5% levy on housing, pension, business, equity and savings wealth in December, and forecasted that it would raise £260billion. The levy would tax UK residents with assets worth half a million pounds or more - including their homes and pension. Mr Sunak is rumoured to have rejected these suggestions though.
5. Pensions: All pension savers get tax relief on their contributions. The government takes what you would have paid in income tax and puts it in your pension instead. Basic rate taxpayers get a 20% boost and higher earners, those earning more than £50,000, get 40%. Additional rate taxpayers, who earn more than £150,000, can get 45% relief. There are rumours each year that this relief will be scaled back so savers only get the basic rate but there has been no suggestion that Mr Sunak will do this.

Business Owner / Employee

MPs demand more support for self-employed

The government is under mounting pressure to plug gaps in its emergency coronavirus wage subsidy schemes at the March budget to support millions of self-employed people and other workers excluded from furlough. MPs and campaign groups said the chancellor, Rishi Sunak, had repeatedly ducked opportunities to fix gaps in furlough and the self-employed income support scheme (SEISS) for almost a year since the Covid-19 pandemic began. Caroline Lucas, the Green party co-chair of the all-party parliamentary group Gaps in Support, said it was completely unacceptable that more than 3 million people had been completely left out. It is felt by campaigners that, while it was understandable at the beginning of the pandemic, when the Treasury had to act fast, that some new support schemes didn’t work as well as they should, it’s a scandal that over 10 months later, so many are still falling through the gaps. Campaign groups say the chancellor must now accept that there are genuine and problematic gaps in the schemes he designed, and make support for excluded groups a centrepiece of his budget announcement next month. The government’s flagship furlough scheme has topped up the wages of almost 10m jobs since its launch in March last year, while as many as 2.7m claims have been made to SEISS, the Treasury’s similar provision for self-employed people. However, experts have warned millions of people have missed out because they fail to meet eligibility criteria. About 3 million people have been excluded from the government’s support schemes, according to the Association of Independent Professionals and the Self-Employed (IPSE), including about 700,000 limited company directors and 200,000 people who had recently set out working for themselves and lacked documentation to receive wage subsidies. As many as one-in-five small-company bosses surveyed by the Federation of Small Business (FSB) have said they received no financial support at all from the government.

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

END