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Technical Update No. 74 22nd March 2021

Employer / Business Owner

What IR25 changes mean

Some self-employed workers will have to start paying tax differently next month, as IR35 changes come into force. The private sector reform was due to take place in April last year, but was delayed because of the Covid-19 pandemic. The move will affect both contractors and the companies that hire them. It is designed to clamp down on contractors who essentially operate in a similar way to employees, but work through limited companies for tax purposes. Under the reforms, medium and large private businesses will become responsible for judging whether their contractors fall inside or outside the scope of IR35, rather than the workers themselves. If a contractor provides services to a medium or large-sized private sector client, they:

- Should get an employment status determination from the client, as well as the reasons behind that determination.
- Will be able to dispute the determination given to them if they disagree with it.

There is no change to the rules for contractors providing services to small businesses in the private sector. The changes are a way for the Treasury to make more money through National Insurance contributions. Employees of a company must pay 12% National Insurance on earnings between £9,500 and £50,000, and two per cent on earnings above this, with employers also contributing 13.8% in payments above the £9,500 threshold for each employee on their payroll. However, self-employed contractors pay class two NICs of £3.05 a week on earnings between £6,475 and £9,500, class four contributions of nine per cent up to £50,000, and two per cent on anything over this. This works out to a lower tax bill than if they were employees.

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Investor / Saver / Estate Planner

Investors rush to VCTs ahead of 'Tax Day'

As is usual at tax year-end, investors are rushing to venture capital trusts to invest in some of the UK's best up-and-coming businesses. The total amount raised by VCTs this tax year so far stands at £360million, a 1.2% increase compared to this point last year, and that's despite the backdrop of Covid-19. According to Wealth Club, a tax-efficient investing options platform, last week saw the highest inflow into VCTs of the tax year so far, with £33.5million raised. For comparison, the equivalent week in 2020 saw only £19million raised. Demand has been driven by a few factors. First, the investment case is arguably much better than it ever was. Thanks to rule changes a few years ago, VCTs are now packed full of fast-growing tech-enabled businesses, the type that have seen their fortunes prosper rather than diminish as a result of the pandemic. Second, for wealthier investors there are now fewer ways to build up a decent retirement pot. Pensions are out of the window for many, investing in buy-to-let has become less tax efficient, and taxes on dividends are also higher. VCTs are, for some, an obvious next choice. While some VCTs have already sold out, including the Octopus AIM and Amati AIM vehicles, there are still plenty available. But capacities are filling up quickly.

VCTs are considered to be high risk investments and advice is always recommended to ensure individual suitability.

Property Owner

How the stamp duty holiday affects home and buy-to-let properties

Rishi Sunak has used the Budget to extend the stamp duty holiday until the end of June. The tax break, which the Chancellor introduced in July 2020, was brought in to help boost the housing market, which had been suffering due to the pandemic. It had been due to end on 31 March, leaving many homebuyers rushing to try and complete their purchases. But the deadline will now be pushed back to 31 June. Under the current scheme, buyers do not have to pay stamp duty on the value of a property up to £500,000, rather than £125,000. It allows people to save up to £15,000 in taxes when purchasing a home. After 31 June, the value of a property buyers do not have to pay stamp duty on will be reduced to £250,000 – still double the usual rate. It will return to its normal £125,000 threshold from 1 October. Buy-to-let landlords and second home buyers are eligible for the tax cut. However, they still have to pay the additional 3% rate that has always been in place for second home buyers. You will not have to pay the 3% tax if the property you're buying is replacing your main residence and that has already been sold. If you are yet to sell your main property when you purchase the replacement you will have to pay the additional rate, but you can apply for a refund if you sell your original home within 36 months.

Investor / Saver / Property Owner / Parent

Top lenders start to launch 95% mortgages

Yorkshire Building Society recently (17 March) became the first major lender to relaunch 95% mortgages for first-time buyers. Low-deposit mortgages disappeared almost entirely last spring due to the pandemic, but there are signs that 2021 could be a much better year for first-time buyers. The launch comes two weeks before the start of the government's new mortgage guarantee scheme, which will see some of the country's biggest lenders offer 95% mortgages once again. Yorkshire's deal is priced at 3.99% and comes with a £995 fee. It's not available on flats or new-build houses, or to people currently furloughed. First-time buyers will be able to borrow a maximum of 4.49 times their annual income. The building society says the strict criteria is designed to manage demand and has warned that the deal could be withdrawn if it struggles to cope with applications. Yorkshire Building Society's new deal is important because it should kick-start a flurry of low-deposit mortgages coming back to the market. This scheme will see the government take on some of the financial risk of high loan-to-value mortgages, giving lenders the confidence to relaunch their 95% deals. Some of the UK's biggest lenders, including Barclays, HSBC, Lloyds Bank, NatWest and Santander have signed up, and more are likely to follow. The recent return of 90% mortgages can give us an indication of what to expect. When lenders first returned to the 90% market in December, the best rate on a two-year fix was 3.24% and we saw major lenders 'bunch' their deals together by offering near-identical rates. Since then, the number of deals has more doubled and the best rate has fallen to 2.99% – although that's still 1.4% higher than the best rates seen before the pandemic. The cheapest 95% five-year fix at the start of March 2020 was priced at 2.9% – 1.09% cheaper than Yorkshire Building Society's new deal.

Investor / Saver / Retired

Resistance on pensions' pathways

The chief executive of pension consolidator PensionBee has criticised the Money and Pension Service's investment pathway comparison tool for leaving out 'major providers'. In a letter to Maps chief executive Caroline Siarkiewicz, Romi Savova raised issues with the service's investment pathways comparison tool claiming it was "highly misleading" and "not fit for purpose". The government guidance site aims to help non-advised clients choose an investment pathway and choose which product would be best suited to their needs. Investment pathways were launched last month after the Financial Conduct Authority became increasingly concerned about non-advised retirees "sleepwalking" into having their money invested in very low-return cash funds. But Savova raised issues with the way products were compared in the tool, saying Maps displayed "incomparable products side by side in a way that suggests they should be compared". The fear is that as it is difficult to rank incomparable products by anything but charges, the decision to obfuscate other important features could be extremely damaging for consumers. This issue was illustrated most starkly in pathway three - which is equivalent to drawdown. Some providers, such as Pensionbee, AJ Bell and Hargreaves Lansdown, took a "target returns" approach to this pathway, aiming to generate a predictable income. But other providers took an "asset allocation approach", increasing the exposure to bonds and with no target return. Experts believe there is a similar issue with pathway four, which is aimed at those savers who wish to take all their cash within the next five years. Here, some providers have suggested consumers should avoid investing altogether, keeping their money in cash instead. The cost of this is presented as £0, but of course the real returns of this product are most likely to be negative owing to inflation.

Investor / Saver

Deliveroo IPO

Deliveroo expects its flotation to value the company at up to £8.8bn, putting it on course to be the biggest London stock market debut since Glencore almost a decade ago. The meal delivery service, which is backed by Amazon, said in a trading update that it is continuing to benefit from the food home delivery boom during the latest national Covid-19 lockdown. The total value of transactions processed on its platform surged by 130% year on year in January in the UK and Ireland, and 112% in other markets. Overall growth across all markets stands at 121% for the period. Deliveroo also announced that it had priced its initial public offering at between £3.90 and £4.60 a share. Around 384m shares will be sold in the initial public offering, worth £1.6bn at the midpoint of the price range. Of that, around £1bn has been earmarked for the company itself with the rest going to existing investors who are selling shares. The price range values the business at between £7.6bn and £8.8bn. This would make it the biggest London Stock Exchange debut since the mining company Glencore floated in May 2011. Deliveroo has benefited from lockdown demand for takeaways but still posted a £224m loss last year. Gross transaction value, primarily made up of customers' spending through its app, rose 130% in the UK and 112% in its other 11 markets in January and February, an acceleration from last year's overall 64% growth rate. Deliveroo had warned earlier this month that it expected GTV growth to slow over the course of 2021 as Covid lockdowns ended. It plans to use the proceeds to invest in expanding its Editions delivery kitchen network as well as other growth opportunities.

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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