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Technical Update No. 82 21st July 2021

Property Owner

Beware ultra-low fixed mortgage deals

Headline-grabbing mortgage rates have been coming thick and fast in recent weeks. It started with the first sub-1% deal in several years and has continued with lenders launching their cheapest home loans ever. It is now possible to tie-in for two years at just 0.94%, or fix for five at as little as 1.06%. A number of providers have launched eye-catching sub-1% rates in recent weeks to tempt new borrowers. This indicates an appetite to lend from mortgage providers and reflects an ability to price low while we remain in a low interest rate environment. These best-buy rates are available to those with at least 40% to put down as a deposit, but there has also been a raft of price cuts at the other end of the market. Typically, the mortgages with the lowest interest rates will have fees attached. Fees should be considered when you are deciding on a deal, and borrowers should not be swayed by a temptingly low rate alone. It is important to compare the different options and ensure they consider the overall, true cost of a new mortgage deal. Let's compare a 0.94% deal with one it offers fixed at 1.14% for two years which has no fee. Looking at the cost over the first two years of a 25-year mortgage, on loans of £458,000 and more, paying the fee is worthwhile. Below that, the total sum paid is lower on the higher rate. The reality is that lots of people will add the fee to the loan, which means they will feel that less, but where this happens, the fee is accruing interest that will be repaid over many years.

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Investor / Saver/ Retired

Sit tight in the face of inflation

Investors have traditionally flocked to gold and other commodities during periods of high inflation, but with much of last week's spike already priced in, is such a hedge necessary? UK inflation spiked to 2.5% in June, ahead of the expected 2.2% forecast by analysts and a leap from the 2.1% recorded for May. At 2.5% it is also the highest level it has reached since August 2018. The drivers behind the rise, according to the Office for National Statistics, were transport costs and increased prices for clothes, food and footwear. Companies have also faced challenges with stock and staffing levels because of the pandemic. The UK's inflation uptick followed a similar scenario in the US, where inflation rocketed to 5.4% – way ahead of expectations. Commentators point out that markets are still supported by central banks putting more money in and even with all the 'tapering' talk, it is anticipated that the amount of liquidity central banks will pump into markets will remain high, with another $1.5trn likely before the end of 2021. For investors the key lies within the real yield. There will be good opportunities to 'buy the dip' in credit markets – most likely in high yield. Despite inflationary concerns across markets, investors are yet to make tangible changes to their portfolios, according to trading platform Stake. A snap survey of its international investors revealed just 20% had made changes to their portfolio in response to the jump in inflation figures, while 55% said they don't consider it to be a threat to their current portfolio. While inflation is a factor investors are paying close attention to, the market is seeing a considered and fairly strategic response, with a number of investors looking for ways to leverage the opportunity that inflation could present. For example, the tech sector enjoyed a massive year in 2020, frequently dominating Stake's most-traded stocks. However, the value of buy trades has decreased in H1 2021 with some of the volume appearing to shift into sectors such as mining and materials, that have historically performed well during periods of higher inflation.

All

Unmarried couples receive windfall

Thousands of grieving Brits will be able to claim £10,000 in backdated benefits after the government caved to a Supreme Court defeat. A long-awaited legal change was unveiled tonight to extend bereavement benefits to couples with children who live together, but are not married. Previously only married parents could claim - but campaigners defeated this policy in the Supreme Court and High Court. Department for Work and Pensions (DWP) ministers have now published a "remedial order" which will extend the benefits to unmarried, grieving partners. Crucially, anyone who would have been eligible since the Supreme Court ruling on 30 August 2018 will be allowed to file a retrospective claim for any payments they would have got since then. It was thought 2,200 bereaved partners a year would benefit, so that now means several thousand will be able to file claims for partners who died years ago. The DWP estimates more than 22,000 extra families will be helped in the next five years to the tune of £320million. But despite the order being promised almost a year ago, grieving partners will not be able to file retrospective claims until spring 2022 at the very earliest. The remedial order will only become law once it has passed through at least 120 sitting days of Parliament. The change will only apply to cohabiting couples with children, not those without children or who live apart.

Parent

Child benefit tax ruling

HMRC is facing calls to refund thousands of people it chased for extra tax payments as a result of its controversial high income child benefit charge. A tribunal ruled last week that the revenue could not pursue a man for £4,000 back taxes it claimed he owed because of his wife's child benefit payments. It has led to calls for refunds to others who paid up in similar circumstances. The government introduced the high-income child benefit charge (HICBC) in 2013 to claw back some or all of the child benefit paid to couples where at least one partner earned more than £50,000 a year. The new charge led to thousands of people facing tax demands of up to 100% of payments made to their partner. Workers who knew nothing about the charge, or who after receiving a pay rise or a company car found they earned more than the threshold, were chased by HMRC. It is thought that 160,000 people have paid penalties for non-payment. HMRC has been backdating claims as far as 2013, with more than £2.5bn raised. Recently, one of those chased, Jason Wilkes, challenged HMRC's right to claim the charge for previous years. It has pursued him for £4,000 based on the fact his wife had received child benefit between 2014 and 2017. Wilkes said he was unaware of the new charge – which HMRC accepted – but also argued its use of the "discovery" powers was unfair in his situation. A "discovery" is a power held by HMRC that allows it to reopen closed periods and issue bills for previous years where it wants to. The upper tribunal found that the tax department could not impose the charge based on discovery assessments where the person liable had not filed a self-assessment tax return for the year in question. It followed a decision in favour of Wilkes by the first-tier tribunal. The terrible design of the HICBC left many of the affected taxpayers – in particular those who paid tax by PAYE – simply unaware of it. HMRC has until the end of July to decide whether or not to appeal. If it does not, commentators expect HMRC to "do the right thing" and refund those in the same boat as Wilkes.

Investor / Saver

COVID pessimism dampens stock markets

Stock markets have fallen across the world amid deepening pessimism over a rise in Covid-19 infections, with £44bn wiped off the value of the FTSE 100 index of the UK's leading companies on what some have called "freedom day" from pandemic restrictions in England. The prospect of slowing global growth resulted in most stock markets across Europe experiencing significant falls, after a slide in Asia overnight that came when Indonesia reported an increase in cases and some athletes tested positive at Tokyo's Olympic village. In the UK the FTSE 100 closed down 2.4% at 6,844 points, its biggest one-day fall since 11 May and its lowest close since early April. In the process, £44bn was wiped off the value of FTSE 100 companies, with ITV the biggest faller, down 6.6% on fears that advertising revenues will be hit by any stalling in the UK's economic recovery. The widespread sell-off of shares by investors also affected travel and oil companies, banks and retailers. Shares in BP and Lloyds Banking Group ended the day down almost 5%, while the Primark owner, Associated British Foods, fell by 4% and Next by 3.4%. Travel firms were also among the biggest fallers on London stock markets, as uncertainty about the spread of the virus fuelled concerns about further clampdowns by the Johnson administration on foreign travel arrangements. The British Airways owner, IAG, closed down more than 5% and the aeroplane engine-maker Rolls-Royce lost 6.5% of its market value. In the FTSE 250, easyJet declined by 6.5% and the tour operator Tui was down almost 4%. The pan-European Stoxx 600 index fell 2.3%, its lowest close in two months, with Germany's Dax and France's Cac bourses down 2.5%. In the US, Wall Street investors joined the stock market sell-off, with the Dow Jones industrial average down more than 2% by lunchtime in New York. Fears that a relaxation of lockdown rules by Boris Johnson's government would aid the spread of new variants in the UK also weighed heavily on the value of the pound, which lost ground against the euro and the dollar. Sterling dropped to $1.37, its lowest since April, and was down about 0.6% against the euro to €1.16. Analysts said few markets were immune to the sense of trepidation that accompanied warnings from health professionals that the virus could still cause a rise in hospitalisations and harm to younger people despite higher vaccination rates.

Investor / Saver / Estate Planner

Cryptocurrency and tax

Cryptocurrency is a fast-growing area for many traders and investors. The recent growth and interest within the crypto space have attracted the attention of HMRC who have updated their guidance to help ensure that those involved in cryptocurrency are paying the correct amount of tax. Many UK residents and businesses are unaware that cryptocurrency they hold is liable for tax in the UK. It is potentially liable not only on disposal, but also on exchange and when used as payment. Cryptocurrencies, like Bitcoin and other cryptoassets, are taxed in different ways depending upon how they are owned, traded or sold. So how is cryptocurrency taxed in the UK? Firstly, it is important to understand that HMRC does not view any form of cryptocurrency or other cryptoassets as a form of currency or money. HMRC guidance released in 2014 initially appeared to suggest crypto could be classed as gambling and thus exempt, but this has now been superseded and HMRC does not consider the buying or selling of cryptoassets to be a form of gambling. To tackle the issue of how cryptoassets are taxed, HMRC has broken these down into three different types of assets.

1. **Exchange tokens** – commonly known as cryptocurrencies, e.g. Bitcoin, Ethereum.
2. **Security tokens** – these amount to a 'specified investment' as set out by the government in the Financial Services and Markets Act (2000). These can provide rights such as ownership, repayment of a specific sum of money or entitlement to future profits.
3. **Utility tokens** – which can be redeemed for access to specific products or services that is typically provided using a distributed ledger platform.

How individuals are taxed on cryptocurrency and other cryptoassets depends on how they are used. As it is still a relatively new area, HMRC looks at the tax treatment of the tokens on a case-by-case basis and will consider individual cases for determining taxable liability. Anyone who is domiciled in the UK is liable to pay tax on any cryptoassets they own. UK resident businesses are also liable to pay tax on cryptoassets. For those domiciled in the UK, HMRC deems that any cryptoassets they hold are also located in the UK and therefore liable for UK tax. Thus, the remittance basis will not be available for any crypto gains/income. Tax is liable to be paid when cryptoassets are traded, received as a form of payment, mined (including tax on fees earned from mining) or received as airdrops in lieu of a service (or expected service). Tax is also due when one form of cryptoasset is exchanged for another. Individuals are most likely to pay Capital Gains Tax when cryptocurrency is traded, disposed or exchanged. They may also be liable to pay Capital Gains Tax when cryptocurrency is used to pay for goods and services or where these are given away to another person (other than a spouse). In rare cases, the trading of cryptocurrency will be taxable as income tax.

All

FCA ends insurance loyalty penalties

The Financial Conduct Authority (FCA) is bringing an end to the practice of car and home insurers charging loyal customers more than new customers. 'Price walking' – commonly known as the 'loyalty penalty' – is a pricing practice where existing customers are increasingly charged more, the longer they stay with the same insurer. Following a consultation launched in September 2020, the FCA has confirmed this unfair practice will be banned from 1 January 2022 – saving customers an estimated £4.2bn over 10 years. Insurers will have to offer existing customers wanting to renew, a price that is no higher than they would pay as a new customer coming through the same 'sales channel'. The 'sales channel' is just how you reached your insurer, which could be through their website, over the phone, through a comparison site or via a broker. These can all have an effect on the premium you pay and will continue to do so. So, for example, if you're renewing over the phone, you'll be offered the same price as a new customer switching to that insurer by phone. But this might be a higher premium than a new (or existing) customer taking out a policy online. As well as the new rules on pricing practices for home and motor insurance, the FCA is also bringing in new rules to make it easier to cancel the automatic renewal of their policy, which should make it easier to shop around. The pricing and auto-renewal changes will come into effect on 1 January 2022.

All

Bank of England sends mixed messages

Stocks in London ended mixed last week after the Bank of England (BoE) downplayed the threat of a sustained rise in inflation, following a hawkish pivot from the US Federal Reserve. Markets throughout Europe and the US enjoyed one of the more memorable days in a week that was largely dominated by indecision and uncertainty. The BoE was one of the main determinants of that positive outlook, with the MPC allaying fears that the recent hawkish shift from the Fed is the first in a wave of many such moves. While last week's meeting saw upgrades to growth and inflation projections, there is a feeling that this recent surge in CPI will be temporary in nature. Despite UK inflation rising above the 2% target, it seems the BoE members remain steadfast in their position that policy should remain accommodative for now. That dovish stance helped to boost the FTSE 100 in two ways, with the prospect of loose monetary policy lifting stocks and driving the pound lower. The UK central bank kept the Bank Rate at its historic low of 0.1% and its Monetary Policy Committee voted eight to one to maintain asset purchases at the current level of GBP895 billion. Outgoing Andy Haldane was the sole dissenter in his final meeting as a member of the MPC. Most MPC members felt they should "lean strongly against downside risks to the outlook and ensure that the recovery was not undermined by a premature tightening in monetary conditions", the BoE said. In addition, the BoE insisted that soaring inflation should be only temporary despite a bigger than expected leap in the cost of living as the UK's economic recovery gathers speed. The central bank said it now expects UK growth to surge by 5.5% in the second quarter as it recovers from a lockdown-hit start to the year. In addition, the BoE warned near-term pressure on prices could "prove somewhat larger than expected", forecasting that inflation will rise above 3.0% for a temporary period. However, the BoE was unconcerned that consumer price inflation breached its 2.0% target, insisting the spike is set to be only "transitory". UK consumer prices jumped in May to 2.1%, official figures recently showed, with inflation exceeding the BoE's target for the first time in nearly two years. Commentators believe The BoE's latest message is a cautiously upbeat one, though it's clear that policymakers are essentially in a holding pattern for the time being. The central bank is caught between higher-than-expected inflation and encouraging activity data, and mounting uncertainty surrounding Covid-19.

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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