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Saver / Investor / Estate Planner

HMRC Family Investment Unit closes

A special HMRC team set up to review the use of family investment companies was a complete waste of time and diverted resources from the investigation of aggressive tax avoidance and evasion, say leading tax and advisory experts. The view from commentators is that HMRC have now shut down this unit after it distracted valuable technical resource for more than two years from an area which did not merit such attention in the first place. HMRC set up the unit because they were concerned by the increasing use of FICs for tax avoidance purposes, and a specialist, and apparently secret, unit was set up in April 2019 to review their purpose and operation. There was a concern that HMRC would force a legislative change to the tax rules for investment companies, which could have had a broad impact and damaged the UK corporate regime for international investment. Companies have become popular vehicles for holding investments, such as property, shares and bonds. The lower rate of corporation tax, currently 19%, and the ability to transfer shares in the company between family members provided a flexible environment, when compared to a traditional family trust. It would seem HMRC have reached the conclusion that any perceived tax avoidance was questionable in the first place. The company pays corporation tax on its profits, and in fact, the corporate tax rate is increasing by 6% to 25% from 1 April 2023. The timing of the conclusion of HMRC's review may be predicated by the corporate tax increase in 18 months. The good news is that the investment company rules remain as they are, which is important for the UK's corporate competitiveness in the international market, especially in the context of Brexit. The review is closed, and companies will now be looked at by HMRC as 'business as usual'.

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Investor / Saver/ Retired

The US tech stock bubble – what next?

The US stock market has been the place to be in recent years: while the UK's FTSE All Share is up 91%, the S&P 500 has returned a huge 341% in the past decade, led in the main by the giant technology companies. As more and more of our daily lives have moved online, the likes of Facebook, Amazon, Apple, Netflix, Google and Microsoft – or the FAANGMs as they are known – have grown exponentially. Today, this handful of firms represent just under a quarter of the S&P 500 and collectively are worth almost $9trn. It's therefore perhaps unsurprising that they have a big effect on the US stock market returns. Indeed, data over the past eight years from Yardeni Research, Inc shows this quite starkly. Since the end of 2012, the S&P 500 ex-FAANGM has returned 140% in dollar terms while the FAANGMs themselves have returned 672.8%. But having done so well, the perception now is that the technology sector is super-expensive, and some have even questioned if we are in bubble territory. This, coupled with the reopening of world economies as Covid restrictions are lifted, has led to the suggestion that investors should look to other parts of the US stock market for better future returns. The argument to invest in small and medium-sized companies is compelling. The US economy is really leading the world out of the post pandemic recession into a period of above average growth. And the bottom end of the market, where you find the mid and small cap cyclicals, is really geared into this period of booming US economic activity. Usually, when consumers come out of a recession, they are worse off than they were when they went in. That is not the case this time – consumers are better off. And so you have a large number of people with significant savings and a willingness to spend them. And the companies that benefit from that will not be the tech companies, it will be the retailers, the restaurants, the factories. But the tech sector still looks very attractive. We are not in a 1999 tech bubble repeat – these firms are making huge amounts of money. Take Google (or more precisely its parent company, Alphabet) for example. It beat the average analyst estimates by an astounding 68% recently, while its net income was up over 160% year-on-year. But it is still trading on a valuation which is almost in line with the market. To commentators, this tells investors that despite getting a boost from the pandemic in some areas, these tech beasts were also affected by lockdown and they too are now recovering. Remember – Apple had to close all its retail stores and Google gets a huge amount of its revenue from travel-related searches. The structural growth for these companies was so strong that we didn't notice the recovery potential until the recent upswing in earnings. And most believe there is still plenty of room for further growth.

All

Over 40,000 challenge their council tax bills

If you believe your property is in the wrong band, you can challenge it through the Valuation Office Agency to get your property revalued and moved into a different, cheaper band. There are some criteria you have to meet, so you will need to have some concrete evidence for your challenge to be successful. For example, if there have been changes to your property that would make it less valuable than the original valuation – part has been demolished, or it is a house that has subsequently been converted into flats. Or there may have been a change to the property or local area that would have changed the valuation of the property, such as roadworks that have been built that would have affected the rateable value of the property. You can also get your band changed if mistakes have been made when the rating was carried out. If your council tax band has been incorrectly calculated, not only will you enjoy lower bills, but you'll get the money back that you had overpaid, all the way back to when you started paying the wrong amount. But beware – challenging your council tax band can deliver bad news as well as good – you could end up increasing your council tax bill by the agency deciding that you should be in a higher band. This could even affect your neighbours, with the potential to make you quite unpopular down your street.

Investor / Saver / Retired

UK leaders call on pension funds to invest more at home

U.K. pension funds and other institutional investors should join other countries' investors benefiting from British infrastructure and other long-term investments and rely less on the stock market, said Prime Minister Boris Johnson and Chancellor of the Exchequer Rishi Sunak in a recent open "challenge letter". Currently global investors, including pension funds from Canada and Australia, are benefiting from the opportunities that U.K. long term investments afford, while U.K. institutional investors are under-represented in owning U.K. assets - more than 80% of U.K. defined contribution plans are mainly in public securities that represent only 20% of U.K. assets. The U.K. government's strategy for recovering from the COVID-19 crisis includes a 10-point plan for a "Green Industrial Revolution" and a new U.K. infrastructure bank to co-invest in green infrastructure. In September, it plans to issue the first green gilt for institutional investors to help fund the government's green commitments, and this autumn plans to unveil a new vehicle for long-term investment, the Long-Term Asset Fund. The U.K.-UAE Sovereign Investment Partnership investing £1 billion ($1.4 billion) in science-based technology sectors could be a model for other investment funds. "To seize this moment, we need an Investment Big Bang, to unlock the hundreds of billions of pounds sitting in U.K. institutional investors and use it to drive the U.K.'s recovery," Messrs. Johnson and Sunak wrote. Short of mandating more investment, "the government is doing everything possible … to encourage a change in mindset and behaviour among institutional investors, and we remain open to addressing further barriers where they are identified," they said.

All

Bank of England holds rates

The Bank of England opted to keep its main interest rate at the record low of 0.1% as it painted a fairly rosy picture about the near-term prospects for the British economy following the lifting of lockdown restrictions in the wake of the rapid rollout of coronavirus vaccines. In a statement accompanying its decision, the central bank's rate-setting Monetary Policy Committee said “a waning impact” from COVID-19 would boost demand growth and help the British economy reach its pre-pandemic level by the end of the year. The committee also maintained the bank's monetary stimulus at current levels though one of its eight members voted to reduce the level of asset purchases from £875 billion to £830 billion. The decision to keep rates unchanged was unanimous. In its quarterly economic projections, the bank said the British economy is set to rebound by 7.25% this year, unchanged from its previous projection. However, it modestly upgraded its forecast for next year to 6% from 5.75%. The bank said growth is expected to slow toward more normal rates, partly reflecting lower government spending as many pandemic programs, such as a salary support scheme, end. One uncertainty cited was how the economy will adjust to the end of the furlough scheme, which was introduced at the start of the pandemic last March to ensure unemployment didn’t rise substantially when lockdown restrictions were imposed. Under the program, the government paid 80% of the salaries of those workers unable to work because of lockdown measures. The program helped support over 11 million people but the number now is down below the 2 million mark as many sectors have reopened, notably hospitality. It kept a lid on unemployment, which remains relatively low at around 5%. The committee also warned of a “more pronounced period" of above-target inflation in the near term than expected in May but said that its overall view is that cost pressures will prove "transitory."

Property Owner

UK house price growth cools

UK house price growth has dropped to its slowest pace in fourth months, new data shows, as the end of the temporary stamp duty holiday ended a boom in the property market. Halifax said recently that annual house price growth in the UK slowed to 7.6% in July, down from 8.7% in June. July's reading was the lowest since March. The slowdown came as a tax break on property transactions came to an end. The chancellor announced a stamp duty holiday in July 2020 that ended in June. This easing was somewhat expected given the strength of price inflation seen last summer, as the market began its recovery from the first lockdown, and with activity supported by the start of the stamp duty holiday. In cash terms, typical prices now stand at just over £261,000 - a little below May's peak but still more than £18,500 higher than a year ago. Wales and the North of England recorded the strongest house price growth across the UK. Prices rose by 13.8% in Wales, which was the highest monthly increase since 2005. London saw some of the weakest price growth, at just 2.5%. Recent months have been characterised by historically high volumes of buyer activity, with June the busiest month for mortgage completions since 2008. This has been fuelled both by the 'race for space' and the time-limited stamp duty break. With the latter now entering its final stages (the zero percent rate only applies to the first £250,000 of the purchase price, before reverting to standard rates from October), buyer activity should continue to ease over the coming months, and a steadier period for the market may lie ahead.

All

Pensions warning as divorces rise

Around 10,500 people shared their pension as part of divorce settlements in 2020, research from Salisbury House Wealth shows. With the value of pensions increasing, they have become an increasingly important asset in divorce settlements, second only to the family home. If you do receive a spouse’s pension as part of a divorce settlement, it would be wise to make some contributions to your own personal pension rather than using it for day-to-day expenditure. As the value of pensions has surged in recent years it has become much more difficult to use spare cash to buy an ex-spouse out of their share of a pension. This is a major reason for 2020s high number of split pensions in divorces. There are two different ways that a pension can be shared in a settlement. Firstly, a Pension Sharing Order will mean a direct transfer between one pension pot and another. The second, a Pension Attachment Order will mean the pension pot remains in the same hands as before but the income derived from it is split. But the trend towards DIY divorces, where settlements are undertaken without legal representation, could create problems. This is because agreements made today may be reopened tomorrow if paperwork is filed incorrectly or is incomplete. Naturally, this is more likely than when professional lawyers are involved in proceedings. The caution expressed is warranted because these DIY divorces accounted for 58 percent of all divorce settlements in 2020/21 according to the Ministry of Justice. A striking example of the problems that may arise after DIY divorces came in 2016 when a successful green energy entrepreneur was ordered by the Supreme Court to pay his ex-wife £300,000 years after their split. This was the case because both parties had earlier neglected to waive the right to make more claims against each other. While not so bad for the party receiving £300,000, many may be startled to realise that they may be vulnerable to such claims themselves if they went through a DIY divorce.

Investor / Saver

Investing for income as dividends are back

The FTSE 100 is yielding 3.7% – not too bad in an age of 0.1% interest rates. And the UK isn't the only place to find dividends. Japan is looking attractive, too according to commentators. Dividends are certainly back. In the second quarter of this year, total UK dividend pay-outs jumped by a pleasing 51% to £25.7bn, thanks mostly to companies that cancelled dividends in March last year restarting them. Link Group (which publishes a regular UK Dividend Monitor) now forecasts that dividends should grow by around 24.4% this year, for a full-year total of £71.2bn. That is significantly less than in 2019 (just over £100bn) but nonetheless represents a good recovery with more to come as the UK economy continues to normalise. You can now get a yield of 3.7% on the FTSE 100 – which with interest rates at 0.1% and inflation rising doesn’t look bad at all. If you can cope with the risk of holding individual stocks there is a lot more than that on offer.

All

HMRC cracks down on evaders

HMRC has an Offshore, Corporate and Wealthy (OCW) Unit which, according to the Government's latest figures, has convictions totalling 67 years of prison time for tax evaders last year. This is nearly triple the total of just 23 years secured a year earlier, according to analysis from Pinsent Masons, the international law firm. Pinsent Masons detailed the increase in prison sentences is a sign that HMRC’s strategy of using targeted criminal investigations, rather than just civil penalties, as a powerful deterrent to address deliberate conduct including professional enabling and tax evasion by high net worth and ultra-high net worth individuals is bearing fruit. The OCW was established in the wake of the "Panama Papers" scandal in 2016 to investigate serious non-compliance by businesses and the wealthiest taxpayers. The sentencing secured in respect of the unit’s casework will reflect the fact that where you have wealthy "white collar" evaders, significant sums of money, or breaches of positions of trust are likely to be in play. HMRC is proving that wealthy tax evaders who engage in deliberate dishonesty at the expense of the tax man don’t just get fines – they go to prison. The Offshore, Corporate and Wealthy Unit is now regularly completing painstaking criminal investigations of the most complex and serious forms of tax evasion, resulting in convictions and significant prison time. While many may assume they'll be outside of HMRCs field of vision, Pinsent Masons warned the current threshold for wealthy individuals to be investigated by HMRC’s specialist OCW unit is lower than many might expect. Pinsent Masons explained anyone with an income of over £200,000 per year falls within its terms of reference. On top of these high-profile investigations, UHY Hacker Young Group, the accountancy network, recently found that HMRC was ramping up its regular tax investigations. Recent data published by HMRC showed it opened 102,000 compliance investigations in Q1 2021, up 36% from 75,000 in the previous quarter. This was almost quadruple the low of just 27,000 in the second quarter of 2020. Additionally, the amount of extra revenue HMRC brought in from its compliance activity jumped 29% to £14.2billion in Q1 2021, an increase from £11billion in the same period in 2020.

Property Owner / Retired

Equity release rates rise

More than half – 57% – of homeowners have expressed an interest in releasing equity from their property in later life. Broken down by age, this statistic increases to 74% for homeowners aged 30 to 39 while 47% of homeowners in the 60 to 69 years old age bracket are interested in accessing money from the value of their homes. These insights come from the Equity Release Council's (ERC) latest report 'Home advantage – Intergeneration perspectives on property wealth in later life', released today. In it, the ERC notes 10 "far-reaching" trends that it says have made equity release a more flexible and trusted part of economic behaviour in later life.

These are as follows:

- Decreasing workplace security lowering access to decent pensions
- The low interest rate environment depressing retirement income
- The eradication of defined benefit pension schemes
- Unsure long-term effects of the pension freedoms introduced in 2015
- A belief that the state pension age will be set at 68 years old by 2040 (and 46% of people in their 30s not believing they will ever be able to access it)
- The heightened reliance on 'the bank of mum and dad' for first-time buyers. (On this point, the FCA worked out that 62% of homeowners under 35-year-old relied on this or gifts from friends to buy their first house).
- Easing of regulation regarding borrowing in retirement
- The era of record low mortgage rates
- The existence of longer and longer mortgage terms
- Greater acceptance towards carrying mortgage debt in later life
- The report details that across all homeowners, the most popular reason for taking an interest in equity release is to boost pension income and savings, followed by paying for care support at home.

Of note, Moneyfacts' analysis of equity release product numbers revealed a 45% rise in deals from 480 in January to 698 in August. Product numbers have risen drastically over the last five years, by almost 700%

Estate Planner

Governments subtle inheritance tax changes see payments soar

HMRC confirmed this week that IHT receipts for April 2021 to July 2021 were £2.1billion. The Government also confirmed higher receipts over the last year or so are expected to be higher due to the impact of coronavirus, although this cannot be verified until full administrative data becomes available. Experts have warned that IHT is to become increasingly important for the state's coffers and more families are expected to be hit by the tax. The recent run of increases to monthly IHT receipts means the tax is becoming an increasingly important revenue source for the Treasury. One of the key drivers for the uplift will no doubt be the announcement in this year's Spring Budget that both the nil rate and residence nil rate bands are to be frozen until at least April 2026, resulting in increased IHT bills for families as more estates are brought into scope on the back of soaring property and share prices. As the Government continues to spend to help rebuild the country following the pandemic, as well as the need to fund other areas such as social care, it will no doubt be casting its net far and wide to boost its coffers. We still don't know when the Chancellor will announce his next Budget, but whenever it takes place it is quite possible that personal taxes, including IHT and CGT, could be in for a massive overhaul given the amount they raise for the Treasury on an annual basis. Increases to IHT charges could affect many and some may need to go as far as selling family homes to pay their IHT bills. Starting tax planning as soon as possible will mean that people can make the most of their current allowances before any new reforms are introduced. Experts have urged families to look carefully at the different options available, such as making gifts and investing tax-efficiently, which may help reduce or eliminate an IHT bill. Early planning will ensure you pass more assets on to your loved ones and causes you care about, rather than it going to HMRC.

Investor / Saver

Investment trust dividends fall

Income investors that bought investment trusts to weather the worst of the pandemic cuts suffered a drop in pay-outs in the first half of 2021, according to the latest Link Investment Trust Dividend Snapshot. The report, which studies equity investment trusts only, showed that between January and June, dividends paid by investment companies dropped 3.1%, to £891.9m, £29m less than the first six months of 2020. It was the first time in more than a decade that investment trust pay-outs fell. Three in 10 trusts made a cut in the first half of 2021, reducing their pay-out by roughly a quarter (23%). The biggest impact was from the IT UK Equity Income sector, which contributes a quarter of all dividends from investment trusts. On average, first-half pay-outs from the sector were down 9% in the sector compared to the previous year. This was despite dividends from the UK stock market rising 8% thanks to a 50% jump in the second quarter of 2021 on the previous year. It was the first decline since the second half of 2010, when the dividend cuts following global financial crisis filtered through to investment companies. The fall was a result of pandemic-related cuts filtering through. Investment trusts pay the income that they have received from their underlying holdings, so can be several months behind any changes to their stocks. Last year, many UK stocks were forced to suspend, cut or cancel their dividend payments in an effort to retain cash to survive the pandemic and issues created by the ensuing lockdowns. Investment trusts also fared better than their open-ended counterparts, as they had been able to create 'revenue reserves' – extra cash from dividends of previous years that they have hoarded for future difficult years. Pre-pandemic, investment trusts had combined revenue reserves of £2.1bn, but by the end of the first half of 2021 this had fallen to less than £1.8bn. It meant that £22 in every £100 paid out by investment companies over the past 12 months came from reserves. Over the full 18 months from January 2020 to June 2021, investment trust pay-outs have risen 2%, compared with a 34.6% decline for UK stock market dividends. Experts remind investors that investment trust dividends cannot defy gravity, but they do come with a very plump cushion. Not only do they keep cash in reserve, but they can also bank some of the big capital gains they have made over the last year and hand these out to shareholders too.

All

Pandemic widens gender pensions gap

The pandemic has increased the gender pensions gap to almost £200,000, according to a new study. Research carried out by the Centre for Economics and Business Research found women are missing out on £183,936 compared to the amount men receive from their pension. This is despite the fact women give a bigger proportion of income to their pensions, the report said. The current gender pension gap of £183,936 is a stark rise from last year, when there was a pension gulf of £157,263. Commentators believe It's clear that the Covid-19 pandemic has caused significant disruption to many people's retirement savings, but the impact has been most acutely felt among older women. As we begin to think about what a post-Covid society looks like, it's vital that the industry and government does more to encourage women to engage with long-term financial planning. the fact women have less comfortable and financially secure retirements than men shows the need to tackle the root causes of the financial disparity between men and women throughout life. Researchers warned the gender pension gulf is likely to have increased due to the coronavirus crisis causing the value of pension pots to decrease as well as preventing people who are over-55 from saving money to contribute to their retirement fund. Some 30% of women polled for the study said their financial situation had worsened since the start of the pandemic, which has impeded their capacity to save money for their pension pot. A quarter of men said the public health crisis has impacted their pension savings. Researchers said the growing gender pension gap could be caused by the fact women are bearing the brunt of the economic fallout sparked by the coronavirus crisis. Studies have found that women have been more likely to lose jobs or be furloughed due to being over-represented in low-paid, precarious jobs and sectors hit hardest by the pandemic, such as hospitality, retail, leisure, tourism and the arts. The latest study, which analysed the average earnings of both men and women last year, found men are able to contribute £3,184 to their pension fund, while women can contribute £2,340. This leads to the average woman having to work an extra 14.5 years to catch up with their male counterparts, researchers said. Men who have worked full-time for 30-34 years get an average annual retirement income of £22,776, whereas women who have worked the equivalent amount get £17,004.

All

Changes to the pensions triple lock possible

Downing Street has given its strongest signal yet that the pensions triple lock will be watered down because of the recent surge in average earnings, which under current rules would deliver a rise of more than 8% for pensioners next year. Boris Johnson's spokesperson said on Wednesday there were concerns about linking the rise in state pensions to earnings. The triple lock, which remains a Conservative manifesto commitment, promises to pay either 2.5%, the rate of inflation, or the level of earnings recorded in the July employment figures – whichever is the highest. Any suspension would be a victory for the chancellor, Rishi Sunak, who has been lobbying No 10 for a temporary change to the rules. Johnson is understood to have been reluctant to temporarily abandon the pledge, given pensioners are a key Tory voter base, but the comments from the prime minister's spokesperson indicate Sunak's argument for fiscal discipline around pensions has found a hearing in Downing Street. The chancellor has used an identical form of words in his public statements about the triple lock, saying any settlement must be fair to "taxpayers and pensioners". The Treasury has not budgeted for an increase of 8% in the state pension, and the chancellor is warning that other government spending priorities would suffer if he had to find an extra £4bn to uprate in line with earnings. Sunak is weighing up two alternatives to the triple lock, both of which would leave pensioners with an increase of about 3% next year. One would mean earnings being averaged over the past two years, with this year's hefty rise balanced by zero earnings growth in 2020 when many workers were furloughed. A second option is to revert temporarily to the previous system of a double lock in which this year's state pension would increase by 2.5% or the September inflation rate, if that is higher.

Business Owner

Partners and sole traders face tax hikes

Experts are warning that small businesses could see significant changes to the way they are taxed following the launch of a consultation by the Government, which may result in some facing higher tax bills than expected. The proposed Basis Period Reform, HMRC claims, will simplify rules under which accounting profits of sole traders and partnerships are allocated to tax years using basis periods, aiming to simplify the system before Making Tax Digital is fully implemented for these small businesses. The six-week consultation comes to an end on August 31. If implemented, the new rules will be fully introduced from April 2023, with the tax year starting April 6th 2022 as a transitional year. Accountancy bodies are already lobbying the Government for a delay to allow businesses and accountants to get to grips with these changes. Sole traders and partnerships are currently taxed on their accounts ending in the tax year, and a business can choose any date to prepare accounts to. Some businesses have kept the same accounting date they have had for many years, while others have an accounting date that makes stock counts and other year-end procedures easier. HMRC's preference is for everybody to prepare accounts to March 31 or April 5 each year. The reform would mean businesses would be taxed on profits arising in a tax year and is intended to align the way self-employed profits are taxed with other forms of income, such as rents received or investment income. For example, under the current rules a business with a year end of June 30th 2021 would be taxed on these profits in the tax year to April 5 2022, but under the proposed changes, 9/12ths of the profits would be taxed in the previous tax year to April 5th 2021. For a business that retains its traditional accounting date, the taxable profit to enter on the tax return will be made up of apportionments from two sets of accounts, making it difficult to see how this can be described as a simplification. For a business that decides to move its accounting date to March 31 or April 5, there is a transitional adjustment in the tax year ending April 5th 2023. Businesses that have had their current accounting date for a long time, or who have significantly increased their profits since commencement, could face an unexpected tax bill, although there is likely to be the facility to spread this additional tax charge over five years, which will be helpful.

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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