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Investor / Saver

HMRC proposes ISA breach penalties

ISA managers could face new penalties if they break ISA rules, according to proposals put forward by HMRC. The taxman is calling for evidence on the proposals, which aim to shake up the existing system due to concerns that it penalises investors for the bad behaviour of their ISA managers. It follows the collapse of mini-bond provider London Capital & Finance in 2019, after it was found to have invested its clients' cash into unregulated products. HMRC's proposals, which would apply to all types of ISA, include a £10 fine per compliance breach, per account, multiplied by the number of relevant tax years. Another option would be to introduce a 1% penalty on the value of the investments affected at the end of each tax year. These measures would apply to minor breaches, like not completing ISA transfers within permitted time limits or failing to correctly manage ISA subscriptions. For more significant breaches, HMRC is considering the introduction of a flat fee of £100 per account per tax year. Alternatively, ISA managers could face a 5% penalty on the value of investments affected at the end of each tax year. These breaches include allowing ineligible investments into the ISA wrapper or failing to notify HMRC of plans to make a bulk transfer of ISA business to another firm. "At the moment some ISA managers repeatedly break the rules and pay the penalty because it is cheaper than fixing their systemic problems," HMRC said. This has led HMRC to question whether the current approach is robust enough to encourage positive compliance behaviours in the management of ISAs.

All

The bank of the future

The world of banking is changing – faster than ever. Faced with technology developments, and evolving customer demands, banks must think carefully about their future and the strategy they need to remain responsive and relevant. As well as facing a more competitive landscape with new market entrants, banks are also working within an ever-broadening ecosystem, in order to help access new technology, create new products and services, and grow revenue with an entirely new customer base. So, what will the 'future bank' look like? The lines between banks, 'fintechs', and big tech companies will continue to blur. Technology companies that would not be classified historically as 'fintechs' are working to gain more control of business banking and payments. But the real change is being driven by the customer. Changing customer behaviours mean banks need to curate unique journeys and propositions to meet evolving customer expectations. The future bank will combine digital speed and convenience, in a way that is thoughtful and caring, at crucial moments in the customer journey. This is already happening in payments and will gradually creep into lending and savings. Banks will also leverage 'open banking' to become more customer-oriented and tech-savvy. Historically, banks have been big collectors of data, but not great users of it. Greater use of data analytics, utilizing cloud and AI, will facilitate a better understanding of customers, identification of business opportunities, and reduction of costs. Payments' data is at the core of banking. The future bank will increasingly convert data into insight, and insight into sustainable value, to create new revenue streams and build trust with customers. Collaboration within the payments' ecosystem will allow banks and fintechs to play to their strengths. Through partnerships or investment relationships, banks will work with fintechs to better understand and influence payments technology. Banks will also incorporate their inherent advantages – strong balance sheets, deposit funding, customer data, regulatory expertise, and trusted local brands – to make the payments' experience more personalized. Banks will increasingly offer tailored, highly personalised customer experiences – all powered through data and technology. Banks have historically operated on an inside-out basis, creating products and solutions to fit their businesses, rather than fitting their businesses to customers. This fundamentally limits integration across products and services and leads to inconsistent customer experiences. It is also opposite to how fintechs operate, creating solutions and entire business models centred around customer experience. Banks are under pressure to go further and act faster than ever before. They are making transformative changes to become more competitive in a rapidly evolving marketplace. They are also adhering to increasingly challenging regulation, while helping to solve societal challenges. And they are doing all of this while operating in a low revenue-growth environment. In their race to innovate and achieve scale, banks are grasping a once-in-a-generation opportunity to accelerate transformation and define their own future.

All

Self employed warned ahead of self-assessment deadline

HM Revenue and Customs (HMRC) is warning all self-employed people to be 'on their guard' and not be tricked by fake emails or text messages from fraudsters after nearly 800,000 tax-related scams were reported in the last year. The department is currently contacting taxpayers to remind them there are only a few weeks to go until the Self-Assessment deadline on January 31 2022 and that callous crooks may use the remaining time and distraction of the festive season to try and steal money or personal information from unsuspecting individuals. In the last year alone, HMRC has received nearly 360,000 bogus tax rebate referrals. HMRC will be sending more than 4 million emails and text messages this week to Self-Assessment customers pointing them to guidance and support, prompting them to think about how they intend to pay their tax bill, and to seek support if they are unable to pay in full by the January deadline. However, it is also warning customers not to be taken in by malicious emails, phone calls or texts, thinking that these are genuine HMRC communications referring to their Self-Assessment tax return. Criminals use emails, phone calls and text messages to try and dupe individuals into handing over money or personal or financial information, and often mimic UK Government messages to make them appear authentic. HMRC has a dedicated team working on cyber and phone crimes. They use innovative technologies to prevent misleading and malicious communications from ever reaching the customer. Since 2017 these technical controls have prevented 500 million emails from reaching HMRC's customers. More recently, new controls have prevented 90% of the most convincing text messages from reaching the public and controls have been applied to prevent spoofing of most HMRC helpline numbers. HMRC is also reminding Self-Assessment customers to double check websites and online forms before using them to complete their 2020/21 tax return. People can be taken in by misleading websites designed to make them pay for help in submitting tax returns or charging to connect them to HMRC phone lines. Customers who are in any doubt about whether a website is genuine should visit GOV.UK for more information about Self-Assessment and use the free signposted tax return forms.

Investor / Saver/ Retired

Why the capital cycle matters so much

The last few weeks have been volatile, they say, but economies are still growing nicely. Household savings are high, unemployment is low and both those things bode well for consumption in 2022, as does the shift in favour of fiscal policy by governments (they are all big spenders now). Supply chain bottlenecks are also likely to ease in 2022, something that will allow a gross-domestic-product-boosting inventory re-build and ease inflation. We are also, as one note from Invesco puts it, "living in one of the most noteworthy periods of change in history", with the digitalisation of everything creating extraordinary new industries and medical advances yielding astonishing new ways of treating human diseases. And Covid? By next year it may be that the expanded use of high efficacy antiviral pills will have pushed it some way down everyone's list of things to worry about. Add all this up and global growth is likely to be over 4% next year – well above the norm for the past decade. That, we are also told, is just the kind of background that is pleasantly supportive of share prices. The analysts at Barclays note that this year has been characterised by non-stop earnings upgrades – companies just keep doing better than we expect them to. That, commentators believe, is likely to keep happening, partly because of the good growth but also because Covid has "crushed competition" – the way in which the pandemic has "disproportionately hurt small and medium-sized businesses" means that there may have been a shift in the share of income going to larger (listed) firms from smaller (unlisted) ones. A lot of this makes total sense. But there are a few problems, nevertheless. This appraisal ignores policy risk. It ignores price. And it ignores the capital cycle. Looking at the latter, the idea here is simple: you should look at how much capital is flooding into a sector rather than focusing on price alone. The more capital there is, the more likely it is that sector will see oversupply and price collapse. Right now it is easy to see those sectors in which capital seems both free and unlimited (renewable energy being the obvious example), and easy to see where it has been neither for some time (for example, old energy and mining). This is a combination that should make investing feel both harder (the risks are high) and easier (there are obvious opportunities). So what should the 2022 outlooks really say? That markets are fragile and set to be very volatile. That there might well be good times ahead, but that many prices already discount 20 years of partying.

All

Inflation expected to exceed 5% by spring

The Bank of England's monetary policy chief has said inflation is likely to soar "comfortably" above 5% next spring when the energy regulator Ofgem raises a price cap affecting millions of households. Record high levels of vacancies are also likely to persist for longer than previously expected as the jobs market adjusts to changes in the economy brought on by the pandemic, said Ben Broadbent, the central bank's deputy governor with responsibility for monetary policy. The uncertainty surrounding the impact of rising wage demands by workers seeking to protect themselves against falling living standards meant that he was continuing to watch for signs of a wage/price spiral. If wage earners' expectations of future inflation rise in response, or if they seek compensation for the rises in the costs of living that have already occurred, wages could also accelerate further, even without any additional decline in unemployment, commentators believe. Speaking to Leeds University Business School, Ben Broadbent said inflation was on course to increase until at least April next year, when the price cap is due to be raised. He believes the aggregate rate of inflation is likely to rise further over the next few months and the chances are that it will comfortably exceed 5% when the Ofgem cap on retail energy prices is next adjusted. He said the recent jump in inflation for goods, especially cars, driven partly by a global supply chain squeeze, was likely to fade and in some cases reverse, before a Bank rate rise would have an impact. In the only reference to the newly identified coronavirus variant in his speech, Broadbent added: "Obviously the new Omicron variant might interrupt that process, depending on the effectiveness of existing vaccines against it and the severity of its health effects. Those we don't yet know." Broadbent was one of the seven members of the Bank's nine-strong monetary policy committee (MPC) to wrongfoot financial markets by voting to keep interest rates on hold last month. Signals from the governor, Andrew Bailey, and the MPC members Michael Saunders and Sir Dave Ramsden convinced investors that the central bank was poised to tighten policy. Ahead of a meeting on 16 December, investors are pricing less than a 50% chance on the Bank of England raising rates from 0.1% to 0.25%, mainly due to the emergence of the Omicron variant and uncertainty about how long energy prices will remain high. Last week Saunders hinted that he would vote to maintain the base rate at 0.1%, when he said: "There could be particular advantages in waiting to see more evidence on its possible effects on public health outcomes and hence on the economy."

All

UK house prices hit record in November

UK house prices hit a record in November, with values over the past three months rising at their fastest pace for 15 years, according to mortgage lender Halifax. The average price of a home stood at £272,992 after gaining 3.4% in the quarter through November, the fastest pace since late 2006, the mortgage lender said in a recently published report. Prices rose 1% in November alone - a fifth monthly increase - and were up 8.2% from a year earlier. The average property has gained more than £20,000 over the past year. A typical home in the UK has gained more than 8% over the past year. Halifax attributed the increase to shortage of available properties, a strong labour market and keen competition keeping mortgage rates close to historic lows. But it warned that momentum is likely slow, given stretched affordability and the prospect of Bank of England interest-rate increases. Commentators do not expect the current level of house price growth to be sustained next year given that house price to income ratios are already historically high, and household budgets are only likely to come under greater pressure in the coming month. The emergence of the omicron variant of Covid-19 could also dent economic confidence, though it remains far too early to speculate on any long-term impact, given insufficient data at this stage, not to mention the resilience the housing market has already shown in challenging circumstances. Wales remained the strongest performing region of the UK, where property prices broke through the £200,000 mark after a near 15% gain over the past year. Values in London rose just 1.1%, reflecting pandemic-driven demand for more spacious homes away from city centres.

Property Owner

Housing supply chain crisis

The supply chain crisis is seeping into almost every corner of life in the UK, with prospective homeowners likely to be affected by delays to new homes. A drop in the number of new homes being built could lead to even further trouble for first-time buyers in 2022, as the property market boom pushes prices to unattainable levels for many wannabe homeowners. According to Government data, the cost of building materials for new homes skyrocketed by 22.6% year-on-year in October. The effects are being felt across the industry - and are likely to contribute to a rise in house prices in 2022. Housebuilders have been grappling with the scarcity of new building materials and increased costs, all of which have impacted the delivery and cost of new homes. The number of new homes being built has fallen dramatically in recent months. Analysis by Knight Frank shows the number of new builds is down 11% on the same period in 2019. The slowdown is remarkable given the housing boom caused by the coronavirus pandemic, which has seen thousands move on from city living to larger homes in the countryside. Housing developers build new homes according to the "absorption rate" - the maximum number of homes than can be produced without inflating supply to a level where prices begin to decline. As sales rise, builders ramp up the building of new homes, as it's unlikely the value will be affected. New-build starts are normally equivalent to 13% of housing transactions in the market. However, in the first half of 2021, that fell to 9%. Across the same period, transactions on the housing market jumped by an unprecedented 50% - down to the Stamp Duty Holiday and the third lockdown. But developers didn't boost the number of homes built accordingly - leading to even further inflated prices on new build homes. Smaller home building businesses have been the worst affected by the ongoing supply chain crisis, as larger developers benefit from certainty of demand, unlike their smaller counterparts. But neither can escape the troubles that come with a lack of materials. The cost of timber has boomed by around 50% due to shortages, and overall build costs have risen in line with the supply chain woes and pent-up demand for new homes. According to the latest House Builders Survey by the Federation of Master Builders, 62% are struggling with material shortages currently. What's more, 63% of small builders said they are limited in their ability to build new homes due to a lack of land, and 53% are struggling to recruit the workers they need to build.

Investor / Saver / Retired

Pensions providers must give a stronger nudge to guidance

Anyone who accesses their pension for the first time will be directed to independent guidance from Pension Wise, the regulator has said. From 1 June 2022, the Financial Conduct Authority (FCA) will require pension providers to nudge savers to the government's advice service as it said it was a "cause for concern" that only a small number of people had done so. The policy is referred to as the 'stronger nudge' under the Financial Guidance and Claims Act 2018. It will apply to providers of pensions, including operators of self-invested personal pensions (SIPPs). Stakeholders with an interest in the pensions and retirement income sector will also have to comply. Using feedback from a consultation launched this year, the FCA now says that providers must refer consumers to Pension Wise, explain what the service does and offer to book an appointment or give them the information to book for themselves. Providers will also have to confirm or record whether the consumer has received advice or guidance, as well as any refusals. The FCA received 57 formal responses to its consultation and 437 email responses. Around half of the responses said the nudge to independent guidance currently came too late in a consumer's pension journey. Others suggested that people who had previously received advice be exempt from the nudge to avoid confusion. The regulator said it believed all consumers should have access to advice from Pension Wise, even if they had received guidance before as it could still be beneficial. If a consumer refuses guidance under the condition they have received it already, providers should explain that they could benefit from additional guidance as circumstances may have changed.

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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