CHAMPAIN
FINANCIAL SERVICES

Bawtry
Selsfield Road, Ardingly
Haywards Heath
West Sussex RH17 6TJ

01444 229 520
info@champain.co.uk
www.champain.co.uk

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Cashflow crisis – Half of adults need help managing money

Almost half of UK retirees fear they will eventually run out of money, with many relying on receiving an inheritance or downsizing to top up their pensions. A study revealed that a quarter of retirees plan to top up their retirement fund with an inheritance from a family member or friend, while a third will downsize to a smaller home to free up some cash. With an estimated 12.5 million people over the age of 65 in the UK, this suggests around three million retirees are relying on inheritance and more than four million retirees are planning to downsize to cover costs. More than half of retirees polled planned to reduce their cost of living in later years to pay for retirement, while three in ten said they would save money as they would no longer need to support their family. More concerningly, two fifths of retirees surveyed said they had no plan regarding how much they should spend each year to ensure they did not run out of money. The amount you will need in retirement will depend on a multitude of variables, including the type of lifestyle you want, the state of your health and who else you live with. The necessary income for a minimum, moderate and comfortable retirement have been calculated by the Pensions and Lifetime Savings Association. It suggests annual amounts of £10,900, £20,800 and £33,600 a year respectively for a single person. These figures assume a full state pension worth £9,339 a year. A minimum income would cover all your needs with a little left over for fun; a moderate one offers more financial security and flexibility; and a comfortable income would provide even more financial freedom and some luxuries.

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Is it the end of peer-to-peer lending?

Zopa's decision to quit its peer-to-peer (p2p) lending business to focus on banking last month prompted headlines asking whether this heralded the death of the sector it had pioneered and created. A finance system built around the idea that stability comes from centralised power and institutions, rather than by encouraging more diverse and diversified networks, can often find itself in conflict with citizens who want greater agency and control of their money, and what their money does. Zopa used technology and innovations to make p2p lending "bigger and better" and provide a real alternative to the conventional model of bank lending. However, in the end it was increasingly difficult to scale the business profitably. A full banking licence acquired in 2020 offered new routes to profitability and, ultimately, returns for its shareholders. Zopa has explained that increasing regulatory pressures and uncertainty contributed to the decision, as well as the effect of high-profile failures of both p2p lenders and unregulated investments. The exit of this and other big players from the sector raises questions for the Financial Conduct Authority (FCA) as to whether the response to the high-profile but individual failures of platforms has been proportionate, and what that means for the regulator's other statutory objective to promote competition in financial markets. The pace of innovation in the sector has slowed markedly in recent years, with more than 16% of authorisations being withdrawn or rejected and an almost constantly moving set of rules and guidance, which undermines fintech investor confidence due to regulatory risk. Perhaps these applications were not up to scratch, but the cost in time, effort and money required to achieve authorisation has grown significantly, as the regulator has reacted to scandals both within and beyond its "regulatory perimeter". The exit of Zopa from p2p lending raises very real questions about whether the financial regulator is doing enough to encourage innovation that makes money useful to society as opposed to sitting in bank deposits as cash.

Is the regulator's continuous push for new rules discouraging innovative businesses? Away from more democratic and equitable models of lending and borrowing – turning the clock back to when banks dominated the financial high street? For the sake of our democracy, let's hope not.

Peer-to-peer lending is considered a high-risk strategy and investors do not have the protection of the Financial Services Compensation Scheme. Individual advice is also recommended to assess suitability.

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Reduce your income tax bill

Yes, you can file without penalty until 28 February this year, but leaving it until the last minute is fraught with problems. If you are not registered with HMRC to complete your tax return online, you will need an activation code, which the website says will take up to 10 days to arrive. Here are some things to remember that may keep your income tax bill lower:

Income streams

Pull together annual statements for savings and current accounts and any dividend statements. Terrible savings rates mean that you might not have to pay any tax on that income. If you earn less than £12,570 you can earn up to £5,000 in interest without being taxed. Above that, there are allowances for those earning less than £17,570, and a personal savings allowance, too. The personal savings allowance means basic rate taxpayers get their first £1,000 of interest tax-free, while higher-rate payers get their first £500 untaxed.

Outgoings

You might be able to offset some of your outgoings against earnings. If you have made a capital gain through selling shares or an investment property, you can use losses from the same or a previous tax year to reduce it – you will need to register both on your form. For the self-employed, there are business expenses that can be claimed for including the cost of equipment and clothing. If you are an employee but have been forced to work from home because of the pandemic, you can make a claim for some of the associated expenses. For the 2021-22 tax year you can make an immediate claim for relief on £6 a week expenses online but if you did not do that for 2020-21 you do it in the employment section of the form.

Include charitable giving

Higher-rate taxpayers who have given money to charity out of taxed income may be able to reduce their bill by claiming gift aid. You will need to have claimed gift aid when you made the donation, which would have boosted the charity's coffers by 25p for every £1. On your form you claim the difference between basic and higher-rate tax. If you made a payment of £100 and the charity claimed 20%, you can claim the extra 20% of the total – £25. Regular monthly donations count, as long as you have signed up for gift aid, so include them.

Check your partner's earnings if you claim child benefit

If you or your partner claims child benefit then HMRC will be interested in both partners' earnings. If one partner earns more than £50,000 it will want some of the benefit paid back – the charge is tapered so that by the time one person earns £60,000 the whole lot must be repaid. The form asks if either of you claimed the benefit, and if your income is higher or lower than your partner's. It makes no difference whether you are married or not.

Property owner

Help to buy has pushed house prices up

The Government's Help to Buy scheme has inflated house prices in England, according to a House of Lords report. The Help to Buy: Equity Loan scheme will have cost around £29billion by the time it comes to an end in 2023, according to the report by the Lords' built environment committee. It said that this did not provide 'good value for money' for the taxpayer. In particular, it claimed that the value of homes in more expensive areas had been pushed up by 'more than the subsidy value' – meaning that home buyers would have paid less for their properties had the scheme not existed. This suggests that housebuilders charged more for their Help to Buy-eligible homes, knowing that buyers would be able to borrow 20% of the purchase price from the government, interest-free for five years. The report said the money would have been better spent on building more homes instead. If there are more homes available to buy, this can decrease house prices as supply and demand become more evenly balanced. Evidence suggests that, particularly in areas where help is most needed, these schemes inflate prices by more than their subsidy value, the report said. In the long term, funding for home ownership schemes do not provide good value for money, which would be better spent on increasing housing supply.

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Global growth expected to slow in 2022

Following a strong rebound in 2021, the global economy is entering a pronounced slowdown amid fresh threats from COVID-19 variants and a rise in inflation, debt, and income inequality that could endanger the recovery in emerging and developing economies, according to the World Bank's latest Global Economic Prospects report. Global growth is expected to decelerate markedly from 5.5% in 2021 to 4.1% in 2022 and 3.2% in 2023 as pent-up demand dissipates and as fiscal and monetary support is unwound across the world. The rapid spread of the Omicron variant indicates that the pandemic will likely continue to disrupt economic activity in the near term. In addition, a notable deceleration in major economies—including the United States and China—will weigh on external demand in emerging and developing economies. At a time when governments in many developing economies lack the policy space to support activity if needed, new COVID-19 outbreaks, persistent supply-chain bottlenecks and inflationary pressures, and elevated financial vulnerabilities in large swaths of the world could increase the risk of a hard landing. The slowdown will coincide with a widening divergence in growth rates between advanced economies and emerging and developing economies. Growth in advanced economies is expected to decline from 5% in 2021 to 3.8% in 2022 and 2.3% in 2023—a pace that, while moderating, will be sufficient to restore output and investment to their pre-pandemic trend in these economies. In emerging and developing economies, however, growth is expected to drop from 6.3% in 2021 to 4.6% in 2022 and 4.4% in 2023. By 2023, all advanced economies will have achieved a full output recovery; yet output in emerging and developing economies will remain 4% below its pre-pandemic trend. For many vulnerable economies, the setback is even larger: output of fragile and conflict-affected economies will be 7.5% below its pre-pandemic trend, and output of small island states will be 8.5% below. Meanwhile, rising inflation—which hits low-income workers particularly hard—is constraining monetary policy. Globally and in advanced economies, inflation is running at the highest rates since 2008. In emerging market and developing economies, it has reached its highest rate since 2011. Many emerging and developing economies are withdrawing policy support to contain inflationary pressures—well before the recovery is complete.

Investor / Saver / Retired / Employee / Business Owner

Sunak set to boost pensions?

Rishi Sunak, UK chancellor, is facing calls to revisit his decision last year to suspend the "triple lock" on annual state pension increases, adding to pressure on the government over big cost of living increases. Two former pensions ministers have urged the government to offer help to the most vulnerable, as they struggle to cope with rising energy bills and with inflation expected to rise above 6%. Senior Conservatives admit the issue is of increasing concern to Tory MPs. "It's just begun," said one. "Some people want the triple lock reinstated." Ministers say they are braced for parliamentary trouble. Tory MPs are already urging Sunak to take a range of measures to alleviate cost of living pressures, including cutting VAT on energy bills, suspending "green levies" on fuel bills or scrapping planned tax rises in April. Since 2011, people have received protection for their state pensions under the triple lock, which guaranteed an annual rise based on inflation, average earnings growth, or 2.5%, whichever is the highest. The Conservatives pledged to maintain it in the party's 2019 general election manifesto. Under the triple lock, the state pension would have risen in April by more than 8%, thanks to a Covid-related anomaly in average wage growth, surpassing Goldman Sachs's expectation of 6.8% annual inflation in that month. But Sunak, under pressure to find savings, has suspended the wage element of the triple lock for one year; instead the state pension will rise by 3.1% in April, based on inflation in September 2021.

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Inflation hits 7%

President Joe Biden has attempted to play down a new annual inflation reading of 7%, the highest level in 40 years, by branding it a 'global' issue that his administration is making 'progress' with.

The consumer price index rose 0.5% last month after surging 0.8% in November, with Biden apparently trying to highlight this slowing rate of growth as an achievement. The increase pushed annual inflation to 7% in December, which is the highest level since June 1982, and up from November's 6.8% annual rate. In a statement, Biden called inflation 'a global challenge' and claimed the latest numbers were good news, showing the monthly rate of price increases slowed in December from the previous month.

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Wealth inequality rises

The ONS's latest figures on what has been happening to wealth in Great Britain, released in January 2022, are already out of date, covering only the period up to March 2020, and therefore missing the effects of the pandemic. But they are also limited in another way: they underestimate the share of wealth going to the richest households. Given the debates about inequality, discussion about wealth taxes to pay for COVID-19, and the growing importance of inherited wealth as a share of lifetime resources, it is important to get this right. Looking back at the past 12 years of the ONS survey, the figures show that total wealth in Great Britain has risen from £10.4tn to £14.6tn (in 2016–18 prices), meaning average household wealth has risen from £402,100 to £564,300. Over the same period, the share of all wealth held by the wealthiest 10% of households has risen very slightly, from 44% to 45%. However, there are two problems with these figures. First, they do not include business wealth, which is an important source of wealth for the wealthiest households. Second, they substantially under-record the total wealth held by wealthy households, since, unsurprisingly, the very wealthy do not tend to respond to such surveys. Adjusting the data to account for business wealth – which is measured in the survey but excluded from official statistics – we find that total wealth in Great Britain is £0.7tn higher in 2016–18. This is about 5% of the current estimate, and the proportional underestimate has been similar back to 2010–12. After adding in wealth observed in the Sunday Times Rich List and using a statistical approach to correct for the under-representation of other wealthy households, total wealth is higher still, by £0.5tn in 2016–18. Total GB wealth is therefore underestimated in the ONS figures by about 8%. After making these adjustments, the level of inequality is also higher. Adding business wealth into the calculation, the share of wealth owned by the wealthiest 10% of households actually rises significantly, by two percentage points. Consistent with the ONS figures, this has remained broadly steady over the period. Correcting for missing wealth at the top, we find the share of wealth going to the top 10% is further increased slightly, to around 47%, and still flat.

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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