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Technical Update No. 92 21st January 2022

All

Pizza buy now pay later raises debt concerns

Consumer finance company Zilch is getting flak for trying to encourage UK consumers to use buy now, pay later (BNPL) plans to buy cheap supermarket pizzas and other treats that fall outside the typical definition of BNPL purchases, the Financial Times reported recently. Zilch virtual cards are accepted at thousands of UK retailers, including grocery stores, and allow users to pay for one-fourth of their purchase upfront and spread the rest of the payments across six weeks, according to the report. Critics say using BNPL for anything but larger purchases will increase personal debt for account holders, the report stated, but Zilch defended the advertisements and the message behind them.

All

Inflation at its highest for 30 years

Britain's cost of living crisis worsened in December after inflation jumped to 5.4% – its highest level in almost 30 years – driven by the higher cost of clothes, food and footwear. Heaping further pressure on Bank of England policymakers to raise interest rates when they meet next month, the price of furniture and eating out also increased as staff shortages pushed up wage costs and hold-ups at UK ports hiked the cost of imports. The Bank expects the consumer prices index (CPI) to rise to 6% by April, while some analysts have forecast it could hit 7% unless the government decides to pump billions of pounds into the energy sector to cap spiralling heating costs. Speaking to MPs in parliament, the Bank's governor, Andrew Bailey, said financial markets now expected energy prices to remain high until mid-2023. This follows forecasts only a few months ago of a decline this summer. Bailey said energy prices had been a significant inflationary pressure last year and were responsible for about 1.5 percentage points of November's 5.1% inflation rate. The Labour MP Rushanara Ali said that implied Ofgem's cap on bills in April would have the effect of reducing inflation and easing the cost of living crisis. Figures for wages in November showed pay packets increased by 4.2%, including bonuses, on the previous year, but fell behind the rising cost of living by 0.9%. Unless there was a leap in wages in December, the increase in prices will leave the average worker even worse off. The only positive sign for the chancellor, Rishi Sunak, who has come under intense pressure to provide funds for low income families to cope with rising costs, was that the Office for National Statistics reported a downward trend in the monthly rise in CPI. It increased by 0.5% in December, down from 0.7% in November and 1.1% in October.

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Investor / Saver / Retired

Retirement fundamentals

Every month, more than ten million people squirrel away some cash towards retirement. But are we saving enough to live comfortably in later life – and retire when we want? Surprisingly few people are able to answer that question. Although one in four aims to retire at age 60, many simply have no clue what their pension savings will afford them. No two retirements are the same. The amount you will need will depend on a multitude of variables, including the type of lifestyle you want, the state of your health, your normal expenditure, who else you live with and much more. The figures are only a guide to give you a sense of the level of saving you may need to consider. For these calculations, The Telegraph has assumed that pension contributions are fixed every month, and that investments grow at five per cent a year, inflation is two per cent, and annual management charges on your pension are 0.5%. They have also assumed that the pension pot will be used to buy a single life annuity to provide an income for life. In reality, many savers are choosing not to buy an annuity, but rather to manage their own pension income through drawdown. If you start early, not only do you have longer to build a sizeable retirement pot, but thanks to the power of compound interest, the pension contributions that you make early on have time to grow with no extra effort from you required. So, for example, if you want a moderate lifestyle in retirement from the age of 65, you would need to save £355 every month from the age of 22. But, if you started saving at the age of 40, you would need to save almost double that amount – £690, to have the same retirement. In fact, so valuable are those pension contributions early on in your career that if you saved £100 a month from the age of 18 to 38 (20 years of saving) and then stopped, you would likely have more by the time you hit retirement age than if you saved £100 a month from age 38 to 68 (saving for 30 years). The simplest way to achieve a comfortable retirement is to start saving early, regularly and save as much as you can. But that's easier said than done. When times are tight – as they are set to be this year in particular with rising household bills and inflation – sometimes it can be hard to prioritise an event years or even decades away. So, another option is to delay retirement if you can. For example, to receive a comfortable income from the age of 55, you would have to save a massive £1,360 a month from the age of 22. But if you delayed retirement until age 70, you would need to save £555 per month.

Investor / Saver

Government cracks down on crypto currency promotions

The British government is the latest country to strengthen rules around the advertising of crypto-assets as it aims to legislate against misleading promotions. In the same week that Spain issued stronger guidelines around cryptocurrency advertising and Singapore banned their promotion to the public, in Britain new rules will be introduced with the aim of protecting consumers. According to the government's announcement on the new rules, around 2.3 million people in the UK own a crypto-asset despite a lack of understanding of what they have bought, increasing the potential that such products can be "mis-sold". The government has said it plans to place such advertising under the legislation of the Financial Conduct Authority (FCA), bringing it in line with standards held around the promotion of other financial promotions, such as insurance, stocks and shares. Describing crypto-assets as "exciting new opportunities" for investment, the British chancellor of the exchequer, Rishi Sunak said in a statement that it was "important that consumers are not being sold products with misleading claims." He explained the need to provide protection but also to support innovation within the crypto-asset market too, but said that—following research undertaken by the FCO around misleading ads promoting crypto-products—it was clear there was "potential" to cause consumer harm. Sunak said that measures will include new legislation being introduced around investments and activities—bringing it under the Financial Services and Markets act of 2000, which prevents businesses from promoting financial products without authorization by the FCA or the Prudential Regulation Authority (PRA).

All

Plan B measures hit hard and oil prices at a seven year high

Plan B measures hit retailers by more than expected in December as official figures today showed sales volumes slumped 3.7%. Clothing retailers and department stores were among the worst affected, with this week's headline number from the Office for National Statistics much worse than the 0.6% decline forecast. City traders, meanwhile, face a difficult end to the week after sentiment was hit by a late sell-off on Wall Street and Netflix shares fell more than 20% in after-hours trading due to disappointing subscriber numbers. The streaming giant's shares slid 20% after Wall Street's closing bell, having revealed it expects to add 2.5 million new paying subscribers in the current quarter compared with four million last year. Tech and high growth stocks on both sides of the Atlantic are vulnerable to US rate hike expectations as their present values are built around future cash flows. The Nasdaq is at a three-month low and the S&P 500 is more than 6% lower so far this year amid other disappointing earnings updates. The UK stock market has been much more resilient and continues to be in positive territory for 2022, but the margin is narrowing after the FTSE 100 index fell 57.23 points to 7527.78. Fears that Russia could be about to invade Ukraine added to London's risk averse mood, with commodity stocks including Anglo American down 2%. Oil prices on Tuesday climbed to their highest since 2014 as investors worried about global political tensions involving major producers such as the United Arab Emirates and Russia that could exacerbate the already tight supply outlook. BP shares retreated 5p to 384.15p after higher-than-expected crude inventories sent the Brent price down 2% towards $86 a barrel.

Investor / Saver / Business Owner

More high earners considering VCTs

VCTs bounced back in 2020/21, raising 4% more cash than the previous year and almost twice as much as a decade earlier. The current tax year is expected to see even more cash flood in, as investors shelter their money from dividend tax rises in April. But while the tax benefits are impressive, VCTs come with huge risks. Demand for VCTs waxes and wanes depending partly on rule tweaks. In 2019/20 demand fell back because the rules were tightened to restrict where VCTs could invest, which made them a riskier prospect. The change was made in 2017, but it took effect more gradually. It is also driven by changes in tax rules, and the 1.25 percentage point rise in dividend tax is expected to trigger a bumper year for VCTs. Demand also soars every time pension allowances get less generous, forcing those with higher incomes and large pensions to look elsewhere for tax relief. They came close to record highs between 2017 and 2019, when the pension lifetime allowance dropped from £1.25 million to £1 million. Tax-efficient investment gets more difficult as your income and your pension grow. The tapering of pension allowances for higher earners, the introduction of annual allowances and the shrinking of lifetime allowances have all meant investors looking elsewhere for tax relief. ISAs are a sensible first port of call, but once the annual allowance is used, they will cast the net wider, and VCTs offer substantial tax perks. The right VCT investment doesn’t just offer tax breaks, it also aims to offer potential capital growth and provide a stream of higher dividends, which look particularly striking at a time of lower interest rates.

VCT’s are considered a high-risk investment strategy and individual advice should be sought to ensure suitability.

All

Avoiding self-assessment pitfalls

Almost half the 12.2 million taxpayers who are due to file a self-assessment return for 2020-21 have yet to do so. HM Revenue & Customs has given workers an extra month to complete their returns, but you should still try to file by the end of January if possible. A huge incentive to do so is that interest on tax paid late is charged at 2.75%, even though no late filing penalties will apply until February 28. Changing deadlines are not the only thing to be worried about. Our tax system is full of peculiar rules and quirks which could catch you out. Here are some to be wary of this tax season:

- Don't forget to report property gains. If you made a taxable gain on residential property, then it should have been reported to HMRC online within 30 days of completion.
- Avoid falling into a trust tax trap. A similar problem can arise if you are the beneficiary of a trust. Depending on the type of trust you may have to declare the income or gains on your self-assessment return.
- Higher earners should claim their full pension relief allowance. Pension contributions to a self-invested personal pension are made with basic-rate income tax relief given at source, but you will miss out on any higher-rate relief if you do not complete the box to claim this on your return.
- Double check your pension contributions. More taxpayers are being trapped by the annual allowance tax charge. The allowance is £40,000 a year or equal to your salary, whatever is lowest.
- Pay tax due on your company shares. More people are benefiting from company share incentive schemes. Unless the scheme is a qualifying tax favoured scheme there is a charge to income tax when you become beneficially entitled to the shares, based on the market value of those shares.

All

State Pension system 'not fit for purpose'

The UK's state pension payment system is not fit for purpose, resulting in the "shameful shambles" of an underpayment scandal that left tens of thousands of pensioners short-changed, according to a scathing report from a committee of MPs. The public accounts committee (PAC) also lambasted the Department for Work and Pensions (DWP) for its "complacency" and accused it of not having been "sufficiently transparent" to parliament about the problems. In September last year it emerged that the DWP was estimating it had underpaid 134,000 pensioners, mostly women, a total of more than £1bn of state pension cash that they were entitled to. At the time, the National Audit Office said this long-term underpayment of state pensioners – some problems date as far back as 1985 – was the result of repeated errors that were almost inevitable amid complex rules and outdated IT systems. It emerged that those affected, that the DWP could trace, would be paid an average of £8,900 each. The state pension is paid to around 12.4 million people, and these errors affect pensioners who first claimed it before April 2016 and who do not have a full national insurance record or should have inherited additional entitlement from their deceased partner. Of the 134,000 people hit by these problems, it is thought that 94,000 are alive – about 0.9% of those currently claiming the pre-2016 basic state pension. Where those affected have died, the department owes the pensioners' estates. The PAC decided to investigate the issue, and said the underpayments uncovered ranged between one pence and £128,000. Responding to the report, a DWP spokesperson said resolving the historical state pension underpayments that had been made by successive governments was a priority, and it was committed to doing so as quickly as possible.

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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