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All

The impact of no-fault divorces so far

New divorce laws caused a 'bulge' in cases this spring as couples sought to navigate the rule changes, new figures reveal. Nearly 13,000 applications were filed in April, and just over a fifth were made jointly - an innovation now permitted under the 'no fault' law. A similar number also filed for divorce in March, which lawyers put down to a rush of couples already near agreement trying to get cases sorted and financial settlements under way ahead of the rule change on 6 April. Official efforts to reduce the family court backlog might have played a part too, they explain. Couples can now get divorced within six months of first applying even if one partner is opposed, and the process will be largely online - including the serving of divorce papers by email. Financial settlements will still be dealt with in a separate and parallel process which can continue after the divorce is final. The high rate of applications around the launch of the no-fault law compares with the nearly 9,400 cases filed in February this year, and around 8,700 in April 2021, according to figures announced by HM Courts & Tribunals Service (HMCTS). HMCTS has now started publishing numbers broken down between sole and joint applications, rather than digital and paper ones. However, experts have warned speedy 'no fault' divorces could make splitting financial assets like pensions fairly more challenging. The new emphasis on haste could undermine the effective sharing of pension wealth at divorce, according to former Pensions Minister Steve Webb and family law barrister Rhys Taylor, who earlier this year published a joint paper warning of the pitfalls. They say financial orders are only made in around one in three divorces, and not all of these orders cover pensions. They add that research indicates divorced women in particular often end up with very low pensions in retirement and are concerned the new process could make matters worse.

Estate Planner

IHT loophole closed

Families face selling off treasured ancestral homes as a valuable inheritance tax "get around" is made all but redundant. Rising interest rates have made a previously helpful system unaffordable for families and could force them to sell up property to settle death duty bills. The issue stems from the tax office allowing families to pay IHT bills in instalments, albeit charged with interest. This is so families could avoid selling properties to meet HMRC's rule of settling the divisive 40% death duty within six months of death – regardless of whether the inheriting family has obtained legal access to money held within an estate. Bills were split into 10 payments with interest paid at the Bank of England rate plus 2.5 percentage points. However, the Bank Rate has risen from 0.1% to 1.25% since December. The sharp rise has added thousands of pounds to instalments, meaning families could be forced back into selling properties. A family inheriting a £1m property from an unmarried relative, for example, would be faced with a £200,000 death tax bill. With the Bank Rate at 0.1%, they would have paid just £23,400 in interest over 10 years. However, with rates at 1.25%, it would now cost £33,750 over the same period. The rates are variable, meaning families who signed up last year have faced huge increases in their repayments this year. If the Bank Rate rose to 3%, as predicted by investment bank JP Morgan, a family would be faced with close to £50,000 in interest on their 10-year IHT payment plan – more than double the amount compared to last year. Experts believe that as the cost of HMRC interest payments rises, many families will find them unaffordable and will be forced to sell.

Property Owner

Disposable income hit for homeowners with fixed mortgage deals about to expire

Homeowners coming off fixed-rate mortgages this year and shifting to a new deal can typically expect to see their disposable incomes shrink by 7%, analysis by a trade association suggests. The expected decrease in the amount of income that households will have left over to spend and save at their discretion is due to a combination of rising mortgage interest rates and the surging cost of living. UK Finance said it is expecting some upwards pressure on mortgage arrears as cost pressures tighten, particularly among households on lower incomes. According to UK Finance, 1.3 million customers are set to reach the end of their fixed-rate deals this year and, unless they re-mortgage, they will move on to their lender's standard variable rate (SVR). A "trends in the economy and lending" analysis paper published by UK Finance said: "On average, we estimate the combined impact of cost-of-living and re-mortgage onto a new deal would result in around a 7% decrease in their free disposable income." The impacts vary significantly, depending on when the previous mortgage was taken out, UK Finance said. Five and two-year fixed-rate deals account for around two-thirds of those fixed rates maturing in 2022. Around 9% of those whose fixed rates are due to end this year, or around 117,000 borrowers, will have less than 10% of their income left over as disposable income after moving to a new deal, UK Finance estimates.

All

Who will HMRC target next

Sky Sports presenter, Alan Parry, has had his appeal against a £356,420.37 IR35 tax bill dismissed at a First-Tier Tax Tribunal hearing. Parry was contesting that the contracts his limited company, Alan Parry Productions Limited, held with BSkyB between tax years 2013/14 to 2018/19 reflected an employment relationship, rather than self-employment. But due to the Judge taking the view that Mutuality of Obligation (MOO) existed between Parry and Sky, with the presenter also said to have worked under the control of the broadcaster, it was decided that the engagement belonged inside IR35. It leaves Parry with a tax bill of £356,420.37, made up of £222,474.40 of Income Tax and £133,945.97 in National Insurance Contributions, although Corporation Tax already paid by Parry will be offset from this amount. The presenter could also appeal again. The sums alone in this case highlight the staggering cost of getting IR35 wrong. After Eamon Holmes, Gary Lineker, Lorraine Kelly and several others, Alan Parry is the latest in a long line of high-profile presenters caught up in IR35 cases with huge tax liabilities. Whichever way you look at it, the £356,000 tax bill handed to Parry is a firm reminder of the importance of IR35 compliance – something that contractors and businesses must prioritise. Digging into the details, it seems that the contracts held between Parry and Sky didn't necessarily reflect the reality of the engagement, which HMRC will likely pay close attention to in the event of an IR35 investigation.

Retired

Why 2022 is a bad time to retire

This year's plunge in the stock market, unprecedented crash in the bond market, and surging inflation threaten new retirees in ways not seen before, according to experts. The Jan. 1, 2022 retiree is retiring under conditions which have no certain precedent in the historical records. If the recent surge in inflation isn't brought under control, some believe we may witness history being made, and the first decline in the 'safe' withdrawal rate in more than 50 years. Plunging stock markets and runaway inflation mean that the 700,000 people reaching state pension age in 2022 will risk their savings not lasting long enough to cover their retirements. Pension pots will run dry four years sooner for those retiring this year than those who did in 2021, as their savings have shrunk 12%, calculations for Telegraph Money by consultancy LCP have found. A dramatic jump in the cost of living has meant that pensioners will need to draw extra income from their pensions to maintain their lifestyles. As such some commentators are advising, if possible, take out a little less from your retirement account for the time being — at least until there is a clearer picture on where stocks, bonds and inflation are headed.

Property Owner

Mortgage shock as rates soar

In mid July, The Bank of England announced the fifth consecutive increase to interest rates taking it up to 1.25% from 1%o, which is the highest seen since 2009. The move was done to try and curb inflation which is expected to reach 11% towards the end of the year. Homeowners who are on a Standard Variable Rate (SVR) or tracker mortgages will be hit the hardest by the latest interest rate increase. This is because these mortgages 'track' the Bank of England's base rate and the monthly payments fluctuate with changing interest rates. An analysis by the financial services company AJ Bell found that at the current average variable rate someone with £400,000 of borrowing will need to pay £624 extra each year. If a person has borrowed £250,000 for their mortgage then they are going to have to find a further £384 a year and a £100,0000 mortgage will need an extra £156 a year. The firm added that as 85% of all mortgages and 94% of new mortgages are on a fixed rate deal most people will be protected from the increase. The bigger shock will come when their deal is up and they re-mortgage – then they will face the full effect of all the recent interest rate hikes in one go. Someone who locked in record low mortgage rates in recent years would face a real financial shock if they came to refinance that debt today. The increase in the base rate from 0.1% in April last year to 1.2% will now mean that someone borrowing £100,000 could have an increase in payments of £648 extra a year, assuming mortgage rates had risen by the same amount. Those borrowing £250,000 will have to find an extra £1,632 a year to cover the payments and for £400,000 it's an eye-watering £2,604 extra a year. For borrowers on repayment mortgages they will have reduced their balance since they last brokered a mortgage, shielding them to some extent.

Property Owner

What next for house prices?

UK house prices defied expectations of a slowdown and increased at their fastest pace in 18 years, boosted by a shortage of properties for sale, the mortgage provider Halifax said. Property prices grew at an annual growth rate of 13% in June, up from 10.5the previous month and at the fastest pace since late 2004. Prices rose 1.8% from May, the fastest since early 2007, pushing the typical UK house price to another record of £294,845. Commentators observed that demand is still strong — though activity levels have slowed to be in line with pre-Covid averages — while the stock of available properties for sale remains extremely low. Most expect rising interest rates and the cost of the living crisis to end the pandemic-induced property boom, but prices appear to have been largely insulated from the cost-of-living squeeze. Experts believe that this is partly because the increase in expenses was being felt most by people with lower incomes, who are typically less active in buying and selling houses. In contrast, higher earners are likely to be able to use extra funds saved during the pandemic, with latest industry data showing that mortgage lending has increased by the highest amount since last September. But inflation has soared to a new 40-year high of 9.4% in June – and this brings a dangerous triple whammy for house prices. Plunging real wages are hitting buyers and homeowners' pockets just as high inflation pushes the Bank of England to raise interest rates, which when combined, has drastically reduced people's ability to afford a mortgage. The fewer people can take out a loan, the fewer there are to buy homes.

Investor / Saver / Retired

Pension protection failures

A report into the handling of the BSPS saga by the Public Accounts Committee, published on July 21, looked at how the regulator handled the issue, the proposed redress scheme, and how prepared the FCA is for future risks. The committee found that the FCA was "consistently behind the curve" and, despite being aware of the potential risks caused by pension freedoms being introduced in 2015, it "failed to take preventative action to protect consumers". The group of MPs said that by 2017 when the BSPS was well under way, the FCA still "did not know" what was happening in the defined benefit market and it had "inadequate oversight of the firms involved", only later finding out that in "47% of cases the advice provided was unsuitable". The committee also pointed to wider problems in the FCA's authorisation and oversight of small companies, with which the FCA acknowledged there were clear issues. "The FCA's lack of access to timely data and insight into the DB pension transfer market indicates that the regulator was slow to understand the risks to pension members and how to effectively monitor these," the MPs said. This was also made worse by the FCA's focus on regulation of big firms, which left smaller firms out of the spotlight as the former chief executive of the FCA admitted. It accused the FCA of failing to protect BSPS members from "unscrupulous financial advisers" who were incentivised by existing fee structures and regulation to provide unsuitable advice, which led to around 7,800 steelworkers losing an average £82,600 in life savings, with some losing up to £489,000.

Investor / Saver

Benefiting from a weak pound

Data showed the UK economy defying expectations with growth of 0.5% in May, a rare piece of good news for the pound. Save for a temporary upward blip following the resignation of Boris Johnson, events so far this year have largely been one-way traffic for sterling. Expectations that aggressive hikes in US interest rates won't be matched by similarly dramatic moves by the Bank of England have contributed to the pound falling from around 1.42 versus the dollar a year ago to just a little over 1.18. The pound's weakness is undeniably a concern. For one thing, international commodities are generally priced in dollars, and that has added to the costs of British businesses and consumers. According to Ernst & Young, 72 UK listed companies issued profit warnings in the first three months of this year, and 43% of those warnings were down to rising costs. Unsurprisingly perhaps, the largest number of warnings came from consumer facing sectors. That makes sense. From the cost of fuelling the average family car to the price of a weekly supermarket shop, the brakes are slowly but surely being applied to us and the economy in general. We all face higher mortgage rates and a further raising of OFGEM's energy price cap in October too, meaning the light at the end of this 1970s-style inflationary tunnel may still be a little way off. The problem of a weak currency is not only a British one. The euro hit new depths last week as well, dropping to parity with the dollar for the first time in two decades. Even more so than the Bank of England, the European Central Bank appears minded not to be unduly swayed by a short term rise in inflation in an environment where the risks of a European or even global recession are mounting. Those decisions have consequences at a time when the dollar is benefitting from a general air of uncertainty about the outlook for the global economy. The dollar remains resolutely the world's number one reserve currency. There's not much if anything we can do about short term swings in currency markets. What we can do as investors though is incorporate our thinking about currencies into how we decide to invest. The smart money is on maintaining a portfolio of investments diversified by country and, by implication, currency as well. That way the unwanted effects of large, often unpredictable currency movements on investment returns should be minimised.

Investor / Saver / Retired

£50 billion lost assets

Could you be due a share of £50billion the nation has collectively mislaid down the back of the sofa? This staggering sum is the estimated value of lost and forgotten bank accounts, savings products, pensions and investments in the UK. Collectively known as "dormant assets" according to a new report, an estimated 20 million people have lost touch with financial providers over the years. This includes some £37billion in lost pensions; £4.5billion in lost bank and building society accounts; £2.8billion of assets held by wealth managers; £2.5billion worth of lost share holdings and £2billion of life cover and long-term savings policies. Ministers say that £3.7billion of assets currently "sitting idle" will be brought into scope by expanding the dormant assets scheme to cover a much broader range of financial products. It is hoped that £2billion of this money can be reunited with its rightful owners under the scheme's "reunification first" principle, but a further £880million could be given to good causes over time. In England, £100million already released via the scheme has been directed at improving financial inclusion. Providing affordable credit for low-income customers locked out of mainstream financial products has resulted in estimated interest savings of £50 -£75million for these customers, according to Fair4All Finance, the body distributing the cash. With more family budgets sinking into the red, the need is even greater. The problem? There aren't enough affordable loans to meet demand. A recent study estimated that 1mn people in the UK are borrowing money from loan sharks, yet the community lending sector is ready to scale up and, with further funding, could get this money to work very quickly.

Business Owner

Small British businesses in need of support

Right now, the UK's 5.5m-strong SME community is placing a forensic focus on the economic pledges offered by the candidates in the Tory leadership race. Corporation Tax increases, Corporation Tax cuts, National Insurance rise reversal, a pause on VAT, regional business rate holidays and income tax reductions are all in the mix. You'd have to be an economist with insomnia to be able to predict which of these totally opposing proposals are going to help grow our economy, in the context of today's volatile global political system. But one thing that the next incumbent could do to genuinely unlock economic growth is to dramatically increase spending with UK small businesses. Procurement, or the Government's budget for buying the services or products it needs from private sector businesses, accounts for a third of all government spending, and over a tenth of all spending in the economy. It ranges from significant advisory support at the highest levels of seniority, buying in security services to stocking crisps in vending machines – and everything in between. It also includes the services and products purchased at a local level by Councils and Combined Authorities, think school dinners, cleaning services and wheelie bins. But it's got a bit of an image problem. Procurement is not the sexy end of the economy, and it comes under a lot of scrutiny because it's taxpayers' money. But it also means the Government has more power comfortably within its own grasp to unlock economic growth and support the business community than many actually understand. Rethinking the way it spends and makes those key decisions, is the focus of a new report Enterprise Nation has unveiled. It demonstrates how transforming procurement could help to create a much more dynamic economy that benefits us all. There are 5.5million SMEs in the UK employing 16million people. The Government has done a great job of encouraging the growth of the UK's start-up and small business ecosystem. The next logical step is to play a role in their growth, by ensuring they are buying from them, either directly, via consortiums or through larger businesses that make a point of working in partnership with small firms.

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