CHAMPAIN
FINANCIAL SERVICES

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

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

Technical Update No. 107 21st October 2022

Employer / Employee

IR35 questions remain

Since Mr Hunt's recent decision, the focus from contractors affected by those private and public sector rules, respectively, has become laser-like on two issues. First, who the actual victims, the tangible losers, of IR35 reform repeal being cancelled are. And second, what the continuance of the frameworks really means. That continuance was highlighted by both HM Treasury and HMRC in comments responding to IR35 reform repeal being rowed back on. "With or without the reforms, the underlying rules on off-payroll working are unchanged," began a Treasury spokesperson. "Therefore, anyone working like an employee should pay similar tax as someone who is directly employed." An HMRC spokesperson said: "We will continue to support contractors and engagers to understand what they need to do and help them to get their tax right." While HMRC said much the same after Mini-Budget's vow to repeal IR35 reform, taxpayers at least now have guidance (on IR35 of 2000), whereas guidance on repeal never emerged. In February 2022, the NAO found "HMRC did not give public bodies sufficient time to prepare" and in May, the PAC found "the reforms were rushed in by HMRC". Asked if fresh guidance would be incoming, the HMRC official said: "We delivered an extensive programme of education and support before the reforms took effect. And we have continued to adapt our approach to improve compliance with the rules and support organisations to get things right." Organisations appear to be among the losers of Mr Hunt's decision to cancel the cancellation of IR35 reform.

Property Owner

Which way to go with your mortgage

Mortgage rates have reached their peak and could start to come down over the next few weeks following the UK government's U-turn on much of its September "mini" Budget, brokers have said. Rates on many fixed deals have risen to their highest levels since the 2008 financial crisis, after UK government bonds sold off in the wake of former chancellor Kwasi Kwarteng's £45bn package of unfunded tax cuts. The sharp jump in government bond yields forced lenders to withdraw home loans for new customers, as they had become difficult to price, leaving many prospective homeowners scrambling for a limited number of mortgages. But brokers have said that rates on fixed deals were "at a peak" and that lenders would start reducing them in the coming weeks, after a rebound in the gilt market sparked by new chancellor Jeremy Hunt's reversal of many of the tax cuts. Commentators believe that Hunt's announcement of a medium-term debt-cutting plan on October 31 would be important. Provided the chancellor maintains this tone most commentators can see the potential for yields to fall further. Furthermore, lenders could make more substantial rate cuts after the Bank of England's Monetary Policy Committee meets to vote on an interest rate rise in early November. The consensus seems to be of cautious optimism that the next few weeks will be the peak for fixed rates, though they will likely remain at this level until November. Given the unprecedented political and economic uncertainty It might be a few weeks or a few months before any a fall comes through, believe most commentators, who have warned not to expect a dramatic decline in rates, or a return to anywhere near where they were.

All

Inflation hits 40 year high

Britain's inflation rate rose to a 40-year high of 10.1% in September, as soaring food costs more than offset price declines at petrol pumps. The jump in inflation as measured by the consumer price index exceeded economists' expectations, rising from 9.9% in August. It was driven by the highest food price increases in decades. At more than five times the Bank of England's 2% target, the double-digit rate will also add to pressure on the central bank for a large interest rate rise on November 3. The September inflation figures are also particularly important because they are normally used for increasing benefits and pensions the following April. With food prices rising at a multi-decade high of 14.6%, economists said poorer families would be hit hardest. Experts believe the rise in essentials such as food and drink - where prices are now rising at over 14% - underlines the need for greater support for the most vulnerable households this winter over and above the energy price cap. The details of the inflation figures showed there was an increase in the core index as well as higher food prices. The Institute for Fiscal Studies estimated that, with food and energy prices rising fastest, inflation for the lowest-income tenth of the population was 12% compared with 9% for the richest tenth. The Office for National Statistics, which released the figures, said the overall consumer price index rose 0.5% in September compared with August, a larger increase over the month than in 2021 when the index rose only 0.3%. The BoE will need to weigh the additional price pressures against the government's U-turns on unfunded tax cuts and less generous relief on household energy costs, which will reduce medium-term pressures on prices.

Investor / Saver

Investing to beat inflation

With the latest figures it is clear that inflation isn't going anywhere soon. The announcement for September saw prices rise by 0.4%, which brings the annual rate of inflation down ever-so-slightly to 8.2%. In the context of a target inflation range of between 2-3%, the current rate is still eye wateringly high. With the Fed determined to bring it down through the hiking of interest rates, it is likely to continue to slowly come back down to earth. The problem is that this could take a while, and investors still need to generate returns in the meantime. Luckily, there are several different investment assets that hold up well against inflation. A little bit of inflation is often considered a good thing for the economy as a whole. Prices that are rising modestly encourages people to go out and earn more and invest their money and encourages companies to innovate and improve their businesses. This is because if your wealth or income stands still, it goes backwards in real terms slowly over time as prices rise around you. When inflation gets too high though, it puts pressure on household budgets and can reduce spending on certain things. The last year or two has been a perfect example of this. With the price of necessities such as gas, energy and food rising so much, many households have had to cut back on discretionary spending like electronic equipment, entertainment, and vacations. With less spending in the economy, companies generate lower revenues which in turn means they hire fewer people or even lay them off. This creates a negative spiral that puts the brakes on economic growth and is one of the reasons why the stock market has crashed this year. There are a number of investments that can buck this trend when inflation is high. This isn't to say that all of these will always outperform inflation. Different market cycles can cause volatility for different reasons, so, as always, the key is to diversify across the different assets available, rather than go all in on one or two. They also won't necessarily grow at a rapid pace when inflation is high. In many cases, these assets are designed to simply hold their value rather than fall dramatically. For example, if the S&P 500 has dropped -25%, a return from another asset of -1% or +0.25% would be considered a very good result, even if it's still below your long term target return.

Retired / Home Owner

Equity release to the rescue?

The cost-of-living crisis has quickly become a cliché — but for good reason. It is likely that many people will struggle to uphold their standard of living for the next couple of years at least. Perhaps it is no coincidence that, earlier this year, Canada Life published data that showed 20% of equity release clients had borrowed in the first half of 2022 to support day-to-day living costs, up from just over 18% in 2019 and after having seen dramatic dips in the intervening years. With Nationwide showing that, even with growth slowing, house prices still rose 9.5% in September, representing tens of thousands of pounds for many homeowners, Mortgage Strategy went on a mission to see if current events had spiked interest in equity release and, if so, what brokers and their clients should be mindful of. While for some people equity release might be an appropriate way to deal with cashflow pressure arising from the cost-of-living crisis, it is a long-term product and needs to be looked at with the future as well as the present in mind. Brokers should explore any expenses that can be reduced and whether debt is the driver of the desire to explore equity release. The broker should also look at maximising the client's income by completing a full benefits check to ensure the client is receiving all the support they are eligible for. Other considerations to encourage the client to think about might include it being more sensible to downsize, or if there are alternative employment options, such as returning to work if retired. Commentators have expressed that while they have noticed more interest in equity release, this isn't as a result of the cost-of-living crisis, but for mortgage repayments, home improvements and to fix in current rates to hedge against further increases. The vast majority of lenders will only lend money for a specific reason, such as home improvements, debt consolidation or the purchase of another home. The increasing cost of living won't qualify as a valid reason as this would deem you a client in distress. On this theme, when asked if the Financial Conduct Authority's recent moves on the Consumer Duty will have any impact on recommending equity release, Uddin says: "No, because lending is always based on affordability, while the Consumer Duty principles are aimed at improved communication and support for the consumer, as well as better-value products."

Individual advice is always recommended before considering equity release.

END