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Investor / Saver / Parent

Locked out of child trust funds

150,000 learning disabled children are locked out of their savings because they lack mental capacity to open a bank account. An estimated 150,000 disabled young people have a Child Trust Fund; the average account value is around £2,000. The scheme was designed with an exceptional access policy for terminal illness, but nothing for mental capacity. By default, the daunting Court of Protection process has become the only route available to parents if their child needs help to access their savings. It requires the completion of 10 forms, containing 70 pages of questions. It is entirely paper-based and couched in legal jargon; seeking legal support could incur costs that outweigh the value of the savings. Approval can take up to a year and may require the applicant to become a Financial Deputy, which introduces another range of fees. The one-size-fits-all process is identical, whether you are a multi-millionaire, or an individual with one small savings account. To add to parent frustration, no warnings are given about the potential for court action when they opened these accounts, and most will already be approved to manage benefit payments on behalf of their child, using a different (and far simpler) mental capacity scheme operated by the DWP. Ministry of Justice records show that in 2021 there were only 20 court applications involving a single Child Trust Fund. When parents encounter the high barrier of court action, most are surrendering. This means thousands of disabled young people are being permanently locked out of their accounts, with an estimated loss of benefit to them of more than £300m. The individual sums may be modest, but the aggregate loss is equal to nine times the amount raised in this year's BBC Children in Need appeal.

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All

Jan 31st deadline

You have until 11.59pm on Tuesday 31 January 2023 to send HMRC an online tax return for the 2021/2022 tax year, which ended on 5 April 2022. You must act soon as those who miss the deadline face fines of at least £100. Around 4.3 million people had yet to submit their tax return as at 16 January, according to the latest HMRC data. Around 7.7 million have filed their return.

You will need to declare any Covid-19 grants or payments. - The 2021 to 2022 tax return covers earnings and payments received during the pandemic. You will need to declare if you received any grants or payments from the Government's Covid-19 support schemes up to 5 April 2022, as these are taxable.

You should have registered for self-assessment by 5 October 2022. - The deadline to register for a self-assessment tax return was technically 5 October 2022, but generally you will be OK if you register now, as long as you file the tax return itself before the deadline. If this is your first time filing a return, you can register by visiting the HMRC website. HMRC will then set up your self-assessment online account and send you a letter with your unique taxpayer reference, a 10-digit code, which you need the first time you log in.

You have missed the deadline for filing a paper return. - The deadline for filing paper returns for the 2021/22 tax year was 31 October 2022, so you must file your return online now to avoid paying a penalty. If you were to file a paper return now you would be fined. It's not just tax returns that need to be filed by 31 January 2023. The deadline for paying any tax you owe for the previous tax year (known as a balancing payment) and your first payment on account is also due on 31 January 2023. Miss these payments and you will be fined and charged interest. You can no longer pay the bill using a personal credit card or at the Post Office.

You could be hit with a £100 fine if you miss the deadline to file, plus extra penalties for paying the tax late. - If you miss the 31 January 2023 deadline, you will be charged a £100 penalty - even if there is no tax to pay. Further penalties of £10 a day are then applied after three months, up to a maximum of £900. After six months, you'll get a further penalty of 5% of the tax owed or £300 (whichever is greater), which is repeated at 12 months. There are also extra penalties for paying the tax late – these are charged at 5% of the unpaid tax after 30 days, six months and 12 months. The Government provides an online tool for calculating how much you will need to pay in penalties and interest if you miss the deadlines. You will need a reasonable excuse for not paying your tax on time. This is usually something unexpected or outside of your control that stopped you meeting a tax obligation. For example:

- Your partner or a close relative died shortly before the tax return or payment deadline.
- You had an unexpected stay in hospital that prevented you from dealing with your tax affairs.
- You had a serious or life-threatening illness.
- Your computer or software failed just before or while you were preparing your online return.

- Issues with HMRC's online services.
- A fire, flood or theft prevented you from completing your tax return.

Property Owner / Retired

Unlocking (tax free) cash from your home

Equity release loans allow homeowners over the age of 55 to access the value that has built up in their home, tax-free. The most popular type of equity release plan is a lifetime mortgage. This is where the property owner takes out a loan secured against their home which is worth up to 50% of its value. Crucially, they remain the sole owner. The loan and interest accrued is then repaid through the sale of the property when the last surviving borrower dies or goes into long-term care. As the interest accumulates it can become a substantial part of a home's value, although some plans now allow the interest or part of the loan to be repaid earlier to lower costs. After they have cleared any outstanding mortgage on the property, the homeowner can enjoy spending the rest of the money. As a nation of home lovers, it is no surprise that almost a quarter (24%) of those who took out equity release plans between January and May of 2022 used the money to pay for home improvements, making their 'forever home' an even more comfortable place to spend their golden years. It was the second most popular use of equity release funds, second only to repaying a mortgage, which was cited by 31% of respondents to Age Partnership. Equity release is not for everyone, however. One of the main downsides is that homeowners may not be able to pass their property on to their children after they are gone and repaying the loan with interest may result in a smaller-than-planned inheritance. However, some borrowers like the fact that they can use some of the money gained from equity release to make a financial gift to their family while they are still around to see them enjoy it.

All

Don’t forget to claim pension tax

Millions of savers contribute billions of pounds each year to pensions, with one of the main incentives being that those contributions receive tax relief at your marginal rate. People often mistakenly assume they will receive all their pension tax relief automatically from HMRC. However, whether you need to make a claim to HMRC to receive the tax relief you are owed will depend on several factors including your income, the type of pension scheme you contribute to and how you contribute. A higher-rate taxpayer who contributes £1,700 to a SIPP in the 2022/23 tax year would receive basic rate relief of 20% automatically. As a result, a £1,700 personal contribution would automatically be boosted by £425 to £2,125 in their pension – but they would need to claim the extra 20% tax relief (£425) they are owed from the taxman. An additional-rate taxpayer, meanwhile, could claim 25% tax relief from HMRC on top of the 20% relief they receive automatically. Higher-rate taxpayers who make larger pension contributions will have an even bigger incentive to fill out their tax return. For example, a higher-rate taxpayer making a £10,000 personal pension contribution would receive £2,500 basic-rate tax relief and be able to claim an extra £2,500 from the taxman. An additional-rate taxpayer who contributed £10,000 would be able to claim an extra £3,125 from HMRC. If you are a higher or additional rate taxpayer and have sufficient annual allowance available for the tax year, you should be entitled to tax relief at your marginal rate. However, you will only have to make a claim to HMRC if you are making personal contributions to a ‘relief at source’ scheme. Personal pensions, such as SIPPs, usually pay tax relief in this way. If you are contributing to a ‘net pay’ pension scheme, your contributions will be taken from your pre-tax salary, meaning income tax relief is usually paid automatically. This should also be the case if your contributions are paid through pensions salary sacrifice. These types of scheme are usually linked to your workplace. Anyone in a net pay scheme shouldn’t need to make a claim, as you should already have received the tax relief you are due. The exception to this is where someone contributes to a net pay scheme from earnings below the personal allowance of £12,570. In these circumstances tax relief will not be granted automatically, although the Government has pledged to address this so-called ‘net pay anomaly’ in the coming years.

Investor / Saver

Time to look at UK Small Caps?

Smaller UK companies were among the worst performing assets in the world last year. That made 2022 a tough time for small cap fund managers. But small caps very rarely see two down years in a row. At the time of writing, the average discount for the UK Smaller Companies sector is 11.4%, after a year in which risk aversion ruled and investors prepared for a recession. While there is still plenty of uncertainty around the immediate future, a peak in inflation may be in the rear-view mirror and a peak in interest rates may be on the horizon. Additionally, UK small caps have been a great place to invest over the long term. UK small caps have consistently generated excess returns over UK large caps. Over five and one-year rolling periods, small caps have also outperformed, 61.9% and 57.2% of the time, respectively, or a rolling average outperformance of 1.3% and 1.7% per annum, respectively. The message seems to be that holding small caps for the longer term increases the chance of outperformance, at least based on past patterns of behaviour. In addition, a large portion of this outperformance has come from the sharp bounce back in performance following periods of significant drawdowns. For example, in the year immediately following the double-dip recession of the early 1990s, the Russian financial crisis in 1998 and the Great Financial Crisis in 2008, small caps generated an average outperformance of 28.4%. This is interesting, given the sell-off we have seen over 2022 – could it be that the bottom is in?

Investor / Saver / Property Owner

Slowdown in UK house building

The UK's three biggest housebuilders are cutting back on new projects as they adapt to a downturn in the property market, adding to fears that a national housing supply crunch is set to worsen. FTSE 100 developers Taylor Wimpey, Persimmon and Barratt Developments all said in updates this week that they would ease up on buying new land and developing it. The trio pointed to economic uncertainty, a jump in mortgage rates and the imminent end of the government's Help to Buy scheme as reasons to be cautious. Spiralling costs for homebuyers have contributed the most to a cooling of the housing market in recent months. Chris Millington, a housing analyst at Numis, forecast that the number of new homes built will fall by around 25% year on year in 2023. Experts estimated that the monthly cash cost of mortgage payments for some first-time buyers has approximately doubled over the past year due to the withdrawal of the Help to Buy equity loan and a jump in mortgage rates. That has forced prospective buyers to pause their searches and it is too early to predict when there will be a recovery in demand. The developers are hunkering down as a result, reining in new land buying, freezing hiring and weighing job cuts. Collectively, Taylor Wimpey, Persimmon and Barratt built almost 50,000 homes last year and a slowdown in construction would have a material impact on the UK's housing supply. As well as a tougher economy, housebuilders are concerned about changes to the planning system proposed by prime minister Rishi Sunak which will dilute development targets and give local communities more power to rebuff proposed new housing.

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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