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All

Pensions reliefs for higher earners under threat

The pensions tax-free lump sum should be capped or replaced by a subsidy to make the system fairer for lower earners, a respected think tank has said. The Institute for Fiscal Studies' (IFS) report, A blueprint for a better tax treatment of pensions, argued for a reform of the pensions tax system that would favour the bottom 80% of earners. It said the tax-free lump sum provided a bigger relief to people with larger pensions and to higher-rate taxpayers in retirement, who escape higher duties. The IFS suggested capping it so it only applies to the first £400,000 of pension wealth, or replacing it with a taxable top-up on all pension withdrawals. This subsidy would even out the proportion of relief provided for basic-rate, higher-rate and non-taxpayers. For higher-rate taxpayers, it would mean receiving £62.50 less on £1,000 withdrawn, while people who withdrew a large lump sum from their pensions rather than regular income would risk ending up in a higher income tax bracket. Jon Greer, head of retirement policy at Quilter, said restricting the pension tax-free cash is a simpler but emotive proposal. But realistically such changes could only be applied on future pensions savings, because applying it retrospectively would trigger a massive backlash. Other proposals in the report included a reform of the lifetime allowance and of national insurance contributions (NICs) relief on pension income. Both the lifetime allowance and the annual allowance should be made more generous, the IFS argued, and the tapering of annual allowances for very high earners should be ended. For defined contribution pensions, the report proposed the lifetime allowance should only apply to contributions rather than to the value of the pots, stripping out investment returns. This way it could not be breached accidentally and people who were approaching the threshold would not distort their investment decisions to avoid reaching it. For defined benefit pensions, "it would make sense" to set a cap on the pension benefits, the IFS argued.

Property Owner

House prices stabilise in January

UK house prices stabilised in January following four months of falls, according to a survey released by mortgage lender Halifax. Prices were broadly flat on the month at £281,684, following a 1.3% decline in December and a 2.4% drop in November. On the year, price growth slowed to 1.9% from 2.1% in December and 4.6% in November. The average house price is now around £12,500 or 4.2% below its peak in August last year, but around £5,000 higher than in January 2022. Experts expected that the squeeze on household incomes from the rising cost of living and higher interest rates would lead to a slower housing market, particularly compared to the rapid growth of recent years. As we move through 2023, most commentators believe that trend is likely to continue as higher borrowing costs lead to reduced demand. For those looking to get on or up the housing ladder, confidence may improve beyond the near-term. Lower house prices and the potential for interest rates to peak below the level being anticipated last year should lead to an improvement in home buying affordability over time.

All

600,000 taxpayers missed the self-assessment deadline

Around 600,000 taxpayers missed the final 31 January deadline to file their 2021-22 self-assessment tax return, according to HMRC. The tax authority says it received nearly 11.4m of the tax returns it expected by midnight on 31 January, but it was expecting more than 12m. A lot of people left it to the last minute with 36,767 customers filing theirs in the last hour before the deadline. The peak hour for filing on 31 January was between 4pm and 4.59pm, when 68,462 customers submitted their tax return. Taxpayers that failed to file on time face a £100 penalty for tardiness, plus interest on any unpaid tax if they haven't yet paid their tax bill. Unlike last year, when HMRC waived the £100 fine for filing late until 1 March 2022, penalties for missing the deadline are back to the usual dates, and kicked in from 1 February 2023. Unless you have a 'reasonable excuse' and haven't already made an alternative arrangement with the tax office, fees will work like this:

- One day late (1 February 2023) - £100 fine
- Up to three months late (30 April 2023) - £10 each day, capped at 90 days (plus initial £100 fine)
- Six months late (31 July 2023) - 5% of the tax due, or £300, whichever is higher
- 12 months late (31 January 2023) - 5% of the tax due, or £300, whichever is higher.

There are separate fines for late tax payments, which are charged in addition to any fees for not filing on time. HMRC has said it will be lenient about issuing fines to anyone who has genuinely been unable to file their tax return on time. It says it assesses reasons behind late tax returns on a case-by-case basis, but would consider some of the following examples as 'reasonable excuses' for filing late:

- The recent death of a partner
- Unexpected stay in hospital
- Issues with HMRC's online services
- Having an unexpected stay in hospital.

If HMRC accepts that you had a reasonable excuse, it should waive any late filing charges.

Investor / Saver

Stricter rules for crypto firms in the offing

Crypto firms in the United Kingdom could face some harsh punishments under the Financial Conduct Authority’s (FCA) proposed financial promotions regime. Newly proposed advertising rules in the UK could potentially see executives of crypto firms face up to two years of prison for failing to meet certain requirements around promotion, according to the UK's financial watchdog. In a Feb. 6 statement, the UK FCA revealed that if the proposed “financial promotions regime” is approved by Parliament, all crypto firms in the country and overseas would have to follow certain requirements when advertising their crypto services to UK customers. “Cryptoasset businesses marketing to UK consumers, including firms based overseas, must get ready for this regime,” said the FCA. “Acting now will help ensure they can continue to legally promote to UK consumers. We encourage firms to take all necessary advice as part of their preparations,” it added. Under the FCA’s proposed regime, crypto firms would need to either have authorization from the FCA to advertise their services or have an exemption under the Financial Promotion Order. According to the regulator, there are only four routes under which a “cryptoasset business” can promote its services to customers in the UK:

1. The promotion is communicated by an FCA-authorised person.
2. The promotion is made by an unauthorized person but approved by an FCA-authorized person. Legislation is currently making its way through Parliament that, if passed, would introduce a regulatory gateway that authorized firms will need to pass through in order to approve financial promotions for unauthorized persons.
3. The promotion is communicated by a crypto asset business registered with the FCA under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.
4. The promotion otherwise complies with the conditions of an exemption in the Financial Promotion Order.

The regulator said that any promotion made outside of these routes will be in breach of the Financial Services and Markets Act 2000 (FSMA), which carries a criminal punishment of up to two years of imprisonment.

Property Owner

Fixed mortgage rates fall below 4%

Five-year fixed-rate mortgages are available at below 4% once again. It is a further sign the market is settling following turmoil in the autumn. HSBC UK has reduced a five-year fixed-rate mortgage deal for borrowers with a 40% deposit to 3.99%. The deal has a £999 fee. It is the first time since September 2022 that a five-year fixed-rate mortgage has been offered by HSBC at a rate below 4%. It is only available to homeowners who are re-mortgaging or those who are switching rates (existing customers rolling off an old deal and on to a new one with HSBC). The move is part of a wider range of mortgage rate cuts made by HSBC UK, following recent reductions in swap rates, which lenders use to price mortgages. Many mortgage deals vanished from the market following the mini-budget last September and when mortgages returned they were priced at significantly higher rates. In recent weeks there have been signs of the fixed-rate mortgage market settling down. According to figures from financial information website Moneyfacts.co.uk, the average five-year fixed-rate mortgage on the market at the start of January was 5.63%. By the start of February it had fallen to 5.20%. Borrowers on variable rate mortgages meanwhile have been feeling the impacts of recent rises in the Bank of England base rate. Figures released by Halifax recently show the average house price is now more than £12,000 below a peak seen last August. Several commentators have said they expect to see house prices potentially dipping this year as rising living costs squeeze home-buyers' budgets. Moneyfacts.co.uk have said that HSBC UK is the only lender on its records offering a sub 4% five-year fixed mortgage. However, the website said it has seen below 4% rates offered on 10-year fixed mortgage deals by Virgin Money and Lloyds Bank.

Investor / Saver

Record outflows for UK asset managers in 2022

UK-focused equity funds registered £868 million ($1.04 billion) of outflows in January, in sharp contrast to global funds, which attracted investment as markets rebounded. The latest data means UK equity funds have seen 20 consecutive months of outflows, with January's losses the third largest on record. London's FTSE 100 hit a record high, having gained about 4.3% in January. The combination of January's near-record high for the UK market, with near-record outflows smacks of opportunistic selling against a backdrop of chronic pessimism, exploiting a moment of higher prices to head for the exits said commentators. For every £1 of sell orders of UK-focused funds, it saw just 59pence of buy orders last month. No other fund sector saw a mismatch this large, and not a single trading day saw net buying, commentators said. Fixed-income funds attracted a net inflow of £1.23 billion in January - the second largest monthly bonds inflow on record - as investors sought to lock in higher-yielding debt before the Bank of England (BoE) stops raising rates. The BoE has raised rates 10 times since December 2021 to try to tame high inflation. There is some rotation going on as UK investors switch to global funds that are more likely to benefit from a return to bull-market conditions and we have seen selling of UK funds ramp up at the same pace as buying of global ones. This confidence may be premature, however, as although interest rates globally are still on the up and corporate earnings are coming under pressure - this is not yet fully reflected in global markets. UK property funds saw a sixth-consecutive month of outflows in January, with investors selling net £48.3 million of holdings, as the property sector came under pressure from rising rates and a weak economic outlook. Several open-ended UK property funds (managing around $18 billion worth of assets) had restrictions on withdrawals in place as of early January, after pension schemes sold property assets to raise cash during a liquidity crisis in September. Returns on British real estate fell 11.9% in the fourth quarter of 2022, the biggest quarterly drop since 2008, data from MSCI's recent quarterly UK property index showed.

Property Owner / Investor / Saver

Mortgage rates could be set to fall

The Bank of England has raised interest rates for the 10th time in a row, upping the base rate from 3.5% to 4%. It comes as part of the Bank's battle to bring down inflation, which remains over 10%. The Bank said the UK was still heading for a recession but stressed that the economic downturn could be shallower and shorter than previously expected. Peak-to-trough gross domestic product (GDP) is set to shrink by 1% – down from the 3% previously projected by the Bank's Monetary Policy Committee (MPC). This is because wholesale energy prices have fallen significantly since the MPC produced its last forecast in November, and inflation has begun to fall from its peak last year. Markets expect interest rates to peak at 4.5% towards the end of this year, which is significantly lower than the 5.2% peak that had been forecast when the MPC met in the wake of the mini-Budget in September. Rates will then stay above 3.25% for at least the next three years, according to the forecast. This is despite inflation starting to dip. Inflation fell again in December, it was reported last month, dipping from 10.7 to 10.5%. This was only down slightly from the 40-year high of 11.1% seen in October 2022, but the back-to-back decline provides hope that the UK now is past its inflation peak. Rishi Sunak has pledged to halve inflation by the end of 2023 – but this was already forecast to happen. The Bank of England is expecting inflation to fall sharply from the middle of the year, for three main reasons:

- "The price of energy won't continue to rise so quickly. The Government has introduced a scheme that caps energy bills for households and businesses for six months."
- "We don't expect the price of imported goods to rise so fast. That's because some of the production difficulties businesses have faced are starting to ease.
- "We expect there to be less demand for goods and services in the UK. That should mean the prices of many things will not rise as quickly as they have done."

The Bank of England's target inflation rate is 2%.

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