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Investor / Saver

VCTs are in demand but investors should be cautious

Economic gloom has done little to discourage investors from piling into the latest venture capital trust (VCT) offers, with fundraising going strong as the end of the tax year approaches. The amount raised by VCTs this tax year stood at £597mn as of 16 January, only slightly down from the £606mn taken for the equivalent period last year, when the vehicles would go on to raise a record amount. There's perhaps good reason for this enduring appeal: frozen tax thresholds leave investors with fewer places to put their cash, and a requirement to hold a VCT for five years to benefit from its generous tax reliefs should instil in buyers the long-term mentality required to look past current challenges. As a reminder, VCT shares come with a 30% upfront income tax relief on the amount you invest, provided you hold them for at least five years. Dividends and capital gains can also be taken tax-free. When it comes to performance, tougher markets over the past year also allow this year's investors, and VCT managers, to take advantage of lower valuations in some cases. But if VCTs continue to look compelling from a certain perspective, caution should still be a watchword for the time being. Industry commentators are concerned about the sheer volume of money the industry has raised in recent history. VCTs took on a record £1.13bn in the 2021-22 tax year, and some worry that with tighter rules putting an emphasis on VCTs backing early-stage growth companies over the past four years, the sheer volume of money chasing deals could prove detrimental to investors. The second concern relates to the valuations of the unquoted companies that many VCTs hold, which may face further write-downs. This concern centres on the question "If you go in, how confident are you about the valuations?". With that in mind, investors may want to be even more careful than usual, remain aware of the risks that VCTs bring, and remember that risky investments are not the only way to achieve tax-efficiency.

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Property Owner

How to find the sweet spot fixed rate mortgage

We are in the grip of a mortgage price war, according to some experts – but it probably won't feel like that if you are staring down the barrel of much higher monthly payments. It is certainly fair to say that rates on new mortgages have been on a rollercoaster ride in recent months. Last September's disastrous mini-budget helped push the price of many new fixed home loan deals above 6%. Since then, lenders have been gradually reducing the cost of their new fixed rates, and the cheapest new five-year deals (from, for instance, HSBC, First Direct, Virgin Money and Yorkshire building society) are now priced at below 4%. The availability of deals has also improved. However, if you are coming to the end of a fixed-rate deal and need to take out a new one, you are still probably looking at forking out a lot more each month. At the same time, the Bank of England base rate has been climbing, with yet another interest rate rise looking likely, and there's much debate about what will happen to the housing market. Some experts suggest that with the price of new fixed rates falling almost daily, those people hoping to re-mortgage now may want to go for a base rate tracker mortgage with no early redemption penalties for the next few months, and then hop over to a fixed-rate deal. That way, they won't miss out if and when fixed rates fall further. Others disagree. Ray Boulger at the mortgage broker John Charcol says that in general, if you are not planning to move home in the next year or two and you are looking for a fixed rate, "I'd be inclined to look at what's available now rather than going on to a tracker [for a short time]". Now you can get a five-year fix for under 4%, for most people it is "probably right to go straight on to a fixed rate", he adds. But do you go for a five-year fix or pay a little more for a two-year one? The reason a lot of people like fixed rates is it enables people to budget. To be able to do that for five years instead of two is quite important to some people. We are now seeing five-year fixed rates priced at below the official base rate, which is currently 4%. So, as trackers come at base rate plus a margin often of 0.5% (it can be much lower or higher), you may have a lower rate on a fixed rate than a tracker, which wasn't the case a couple of months ago.

Investor / Saver

Spot the dog

The number of consistently poorly performing funds has increased 42% since August 2022, Bestinvest's newest Spot the Dog report has found. Overall, 44 funds were selected as "horrible hounds" in the biannual report compared to 31 named in the previous report, which now represent £19.1bn in assets, up from £10.7bn. The previous found a six year low in underperforming funds, as many repeat offender value funds had its performance boosted by the market's rotation into cyclical assets and were less hindered by still rising inflation and interest rates hikes. In the first 2023 edition, the study found that 70% of these underperforming assets were located in the six 'Great Dane' funds, or portfolios over £1bn, double the number than the last report. These funds were:

- Halifax UK Growth fund (£3.2bn)
- Invesco UK Equity High Income fund (£2.8bn)
- St James's Place International Equity fund (£2.2bn)
- Scottish Widows UK Growth fund (£1.8bn)
- HL Multi-Manager Special Situations trust (£1.8bn)
- Halifax UK Equity Income fund (£1.7bn)

The report also highlighted that many firms that had previously been on the list had now managed to drop off, including Baillie Gifford, JP Morgan, BNY Mellon, M&G and Jupiter, the latter of which had three funds named and shamed in August. Bestinvest stated that the worst performers tend to be those with few constraints in both style and geography, leading to a niche and specialise approach "which do not always work out".

Investor / Saver

Premium bonds seek to attract more savers

National Savings & Investments (NS&I) has increased the prize fund rate for its Premium Bonds for the fifth time in the space of 12 months, as it seeks to attract more savers. The prize fund rate, equivalent to the proportion of total Premium Bonds investments that is paid out in prizes and represents the bonds' 'effective interest rate', will go up from 3.15% to 3.30% from March. NS&I will increase the number of Premium Bond prizes worth between £50 and £100,000, while reducing the number of prizes worth £25. The total number of prizes will stay the same, meaning that the odds of winning remain flat at 24,000 to 1, but those who do win are more likely to get a higher prize. The change now means Premium Bonds are highest-paying savings deal, with the best easy-access account paying 3.05%. Experts agree that this is an unusual situation that could prove short-lived. Typically, NS&I will never aim to lead the market and beat competition, but in the face of regular savings accounts offering much higher rates and savers being far more likely to shift their money to other providers, the government-backed provider clearly needs to get more savers through the door. The increases were likely to wane once interest rates stopped rising, with the savings market likely to reach its peak soon, most commentators believe. Unlike with a standard savings account, the effective rate paid by Premium Bonds is not guaranteed. Some will earn nothing on their investment although a bigger deposit corresponds to a better chance of winning a prize. The prizes are tax-free, making the bonds a more attractive option for additional rate taxpayers or for savers who exhaust both their personal savings allowance and their Isa allowance.

Investor / Saver / Property Owner

The retreat of buy-to-let investors

Britain's rental sector lost 66 properties a day last year as high mortgage costs and tax changes pushed more landlords to quit. Landlords sold 35,000 more properties than they bought across 2022, according to Hamptons analysis of data from Countrywide, one of Britain's largest property groups. That was the largest net loss in three years and a 17% surge compared to 2021. Landlords accounted for 16% of property sales last year, but only 13% of purchases. Investors are fleeing the rental market as climbing mortgage rates and punitive tax changes leave many struggling to make a profit. High interest rates have brought a surge in mortgage costs, with buy-to-let rates now at 5.95% – more than double what they were a year ago, according to Moneyfacts. Tax changes that came into full effect in 2020 mean landlords who own properties in their own names face a double blow as they are no longer able to deduct all of their interest bills from their rental income when they calculate their profits for tax purposes. Large, corporate build-to-rent investors have been rising to fill the gap as private landlords quit the sector. However, just 10,900 build-to-rent properties were completed last year, according to JLL property consultants. The figures suggest that the rental sector lost 24,100 properties overall in 2022 – or 66 a day.

All

Digital pound likely this decade

A state-backed digital pound is likely to be launched later this decade, according to the Treasury and the Bank of England. Both institutions want to ensure the public has access to safe money that is easy to use in the digital age. Chancellor Jeremy Hunt said the central-bank digital currency (CBDC) could be a new "trusted and accessible" way to pay. But it will not be built until at least 2025. "We want to investigate what is possible first, whilst always making sure we protect financial stability," Mr Hunt said. The Treasury and the Bank of England will formally start a consultation for the digital currency, on Tuesday. Cryptocurrencies are not backed by a central bank and the value can shoot up and down rapidly. But while it may use technology similar to cryptocurrencies such as Bitcoin and Ethereum, the digital pound, issued by the Bank of England, would be less volatile. Ten digital pounds will always be worth the same as £10 in cash, the Treasury says. Though, as holidaymakers will know, the value of the pound does change relative to other currencies. Prime Minister Rishi Sunak asked the Bank of England to look into backing a currency, in 2021, as chancellor. And in October 2022, Mr Sunak's Financial Service Minister Andrew Griffith warned a lengthy delay could create problems for the economy. Right now, there is probably little need for a digital pound. People use their debit cards or phones, or even watches to fulfil the same function. It is a solution to a problem that does not yet exist. But this is looking towards a near future that sounds like monetary science fiction. At its heart it is about data on what you spend, and what the entire population spends. It is a world where people might just choose to trust international private sector brands, in finance or in tech, more than the state. Think Amazon, or Facebook, or maybe Chinese-owned Alibaba or TikTok having a version of sterling. Companies that control the data on everything someone spends, when and where they spend it, will sit on a priceless asset. Unregulated digital currencies could offer those companies incentives to create walled gardens, fragmenting the pound system. It would make controlling the economy more difficult, because £1 might not be worth £1 everywhere. This is where today's ideas come in. Neither the Bank of England nor government would have access to the data on transactions with a digital pound. But consumers could pick providers, not just banks, to hold their cash in digital wallets, with varying degrees of privacy. Some users might be comfortable with their wallet provider knowing all their transactions, if they received a discount for example. Others might want to stay as private as possible. The Treasury wants to encourage innovation.

All

What’s going to be in the Budget?

Chancellor Jeremy Hunt is preparing to deliver his second fiscal set piece as the United Kingdom continues to grapple with soaring inflation rates, record energy prices and a continued squeeze on the cost of living. It is the first opportunity for the Chancellor to make his mark on the UK’s finances after using his Autumn Statement to overturn many of the measures announced by his predecessor Kwasi Kwarteng in his disastrous mini-Budget, which created chaos across financial markets. Coming just months after Prime Minister Rishi Sunak established economic stability as one of his key priorities for the year, few expect Hunt to deliver any major bombshells on 15 March as he seeks to repair the reputational damage wrought on his party by Liz Truss’s tax-slashing economic agenda. But Hunt’s plan to steady the ship with a slimmed-down set of fiscal measures comes amid a backdrop of clamouring for the Chancellor to cut the UK’s tax burden or increase public spending to help alleviate pressure in the public sector, which has seen wave after wave of industrial action as pay packets fail to keep pace with inflation. Those seeking to influence Treasury thinking have been buoyed by January’s figures from the Office for Budget Responsibility (OBR), which showed a surprise surplus following stronger than expected self-assessment tax receipts and a forecasted drop in global energy prices, which could help dampen inflation rates at a quicker than expected pace. Both in public and behind the scenes, Conservative MPs are lobbying hard for the Chancellor to slash the tax burden ahead of the next general election, with senior party figures saying the Spring Budget should be used to “show there is a path” to lower taxes. One of the major calls is for Hunt to scrap the planned rise in corporation tax, which is set to rise from 19% to 25% in April, with Tory MPs arguing the downward pressure on investment as a result of the change will outweigh the benefits of an increased tax take. With a lower headline rate than many other countries – even after the proposed increase – others have suggested that sticking to the corporation tax change could be offset with a more generous tax deduction plan, such as expanding the allowance to include investment areas such as R&D spend. But Hunt’s public statements suggest the additional fiscal headroom is unlikely to alter his current debt reduction strategy, saying it was “vital” to stick with his medium-term vision to stabilise the UK economy before making any significant changes to the tax and spend regime. Instead, many suspect that any significant rabbits could be held back until the Autumn, where an improved economic picture could give Hunt the opportunity to announce a wave of tax cutting measures in preparation for a potential Spring 2024 general election.

Property Owner

House prices hold steady to defy forecasts

UK house prices remained stable in January, with the average UK property now costing £281,684 compared to £281,713 last month, according to the latest Halifax house price index. This follows monthly falls of 1.3% in December and 2.4% in November. The annual rate of house price growth slowed to 1.9% from 2.1% in December, to the lowest level recorded over the past three years. The slowdown in annual house price inflation is reflected in most nations and regions across the UK. Wales, which recorded some of the strongest annual house price inflation over the last few years, saw its rate of growth fall to 2.0% (from 6.0% in December) with an average house price of £210,275. The South West of England has also seen annual house price growth slow considerably, now at 2.7% vs 6.0% in December, with an average house price of £298,853 (dipping below £300,000 for the first time since March last year). In Northern Ireland and Scotland, the pace of annual growth eased more slowly. The growth rate dipped from 7.1% in December to 6.9% in Northern Ireland and from 3.3% to 2.4% in Scotland. London, which for some time has lagged many other areas of the UK in terms of house price growth, saw the cost of buying an average home fall from £541,472 to £530,396 in January, with annual house price inflation flat (0.0%) compared to 2.9% in December. Commentators said that the start of 2023 has brought some stability to UK house prices, with the average house price remaining largely unchanged in January at £281,684, a very small decrease on December. This followed a series of significant monthly falls at the end of last year (-1.3% in December and -2.4% in November). The pace of annual growth has continued to slow, to +1.9% (from +2.1% in December), which is the lowest level recorded over the last three years. The average house price is now around £12,500 (-4.2%) below its peak in August last year, though it still remains some £5,000 higher than in January 2022 (£276,483). The consensus among experts is that the expected 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, that trend is likely to continue as higher borrowing costs lead to reduced demand.

All

Extension to state pension deadline

HM Revenue and Customs (HMRC) has confirmed there will be an extension of the voluntary National Insurance deadline to July 31, 2023. As such, taxpayers will now have more time to fill in gaps in their National Insurance record and boost their state pension payments. Originally, the deadline was supposed to end on April 5, but growing concerns have led to a change of action. Victoria Atkins, the financial secretary to the Treasury, outlined why the Government has made this decision. She explained: "We've listened to concerned members of the public and have acted. "We recognise how important state pensions are for retired individuals, which is why we are giving people more time to fill any gaps in their National Insurance record to help bolster their entitlement." Specifically, older Britons with gaps in their National Insurance record from April 2006 are being encouraged to take advantage of this deadline extension. Under this change, any payments made will be at the lower 2022 to 2023 tax year rates. Taxpayers have been able to make voluntary contributions to any incomplete years in their National Insurance record between April 2006 and April 2016. This is to increase their state pension entitlement for when they retire as those on the new state pension need 35 years of National Insurance contributions to get the full amount. With this move from the Government, thousands of taxpayers with incomplete years in their National Insurance records are likely to be better off in retirement. However, they will need to make voluntary National Insurance payments to top up any incomplete or missing years to take advantage of this potential state pension boost. All taxpayers can go onto GOV.UK to check their record, get a state pension forecast and make contributions. It is also possible for someone to check their National Insurance record, via the HMRC app or their Personal Tax Account. As of March 2022, some 3.4 million people on the basic state pension did not get the full amount they would have been entitled to, according to the Department for Work and Pensions. Some 805,000 people do not get the full new state pension, which is around 55% of those who get this payment. It should be noted not everyone will receive less in retirement than the full new state pension because of gaps in their National Insurance record as some taxpayers were contracted out before April 6, 2016.

All

Corporation tax clamours ahead of Budget

As tax rates rise in the UK, so do business jitters. The windfall tax on oil and gas companies – raising tax on profits to 75% this year – has energy companies openly discussing plans to divert money elsewhere. The looming hike in corporation tax – from 19% to 25% for the largest companies – also has the businesses talking about future investment strategies. So far, Chancellor Jeremy Hunt seems unconvinced that investment threats will amount to much. His Budget next week is expected to confirm the corporation tax rise in April. But the backlash is growing from MPs in his own party who are worried about the economic ramifications of raising tax as the economy teeters on the edge of recession, to business leaders who fear the UK is becoming less business friendly.

This week saw one of the biggest interventions yet as James Dyson issued a stark warning to Hunt. The billionaire entrepreneur insisted that the Chancellor's pursuit of higher corporation tax both domestically and abroad will lead to less business investment and a weaker economy. His comments, first reported by the Sun, come in the form of a letter – the second one written to the Treasury ahead of the Budget – flagging the serious ramifications of the six-percentage point increase to corporation tax, as well as the UK's pursuit of a global minimum corporation tax. Dyson's letter is detailed and highly pessimistic. It forecasts that any additional tax revenue raised globally through a minimum standard for corporation tax will be 'offset by the economic drag of businesses being forced to invest in compliance, rather than activities which generate growth or improve productivity.' He brings up ethical questions about the UK's position, too, which is already under scrutiny as Britain plays an active role in trying to force other countries to forgo their competitiveness and raise their taxes. It's a 'deeply ironic' move, Dyson says, 'after the country has just fought to rid itself of another unelected body, the EU.' But the biggest revelation in the letter is Dyson's suggestion that these hikes in tax are going to have a direct impact on his company's investment and jobs strategy. The combination of the corporation tax hike to 25%, alongside the global minimum tax, will lead, according to the letter, to 'an even greater tax burden on companies like Dyson'. Dyson warns that this will ultimately result in less investment in the UK. In reference to the £1.4 billion spent by his firm on research and development (R&D) in recent years – and the 3,500 people the company employs across the UK – Dyson asserts that the Chancellor 'can be sure that all those numbers will reduce as a result of this measure' – though he does not specify to what extend investment and employment could be reduced. There's good reason to believe Hunt might be sympathetic to Dyson's letters: after all, the Chancellor ran two leadership elections, in 2019 and 2022, calling for cuts to corporation tax (12.5% and 15% respectively). But the tax hikes he is set to oversee are the pet project of the Prime Minister. Not only did Rishi Sunak announce these corporation tax hikes in March 2021; he did so with a genuine belief that higher rates will raise more revenue with limited market distortion. Furthermore, he did indeed help 'lead the charge', as Dyson claims, to bring in a global levy. And there is no sign that Hunt wants to have these tax battles with Sunak.

Retired

Annuity or tax-free cash?

The 25% tax-free lump sum is one of the most popular pension benefits. It feels like a one-off retirement bonus and can go towards the holiday of a lifetime, paying off your mortgage or helping children and grandchildren — but taking it all isn't necessarily best for your finances long-term.

One of the most important things to think about when taking tax-free cash is whether you really need to do so. It can be very tempting to take it in one go but this should only really be done if you have a specific reason, otherwise you potentially risk leaving yourself financially stretched later in retirement. If you have a defined contribution pension (a "pot of money" pension, where what you get in retirement depends on how much you pay in and your investment growth), you can access your pension from age 55, increasing to 57 in 2028. You can decide how much you take from your pension each time. When you do this, it is known as "crystallising" some of your pension. Each time you crystallise part of your pension, you can take 25% as tax-free cash and then choose what to do with the other 75%: buy an annuity (an insurance product where you swap a lump sum for a guaranteed retirement income) or move into drawdown (a pension product where your money stays invested and you can withdraw an income). You could also take it all as cash, but any money outside of your 25% tax-free lump sum would be taxed as income. If you want to take all of your tax-free cash, you would need to crystallise your whole pension pot. For example, if you have a £400,000 pension pot, you would need to crystallise the whole pot, taking £100,000 of it as tax-free cash and using £300,000 to buy an annuity or go into drawdown. But you do not have to crystallise your pension pot all at once and, if you don't need to take the whole tax-free lump sum, it could be tax-efficient to take your tax-free cash little by little. Say you want to take £20,000 a year from your pension in retirement. If you have already crystallised your whole pension pot and spent your 25% tax-free lump sum, you will be withdrawing the £20,000 a year from your drawdown pot. You will get £12,570 of it tax-free (the personal allowance), and you will pay basic rate income tax of 20% on the remaining £7,430. This leaves you with a yearly tax bill of £1,486. But if you have not yet taken your tax-free cash and left your pension uncrystallised, you can crystallise the £20,000 you need each year. As you have not used any of your tax-free cash, 25% (£5,000) will be completely tax free. The remaining £15,000 will be taxed as income. You will get £12,570 of this tax-free thanks to the personal allowance, and you will therefore only pay basic rate income tax of 20% on the remaining £2,430. This leaves you with a yearly tax bill of £486. Another benefit of leaving some of your pension uncrystallised is that you could end up with more tax-free cash in the long run. If you have a £400,000 pension pot and take 25% (£100,000) as a tax-free lump sum, then this £100,000 is the maximum tax-free cash you will get. But if you only crystallised £20,000 of your £400,000 pot (and took £5,000 as tax-free cash), there would be £380,000 left. If this £380,000 grew by 4% through investment growth in the first year, it would grow to £395,200. You could then take another £20,000 (and another £5,000 of tax-free cash), leaving £375,200. If this grew by 4% again in the second year, it would grow to £390,208. At this point, you have already taken £10,000 of tax-free cash. If you then decided to crystallise your whole pension pot, you could take 25% tax-free cash of the total (£97,552), giving you a total tax-free cash of £107,552.

There are plenty of good reasons to take your tax-free lump sum. If you have any credit card debt or a mortgage, it can be financially and emotionally good to pay this off. Many people also like to see their financial gifts to children and grandchildren put to good use while they are still around to see the benefits, so it could be worth using your tax-free

cash to help your family members — but only if you can afford to do so, and it won't affect your living standards in retirement. In most cases, once you access your pension your annual allowance (the amount you can pay into a pension each year) drops from £40,000 to £4,000. This means you should be certain that you do not need to continue contributing significantly to your pot when you take your tax-free cash. And if you do not think you will use all of your pension savings in retirement, remember that pensions are usually not classed as part of your estate, and are therefore free from inheritance. This means that if you do not need the money, pensions can be a tax-efficient way to pass on wealth.

All

Pension dashboard delayed again

The Department for Work and Pensions (DWP) has issued a ministerial statement confirming that the Pensions Dashboards Programme (PDP) will not be able to meet the delivery deadlines originally set out in its legislation. The DWP said that it will work together with the PDP to establish and legislate a revised plan for delivery, but that the overall framework for the pension dashboard remained unchanged. Chris Curry, principal at PDP, said: "Delivering the central digital architecture for pensions dashboards is a complex undertaking. DWP and the Money and Pensions Service [MAPS] remain committed to dashboards. "Significant progress has already been made. However, we need to do more work to ensure the connection journey is stable and secure for industry, and that it's achievable ahead of mandatory connection. Industry has played a significant role in getting us to this point, whether as early participants, inputting on standards or continually feeding back on getting dashboards right. We will continue to work closely with industry to deliver dashboards that will transform retirement planning and create new opportunities for engagement with savers." Caroline Siarkiewicz, chief executive at the Money and Pensions Service, added: "Pensions dashboards will be a vital tool for pensions savers, helping them plan effectively for and in later life, so it's essential that we take the time to get them right".

All

Over 55s sleepwalking into unfair tax charge

Chancellor Jeremy Hunt is being urged to examine the Money Purchase Annual Allowance (MPAA) which can affect someone's pension. Reports suggest Mr Hunt is looking to entice over 55s back to the workplace in his upcoming Budget and reform of the MPAA could be the tax-saving measure to do so. Introduced in 2015, the pension allowance restricts the amount someone can contribute to their retirement fund to £4,000 a year if they have already accessed their pot. This measure comes into effect once older people start to access their pension savings for the first time. Currently, the pension allowance is set at £4,000 annually for each taxpayer however it has been as high as £10,000. Those who breach this allowance threshold may have to pay a tax charge to the Government as a consequence. In comparison, the yearly amount someone can contribute to their pension before they start to access it is £40,000. Research from Canada Life has shown that the MPAA has created a pensions tax trap for millions of over 55s. As it stands, public awareness of the pension allowance is very low with 62% having never heard of it and only 35% of people being aware of it. Of this latter group, only 11% of those polled were able to correctly identify what the MPAA was when tested. Concerns have been raised that Jeremy Hunt's plans to get over 55s back into the workplace could be scuppered as many will have accessed their pension pot. As a result, thousands of older Britons will be unable to make the same pension contributions that they once did. With this in mind, retirement analysts are recommending the Treasury consider reform of the MPAA as a way to entice workers in their 50s and 60s to either remain in or return to employment. Andrew Tully, Technical Director at Canada Life, broke down the "big difference" reform of the MPAA could make to people's lives. Experts believe that there is a potential risk here, not just to high earners, but to people on average incomes, who have needed to tap into their retirement savings over the past few years. As they resume their working lives, automatically joining a workplace pension and recommencing saving for retirement, they unwittingly face being hit with a tax charge. Commentators believe that a small change to the rules could make a big difference and could even save the Treasury some money.

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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