CHAMPAIN
FINANCIAL SERVICES

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

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

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Property Owner

Mortgage fears

Average interest payments on fixed-rate mortgages are set to soar by 55% this year to £500 a month, figures show, piling more misery on homeowners in the cost-of-living crisis. And the average cost for fixed-rate holders is set to more than double from £322 at the end of last year to £701 a month by 2027, analysis conducted by Interactive Investor for The Mail on Sunday reveals. The 'staggering' increase follows hikes in central bank interest rates to control spiralling inflation, which has been driven higher by soaring energy and food costs. For some people on tracker mortgages, the increase in monthly interest is even greater than fixers as the average monthly repayment is set to rise from £436 to £950 over the next five years. Interactive Investor's estimates are based on numbers in a report by the Office for Budget Responsibility that was released alongside the recent Budget. More than 80%, or 6.9 million, of mortgages are fixed-rate. There are 639,000 trackers and 773,000 households on standard variable rates. An estimated 1.5 million fixed-rate mortgage deals are due to expire this year, forcing borrowers onto much higher terms.

Investor / Saver

UK Introduces Crypto Self-Assessment Section on Tax Return Forms

The UK is increasing its oversight concerning cryptocurrencies and matters of taxation, this time adding a separate category for digital assets in the tax forms. The changes by His Majesty's Treasury – expected to be included in the tax period 2024-25 in the self-assessment tax forms – require that the amounts concerning crypto assets be identified separately. Following the step, the Treasury is yet to specify the anticipated budget revenues in the category, with the numbers currently at a nominal £10 million. The Chartered Institute of Taxation (CIOT) has welcomed the amendment, announced in the Spring Budget 2023 policy paper, saying it is important to educate the public on their tax obligations related to digital assets. The institute maintains that many low-income UK taxpayers have invested in the digital asset class, but less than a third understand their CGT obligation. About half of the taxpayers are reportedly not conversant with the tax guidance, and 84% have not sought the relevant tax advice. CIOT also acknowledged the need for an international reporting standard in crypto pending the Crypto-Asset Reporting Framework set for 2026. The exchequer's new taxation policy is part of a wider agenda in the UK to regulate digital assets since the new chair of the Financial Conduct Authority (FCA), Ashley Alder, took office in February.

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Tax free pension changes

Jeremy Hunt’s budget contained several measures to encourage the “economically inactive” back into work and to help parents struggling with sky-high childcare costs. There were also several changes that spell particularly good news for higher earners. But a lot of the measures that will have the biggest impact, starting from next month, are plans that have already been announced, such as the freezing of personal income tax thresholds until 2028. Known as fiscal drag, this will quietly suck many more Britons into paying income tax and push others into paying a higher rate, raising billions for the government. It is also fair to point out that about 21 million people are getting a “pay rise” of about 10% next month: pensioners, universal credit recipients and workers on the minimum or living wage. What’s happening with pensions? The chancellor announced a huge boost to the amounts that higher earners – from doctors to multimillionaires – can stash away for their retirement while enjoying the full tax benefits. The government argues it was forced to act because the cap on tax-free pensions has led many professionals, including NHS consultants and GPs, to take early retirement and there have been predictions that older public and private sector employees would change their behaviour or retire early to avoid being clobbered by penalties. To address this, Hunt announced big changes to the main pension allowances. The lifetime allowance limits how much you can build up in pension benefits over your lifetime while still enjoying the full tax benefits, with anything over subject to a tax charge. It applies to all personal and workplace pensions but excludes the state pension and was due to be frozen at its current level of £1,073,100 until 2026. Hunt has ripped that up and instead of increasing it to £1.8m – as had been rumoured – he removed the lifetime allowance charge from 6 April this year, before abolishing it completely in a future finance bill. At the moment, if you have built up more than the allowance, there is tax to pay on the excess. The penalty is 55% if you take the excess as a lump sum. Growing numbers of older people in generous defined benefit pension schemes (including many higher earners in the public sector) were bumping up against the £1.1m allowance or were worried they soon would. At the moment, someone with a defined benefit pension would trigger the lifetime allowance tax penalty once their annual pension income hits about £53,000, capturing some higher-earning public sector workers in the late stage of their careers. There is also the annual allowance, which determines the most you can save in your pension pot(s) in a single tax year before you have to pay tax. This was £40,000 but has been increased to £60,000 from 6 April this year. However, that is a still far cry from its 2010-11 level of £255,000. Hunt also tackled another quirk in the system which could put some older people off going back to work. At the moment, someone aged 55-plus who takes money out of their defined contribution pension pot can trigger the money purchase annual allowance (MPAA), which slashes how much they can subsequently pay in to just £4,000 a year. This particularly impacts people who have taken early retirement but – perhaps because of the cost-of-living crisis – would now like to start doing some work again and want to be able to take advantage of the opportunity to keep saving into a pension. There had been calls for the MPAA to be upped to £10,000 a year – the level at which it was first set in 2015 – and this is what Hunt did.

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Dealing with a re-mortgage in 2023

Borrowing costs ballooned last year as mortgage borrowers shouldered some of the fastest interest rate rises on record. The average mortgage rate more than tripled in a chaotic year during which the Bank of England tried to tame inflation by raising the central bank rate. Households whose fixed deals were due for renewal were confronted with rates not seen since the 2008 financial crisis – a stark contrast to the sub-1% deals available just 12 months earlier. But the market turned a corner in December and rates have fallen steadily since. Banks and building societies are vying for business to hit new lending targets for the year and there is now a market for borrowers to find a competitive deal. The average two-year fixed rate is currently 5.32%, while the average five-year fix is priced slightly cheaper at 4.97%, according to analyst Moneyfacts. Both averages have dropped from a peak of more than 6.5% in November and brokers are unanimous they have further to fall. The best five-year deals have already dropped below 4% in recent weeks. The Bank of England has made ten consecutive raises to its central interest rate, known as the Bank Rate, since December 2021 – most recently increasing it by 0.5% to 4% in February. Throughout last year lenders passed on the majority of Bank Rate increases to mortgage customers as its own borrowing costs rose. But it is not the only factor which dictates pricing for fixed-rate rates and lenders also take into account other market factors such as swap rates. The speed with which interest rates rose in the wake of last year’s disastrous mini-Budget – which spooked markets with a raft of unfunded tax cuts – also meant the most recent Bank Rate increases had already been priced in by lenders. These factors combined mean fixed mortgage rates are forecast to keep falling this year, even as the Bank Rate rises. The same will not be the case for tracker mortgages, which are pegged to the central interest rate. It is important to remember that the lowest interest rates do not necessarily equate to the best deal. High fees can sometimes outweigh marginal savings on similarly priced interest rates. More than 1.4 million borrowers will pay higher rates this year as their fixed deal comes to an end, according to figures published by the Office for National Statistics. This is because while fixed rates may be falling, the cost of borrowing is still inflated when compared with mortgages which were locked in two or five years ago. Borrowers coming off those deals and searching for a new rate are very likely to face higher rates. The average mortgage rate is forecast to ease to 4.7% by the end of the year, according to predictions by Capital Economics, but the biggest falls will come in 2024 and 2025 – when the average rate is expected to drop to 4% and 3.4% respectively. Brokers are suggesting a typical borrower should fix for two years – this would minimise the amount of time spent fixed on an inflated rate and would allow borrowers to make the most of significantly lower rates in 2025. However, how long each household fixes will depend on their individual financial circumstances.

Investor / Saver

VCTs in the spotlight after Budget changes

The last year was tough for investors. Market uncertainty caused by the war in Ukraine, an inflation-driven cost-of-living crisis and the throes of recession made the hunt for investment returns that bit harder, government changes to income tax thresholds and the taxation of dividends. VCTs might be the stone that kills both of these birds, some experts believe, claiming that VCTs should play a bigger role in helping investors create a tax-efficient portfolio. With 2023 marked by continued economic uncertainty, investors have an eye on macroeconomic factors, where the impact of Russia's invasion of Ukraine as well as the longer term ramifications of the Covid pandemic, have resulted in volatile investment conditions for both public and private markets. The decision by the government in last year's Autumn Budget to reduce income tax thresholds and tax-free allowances on dividends may not have taken investors by surprise, but it has left many looking for ways to mitigate the impact of those changes. However, VCTs provide a valuable opportunity for investors to combat the impact of both tax and investment factors. UK taxpayers are allowed to invest up to £200,000 a year in VCTs and receive 30% initial income tax relief (for example £30,000 initial relief on an investment of £100,000, reducing the effective cost of the investment to just £70,000). In addition, any dividends paid by the VCT are tax-free and investors are exempt from capital gains tax when they sell their VCT shares. Furthermore, VCTs as an asset class have proven themselves as an increasingly valuable element of a diversified portfolio. Offering access to carefully researched investments in unlisted companies sourced by specialist investment managers, which would otherwise be difficult to access for most investors, VCTs have performed impressively over the last decade. As VCTs provide returns largely in the form of dividends, underpinned by profitable portfolio realisations, this can be an extremely tax-efficient means of generating value for shareholders and allows VCTs to target a regular tax-free dividend income. Many advisers and their clients also now view VCTs as a tax-efficient way to complement their retirement planning.

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Budget battle lines drawn as Labour vows to reverse Hunt's pensions shake-up

Contentious new pension measures in Jeremy Hunt's budget — aimed at keeping senior doctors in work — will be opposed by Labour as a "gilded giveaway" to the rich. In his spring budget announcement, the Chancellor said he was scrapping the pension "lifetime allowance" — the maximum amount it is possible to save in a pension pot before paying additional tax. Hunt framed the measure as a way keeping of keeping people in the UK workforce, particularly long-serving doctors who have warned they are paring back hours or retiring early to avoid being clobbered by the tax. But critics say Hunt's move will be costly and are already questioning the difference it will make in keeping people in the labour market. Labour announced it would reverse the measure if it wins the next election. The soon-to-be-abolished lifetime allowance was set at £1.07 million, meaning the effective tax cut will benefit those with more than that amount in pension savings. According to the Treasury, in 2020-2021, nearly 9,000 people were paying these lifetime allowance charges. The opposition argued in a post-budget briefing that a high earner with a £2 million pension pot will get an effective tax cut of £275,000 under the new measures. But Chancellor Jeremy Hunt mounted a robust defence of the plan and pointed out that Labour's Shadow Health Secretary previously backed a pensions overhaul on similar lines.

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