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. 118 21st May 2023

Parents

UK children receive above inflation earnings boost

While millions of parents are battling for pay rises that keep up with the cost of living, Britain's youngsters have received an 11% increase in their average annual "income", outpacing inflation, according to new data. The figures on children's pocket money and earnings – part of what was claimed to be the most in-depth study of the UK's "youth economy" – also found that six-year-olds had enjoyed the biggest "pay rise", in the form of a 34% annual increase. Meanwhile, average earnings from babysitting leapt 24% in a year to top £20, while some savvy children were able to prise cash out of their parents for "jobs" such as making someone a coffee or smiling for a family photo. The data was based on the finances of more than 125,000 children and was collected from user activity on the NatWest Rooster Money pocket money app and prepaid debit card. Whether it was down to parents deciding to shield their children's finances from the worst of the cost of living crisis, or an improvement in youngsters' ability to negotiate a better financial deal and monetise small tasks, the study – based on data collected between 1 March 2022 and 28 February 2023 – suggested that British kids have fared a lot better financially than many adults. The headline finding was that average earnings increased by 11% to £333.84 a year, or £6.42 a week – outpacing CPI inflation, which was 10.4% for the same period. However, this was despite pocket money routines becoming far less consistent, with only 57% of children receiving a regular allowance – down from 65% in 2021-22.

Property Owner

Michael Gove backtracks on renter reforms after just a week

The long-awaited legislation to improve renters' rights, which was due to be published – more than four years after the government pledged to abolish Section 21 evictions – has been delayed again. The secretary of state for levelling up, housing and communities, Michael Gove, announced last week that the draft bill would "change the way the relationship between landlords and tenants works, providing tenants with new protection, which should ensure they are better protected against arbitrary rent increases". However, the Mirror newspaper reports that "procedural issues" have caused the delay in introducing the Bill to Parliament. In 2019, the then prime minister, Theresa May, promised to scrap Section 21 evictions, and later that year Boris Johnson vowed in the Conservative party general election manifesto "a better deal for renters", including the eviction ban. Ministers published a rental reform white paper in summer 2022, but with six different housing ministers since 2021, draft legislation has yet to go before parliament for debate. Shadow housing secretary Lisa Nandy has criticised the government's failure to publish the Renters' Reform Bill. She warned the further delay would fuel doubts that ministers will deliver fully on their promises to the 4.4million households privately renting in the UK. Nandy said: "Our message to the government is clear, do not backtrack on the promises you have made, do not drop any commitments, do not roll over to your backbenchers again." Labour has promised to bring in its own renter reform charter to beef up rights if it gets into power. "We will tilt the balance of power with powerful new rights and protections for tenants, including longer notice periods, a ban on no-fault evictions and the right to make changes to your home," Nandy said. Alongside the proposed reforms to the private rented sector, Labour has said it will make wider changes to the housing system to build more homes. Nandy pointed to the Conservative's record of failure on housebuilding, after it has caved to pressure on MPs over housing targets. The Tories have scrapped housebuilding targets following pressure from backbenchers

Investor / Saver

How will the UK crypto regulation affect me?

MPs in the United Kingdom are looking to establish more regulations around cryptocurrency trading. The Treasury Committee has released a report, stating crypto should be regulated as gambling, recommending that the UK Government regulate unbacked cryptoasset activities. This subject remains relevant against the current backdrop of financial inclusion, where Crypto regulations could impact its accessibility. Currently, the only regulations for cryptocurrency are set around anti-money laundering (AML) and anti-terrorism funding. However, some MPs across the Government are calling for greater rules to be put in place, such as financial services trading regulations being assigned to crypto, or even gambling regulations. Commenting on the report, Harriett Baldwin MP, Chair of the Treasury Committee, says: "The events of 2022 have highlighted the risks posed to consumers by the cryptoasset industry, large parts of which remain a wild west. Effective regulation is clearly needed to protect consumers from harm, as well as to support productive innovation in the UK's financial services industry." The report itself states that cryptocurrencies like Bitcoin, for instance, have 'no intrinsic value' and 'serve no useful social purpose', whilst being used by criminals in scams, fraud and money laundering. Concerns were also raised for regulating consumer crypto trading as a financial service, which MPs say will create a so-called 'halo effect' - ultimately leading consumers to believe that it is a safe and protected activity when MPs do not think it is. Currently, around 10% of UK adults hold or have helo cryptoassets, according to HM Revenue & Customs. Jonathan Millet, a Business Consultant at NewsBTC, shared his insight on the proposed regulations, saying; "because tangible currencies or assets do not back cryptocurrencies, the market has the potential to be volatile and, along with substantial financial gains, they too come with the risk of substantial financial losses. Millet also says that CryptoUK, the self-regulatory crypto trading association, has spoken out in strong disagreement about the comparison between gambling and crypto trading.

All

Government cuts stake in NatWest with £1.26bn share sale

The UK government has sold a £1.26bn stake in NatWest, taking the state's shareholding below 40% for the first time since the bank's emergency bailout in 2008. It marks the sixth block sale of NatWest shares since the financial crisis, and brings the government one step closer to returning NatWest to full private ownership. The government has set a self-imposed deadline to fully privatise the bank by 2026, roughly 18 years after taxpayers spent £46bn to save NatWest Group, then known as Royal Bank of Scotland Group, from collapse. The bailout resulted in the government taking an 84% stake in the high street lender, with the latest block sale having reduced its shareholding to 38.6% from 41.4%. "This transaction reduces government ownership below 40% and demonstrates positive progress on the bank's strategic priorities and the path to privatisation," said the NatWest Group chief executive, Alison Rose. The current timeframe for the sell-off is twice as long as it took for the government to offload its holding in Lloyds Banking Group, which bought HBOS in a government-orchestrated rescue plan at the height of the financial crisis and was handed a £20.3bn bailout in return. Lloyds bought back the last of its shares from the government in 2017. The main reason for the delay is that the government is trying to avoid losing taxpayer money in the process of disposing of its NatWest stake. The Treasury has said that meeting its 2025/2026 deadline would depend on how financial markets were faring, and whether it could assure "value for money for taxpayers". Over the past decade, shares in NatWest Group, which has a market value of about £25bn, have tended to trade at barely half the average price of the bailout. The government said on Monday that it had agreed to sell 469m shares at a price of 268.4p each. That is nearly half the 500p that it paid for the shares in 2008.

Business Owner

Complying with IR35

Changes to the tax rules known as IR35 came into force on 6 April 2021. The new rules make businesses liable for determining the employment tax status of contractors who work through 'Persons of Significant Control' (PSCs). The new rules have created significant cost and compliance challenges for businesses that rely heavily on a flexible workforce. Commonly, a PSC is a company where there is only one employee/office holder and the purpose of the PSC is to supply that individual's services to a business. The fee for those services is then paid by the business to the PSC. It is possible for a PSC to have more than one employee/office holder. Using a PSC can be beneficial to the individual contractor for a number of reasons, including that the individual is protected by the limited liability status of a company. The individual can also achieve tax savings by having more flexibility regarding how profits are withdrawn from the company. Historically, many businesses have encouraged the use of PSCs when engaging contractors since they provide increased flexibility, particularly for businesses operating in sectors with fluctuating labour demands. Given that individuals engaged through PSCs do not gain employment rights, such as holiday and sickness pay entitlement, the use of PSCs also tends to generate significant HR cost savings for the engaging businesses. Previously, the use of PSCs also generated tax savings for engaging businesses. Prior to 6 April 2021, when contracting with an off-payroll worker through a PSC, a private sector business did not have to deduct tax under the Pay As You Earn System (PAYE) from payments made to the PSC or pay employer's National Insurance contributions (NICs). Employer's NICs are currently payable at 13.8%. Under the pre-6 April 2021 regime, in the private sector, the PSC was responsible for applying the IR35 rules, operating PAYE and paying any tax and NICs that may be due. Broadly, the IR35 rules apply where the individual would have been an employee for tax purposes if it had engaged directly with the business and not through the PSC. There is no precise legal test to determine employment status for tax purposes. The test has been developed through court decisions and is based on a number of factors. HM Revenue & Customs (HMRC) has developed guidance on when it considers that an individual would be an employee for tax purposes.

All

IRS sets its sights on tax avoidance by the super rich and corporations

In 2010, Forbes magazine counted 403 billionaires in the US on its annual rich list. This year, there were 735, a four-fifths increase. Yet the number of inspectors employed by the Internal Revenue Service to audit complex tax returns — the kind filed by the ultra-wealthy and corporations — has fallen by almost half over the same period to around 2,600. In the cat-and-mouse game of US tax compliance, the mice have had the run of the place. The "defund the IRS" strategy pursued by Republicans in Congress over more than a decade has had damaging effects on two fronts: most obviously, on the agency's customer service, which accountants during tax season will tell you is appalling, but also on its ability to conduct complex audits. However this ought to change with an infusion of new funding for the IRS, totalling $80bn over the next decade, thanks to the Inflation Reduction Act signed by President Joe Biden last year. That compares with a $14.3bn annual budget last year. The cat just got a lot of cream. More than half the money has been earmarked for enforcement and, if there was any doubt about the agency's game plan, it was dispelled with the publication in April of a new operating strategy and the installation of a feisty new commissioner, Danny Werfel — a high-flying bureaucrat under previous administrations who has been called back from the private sector after a stint as a management consultant. In 2019, the IRS said, just 0.7% of taxpayers earning $1mn or more were subject to an audit, a figure that had slumped from 7.2% in 2011. It simply hasn't had enough people with the level of expertise required to go in and root out dubious tax accounting, let alone to fight with the battalion of advisers and attorneys that the rich inevitably bring to bear when they are challenged. And the quantity and length of tax returns has only increased while the cat has been sleeping. The ballooning number of partnerships, used by small and not-so-small business owners and investors to avoid the double taxation associated with traditional corporations, is one area where the IRS has fallen far behind.

END