

Technical Update No. 15

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Saver / Investor / Retired

New wave of protectionism is the biggest threat to prosperity going forward

Commentators have highlighted the alarming rise of protectionism and geopolitical tensions, identifying them as one of the greatest threats posed to prosperity. It's unusual for trade issues to hit the headlines with such force and regularity but trade relations between the major economies of the world are very much in the spotlight. The United States is threatening to escalate its imposition of tariffs on Chinese goods, having already levied import duties on steel and aluminium products. Meanwhile, in the UK we are seeking to find a way to forge a new trade relationship with other European countries after Brexit. Global economic growth prospects continue to provide a supportive backdrop but the ongoing geopolitical tensions and rising protectionism continue to dampen investor confidence and this remains a significant threat for the foreseeable.

All

Sharp increase in taxpayers taking 'aggressive' HMRC to judicial review

Taxpayers challenged the Inland Revenue in 122 judicial reviews last year, according to legal consultancy RPC. It says HMRC faced 36% more judicial reviews in the High Court than the year before, when just 90 cases were brought against the Revenue. The adoption of a more aggressive approach by HMRC (due to political targets and a need to increase tax revenues) is thought to have contributed to the sharp increase. While revenues have undoubtedly increased, a more dogmatic approach leaves HMRC more vulnerable to legal challenges as its increasing aggression means that judicial reviews are becoming increasingly common and are, all too often, the result of simple errors by HMRC and a dogged refusal to correct them.

All

Amazon's miniscule tax payment is scandalous but it's the rules that are at fault

Amazon services profits tripled in the UK last year but, despite this, it has managed to halve its UK corporation tax bill. As per figures posted publicly on Companies House, Amazon's corporation tax bill was £4.5m last year, down from £7.4m the previous year. Its profits, meanwhile, tripled from £24m in 2016 to £72m in 2017. The company essentially uses a tactic that can be used by any company to reduce its tax liability by deducting part of the payments it makes to staff in the form of company shares. It does, though, raise the issue of a significant competitive bias in the UK. The expectation is that Amazon, Ministers and HMRC will be quizzed in detail in Parliament to tackle things head on.

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Inheritance tax hits a record high

The UK Treasury collected a record amount in inheritance tax (IHT) over the last financial year, topping the £5bn mark for the first time. In total, bereaved families stumped up £5.228bn in the last tax year – 8% more than in 2016-17, according to new figures released by HMRC. The rise is being attributed, in part, to the increase in property prices. The number of people having to pay IHT is also growing, with the latest figures showing IHT was payable on a total of 4.2% of estates in 2015-16, rising from 3.9% in 2014-15 and 2.7% in 2009-10. Around one in twenty families now pay inheritance tax, and the figure is expected to increase to one in ten in the coming decades. For many years inheritance tax limits have not kept up with house prices and that has dragged more and more people into the tax net. Even the introduction of an additional nil-rate band for families passing on a home to their children was not able to stem the growth in inheritance tax revenues.

All

Smaller firms should have to report gender pay gap

The Business, Energy and Industrial Strategy Committee report on gender pay gap has found that the majority (78%) of organisations report pay gaps in favour of men, and is making several proposals to change the reporting requirements.

These include requiring all employers to publish, alongside their figures, a narrative to explain them and an action plan for closing the gap; reducing the threshold for reporting after next year to all those employers with 50 employees or more; and clarifying the sanctions the Equality and Human Rights Commission can impose on those who fail to comply.

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Service sector back in the slow lane

The UK Services Purchasing Managers' Index (PMI), seen as a barometer of economic health, fell in July to 54.3 from June's 54.9. The index signalled the slowest expansion of service sector output for three months, raising questions over the Bank of England's decision to raise interest rates from 0.5% to 0.75%. While anything above 50 indicates growth, the consensus among most commentators is that the survey results are fairly disappointing all round. Results continue to point to Brexit being a contributory factor to delayed decision making, making clients more risk-averse and hampering growth.

All

FCA sets out crackdown on peer-to-peer lending

The FCA is planning new rules for loan-based crowdfunding platforms due to increasingly complex business models. The regulator is inviting responses to a number of specific proposals to change the rules for loan-based firms. The new rules aim to ensure investors receive clear and accurate information about a potential investment and understand the risks involved and that they are 'adequately remunerated' for the risk they are taking. It also wants to extend existing marketing restrictions for investment-based crowdfunding platforms to loan-based platforms.

Employee / Business Owner

House prices gain momentum in July

The value of the average home increased by 0.6% in July to £217,010 according to the latest Nationwide house price index. So a modest rebound rather than anything to get wildly excited about. As a result, house prices are up by 2.5% on an annual basis, increasing from 2% last month. This means annual house price growth has sat within the 2-3% range for the past 12 months, suggesting there has been little change in the balance between supply and demand in the housing market. Looking ahead, subdued economic activity and ongoing pressure on household budgets is likely to continue to exert a modest drag on housing market activity and house price growth this year, though borrowing costs are likely to remain low. On balance, experts expect house prices to rise by around 1% over the course of 2018.

All

The UK's economy is fragile, debt-ridden, built on low paid jobs and doomed by Brexit – raising interest rates was a big mistake

Tracker mortgage customers were texted minutes after the announcement by the Bank Of England while savers wait (hopefully) for savings rates to follow suit. Indeed most Banks have stated they require time to review the situation before passing on the increase to savers. But is the ratcheting of rates to normalise them over the next few years wise? The rationale is that rises are needed to dampen down inflation. The MPC is concerned that increased wages and businesses competing for labour will lead to prices rising in shops, thus triggering a jump in inflation. But this overlooks the fact that a) it is the gig economy that is, in no small part, fuelling record unemployment figures and b) there is little to indicate wages are on the rise. Other points of concern are Britain's private debt level – at about 217% of GDP and rising – while public debt is now approaching 90% of GDP, not to mention startlingly low savings ratio at 4%. And then there's Brexit!

Property Owner

MPs call for huge pension saving overhaul

Chancellor Philip Hammond should scrap the lifetime individual savings account (LISA), bring in flat-rate tax relief on pensions, and remove the lifetime allowance (LTA). These were the recommendations of the Treasury Select Committee, in a report published last week. The committee's main recommendation is that the current system of tax relief – whereby savers get tax relief on pension contributions at their highest marginal rate of income tax – should be replaced with a single flat rate. As MPs point out, the current system means that savers on high incomes get a disproportionate share of the annual £41bn in pension tax relief – more than 50% goes to those earning above £50,000. The committee also believes that the government should scrap LISAs. Although LISAs are steadily growing in popularity, MPs complained that the LISA rules are confusing, and that the ability to save for a property might also dissuade people from saving into their workplace pension, where they benefit from an employer's contributions.

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If you have any questions related to this update or indeed anything else then please contact your adviser at Champain.

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