CHAMPAIN
FINANCIAL SERVICES

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

T: 01444 229 520
F: 01444 229 521
info@champain.co.uk
www.champain.co.uk

Technical Update No. 48 21st January 2020

Investor / Saver / Retired

Trusts under the spotlight

A series of government moves over the past few decades have reduced their tax advantages and made trusts much less attractive to wealthy families. They are likely to become less popular still from March, when a new requirement will force thousands more trustees to list on a government register that is partially open to the public, or risk penalties. Since 2017, certain types of trusts have had to report information to a government online register called the Trusts Registration Service (TRS). This came into being as result of an EU-wide directive to tackle money laundering. To comply with the rules, all UK trusts that have to pay a tax liability such as capital gains tax (CGT), income tax, inheritance tax or stamp duty must report information to the register. Trusts that are outside the UK but trigger UK tax must also do so, as must all trusts that are required to fill out a self-assessment tax return anyway. Currently the register is not publicly available, with access limited to law enforcement authorities. But from March, the next phase of the EU directive (the fifth Anti Money-Laundering Directive) is set to increase the number of trusts that must submit reports. It will also partially open up the register to the public, including journalists, leading some to worry about an erosion of privacy. Despite the UK's imminent departure from the EU, the government is committed to implementing the directive and passing it into domestic law before Christmas. tax experts warn that hundreds of thousands of trustees and beneficiaries could be affected and need to understand better the possible impact of the changes.

Champain Financial Services Ltd. is a member of Best Practice IFA Group Limited, which is authorised and regulated by the Financial Conduct Authority.
Champain Financial Services Ltd. Registered in England No. 6800575. Registered Office: Palmerston House, 814 Brighton Road, Purley, Surrey, CR8 2BR.
Best Practice IFA Group Ltd. Registered in England No. 4490633. Registered Office: Broadlands Business Campus, Langhurstwood Road, Horsham, West Sussex, RH12 4QP

All

Tax rebate for PPI claimants?

If you're one of the millions of people who've shared in the £34billion of PPI repaid (so far), you may have paid tax unnecessarily. If so, and your payout happened in the last four tax years, you are due money back. The money you get paid back for PPI can have up to three main elements:

1. A refund of the PPI you paid.
2. If the bank (outrageously) added an extra loan to your original loan just to pay for the PPI you get back any interest you were charged on this extra loan.
3. You get Statutory Interest (at eight per cent a year) on the total of both those sums, for each year since you got the PPI.

Only the third element is taxable. Any tax taken is usually shown on your payout statement. Tax is due because this Statutory Interest is designed to return you to the position you'd have been in if you hadn't had PPI. If tax is due on PPI payouts, most firms deduct it automatically, at 20 per cent, before you get the money. That has always been an issue for non-taxpayers. However, since April 6, 2016, far more people have been owed tax back, as that's when the personal savings allowance launched. It allows most taxpayers to earn £1,000 a year of savings interest, tax-free. Since then, while most savings interest has been paid without any tax taken off, PPI still has 20 per cent automatically deducted. Therefore, oversimplifying somewhat, it counts as savings interest, as if you'd earned it on that saved cash.

All

Brexit and pensions

People depending on investments to fund old age are facing another year of Brexit uncertainty, after a mixed period for UK markets in 2019. A decisive election result cleared our path to leaving the European Union, but with trade deals yet to be struck with either the EU or the US our future fortunes are still not assured. The newly re-elected government now has a majority that gives it the opportunity to fix pension problems that disadvantage low paid workers and parents who fall foul of confusing child benefit rules. Here's what you need to know:

1. Pension investors: Brexit comeback for UK markets

Last year, many pundits said the UK market was undervalued and might be heading for big gains in the year of Brexit.

2. Pension tax relief: Fix for doctors could spark radical reform for all

The Government has just come out with a one-year fix for the so-called 'taper problem', which sees doctors turn down shifts for fear of shock pension tax bills, and it has promised urgent talks with the medical profession to solve the matter. But it has fallen short of saying it will abolish the taper, which pension experts believe is the only viable remedy. Commentators believe there is a need for a radical overhaul of the pension tax relief system for everyone, not just the best-paid workers. The Government now has a comfortable majority, and if strapped for cash it may be tempted to dust off George Osborne's old plans, shelved just ahead of the Brexit referendum, to axe pension tax relief and introduce a Pension Isa. Introducing a Pension Isa would mean savers no longer receive tax relief on contributions to a pension. Instead it would pay out tax free in retirement, providing a future Government didn't slap penalties back on later. The other option that could be on the table is a new flat rate of tax relief on contributions, probably of between 25% and 33%. This would see lower earners taxed at the basic rate of 20% get an extra Government boost to their pots at the outset - and see the value of their pensions rise as a result - while those on 40 or 45% wouldn't get back their full whack of tax any longer.

All

Pension tax tips pre-return

These tips help taxpayers get all the pension tax relief to which they are entitled or to avoid an unexpected tax bill in years to come.

A) Claim higher rate relief on personal pension contributions:

Many pension savers who pay income tax at the higher (or additional) rate, may be unaware that they need to claim higher rate relief through their tax return on contributions into a personal pension. Employee contributions into a personal pension or group personal pension automatically attract pension tax relief at the basic rate through the 'relief at source' method. This tax relief is claimed by the pension provider on behalf of the member. But those who pay tax at the 40% or 45% rate only get their extra tax relief if they claim it through their tax return. For example, someone who pays £80 into a personal pension automatically gets an extra £20 in basic rate relief added to their pension. But if they pay tax at 40% they are entitled to another £20 in tax relief which they will only get if they enter this information on their tax return.

B) Report contributions in excess of your annual allowance

Individuals are expected to report on their tax return any pension contributions (from themselves or their employer) into a Defined Contribution pension and/or any growth in Defined Benefit pension rights in excess of the Annual Allowance, so that additional tax can be paid.

C) Report contributions made on your behalf under 'scheme pays'

HMRC recently admitted that some taxpayers were failing to report on their tax return that a pension tax charge had been paid on their behalf by their occupational pension scheme. A new FOI obtained by Royal London shows that in 2016/17 just over 1,000 people failed to report this information. As the number of people affected by 'scheme pays' has grown rapidly since 2016/17, it is likely that thousands of people are now failing to report this information. The FOI from HMRC says that this is a case of 'under-reporting, not under-payment', but taxpayers are expected to give complete information on their tax return.

Investor / Saver

The Boris bounce

Funds and trusts invested in the UK have seen a significant bounce since December's General Election saw Boris Johnson's Conservative party win a decisive majority. After years of stunted flows amid uncertainty over the UK's political backdrop, the average UK All Companies fund climbed 5.1% between 12 December 2019 and 10 January 2020, according to AJ Bell. But UK smaller companies funds performed even better, up 7.8% on average, with the top performer, VT Teviot UK Smaller Companies, up more than 11%. Investment trusts focussed on British firms have been the real winners since the election, however, with UK All Companies trusts delivering 8.2% on average, UK Smaller Companies 8%, and UK Equity Income 5.1%. The more than 5% gain for UK All Companies funds compares with a loss of 0.08% during the previous 30-day period and a return of only 1.74% during the same period the previous year. The UK Equity Income sector has also risen 5.1% since the election. Sentiment towards UK stocks has dramatically improved since the December general election, as evidenced by widespread gains among UK focused funds and investment trusts. The large majority gained by the Conservatives fuelled a Boris Bounce as investors hurried back into domestically focused companies that had been out of favour for so long.

All

Pensions tapered annual allowance changes?

Pension experts have dismissed a solution to raise the tapered annual allowance threshold income, calling it a sticking plaster which would not solve the underlying problem. Treasury officials have discussed raising the tapered annual allowance threshold income from the current from £110,000 to £150,000, a level at which pension contributions are counted as earnings and lower tax-free allowances start to kick in. It was argued such a solution would solve the problem for most doctors who have been turning down additional work for fear of large tax bills, since consultants' median earnings are £112,000 and it is estimated that 90 per cent would fall below the new limit. This solution would not be exclusive for NHS pension scheme members, and would be applied to all taxpayers. Introduced in 2016, the taper gradually reduces the annual allowance for those on high incomes, meaning they are more likely to suffer an annual tax charge on contributions and a lifetime allowance tax charge on their benefits. It means that for every £2 of adjusted income above £150,000 a year, £1 of annual allowance will be lost. The British Medical Association, which has been campaigning for the tapered annual allowance to be scrapped, has already criticised the proposed solution. But experts believe that simply raising the threshold income would not remove any of the complexity of the taper, nor the threat of doctors facing a 'tax cliff' when their income increases through promotion or taking on additional work.

All

Interest and mortgage rate uncertainty

Despite a decade of rock-bottom interest rates, the Bank of England is under pressure again to cut rates after new data showed the economy went into reverse before December's general election. The actions of central banks can seem distant to everyday life, but have significant ramifications for the cost of borrowing and rates savers receive on their cash. When the Monetary Policy Committee meets on January 30, the health of the British economy will be the main talking point. GDP slumped by 0.3% in November from a month earlier, according to the Office for National Statistics. Meanwhile, inflation has declined steadily since 2018 and now sits at just 1.3%. The pound has slipped on the gloomy numbers, reaching 0.7% against the dollar to below $1.30 for the first time this year. In May last year predictions of interest rate rises were proven correct – again. The Bank of England rose rates to 0.75%, but stopped there. With investors now forecasting a rate cut, what do experts expect now? The consensus is that he latest low inflation figures have increased the chance of a rate cut, but his base case is still for no change. This refutes the view of traders who now expect a 63% chance of a rate cut. It will depend on where the economy goes over the next few months. The economy weakened before the general election but we could see a turnaround in business optimism and spending. If this happens then the Bank of England will do nothing for a while, most believe. Over the medium term, higher rates are likely as a result of a tightening labour market, increases to the minimum wage and increased government spending. All these factors could contribute to higher inflation.

Investor / Saver / Parent

Good news for child trust funds

Young people with a Child Trust Fund (CTFs) could see their savings automatically rolled into a new tax-free savings accounts at maturity under new government proposals. The first Child Trust Funds are due to mature in September this year and, under current arrangements, will be automatically cashed in once the account holder turns 18. CTFs could instead be automatically rolled over into another account that continues to shelter the young saver's cash from the taxman. Child Trust Funds were launched in 2005 as a way to encourage parents to start saving for their children. Children born between September 1, 2002 and 2 January 2, 2011 received between £250 or £500 to be invested on their behalf. Parents, family and friends could continue to contribute to the account, with all gains tax-free. More than 6 million CTF accounts were opened and no money could be withdrawn until the child reached age 18. That means the first tranche of accounts will mature in September 2020. But CTFs were discontinued in 2011 and replaced with the Junior Isa. For years, children with CTFs were left in limbo as savings providers stopped offering new products as Jisas took precedence. In 2015, the Government ruled that money held in CTFs could be transferred out to a Jisa. For those who kept their money in a CTF, the money would automatically cash out once the accountholder turned 18. But many have considered this to be unfair. Junior Isas are automatically rolled into adult Isa accounts when a child reaches 18, meaning they continue to enjoy their tax-free status. The Government's latest move looks to be levelling up the playing field.

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.

The content of this newsletter is for information only. It does not represent personal advice or a personal recommendation and should not be interpreted as such. Please do not act upon any part of it without first having consulted an Independent Financial Adviser.

For information about our services please contact Champain or view online.

END.