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Technical Update No. 49 7th February 2020

Estate Planner

An extra £20,000 for spouses

From 6 February the fixed amount a surviving partner is entitled to when a spouse or civil partner dies without making a will, is rising from £250,000 to £270,000. The fixed sum is known as the 'statutory legacy' and is designed to balance the interests of the surviving spouse with those of the deceased's children when no will is in place. For the millions of adults in the UK without a will, the fixed inheritance sum increase is a safety net – but is no substitute for making sure the right people get what you want them to have after you die. So, if you have children, your spouse will get the first £270,000 and half of everything else. The other half will be divided equally between your children. While at first glance, extra inheritance for the remaining partner looks like their interests have been protected from erosion by inflation. However, they could still be at risk of far worse – of losing their home and lifestyle. For the remaining partner, with no will in place the statutory legacy sum means:

- Assets or money you might need is automatically shared out among the deceased's children.
- It may be down to the children to decide whether they help you out.
- You stand to lose money or assets that your late partner had held even though they had intended to share these with you.
- You could be landed with an inheritance tax bill that could have been avoided.

Parent

Parents fork out £1.65bn in child benefit tax

Parents who earn above a salary threshold for child benefit payments have been hit with a tax charge totalling £1.65bn since 2013, figures reveal. Hundreds of thousands of families pay the High Income Child Benefit Charge (HICBC) since it was introduced in January 2013. Where a claimant or their partner earns more than £50,000, HMRC claws back part of the child benefit through a tax charge. For someone earning over £60,000, the tax charge entirely wipes out the value of the child benefit. When introduced in 2013, the HICBC was intended to affect only the top 10% of earners, but each year the proportion of those affected increases as the wage threshold has remained static. The latest figures obtained by financial advice firm NFU Mutual reveal that 279,000 families repaid £345m in 2016/17, more than double the £116m paid back by parents in the 2012/13 tax year when the charge was introduced. However, NFU Mutual found that many 'high earning' parents are completely opting out of receiving child benefit because of the tax charge and because they need to submit a tax return. Around 545,000 families cancelled the benefit by August 2018 and NFU estimates the government has saved a further £3.51bn from parents opting out of receiving child benefit altogether. But this can have negative consequences for parents as cancelling the benefit claim means they miss out on vital National Insurance Contributions, potentially missing out on receiving the full state pension in the future.

Investor / Saver

Renewable energy funds slump

Renewable energy funds under attack from brokers – Shares in many renewable energy funds slumped yesterday as first Chris Brown of JPMorgan and then Matthew Hose of Jefferies said they were overvalued. Their analysis (which we can't show you and you can't get hold of unless you work for a large investment firm and pay for it) is reported to draw on work done by Bloomberg New Energy Finance (BNEF). BNEF is predicting a global collapse in power prices over coming years. They are extrapolating from falls in the cost of new solar plants and say that, even though technology doesn't exist yet that could make this continue (and many scientists would tell you that there isn't much room to make silicon based solar cells more efficient), it could happen. They paint a similar story for wind. These two power sources and other technology that hasn't been invented yet then displace most fossil fuel generation. The knock on effect for the renewable energy funds would be that the power they produce becomes less and less valuable and, since this makes up an increasing part of their revenue, this drives down future cash flows and hence today's NAV. There are a lot of ifs and buts in this and BNEF is a think tank not a valuation agent. The funds point out that they use a range of independent valuation companies to come up with the power prices they use in their NAVs. Long term power price estimates are falling but not to the extent that BNEF envisages. More fundamentally, the NAVs are also based on the price that wind and solar farms change hands at in the secondary market. If share prices dip too far, these funds could become bid targets.

All

Rise of the self employed

PUK job growth was the strongest in nearly a year in the three months to November, according to new government data. The Office for National Statistics said the strong jobs growth reflected a particularly weak three-month period to August when jobs fell, but the data also showed the employment rate hit a record high of 76.3% with jobs growth driven particularly by self-employment and the numbers of women in full time work. The number of people out of work dropped by 7,000 to 1.31 million and the unemployment rate of 3.8% remained at its lowest level since early 1975. Over two-thirds of the growth in people in work in the last year came from women working full-time while self-employment has also been growing strongly, and the number of people working for themselves has now passed five million for the first time ever.' IPSE (the Association of Independent Professionals and the Self-Employed) has welcomed the news that self-employment has passed the 5 million mark for the first time ever, attributing this to the rise in the number of female self-employed. IPSE has also pointed to its own recent research showing freelancers are choosing to work for themselves for overwhelmingly positive reasons.

All

What the Coronavirus means for financial markets

The impact of coronavirus on the global economy is growing and spreading daily. What started as a medical emergency in the Chinese city of Wuhan has led to planes being grounded, cruise ships being quarantined, theme parks being shut and car plants being mothballed. TV footage of deserted streets and empty shops tell their own story: China’s economy, which was already slowing, is going to suffer a major hit as the authorities seek to stop the virus from spreading. But the effects have now rippled out well beyond the world’s second biggest economy: to Hyundai announcing a suspension of production in South Korea because of a shortage of parts; to a dramatic drop in tourist revenue in Thailand; to casinos being closed in Macau. Financial markets remain confident the crisis will soon blow over. After heavy selling last week, share prices have been rebounding because investors think coronavirus is containable. There was a flurry of excitement at unconfirmed reports that a Chinese university had discovered an effective treatment. But as Neil Shearing, the chief economist at the consultancy Capital Economics, notes, the impact will be determined by how the virus spreads and evolves – and if the epidemiologists are unsure, it is reasonable to assume that economists do not know either.

Investor / Saver

Should you invest in VCTs

This year marks the 25th anniversary of the introduction of venture capital trusts (VCTs). The idea was to encourage investors to support young and innovative businesses in exchange for generous tax concessions. Since 1996, VCTs have raised £8.4bn and helped thousands of private companies grow – from GO Outdoors, Secret Escapes, Everyman Cinemas and Five Guys to Zoopla, the first VCT-backed £1bn company. When you invest in a VCT you receive up to 30% tax relief. So on a £10,000 investment you could get back £3,000. All returns, typically paid through dividends, are tax-free. The annual allowance of £200,000 is both generous and straightforward. There is a catch, though. VCTs are not open all year round. Demand for the popular ones far outstrips supply and they sell out quickly. So if any of the below whet your appetite, to avoid missing out invest now rather than waiting for the new tax year. Venture capital trusts' steady income streams mean they are also being increasingly used for intergenerational wealth planning despite their lack of inheritance tax benefits. Even though base dividends may have dropped a little since the rules over payout taxation were changed in 2015, there is usually a special dividend payout from the types of companies VCTs invest in, which helps to boost the tax-free income. This is cementing in people's minds that these are good investments. When you consider the low-interest-rate environment we have had for such a long time, shareholders consider these as investments worth hanging onto.

VCT investments are considered to be a high risk investment strategy. Individual advice should be sought to confirm individual suitability.

All

Brexit and pensions

If you are a UK national living in the EU, Iceland, Liechtenstein, Norway, Switzerland or Ireland, there will be no change to your rights and status during the transition period, which ends on December 31, 2020. The Withdrawal Agreement secured by the Prime Minister and the EU ensures resident's rights and allows them to stay in the EU country where they live after Brexit and means they will have broadly the same entitlements to work, study and access public services and benefits as now. The end of 2020, however, signals the end of the transition period, during which the terms of the UK's withdrawal from the EU a deal on citizens' rights will be negotiated, and could see new laws take effect from 2021. In terms of residency documents and status, you and your family may need to apply for a residence status to confirm you are living in another EU country before December 31, 2020. You will have until at least June 30, 2021, to complete this. The EU country where you live will set up a system for applying for a residence status. The application will be short, simple and either free of charge, or cost no more than applying for a similar document, such as a national identity card or passport.

Investor / Saver / Employer

Pensions schemes failing on climate change investment

The UK Sustainable Investment and Finance Association (UKSIF) says pension scheme trustees are failing to comply with their investment duties around ESG and need government intervention to get back on track. In a report released last month the think tank said schemes have adopted a "thin and non-committal" approach to policies to tackle environmental risk. This comes after UKSIF reviewed a collection of statements of investment principles (SIPs) published by trust-based pension schemes offering defined contribution (DC) benefits between October and November 2019. Trustees were required to outline how they factor ESG issues into their investment decisions in SIP statements from October last year. While a majority of trustees surveyed by the think tank said they believe ESG issues will affect scheme asset performance, it also found only one third have complied with the legal transparency requirements. UKSIF said The Pensions Regulator (TPR) must carry out a full review to investigate the level of compliance across the UK pension sector, while the government should create a new public registry for pension scheme investment policies.

All

Jersey scraps 'only husbands talk tax' rule

Married women in Jersey are to take control of their own tax affairs for the first time after the island's assembly voted on Tuesday to reform a decades-old law. Since 1928 married couples in the crown dependency have been required to file all tax receipts under the husband's name, with only the husband permitted to pay taxes. The wife's earnings have been considered part of her spouse's income and she has had to get his permission if she wants to be treated separately or to discuss her financial affairs with the tax office. A small concession to modernity was made in 2013, when income tax forms began to include a box that husbands could tick in lieu of written permission. For couples in civil partnerships or same-sex marriages in the channel island, a similar principle has applied — with the older partner required to give permission for the younger. On Tuesday, the Jersey State Assembly voted by 40 to 2, with 2 abstentions, to adopt a proposal to reform the rules, brought by Treasury minister Susie Pinel. This means that from 2021, married couples and civil partners will share equal rights and responsibilities for the couple's tax affairs, unless they choose to be assessed separately. Both parties will be able to sign their joint tax return, have equal rights of access to one another's tax information, and share responsibility for submitting the return on time. They will also have joint liability for the payment of all personal income tax due by the couple.

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