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

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Investor / Saver / Retired

Missing out on pension credit?

Some 1.3 million households could be missing out on pension credits worth £3,000 per year, according to government data. The government has launched a 12-week campaign to raise awareness of pension credit among those over state pension age. It's encouraging people who are eligible to apply to claim the benefit which, on average, gives retirees an extra income of around £58 a week. Here, we look at how pension credit works and explain how you can claim if you're eligible. Pension credit is a tax-free benefit aimed at boosting your state pension if you're retired and on a low income. It's awarded to you based on your earnings – known as a means-tested benefit. Pension credit is made up of two parts, called guarantee credit and savings credit. You'll need to reach state pension age, which is 65 and gradually rising to 66 by October, to claim guarantee credit. Savings credit is only available to those who reached state pension age before 6 April 2016. Furthermore, since February last year, guaranteed credit has contained an additional amount for those who are responsible for children. You may be entitled to this if: You have a main responsibility for a child under 16 years of age or a qualifying young person (someone who is aged 16 to 19 and in full-time education or approved training). The child or qualifying person is living with you. You won't have to pay tax on any pension credits you pay and you can backdate it for a maximum period of three months. If you have been previously turned down because of your savings it's worth having another look, as your circumstances may have changed.

All

How to protect your tax allowance

The government has committed to an awful lot of new spending. But the money has to come from somewhere. The unwritten rule of electioneering is to announce the spending increases during campaigning, and wait for the first post-election Budget to reveal the bad news about tax. Over the past few weeks we've seen suggestions of everything from some form of 'mansion tax' on more expensive homes, to changes in capital gains tax and tweaks in pension tax relief. Sajid Javid's resignation as chancellor – the person in charge of the Budget – might have derailed some of the plans in progress, but commentators are divided on what's likely to happen next. Some think fiscal (tax) rules will be relaxed, so there's less pressure to balance the books and spending can rise alongside tax cuts. Others point to the manifesto pledge to get rid of 'arbitrary tax advantages' for the wealth. Unfortunately we don't have a crystal ball to know what tax changes if any will come to fruition. We think the best way to shelter yourself from any potential tax changes is to take as much advantage as you can with the appropriate current breaks, while they still last:

1. Take advantage of ISAs
2. Consider a Lifetime ISA
3. Don't forget Junior ISAs
4. Top up your pension
5. Consider salary sacrifice
6. Take advantage of your spousal exemptions
7. Claim the marriage allowance

All

Tax raid on final salary pensions

A tax raid on pensions would punch a £1bn hole in company retirement schemes and could spell disaster for dozens of firms, experts have warned. Businesses which still offer final salary schemes would come under huge pressure if pension tax relief is slashed in next month's Budget - putting more than a million workers in the firing line. Sir Steve Webb, a former pensions minister, said: "Words like mayhem spring to mind when thinking of the reform. You can't underestimate just how radical this would be." Commentators are clear that there's a reason governments haven't done this before and if they're going to alienate millions of people then they have to have a really compelling reason. Anyone earning more than £50,000 a year would be stung by a 20% tax charge on their annual pension savings under the proposals, which are being considered by new Chancellor Rishi Sunak and Boris Johnson. Now, financial experts are warning people who get higher top-ups because they pay a 40% rate of tax to put whatever they can afford into their pensions, just in case of a major shake-up in the Budget.

Business Owner

Taxing times for freelancers

53% of contractors plan to walk away from projects in April, when tax changes take hold, costing UK economy £2.2bn in lost productivity. Freelancers say that IR35 changes to the way they are treated for tax are affecting their mental health and even prompting suicidal thoughts. Over one third of contractors say that HMRC's crackdown on how they are taxed, treating them as full-time employees rather than freelancers – known as IR35 – is either damaging their mental health or sending them to their GP for anxiety or suicidal thoughts. Fifteen per cent of freelancers caught out by the IR35 rule changes are set to default on mortgages or are in the process of selling their homes, according to one survey. One anonymous freelancer said: "Frequently having chest pains and not sleeping. Added pressure of wife not coping well due to fear of losing family home. Trying to remain calm, but frequently having suicidal thoughts." Currently, contractors assess their own tax status, but impending reforms coming into force from April 6 will shift this responsibility to hiring businesses.HM Revenue & Customs wants stop "disguised employment" gaming the system; working in a permanent position within a company without paying the same tax or employee contributions as full-time staff. As a result, both they and the hirer benefit from avoiding income tax and national insurance contributions.

Parent

Don't miss out on tax free childcare

Over one million families could be missing out on £1,000s per year in Government childcare help, as a new report for HMRC admits that take-up of the Tax-Free Childcare scheme has been lower than anticipated. The Government's Tax-Free Childcare scheme essentially gives eligible families 20% off childcare costs, and is worth up to £2,000 a year per child. HMRC has estimated that 1.3 million families are able to claim, but pensions firm Royal London's analysis of its latest take-up figures shows that only around 1 in 10 of those eligible are doing so. Around 172,000 families are claiming Tax-Free Childcare according to the most recent Government statistics, leaving around 1.1 million eligible families who aren't claiming – though the number of claims has been climbing from previous years. And a new report commissioned by HMRC says that "take-up so far has been lower than originally anticipated". The report found that eligible parents weren't claiming due to factors such as a lack of awareness or understanding of the scheme, as well as issues with logging into the Tax-Free Childcare site and making payments. The scheme was plagued with problems when it was first rolled out, primarily due to website issues. Some families may also be using alternative childcare schemes, such as childcare vouchers. Under the Tax-Free Childcare scheme, parents and carers in the UK can open an account where, for every 80p they deposit, the state adds 20p. In total, the state can add up to £2,000 per child per year (or up to £4,000 if your child is disabled) – so including what you deposit, you can use the scheme to pay for up to £10,000 of childcare per child each year. You can only get a maximum top-up of £500 every three months, but the state's extra 20% is added at the point you put money into your Tax-Free Childcare account, not when you spend it – so if you only pay for childcare seasonally, you can put money into the account throughout the year to avoid missing out on any state top-up.

All

Pensions tax relief in the firing line?

High earners could be stripped of 40% of their pension tax relief in next month's budget, as part of the government's pledge to "level up" the economy. Prime Minister Boris Johnson and newly-appointed Chancellor Rishi Sunak are to meet for detailed budget talks for the first time on Wednesday 19 February, with the pair said to be keen to relax spending rules. The Treasury is understood to have drawn up plans to cut the rate of relief for higher earners from 40% down to 20%, in a move which would raise £10 billion per year. Higher earners currently enjoy 40% tax relief on pension contributions, compared to just 20% for lower earners. Under the proposed changes, everyone would be entitled to the same 20% pension tax relief. A report from the Financial Times suggested that former Chancellor Sajid Javid was not entirely convinced by the plan, which is likely to be met with strong opposition among traditional Tories if it is introduced in the upcoming budget. There are growing concerns on the Tory benches over hints that Boris Johnson wants next month's budget to mount a tax raid on Middle England, with rumours there will be cuts in savings tax relief, a mansion tax, or the creation of new council tax bands for expensive homes.

All

Britain on course for cashlessness

Britain could be cashless within a decade, and a review panel has urged the Government to bring in laws to protect consumers' rights to pay with cash. The Access to Cash Review says the UK is at a tipping point, with fewer than one in 10 payments set to involve physical money by the end of the decade. Rishi Sunak, the new Chancellor, must bring in legislation that would protect the supply of physical money and force banks to offer cash, it said. The review calls on the Government to overhaul laws to make it easier to withdraw cash, such as allowing shops to offer cashback without making a purchase, which is currently illegal. In its findings last year, the independent panel warned Britain was on track to be virtually cashless by 2035.

All

Fears over pension transfers

UK companies are imposing third-party checks on financial planning firms providing retirement advice to employees in a sign of growing boardroom nerves over pension mis-selling. Independent financial advice firms pitching to work for multibillion-pound corporate pension schemes are being required to have the transfer advice they give to pension scheme members reviewed by an independent third party not linked to the regulator. The move reflects the concern of some of the UK's biggest companies about a growing pension mis-selling scandal that has unfolded since 2015 reforms made it more appealing to members to trade guaranteed "defined benefit" pensions for cash lump sums. Earlier this month the Financial Conduct Authority, the financial watchdog, warned that up to £20bn of DB transfers may have proceeded on unsuitable advice, with tens of thousands of members now at risk of running out of money in retirement. Experts said concerns about reputational damage from bad pension transfer advice, and ensuring members get better outcomes, were spurring employers and trustees to take the action. The appointment of a body to monitor the advice provided by an IFA is an unprecedented step in the corporate world, after Tesco appointed a third-party governance provider to monitor the transfer advice provided by two firms appointed to give retirement support to 220,000 members of its £13bn pension scheme. There are other big schemes considering doing the same as Tesco. Trustees and employers are realising that doing nothing and leaving members to find a reputable adviser on the internet, or on the local high street, is a risk they can no longer afford to take.

All

What The Budget might mean for taxes

Reports that Boris Johnson and the new chancellor, Rishi Sunak, are preparing tax rises in the budget on 11 March have raised concerns within the Conservative party. Several proposals have been aired in the media, including two that would have been anathema under previous Tory administrations: a fuel duty rise and the imposition of a mansion tax.

1. The Conservative party has not formally outlined plans for a mansion tax but reports have floated the possibility of one being introduced.
2. Mooted at the same time as the mansion tax, No 10 is reportedly considering a UK-wide home revaluation to squeeze more out of the council tax.
3. Britain's 37 million drivers could face the first fuel duty rise in a decade next month. The budget could add 2p to the cost of a litre of petrol and diesel.
4. The Treasury has drawn up plans to cut the rate of relief for higher earners from 40% to 20%. At present, people can put up to £40,000 into their pension per year and do not pay tax on that contribution.
5. Inheritance tax forces estates to pay 40% tax on assets worth more than the £325,000 threshold or £475,000 if the asset is a home that is left to children or grandchildren. A spouse or civil partner can inherit the tax break, doubling the threshold to up to £950,000. Many business assets, including farmland, can be excluded from the calculation of taxable wealth, lowering the charge even further for many wealthy households. No 10 is reportedly considering including those assets in the inheritance tax remit.

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