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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All

Tax rises around the corner?

Raising taxes or imposing a public sector wage freeze are among the options on the table to pay for a government borrowing boom during the coronavirus pandemic, according to a leaked Treasury document. The internal report estimated Britain's budget deficit – the gap between government income and expenditure – is on course to hit £337bn this year after a dramatic increase in public spending to cushion the economic fallout from the disease, while tax income has been eviscerated by lockdown measures. In the document outlining the potential costs for the public purse, revealed by the Daily Telegraph, Treasury advisers outlined a package of potential policy measures for the chancellor, Rishi Sunak, to consider. The internal predictions for a deficit this year of £337bn are roughly in line with estimates made by the Treasury's independent economics forecaster, the Office for Budget Responsibility, which had pencilled in borrowing of £273bn this year. The deficit had been expected to be about £55bn this year, before the pandemic struck. Sunak has previously warned the impact to the public purse is expected to be significant. The government has so far refused to give more detail into the costs of its support schemes or how it intends to pay for them. However, ministers are focusing on responding to the crisis first before setting out a budget plan later in the year. Among the options Sunak could consider are:

1) Austerity - The most controversial option would be to relaunch an austerity drive by cutting government spending. According to the Telegraph, the Treasury report suggests a two-year public sector pay freeze could generate savings of £6.5bn by 2023-24.
2) Tax rises - The Treasury document suggests a wide-ranging approach that would include breaking the Tory's "triple tax lock" promise not to raise income tax, national insurance or VAT, which was made before the election.
3) Growth - The chancellor has suggested he would prefer to grow the economy as the primary means of cutting the deficit. Budget deficits are influenced by two factors: government spending and tax income. But, at present, tax income has slumped because the economy has been broadly at a standstill.
4) Borrowing - The Treasury report warned the UK could face a sovereign debt crisis – where government borrowing costs become ruinously expensive – unless the economy recovers quickly, in an echo of the warnings Osborne made during the 2008 financial crisis.

Investor / Saver

The curse of Neil Woodford returns

Mark Barnett, the protégé of fallen investment star Neil Woodford and one of Britain's best-known fund managers, has parted company with Invesco, the asset manager, after 24 years. The departure follows a terrible run of investment returns for Mr Barnett and comes after serious question marks had been raised about some of the fund manager's portfolio choices. The Income fund Mr Barnett ran at Invesco has slumped 37% this year while the amount of money in the fund has plummeted from £8.3bn to £1.5bn under his tenure. Mr Barnett had already been demoted from head of UK equities to co-head last year. In March, Mr Barnett was forced to apologise to investors over the performance of his investments after his multi-billion pound funds were downgraded by Morningstar. The rating agency had cited deep concerns about Mr Barnett's exposure to smaller and illiquid companies. Commentators have some sympathy for Mr Barnett because the funds have been in redemption ever since he took over from Neil Woodford – it is very difficult to perform well, if you are constantly having to sell holdings. That being said, he has had five years to make changes and try to turn things around, and the fact that the funds still had legacy holdings in illiquid and unlisted companies has exacerbated his problems.

All

Expats in the spotlight

HM Revenue & Customs' (HMRC) crackdown on overseas tax evasion has seen the number of people admitting to not paying tax skyrocket in just one year. According to a Freedom of Information (FOI) request, 867 British expats declared they failed to pay owed tax in 2018-19; a 12-fold increase compared to the 66 for the previous tax year. The Telegraph reported that over 40% of those declaring they have not paid tax currently live in the Channel Islands; nearly 10% in the Isle of Man and 6% in Switzerland. It is not clear how much money the taxman will be able to retrieve from the 867 individuals. It is believed that HMRC is going to increase its efforts in tackling tax avoidance even further, to make up for the costs of the pandemic. According to an assessment by the Treasury, the covid-19 outbreak could cost the UK as much as £300bn ($363bn, €335bn). There have been rumours about the government handing HMRC greater powers to clamp down on tax evasion and avoidance to help cover the soaring bill of lost income and revenues caused by coronavirus. Additionally, a Treasury document dated 5 May 2020, showed plans for a possible increase in income tax and the potential elimination of the triple lock for pensions.

Property Owner

Mortgage market prospects

A daily monitor of mortgage market activity has reported “significant volumes” of business across the sector, even over the weekend. Mortgage technology firm Twenty7Tec is running a daily market snapshot service which shows the volume of searches for the week ending last Sunday, May 17, was up 27% on the previous week and up 43% on four weeks ago. The number of online searches for purchase mortgages (as opposed to re-mortgage loans) on Sunday May 17 was up 64% on the same day a week earlier. Commentators believe we are starting to see significant volumes return to the market – with searches for purchase mortgages in particular rapidly gaining pace. Searches for purchases are now at 44% of pre-lockdown highs, up from lows of 15.6% in mid- April. It’s hard to overstate the effect that last week’s reopening announcement has had on the market. It’s the first week that we have ever seen where activity on the Wednesday, Thursday and Friday all outperformed the Monday and Tuesday. This weekend, for the first time since lockdown, purchase searches overtook re-mortgages searches. The government put the number of home moves frozen by lockdown at 450,000. While housing market activity is expected to revive in the short term as this demand is released, the outlook for the longer term is less clear given the uncertain impact of the virus on employment, earnings and confidence among buyers and sellers.

All

The cost of mortgage holidays

Almost one in five UK mortgage holders have now been granted a payment holiday, it was estimated this week – but people's experiences of the process have been very different. Some struggled to get a holiday while others say it was almost too easy. And while for some it will add just a few pounds to their monthly mortgage bill, others say their outlay will rise by a lot more. New information uncovered by MoneySavingExpert.com indicates taking a payment holiday on your mortgage or other forms of credit could have an impact on future credit applications despite promises that credit scores won't be affected. When you have an agreed mortgage holiday in place, your credit file isn't affected as you are making the agreed payments (i.e., nothing), so there's no negative impact on your credit file. But many new lenders don't just rely on credit files and application forms to assess creditworthiness. They can use Open Banking and a range of other methods to assess people's finances, and these can indicate that no payments are temporarily being made – thus allowing lenders to see that person is on, or has taken, a payment holiday. After a tip-off to MSE founder Martin Lewis that some lenders may be looking to use these methods to factor in mortgage and other payment holidays when assessing credit applications, he put this scenario to the financial regulator. Martin specifically asked whether a lender was allowed to factor in a payment holiday to an acceptance decision, if the lender had found out about it through their usual checks. The Financial Conduct Authority (FCA) confirmed that lenders could, saying: "In practice, lenders may use sources other than credit files, such as bank account information, to take account of other factors in their lending decisions. These factors could include changes to income and expenditure, and also any increased indebtedness as a result of interest accruing during the payment holiday."

Investor / Saver / Retired

Which funds have performed in lockdown?

As the UK passed 50 in lockdown, investors have seen both positive and negative signs in the markets. Global stock markets have returned to positive territory after a disastrous early March, and most funds have made a positive return. However, billions of pounds worth of dividend cuts are weighing heavy on income-seeking investors. Investment platform AJ Bell crunched the numbers to find out which funds have performed best since 23 March, as the UK steels itself for more weeks of restrictions. Gold and technology funds have been the standout performers, while property funds dominated the worst performers list. This crisis has seen how technology has become integral to our everyday lives. Whether it's through various video conferencing services allowing us to work and socialise, Netflix entertaining us with binge-worthy TV or Amazon delivering goods and stopping us having to go to the shops, these technology companies have prospered as they have become essential services for many. US-focused funds have also been among the top risers, fuelled in part by this technology boom but also by the sharp rebound in American markets after falls in February and early March. The list of worst-performing funds during the last 50 days is largely made up of property funds as the sector has ground to a halt. With no sales taking place, it is impossible to price assets accurately, and many funds are still suspended, meaning trapped investors are seeing fund managers write down the value of assets. All major markets have risen during the lockdown, following falls of as much as 30% between February and March and investors panic-sold equities. The market showing the most significant rebound was the FTSE AIM All Share, up 37%, while the FTSE 250 rose 25% and the FTSE 100 19%. However, there was some pain for investors as 289 dividends were either axed or deferred during lockdown, losing them £28.3 billion worth of pay-outs. In the FTSE 100, 41 companies took the axe to their dividends, including banks, miners and oil majors.

Business Owner

Small businesses – re-opening post-lockdown

The government has published its document fleshing out Prime Minister Johnson's nationwide address, which goes deeper into its strategy to help reopen small business. By July, the government would like to see remaining small businesses that have been forced to close, including hairdressers and beauty salons, pubs and hotels and cinemas also reopen. But any phased re-opening of small businesses will be reversed if the rate of coronavirus infection creeps back upwards – as is already being seen in Germany and South Korea, which have loosened up their own lockdowns. From Wednesday, May 13, workers who cannot work from home, such as those in construction or manufacturing, are encouraged to back to work providing they avoid public transport. Sectors specifically mentioned in the government's 50-page Our Plan to Rebuild document include food production, construction, manufacturing, logistics, distribution and scientific research in laboratories. And the government will be advising businesses how to prepare for customers with social distancing measures in place. The government has published documents covering eight business sectors setting out what small business owners can do to ensure their businesses protect employees and customers against Covid-19. They call this being "Covid-19 secure" and small businesses can display badging that they have followed guidance. Partly it is a reassurance exercise for employees and customers. The eight business sectors covered are:

1) Construction and other outdoor work
2) Factories, plants and warehouses
3) Labs and research facilities
4) Offices and contact centres
5) Other people's homes
6) Restaurants offering takeaway and delivery
7) Shops and branches
8) Vehicles

Five key points for your small business:

- Work from home, if you can
- Carry out a Covid-19 risk assessment
- Help staff maintain 2 metres social distancing
- Manage transmission risk where people cannot sit 2 metres apart
- Reinforcing cleaning processes

All

Possible tax breaks for those working at home

The Government is asking that people work from home where possible, and they should recognise this by providing the appropriate tax relief for such workers, say leading tax and advisory firm, Blick Rothenberg. As the Government aims to cautiously restart the UK's economy, the Prime Minister, Boris Johnson, has asked that individuals should continue to work from home where it is possible to do so, but experts believe he needs to look at the extra expenses they are incurring by being there. This may include higher electricity and heating bills, internet and phone costs and new computer equipment. With working from home set to continue for many workers for the foreseeable future, the Government and HMRC need to review and broaden the rules. This could include increasing the tax-free allowance from £26 per month to £50 per month and/or providing for full reimbursement of expenses incurred through a "gross-up" mechanism." In normal circumstances, there are very few tax breaks for employees working at home. However, the lockdown measures have meant that many employees have been forced to work from home and people should be aware of the expenses they can claim against their tax:

1. An employer can pay an employee a tax-free allowance of £26 per month, (or £6 per week) to meet the increased costs of home working.
2. If the employer does not pay the allowance, the employee can still claim this, but the benefit will only be £6.20 per month for a basic rate tax payer i.e. £26 x 20%.
3. Employees can claim other expenses, but only where they are specifically needed for business purposes. So, the cost of extra business calls can be claimed, but the cost of a broadband package cannot be (even if the employer asks you to use the broadband for work).
4. An employer can provide an employee with a mobile phone, without any tax cost for the employee, provided the phone contract is in the employer's name.

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