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Technical Update No. 60 21st July 2020

Property Owner

Stamp duty holiday season

It seems astonishing that so much can change in such a short period of time, but figures released today highlight the resurgent UK housing market, as asking prices reached record highs in July. The latest house price index from property search portal Rightmove suggests that the average asking price of properties coming to the market over the last month has hit the highest levels since the index began. The report points to an average increase of 2.4% on the previous record-high asking prices in March pre-lockdown, and a 3.7% annual rise which is the highest since December 2016. The average price of property coming to market in July is £320,265 compared to £312,625 in March. Buyer demand also appears to be strong as we head into the peak summer moving period, with a 75% increase in enquiries for properties in July when compared to the same period last year. This interest is translating into a rise in the number of sales being agreed, which is also far higher this month when compared to July 2019 across England, Scotland and Wales. As an example, 40,741 of the 92,085 newly listed properties in the first month after the English market reopened have now gone under offer, equating to a 44% conversion rate, compared to the 34% conversion rate for the same period in 2019. Clearly, Mr Sunak's temporary cut to stamp duty also had an immediate, positive effect on buyers in England, as the number of sales agreed in the five days after the announcement rose by 35% on the same period last year. Verifying that today's report is an accurate reflection of what's actually occurring in estate agents offices up and down the country, former RICS residential chairman Jeremy Leaf is clear that: "Rightmove are confirming what we have been seeing on the ground but with one important difference; in other words, further release of pre-lockdown pent-up demand has been given added impetus by the stamp duty holiday and greater availability of low-deposit mortgages."

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All

Insurers braced for Covid-19 ruling

The City regulator (FCA) will on Monday begin a test case on behalf of thousands of businesses that claim they should have been paid by insurers to cover closures during the coronavirus pandemic. Insurers were inundated with claims under business interruption policies – many of them from small firms – after the government in March mandated the closure of companies across the UK to prevent the spread of Covid-19. Many insurers have declined to pay out, arguing that the policies were not designed to cover a government-imposed lockdown. The refusal of some insurers to pay out sparked anger among businesses that believed they were covered, prompting the Financial Conduct Authority (FCA) to start a test case covering many of the disputed policy wordings. Two other groups representing clients of Hiscox and companies in the hospitality industry have joined the FCA as claimants. The case represents a rare intervention by a regulator stepping in on behalf of claimants. It is also the first action of its kind by the FCA since it was established in 2013, as well as the first usage of the financial markets test case scheme designed to bring legal actions to court.

The regulator hopes the test case will be the quickest route to clarity for both the companies and insurers without the need for each claimant to bring individual cases at a time when many smaller companies are facing the threat of going out of business. Eight insurers are directly involved in the case, but the FCA believe the trial's outcome will be relevant to approximately 370,000 policyholders, although only a small proportion of those policyholders are likely to have a claim affected by the ruling.

Pensions / Estate Planner

Pensions tax relief in the firing line?

The Government has come under further pressure to overhaul pension tax reliefs after the Parliament's financial watchdog found that it did not understand whether the expensive scheme was actually effective. Pension tax reliefs, which are Government's top-ups to the pension pots of millions of people, are estimated to have cost the Treasury a mammoth £38billion a year in 2018-19. While expensive, its rationale has been that it provides an incentive to save long-term. But the Public Accounts Committee, which scrutinises the value for money for public spending, said the Government did not actually understand the impact of pension tax breaks, including pension reliefs, and called for a wide-scale review of the policy. The report is likely to add to ongoing speculation that Government will eventually cut pension tax breaks for higher earners, and take the opportunity to introduce a flat rate of relief which may be more intuitive. The PAC also said it was concerned that low-paid and part-time workers were not benefiting from pension relief - 'Around 1.75 million low-paid and part-time workers earning less than the personal allowance of whom around three quarters are women, will not be getting tax relief on their pension contributions after being auto-enrolled into employer pensions,' the report said. In their manifesto, the Conservatives promised a 'comprehensive review' of this loophole which sees workers, mostly women, earning between £10,000 and £12,500 lose pension top-ups automatically paid to the better off. Then at this year's Budget, they promised they would launch a consultation by spring, but this was again delayed due to the impact of coronavirus.

Parent

Childcare costs rise

Boris Johnson is putting parents in an "impossible position" by sending them back to work during the summer holidays without childcare support, Labour has charged this week. Labour leader Sir Keir Starmer said that Mr Johnson is penalising parents by failing to provide for childcare, holiday activities and catch-up schemes until schools reopen in September. On Friday, Mr Johnson announced that bosses will decide whether or not to bring staff back to workplaces from August 1, when the "work from home if you can" advice will be officially scrapped. Since the start of the coronavirus pandemic, the government has not announced any new funding for programmes during the six-week school summer holidays. A £9 million holiday fund, touted by the government in June, will support 50,000 children — just 0.5% of the nine million schoolchildren in England. But Labour noted that the fund was originally announced in January, before the first cases of Covid-19 were identified in Britain. Meanwhile, many commercial summer activity providers have already cancelled programmes for this year. On top of this, the Telegraph reports, parents may be forced to pay up to triple the usual fees for holiday childcare, as many providers will not open this summer.

All

Getting ready for CGT changes

It was inevitable that sooner rather than later Chancellor of the Exchequer Rishi Sunak would put the nation on red alert that taxes will have to rise to pay for the £190billion of support the Government has given the economy to steer it through lockdown and beyond. The alert came just a few days ago, a week after delivering his mini-Budget aimed at staving off a massive jump in unemployment and encouraging people to go out and spend money on the high street and in pubs and restaurants. First, he set the cat among the pigeons by commissioning a review into capital gains tax. Although nothing may come of the work, designed to 'ensure the system is fit for purpose', it is surely no coincidence the review will be completed before Sunak delivers his Autumn Budget – thereby enabling him to follow through with any changes. Some experts believe the tax represents low-hanging fruit for the Chancellor, given that it is levied at rates lower than those applied to income. The following day, Sunak ratcheted up the pressure a little more. Speaking to the Treasury Select Committee, he admitted that 'tough choices' lay ahead – code for tax rises. While refusing to be drawn on whether he intended to break promises made in last year's Conservative General Election manifesto – namely, no raising of rates in income tax, national insurance or VAT – it seems unlikely that he will incur the wrath of Tory supporters by going down this route. His mention of the need for a 'sensible conversation' on taxation suggests other taxes will be targeted instead – which leads us back to capital gains tax.

All

No recovery until 2021?

T Research by Deloitte found that 49% of chief financial officers do not believe that demand for their business will return to pre-pandemic levels until after the second quarter in 2021. In total, 78% of the finance chiefs surveyed expected UK corporates' revenue to decrease in the next 12 months, the second-highest reading on record. In the first quarter, a record 97% anticipated that revenue would drop. The research showed that 80% of finance chiefs felt there is a high or very high level of uncertainty facing their business, slightly lower than the 89% recorded in the first quarter. Meanwhile, 82% said they were unlikely to take risk onto their balance sheets and 86% said dividend issuance and share buybacks by UK businesses will decrease over the next year. Almost two thirds of CFOs said they expect capital expenditure to decrease over the next three years due to the coronavirus crisis or Brexit, while a quarter attributed the reduction to both factors. Finance chiefs ranked the effects of the pandemic as the greatest risk facing their business, followed by geopolitics, Brexit and economic weakness in the US. Separate research by accountancy firm BDO also reflected business leaders' shifting priorities due to the coronavirus pandemic. Respondents to the survey said the reducing overheads and business costs were the most important aims, compared to six months ago when the top concern was attracting and retaining high quality talent. In total, 92% said that reducing overheads would be important for their future survival and success. Commentators note that the pandemic has also forced many to rethink and adapt their operating models. As we emerge more fully from lockdown, business leaders will need to continue to act with agility and creativity to ensure their businesses are in the best shape to take advantage of the recovery.

Estate Planner

Inheritance disputes on the rise

According to the Ministry of Justice (MOJ) a total of 188 cases were brought by individuals who claimed they were entitled to a share of, or a larger portion of, an estate last year. This figure is up from 128 in 2018, 145 in 2017 and the previous record 158 in 2016. Experts say the pandemic means the figure is set to rise as advisers witness will signing through windows and via video calls, with questions around undue influence and capacity. Last month JMW Solicitors reported a 260% increase in contested probate cases and warned that "lockdown wills" and a squeeze in finances will create vicious battles for meagre sums. Experts are not at all surprised by the new data coming out from the Ministry of Justice and expect this number to increase further. Of course, only a fraction of contested estates end up before a judge, with the vast majority being settled before court proceedings are even issued. Delayed weddings due to the pandemic could also cause a spike in contested wills. A study by London-based wedding planning app, Bridebook, found that 64% of weddings in 2020 will be affected by coronavirus either by postponements, cancellations or travel logistics. While the lockdown easing means weddings of up to 30 people have been able to take place since 4 July, any further lockdowns, either local or national, would cause more delays and cancellations. Will dispute experts warn the postponements could cause issues if one of the couple dies, leaving their intended partner with no legal protection because they couldn't get married. It's not just young people getting married who have been affected either – there are second and third marriages taking place with older couples, who have also had to delay their weddings and may find themselves in a position where they're open to will disputes if one of the partners dies. There is very little provision in English law for cohabiting couples. Currently if you live with a partner but aren't married, if one dies then there is no automatic provision for the surviving partner. This can cause trouble if there are complicated family ties involved, such as children or other family members, leaving the surviving partner with no legal protection if they chose to uphold intestacy laws – and potentially no right to their partner's estate. One way to combat this would be to enter into a cohabitation agreement. These are easy and inexpensive solutions that effectively create a contract between the two parties setting out their agreement as to the division of their combined assets.

Saver / Investor / Estate Planner

What CGT changes could mean

Rishi Sunak's brief to the Government's tax gurus includes looking at whether the levy on asset sales is 'fit for purpose', ways it can 'distort behaviour', and the current regime of allowances, exemptions and reliefs. That all translates as 'tax grab', so what might it mean for people's wealth held in investments, property and other assets that are - and currently aren't - subject to capital gains tax?

Aligning CGT and income tax: Gains from investments and dividends, and property aside from people's own homes, are taxed differently from earned income for the reason given above. Labour proposed bringing CGT into line with income tax rates, which would mean big hikes for higher earners and smaller increases for basic rate taxpayers, in its 2019 election manifesto. And last year, influential think-tank the Institute for Public Policy Research also suggested CGT on people's wealth tied up in assets like investments, second homes and buy-to-lets should be hiked to income tax levels.

Changing 'main residence' relief: The OTS is bound to look at this, but hitting people selling their own homes with CGT would spark a storm of opposition. It would also run counter to government efforts to get the property market moving again by cutting stamp duty.

End the 'uplift': The OTS already recommended getting rid of this in a review of inheritance tax, so it will probably take another look at this issue. The 'uplift' means someone inheriting an asset is treated as acquiring it at its market value on the date of death, rather than the amount it was bought for. This means the beneficiary can sell it shortly after the death without paying CGT.

Abolish exempt allowance: Labour wanted to slash the annual exempt CGT allowance, which is currently £12,300, to £1,000, if it had won the last election. The IPPR also favoured this move.

Axe other reliefs and exemptions: Many capital gains lie outside the current system, such as winnings from gambling - including lotteries - and wine and car investments. The OTS might find little justification for keeping such exemptions. Meanwhile, 'exemption at death' encourages people to hold assets for life to allow beneficiaries to avoid CGT, although they may still be liable for inheritance tax. 'Entrepreneurs' relief' for assets relating to businesses - aimed at encouraging entrepreneurship - means gains are taxed at a lower 10 per cent. Now renamed business asset disposal relief, the applicable lifetime gain was already cut from £10million to £1million, but it could be reformed again or abolished.

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.

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