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All

Should Sunak avoid the temptation of huge tax hikes?

Chancellor Rishi Sunak has told Conservative MPs that he plans to hike taxes, although was quick to reassure that there will not be a "horror show with no end in sight". It comes as the Government begins to make moves towards overcoming the devastating effect the coronavirus pandemic and lockdown has had on the UK economy. He urged swathes of the new 2019 Tory intake – which included MPs from previously "Red Wall" seats – to put their trust in him over the "short-term challenges" the party and country faces. Currently, the Chancellor is understood to be looking at hiking corporation tax from 19 percent to 24 percent to raise £12billion next year and £17billion in 2023/24. Second-home owners would also be hit under proposals to require people to pay capital gains tax at the same rate as they pay income tax. Many have urged the Government not to target already failing businesses with higher rates, and to not persecute middle class and low to high income band earners. One question is the overall burden. Do we push tax rates up or down? Some commentators have expressed the view that to increase tax in order to deal with the immediate deficit this year might actually be cutting off your nose to spite your face. The suggestion is that we should see the cost of dealing with COVID a little bit like a war debt – that doesn't mean we can ignore it, but if the Government genuinely believes this is a once in a generation shock, we could realistically pay that off over a generation. We could say that, for sake of argument, the crisis has cost the Government £400bn, so we're going to pay this back at £40bn a year for the next ten years. One view is that this would be a more sensible way to do it than immediately try to raise £400bn in taxes now. While the Government isn't suggesting that at the moment, we don't need to be as quick on paying it back; we don't need to solve the mess in the public finances overnight.

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Saver / Investor / Parent

Child trust funds – the lowdown

Around 6.3million children born between 1 September 2002 and 2 January 2011 can now begin to be able to access billions of pounds paid into Child Trust Funds when they turn 18. These tax-free savings accounts were set up for all children born throughout most of the 2000s with government vouchers of £250, or £500 for those from lower income families, with parents, family and friends able to contribute too. Cash and investment options were available, with the total amount saved an estimated £7.45billion in 2016, according to the taxman, a figure which will have increased over the last few years as savers earn interest or their investments grow in value. It means hundreds of thousands of teenagers every year could receive thousands of pounds, with some whose parents paid in the maximum each year set to gain access to a pot of up to £200,000, according to one provider. But what happens to a Child Trust Fund when its holder turns 18, and what are the options available? Some 420,000 CTFs are estimated to mature this year, with their holders turning 18. Holders can manage their money when they turn 16 but can only choose to withdraw it or move it somewhere else when they become an adult. Provided the CTF provider still has contact details for you, they will contact you before your account matures outlining the available options you have. The main ones are to withdraw all or some of the money as cash, transfer it to an adult Isa from another provider, or keep it with the current provider. If someone holds a cash CTF with a provider, then it would be transferred into a cash Isa, with the same going for stocks and shares versions. If a provider does not offer a tax-free adult Isa, it will instead be transferred to an equivalent account which keeps its tax-free status, so savers can continue to benefit from the interest while they decide what to do with it. CTFs will also be transferred to tax-free accounts in instances where an accountholder doesn't contact their provider with their choice before they turn 18. This is particularly important for those who no longer have details for their CTF, or where HMRC set up an account on behalf of their parents and nothing was added to the initial government voucher, as it means they don't lose out on earning tax-free interest. Some 420,000 CTFs are estimated to mature this year, with their holders turning 18. Holders can manage their money when they turn 16 but can only choose to withdraw it or move it somewhere else when they become an adult.

Saver / Investor / Retired / Estate Planner

The £20bn tax rise plan

Tax hikes of up to £20 billion are reportedly being considered by the Treasury to deal with the cost of the coronavirus crisis. But the plans, potentially a "quintuple whammy" of tax rises, are being opposed by Number 10. Treasury officials are hoping the largest programme of tax increases, which could amount to £20bn a year, in a generation could plug holes in the public finances caused by the pandemic, the Sunday Telegraph reports. But Boris Johnson is reportedly on a collision course with Rishi Sunak over the plans, with Number 10 preferring cutbacks to Whitehall departments' spending. There are said to be fears of imposing taxes on Middle England amidst the already damaging pandemic, with Downing Street only willing to hit the very richest with tax rises. Ministers are looking at announcing hikes to capital gains tax and corporation tax as early as the November Budget. The money could be clawed back from pensions, businesses, the wealthy, and foreign aid. Chancellor Sunak is reportedly considering hiking corporation tax from 19% to 24% in order to boost revenue by £12 billion next year. Capital gains tax might also be paid at the same rate as income tax, under the ideas being looked at. Pension tax relief could be "slashed" under measures being considered by the Treasury to help pay for the Covid-19 crisis and raising fuel and other duties is also being looked at. A revamp of the inheritance tax system and the introduction of an online sales tax was also being considered. The international development budget could also be caught up in Treasury reappraisals due to the cost of the pandemic. The government had to raise billions to pay for the furlough scheme, while Britain's GDP plunged by more than 20% in the early stages of the crisis as businesses closed. Treasury sources said they do not comment on what may, or may not be, in the forthcoming Budget. Businesses are urging the government to concentrate on further support measures to aid the recovery and "invest in growth".

Property Owner

Housing market – what does the future hold?

Crises come and go but no matter what, house prices always rise, right? That's just what they do in this country. According to data from Nationwide, house prices in the UK rose by 21 per cent on average during the 1990s and 33 per cent during the 2010s. This is why property, like gold, has been considered as a "safe" investment in recent decades. So safe that they even appear to be pandemic-proof. Since lockdown eased and Chancellor of the Exchequer cut stamp duty, various different house price indices have reported a housing market "boom". This reached an apex last week when Nationwide reported that house prices had seen their highest monthly rise in more than 16 years, reaching an "all-time high". Prices rose by two per cent in August, the lender said, taking the average price to £224,123. This news has evoked a frenzied response from homeowners excited to make money on their investment, would-be buyers who worry they will now have to pay above the odds and jaded perennial renters who fear this is yet another nail in the coffin of their homeownership hopes alike. However, all is not quite as it seems, and housing market experts are still advising caution and even tentatively predicting a fall in house prices when the economic impact of the pandemic on the economy is felt later this autumn. But commentators rightly point out that house price indices only reflect those who are able to buy. Lots of people were unable to afford to buy a home before the pandemic hit and even more will be unable to now. Job losses, pay cuts, and the ongoing mortgage crunch will all limit the ability of people, particularly young people, to buy a home. While the demand that pent up during lockdown – when the housing market was frozen – may be driving price increases, that's only part of the picture. The market is currently in a strange state of stasis because it has effectively been protected from the immediate economic cost of the pandemic by low mortgage rates, the Government's stamp duty cut, mortgage payment holidays and the furlough scheme. This means that we may not see exactly what effect this pandemic will have on the market for some time yet. As these end, the downwards pressure on the housing market will increase. There is also the uncertainty of what Brexit will bring. In the absence of a sustained and widespread economic recovery that would probably require a vaccine, 2021 could end up being the year the pandemic hits the housing market.

Saver / Investor

Age at which you can access your private pension plan raised

The British government has announced plans to raise the age at which pension pots can be accessed from 55 to 57. The change would mean that millions of Britons in their 40s will have to wait until 2028 at the earliest until they can access their private pension. Britain relaxed pension rules in 2015, since when many have taken advantage of so-called pension freedoms to access their savings early. However several commentators welcomed today's announcements, pointing out the reform will give workers longer to build up their savings. Anyone under the age of 47 at the moment will be impacted and it is really important that this is communicated well so that we don't see people expecting to be able to retire and access their money, not being able to. While this may be annoying for some pension savers, it does mean that you can spend the extra two years building up your investments and savings to provide even more funds to enjoy in your retirement. With life expectancy continuing to rise a pension pot will have to last a lot longer than it once did, around 30 years as life expectancy is currently 83 and for a woman 85. For those whose mortgages need to be repaid, and were relying on the tax free cash element of their pension, you should start talking to your mortgage lender as soon as possible. There are options available such as extending the term of the mortgage or loan. Now is the time to review your pension and if there is an automatic move into lifestyle funds at the age of 55, then you need to consider changing some of this or you could lose out on some investment gains. If you don't feel confident in this, then we would recommend seeking advice.

All

Pension tax rise to deal with Covid debt?

The government should consider raising the amount of tax retirees pay on their pension withdrawals to help pay off the UK's Covid-19 debt, the Institute for Fiscal Studies has said. Appearing at a Treasury Committee hearing on tax after coronavirus on September 1), Paul Johnson, director at the IFS, said pensioners were a feasible target as they had been protected from past tax rises and have received generous benefits from their pensions. Mr Johnson said the amount of tax paid on pension withdrawals could be increased marginally to bring in extra revenue, particularly on occupational pensions. Currently, when people take money from their pension 25% is tax free while the remaining 75% above the personal allowance is charged at the marginal rate of income tax. Pension tax relief restrictions have raised money over the last decade but there has been no tax increase on pension in payments. In that sense those who have already reached pension age have been protected from tax rises but there is a case for at least a modest increase in tax on occupational pension in payments given that they would have not had any national insurance paid on this in the past. Current retirees have been well tax relieved and that generation has done very well out of occupational schemes. However this would not raise the large amounts of revenue that the government would need. Another suggestion was to reduce the amount of tax relief for higher earners, which has previously been criticised by the industry. But Mr Johnson agreed this would dis-incentivise higher earners from paying into a pension and could instead see them move to Isas or other savings vehicles. Mr Johnson said the government was likely to look at substantial taxes such as national insurance contributions, income tax and VAT, as this is where two-thirds of tax and the majority of the Revenue's income came from.

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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