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All

The spectre of wealth tax

The Labour Party has clearly learnt from the mistakes of the radical tax policies of the previous administration; however, they have potentially and subtly planted a dangerous seed in the mind of the Chancellor around a future wealth tax. Labour agree that now is not the time for tax rises and the Government's priority has to be towards maintaining the current tax base and supporting economic recovery. However, it could be said that Labour and the Chancellor, Rishi Sunak agree that's future tax rises are inevitable. Rishi Sunak tested the water in the late summer with leaked reports on potential tax rises at the now cancelled Autumn Budget, but he quickly backtracked following public backlash; the focus, rightly so, had to be on supporting jobs and protecting the fragile UK economy. Labour proposed that the top 5% of earners must pay more, which confirms their repeated desire to re-introduce the 50% income tax rate. However, it must be remembered that the 50% income tax rate which took effect between 2010-2013 was broadly neutral in terms of revenue generation. The greater focus from Labour was how to find the right balance between the taxation of income and wealth. The Shadow Chancellor, Anneliese Dodds commented that 'When it comes to wealth taxation… I think the Government does need to look at this area. For the very best-off people, quite a bit of their money coming in is derived from wealth, so I think we do need that new settlement." It's quite possible that Rishi Sunak does not disagree, and Labour's comments will not have gone unnoticed. The Coronavirus pandemic has once again highlighted the issue of wealth disparity as well as the present tax system not being fit for purpose. Sunak is having a close look at capital gains tax and recent reviews of inheritance tax will be on his radar. A future wealth tax has to be coupled with an overhaul of capital taxes. It certainly cannot be ruled out, but would prove unpopular amongst the traditional Tory electorate.

All

Is now the time to buy British?

Gold and Bitcoin may be more popular assets among investors at the present time. However, their recent price gains and the appeal of British shares may mean that investing your money in the stock market is a superior move. The short-term prospects for cheap UK shares are relatively uncertain. Risks such as Brexit and economic difficulties such as rising unemployment may weigh on the financial performances of many FTSE 100 and FTSE 250 stocks in the coming months. This may negatively impact on investor sentiment, thereby causing share prices to come under pressure following their recent rebound. However, the valuations of many British shares suggest that investors have largely factored in an uncertain outlook. Many high-quality companies currently trade at prices that are lower than they have been for many years. Current prices may undervalue their financial strength and their capacity to mount successful recoveries over the coming years. Therefore, buying a selection of cheap UK shares now may prove to be a profitable move. They may be among those investments that benefit the most from a likely economic recovery in the years ahead. Fiscal policy stimulus and a loose monetary policy may combine to produce improving operating conditions for many businesses that translate into high returns.

Property Owner

EBay millionaires

EBay has found that the number of new, self-made millionaires on its platform has risen by 35% in the last 12 months across the UK. The online retailer said it expects economic uncertainty and unemployment to create a "new wave of entrepreneurs". The UK capitals creating the majority of the millionaires include London, Manchester and Birmingham. In terms of the most lucrative product categories for EBay entrepreneurs, the top ten list reflects consumer spending trends of the "new normal", including a rise in the number of Brits taking on home DIY projects and working remotely, as well as an increase in fitness and recreating salon experiences from home. Home, Furniture & DIY topped the list of the top ten categories for EBay millionaires, with Vehicle Parts & Accessories, Clothes, Shoes & Accessories, and Business, Office & Industrial following closely behind. The data follows a 256% rise in the number of new businesses registering to sell on EBay UK during the Covid-19 lockdown. Earlier this month, EBay UK launched "Pay As You Grow", a new scheme that sees fees removed for any first-time business sellers on the platform until they have made over 100 sales in a single month, and reduced fees thereafter each month. The uplift in new self-made millionaires on eBay proves that Britain's entrepreneurial spirit is alive and kicking, despite the challenging economic times we are facing. The pandemic has certainly hit business hard, but it has also shown that entrepreneurs are cut from a different cloth and can turn a crisis into an opportunity, making millions in the process.

All

Pensions savings to be used for house deposits?

Pensions minister Guy Opperman has raised the idea of young people using money saved in a pension for a house deposit. Opperman was speaking at a webinar run by Prospect magazine when he said he was looking into ways the UK's workplace pension system could be extended to allow young workers to dip into their pensions for home deposits. He pointed out that, thanks to auto-enrolment, many young people will have more than £10,000 in their pension, but not enough money for a deposit on a property. Auto-enrolment began in 2012 and is a government initiative whereby employers must enrol all qualifying staff into a workplace pension. Before that it was up to workers to decide whether they wanted to join their employer's pension scheme. Pension rules currently state that savers cannot access defined contribution pension pots before the age of 55 without incurring steep tax penalties. Opperman said he was also examining whether some pension savings could be diverted to a rainy day fund for auto-enrolled workers. However, he admitted that neither idea was a potential government policy at this point in time. The prospect of letting young people access pension savings to buy a property generally received a negative reaction on social media. Mick McAteer, co-director at the Financial Inclusion Centre, Tweeted: "Terrible idea. You don't solve one crisis (housing affordability) by making another one worse (reducing the size of pension pots)."

Retired

The self-employed pension crisis

A new report from the Institute of Fiscal Studies (IFS) think tank has laid bare just how dramatically pension saving has crashed among the self-employed. Back in 1998, just shy of half (48%) of the self-employed paid into a private pension. Yet by 2018 this had dropped to just 16%. The contrast with regular employees, as a result of the auto-enrolment scheme, is astonishing. Back in 1998 pension participation among private sector employees was around the same level as with the self-employed, yet by 2018 employed workers were four times more likely to be paying into a pension than those who work for themselves. One contributing factor is the changing face of who makes up the self-employed workforce. For example, since 1998 the proportion of female self-employed workers has risen from 27% to 32%, while the proportion who are working part-time has also grown, by 18% to 24%. Average earnings play a part too. According to the IFS while earnings among people who work for themselves grew until the start of the 2000s, they fell sharply as a result of the financial crisis, and for 2018-19 are still lagging behind the level they were in 1997-98. As the IFS puts it "a remarkable two decades of lost income growth among this group". Given the added financial burdens faced by people today, even before the pandemic hit, and it may simply be that a significant number of self-employed workers don't feel they have the money to spare to contribute to a pension. Indeed, affordability is given as the main reason by most self-employed workers for not saving in a pension, though the IFS is sceptical this explains the sheer scale of the fall-off in saving. It also notes that according to polls of self-employed workers, many believe that saving through property ownership is safer and provides a higher return than through a dedicated pension, which is questionable at best. It's interesting to note that the proportion of self-employed workers saving in other vehicles, such as ISAs or shares, has fallen too over the past two decades. So it's not that the money that was previously saved in a pension is now saved elsewhere; it's not being saved at all.

Investor / Saver

Pandemic hits pensions hard

The state pension is set to rise just £4.40 a week next year, in the smallest rise allowed by legislation. The increase means the 'new' basic state pension is set to rise from £175.20 to £179.60 a week - representing £228.80 a year. The 'old' basic-rate state pension will rise by £3.40 a week from £134.25 to £137.65. The rise - representing 2.5% - will be confirmed later by the government, but is all but certain after inflation figures for September came in at just 0.5%. Under current rules, pensions rise every year by the highest of prices, earnings or by 2.5%. With earnings hammered by coronavirus and prices creeping up just 0.5%, that means the 2.5% figure will be used to set pension in 2021. With Covid-19 hammering wages and pushing inflation to almost 0%, the value of the state pension triple-lock has never been clearer.

Property Owner

UK dividends fall

UK companies' Q3 dividend pay-outs were the lowest for ten years and almost half the level seen in Q3 2019, according to the Link Dividend Monitor. British firms paid just £18bn to shareholders in Q3 2020 on a headline basis, 49.1% lower than their Q3 2019 total of £35.3bn and the lowest amount paid in a third quarter since 2010's £16.9bn. When adjusted to exclude special dividends, the total pay-out amounts to £17.7bn, 45.1% below 2019's figure. One-off special dividends fell by 90%, to £299m. The data show London-listed companies have returned £51.6bn to shareholders through the first three quarters of 2020, down 44.3% from 2019's £92.6bn. Link's best-case scenario for the full-year forecasts a 44.6% drop in pay-outs to £61.2bn, with its worst-case 45.1% lower at £60.6bn. Last year's full-year total was £110.5bn. But the firm reasoned that positive signs are emerging. It noted that two-thirds of companies cut or cancelled their pay-outs in Q3 compared to three-quarters in Q2, with some companies now starting to reinstate their dividends. While UK plc is not yet out of the woods, "the trees are perhaps thinning a bit", said Susan Ring, CEO corporate markets at Link Group, who claimed that "the worst is now behind us". As companies become better able to assess the impact of the pandemic and the associated restrictions on their operations, some are restarting dividends and a handful are even making up some of the lost ground. With uncertainty continuing, particularly with a potential second wave on the horizon, Ring expects sharp declines in dividends through Q4 and Q1 2021. But commentators believe that from April onwards, the anniversary of the lockdown, the comparisons will start to look more favourable and many expect to see a bounce-back begin. Oil dividends will not increase significantly (if at all), however, so the big question will be whether the Bank of England permits the banks to begin distributing again. Beyond the obvious economic impacts on their trading, the extent to which companies in other sectors have taken government support will influence their freedom to pay shareholders too. There's no doubt we have a long road ahead before dividends return to pre-pandemic levels, but there is now at least a signpost to the route that will take us there.

Investor / Saver

Covid-19 hits retirement plans of over 50s

Coronavirus has altered the retirement plans of one in eight older workers, with one in three reporting a worse financial situation, according to research by the Institute for Fiscal Studies (IFS). The think tank's study was based on a survey of data from the English Longitudinal Study of Ageing (ELSA) COVID-19 study. covering some 10,000 people aged 50 and over. The findings show 13% of older workers have already changed their planned retirement age as a result of the coronavirus pandemic. Of these, the majority (8%) are now planning to retire later than they had previously intended – with this being more common among those with a pension fund that has fallen in value, and those working from home. The remaining 5% are planning to retire earlier than they had previously intended, an option more common among richer households and those on furlough. Almost a third of older workers report that their financial situation has worsened as a result of the crisis, with those who were, in any case, struggling financially much more likely than those who are better off to report a worsening in their financial situation. The study suggest fluctuations in stock markets will have hit the significant and growing minority of older people who hold some wealth in equities. Around 34% of older workers and 41% of retirees hold wealth directly in risky assets, while 54% of older workers have defined contribution pensions. The current pandemic risks having serious and long-term financial consequences for older workers, affecting living standards into and through retirement. The crisis has also been disruptive to major life plans, with one in eight older workers so far changing the age at which they planned to retire. Those on furlough are now more likely than those working to be planning to retire earlier and it will be important to monitor that this does not represent a rise in involuntary retirement among people discouraged from finding new work. On a positive note, those working from home are now more likely to be planning to retire later; suggesting changes to work practices could benefit some older workers.

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