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Property Owner / Investor / Saver / Retired / Estate Planner / Business Owner

Capital Gains Tax reforms

The capital gains tax (CGT) system could be made simpler and fairer by reducing the annual exempt amount and raising rates to match income tax, according to a recent report from the Office of Tax Simplification (OTS). This comes after Chancellor Rishi Sunak asked the OTS to carry out comprehensive review of the capital gains tax system in July 2020. This report is part of the result. Focusing on the design and principles underpinning CGT, it contains 11 recommendations for changes; a second report looking at technical and administrative issues is due to be released in early 2021. Financial Times explains what the main proposed changes are and how they could affect your tax bill if the government chooses to implement them.

1. Fewer and higher CGT rates: The OTS has suggested that CGT rates should be 'more closely aligned' with income tax rates, which could lead to some of the current rates being doubled. The OTS report says the current difference between CGT and income tax rates can distort the way people dispose of assets – for instance, choosing to pay or be paid for work in shares, where there is less tax to pay. Currently, basic-rate taxpayers pay 10% CGT on assets, and 18% CGT on property, while higher-rate taxpayers are charged 20% on assets and 28% on property. If, for example, a higher flat-rate of tax was introduced, it could mean basic-rate taxpayers in particular will stand to pay a lot more in CGT than they currently do.

2. Reduced CGT tax-free allowance: The OTS report has identified an issue with taxpayers 'using up' the annual exempt amount each year – that is the tax-free amount of profit someone can make from disposing of assets before being charged tax. It says that people's behaviour is being distorted by the allowance, and therefore it ought to be changed. For 2020-21, the annual exempt amount is £12,300, but the OTS report suggests this should be reduced to between £2,000 to £4,000, as it says most taxpayers who are new to paying CGT would still come under this threshold. If the government chooses to make this change, the report says it should be done along with exempting more personal items; if fewer assets come into the scope, then those who only make small profits will not need to start paying CGT.

3. CGT on inherited assets: The OTS says CGT and inheritance tax (IHT) are not working well together – particularly with the rules around the CGT uplift that are currently in place when someone inherits an asset. If someone were to inherit an asset, and then sell it for a profit, the CGT they'd pay would be based on the price difference of the asset when they receive it, and when they sell it – rather than the price the deceased bought it for. This is likely to massively reduce the amount of CGT paid on the asset, and is known as CGT uplift. The OTS suggests that those who inherit assets that are exempt from IHT shouldn't benefit from CGT uplift as well, as can be the case at the moment – and should instead pay CGT based on the price paid by the person who has died.

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4. Reassess CGT reliefs: The OTS has identified that Business Asset Disposal Relief and Investors' Relief, both of which are supposed to incentivise investment, are not working effectively. It suggests replacing Business Asset Disposal Relief with a different relief scheme that is focused on retirement, specifically for owner-managers who have built up their business over time and are near retirement age. As for Investors' Relief, the report says as there has been so little interest shown since it launched in 2016, it should be abolished.

Property Owner / Investor / Saver

Landlord dilemmas

Private rents in Britain's cities have fallen by as much as 15% over the past year as tenants quit urban areas for a new life in the suburbs or the countryside, data shows. What has been described by some as an "exodus" from the cities sparked by the Covid-19 pandemic is now pushing up rental costs in rural areas. In October, average rents in the countryside were 5.5% higher than a year earlier, while typical city rents were down by almost exactly the same amount (5.3%), according to figures for Great Britain from the estate agents Hamptons International. This gear change in demand has created a glut of properties in some areas and shortages in others. There were 29% more homes available to rent in cities than at the same time last year, while the number available in the countryside was down sharply – by 48%. The reassessing of priorities brought on by the pandemic, with millions working from home and many wanting more space, combined with plummeting numbers of international students, is wreaking particular havoc on central London. Hamptons said rents in inner London were down by 14.9% year on year as landlords slashed costs to attract tenants – lopping almost £400 off the average monthly rent, which fell from £2,564 in October 2019 to £2,182 last month. The figures come after a series of surveys suggesting that many city dwellers have either moved out or are planning to do so after re-evaluating their lifestyle. Many are likely to have concluded that they will be able to continue working from home for at least part of the week once the crisis has subsided. On Tuesday, the property website Zoopla said the UK was in the grip of a "two-speed rental market", with UK rents outside London up by 1.7% annually, whereas in the capital they were down by more than 5%. And on Thursday, the Royal Institution of Chartered Surveyors said that, while the picture in terms of rental growth remained "positive" for most parts of the country, "London is a clear exception".

Investor / Saver

Be wary of the vaccine stock market boost

Stock-index futures were already on the rise after Democrat Joe Biden was projected the winner of the presidential election — all but eliminating one source of uncertainty. Then, Pfizer Inc. and BioNTech reported what was definitively good news on their COVID-19 vaccine, and a textbook example of a "risk-on" rally was under way. But analysts warned against reading too much into the election and vaccine news, warning that some big unknowns remain to be resolved. There are risks to every rally and while most believe the vaccine news is a huge positive for the market, there are a lot of unanswered questions. One of those questions is how long it will take a vaccine to become available to the masses. Some investors think market participants got ahead of themselves, looking past economic uncertainty that hasn't been fully dispelled despite election clarity and prospects for an effective vaccine. The vaccine result clearly raises hopes that a return to normality is within touching distance, and while that is extremely positive for markets and businesses, we should be mindful that the economic impact of the pandemic is still being felt around the globe. Often the initial knee-jerk response of markets to big events, positive or negative, is an overreaction, which is tempered over time. Experts caution that investors should be prepared to "drip feed" money into the market on dips, but shouldn't be hasty to entirely discard safe-haven assets, which may have become "bloated" holdings in some portfolios, altogether.

All

Tax investigations on the rise

The number of arrests, dawn raids or interviews carried out by HMRC in respect of corporate and high net worth individuals jumped 40% last year. Criminal actions launched by HMRC's Offshore Corporate and Wealth (OCW) unit increased to 70 in the 2019/20 tax year, up from 50 in 2018/19, according to a freedom of information request submitted by law firm Pinsent Masons. The role of the unit is to use criminal and civil powers to investigate suspicious or serious non-compliance by companies and the wealthiest taxpayers. The OCW unit was established at the time of the Panama Papers scandal in 2016, in which millions of documents were leaked that showed how the rich can exploit secretive offshore tax regimes. HMRC has dedicated more resources to the investigation of corporates and wealthy taxpayers since the Panama Papers scandal. HMRC investigations into the wealthiest and most sophisticated suspected offenders have increased eight-fold from about 50 in 2016/17 to over 400 in 2019/20. The Offshore, Corporate & Wealthy unit has a simple, highly focused aim – to target deliberate non-compliance by corporates, the wealthy and ultra-high net worth individuals who seek to evade tax. Since it was established, OCW has collected or protected £1.8bn in extra tax through its investigations, with £414m collected in the 2019/20 tax year alone. OCW investigations resulted in 85 cases being charged last year, up from 34 cases in 2018/19, which Pinsent Masons said suggests the unit is getting better at successfully building cases against corporate and wealthy taxpayers.

Investor / Saver

Investment trusts continue to surge

In 2018, Cass Business School produced a study that took into account every issue they could think of that might distort the comparison between investment trusts and open-ended funds and still found that the trusts had outperformed by about 1.4% a year over the previous 18 years. Compound that over a couple of decades and you are talking real money. They could potentially be beneficial for anyone wanting to hold illiquid assets — this is the way to invest in micro caps, infrastructure, property and renewables. They can use borrowed money to improve returns — and history suggests they more often than not add value in doing so. Possibly best of all, they have active boards of directors charged with representing the long-term interests of shareholders. This appears to make a genuine difference: even after Cass had adjusted for sectoral bias, gearing and share buybacks, the outperformance of trusts was still about 0.8% year, which suggested to them some kind of magic in the structure of investment trusts. So what's not to like? A few things. The first is cost. Until relatively recently trusts were generally cheaper than open-ended funds (and we all know that current costs are one of the main drivers of future returns). No more. Management fees have fallen for both types of investment but costs have risen for investment trusts. Regulation never stops increasing for listed companies and each new clause and sub clause pushes up the cost of compliance. As trusts lose their cost advantage, will they also lose much of their performance advantage? The jury is still out on this, though one obvious way to mitigate the cost risk is for smaller trusts to merge and make some economies of scale. They mostly don't — as in all mergers, it would mean directors losing their jobs and they aren't mad for that — but perhaps they should.

There's also tax risk. One of the cornerstones of the trust model is the rule that as long as a trust pays out 85% of the dividend income it receives to its shareholders, it does not have to pay capital gains on share sales made within the trust. This is to prevent shareholders effectively paying CGT twice — once on the sale inside the trust and again when they sell the shares in the trust. But Rishi Sunak appears to be having some unsound thoughts on CGT – watch this space!

Investor / Saver

Biden win boosts markets

Global markets have rallied in response to the declaration that Joe Biden has won the US election. The end of uncertainty about the race's outcome saw London's FTSE 100 rise 1.5% to 5,994.58 points in early trade, with similar gains seen across Europe. Asian shares also jumped, with Japan's Nikkei 225 climbing 2.1% to 24,839.84 - its highest level since 1991. There were similar gains in Australia, China and Hong Kong while oil and currency markets also climbed. Donald Trump has yet to concede, however, the Democrat is forging ahead with his plans for assuming power in January after major US networks called the election in his favour.

With uncertainty disappearing (subject to unlikely success Donald Trump may have with various legal action) the markets can focus now on the policies that Joe Biden is likely to enact going forward as opposed to the constant, 'is it going to be litigious? Are we looking at another potential Bush-Gore event like we saw in 2000, where it took 6-7 weeks to realise what was going to happen.' Mr Biden has already said he will reverse many Trump era policies, including re-joining the Paris Climate agreement on his first day in office in January. There are also hopes that the new administration will expand fiscal stimulus in the US and widen measures to reduce the spread of Covid-19. However, Mr Biden could struggle to enact key planks of his agenda as its looks unlikely the Democrats will have control of both houses in Congress. This means the Senate may be able to block any big regulatory or tax policies, a plus for some businesses. In China, the main shares benchmark - the Shanghai Composite - rose almost 2% on 16th November, as investors viewed the Biden win as positive for trade and technology policy. Relations between Donald Trump and China deteriorated during his four-year tenure, sparking a tariff war in 2018 that imposed taxes on imported goods from both countries. The market is taking the Biden win as a positive, as he is not very likely to fight a new trade war with China. The chance for a new tech war is also drifting lower.

All

Three million excluded from income support

An estimated three million people have fallen through the cracks of the Government's Covid support schemes since March, and have been left hoping for a U-turn that's never come. Eight months on from when the pandemic forced the first national lockdown and millions of incomes collapsed, many are still struggling from being plunged into poverty. There are 14 groups that have been unable to access support through the furlough and Self-Employment Income Support Scheme (SEISS) grants, according ExcludedUK. These include those starting new jobs, people who are part PAYE and part self-employed, new parents taking leave, and freelancers earning over £50,000 a year. Others include limited company directors who submit their PAYE once a year. Freelancers in the arts and hospitality sectors who have been hit by restrictions will get just £450 a month from the state on average over winter, according to figures compiled by Labour, described as "callous and economically wrong" by Ed Miliband. Some of the millions affected have been left rationing meals, relying on food banks, facing homelessness and suffering with physical and mental health problems. ExcludedUK reported last week that four people who had been locked out of the help had killed themselves the week before.

Property Owner

House prices continue to rise – but for how long?

UK house price growth accelerated in September, driving average property prices in London and across the UK to a record high. House prices across the UK increased by 4.7% to £245,000 in the year to September, up from three per cent growth in August. London's average house prices hit a record high of £496,000, according to the latest official data from the Office for National Statistics. Average house prices in England jumped 4.9% to £262,000, while in Wales, Scotland and Northern Ireland prices rose 3.8%, 4.3% and 2.4% respectively. Pent-up demand may have contributed to the rise in UK house prices, the ONS said. Meanwhile, data suggested that the pandemic has caused buyers to reassess their housing preferences. The average price of detached properties increased by 6.2% in the year to September, while flats and maisonettes saw a two per cent jump, as buyers sought more space following months spent at home during lockdown. House price growth this month is almost double what it was in September last year, as we start to see the true impact of the stamp duty holiday take hold. Despite the incentive being introduced in July, housing transactions take weeks to progress from offer to completion, therefore this is the first month we can begin to assess the benefits of Sunak's stimulus. The annual uplift in house prices of nearly 5% suggests that sellers may well be adding the savings buyers are making into the price of their homes, so that they also benefit from the incentive.

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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