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Money++

from Griffins Financial Solutions

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Contents

Lockdown savings boost

A surprising number of people have picked up the savings habit in recent months as lockdown has curtailed opportunities to spend. How can this unexpected nest egg be put to good use?.

In some cases, the savings have been substantial, with the average household holding on to £2,879 during the 13-week lockdown. It's not hard to see where these savings have come from: commuting costs have been slashed, holidays postponed, and spending on daily coffees, beauty treatments, restaurant trips or cinema tickets entirely curtailed.

Of course, for some people, lower spending has been offset by more serious reductions in income, be it salary cuts or redundancy. But for those able to work from home, or whose income has been supported by the government's furlough scheme, the question is how to make the most of this temporary savings boost.

Many have used these funds to clear debts. Bank of England figures show a record £5bn of credit card debt cleared in April, significantly more than the £300m cleared in a standard month.

For others it may make sense to use some of these surplus funds to boost longer-term savings, top-up pensions and add to investments. This can be done via one-off payments or by increasing regular monthly savings.

Whether you chose to reduce debt, build up a cash safety net or boost pensions and investments, it is wise to think about where and how you have saved money during the lockdown, and whether you can make more permanent changes to your spending habits.

Most of us won't necessarily want a 'staycation' every summer, but cancelling unused gym memberships or cutting out the cappuccinos as we resume our old routines can help turn these 'unintended savings' into a more thoughtful budget that can bolster finances over the longer-term.

ESG investment comes into its own

Taking a more principled approach to investing doesn't mean you have to sacrifice returns.

When buying and selling shares, funds analysing a range of environmental, social and governance (ESG) factors, alongside traditional financial metrics, appear to have performed better than traditional funds during this period of recent stock market turbulence.

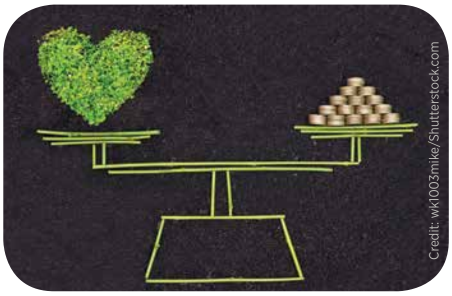
Unlike some ethical funds, ESG funds don't automatically avoid whole sectors. Instead they assess how, for example, a company's environmental policies – or lack of them – might impact its future share price.

It is worth remembering that like any other investment decision, these judgements may not always prove correct in retrospect, but ESG funds generally have weathered the recent market storms well. Research from Morningstar shows that in the first quarter of 2020, 70% of ESG funds were ranked in the top halves of their investment categories, which include the performance of funds investing in similar geographic regions or assets. By contrast, just 11% were in the bottom quartile.

Of course, this data is over a very short time frame, and there is no guarantee that ESG funds will continue to outperform.

While much of the focus around ESG is often on environmental issues, it's important to remember that the selection process these funds use also considers how well a company is run and its corporate polices on issues such as executive pay, gender equality and transparent supply chains.

Over the longer term it remains to be seen whether ESG fund managers will identify the companies that will prosper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in future, but with many more people thinking carefully about where to invest their savings, ESG investment is no longer a fringe area. As with all investment decisions, you should take expert advice.

✢ The value of your investments and the income from them can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

Student debt: to pay or not to pay?


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The Covid-19 pandemic has changed higher education, with a new emphasis on online learning mixed with some in-person teaching. But this hasn't reduced the cost or debts associated with going to university.

Undergraduate freshers will begin their studies this autumn. Most students in England will have taken out maintenance loans, plus tuition loans (of up to £9,250 a year). Different systems apply in the devolved nations, with Scottish students charged up to £1,820 a year in tuition fees at Scottish institutions.

Usually it makes sense to use surplus funds to pay off debts early. But graduates – or their helpful parents – should think carefully before using capital to repay student loans. This is because any outstanding debt on Plan 2 loans (the system introduced in 2012) is wiped out after 30 years. Student loans attract interest like any other debt, which accrues while students are studying. The rate is 3% plus the Retail Prices Index (RPI), so currently 5.4%.

Subsequent rates are earnings-dependent, and repayments only start once graduate salaries reach a certain threshold. For the 2020/21 year this is £2,214 a month – around £26,500 a year. Students then pay 9% of their salary over this amount, so those earning £3,000 a month will pay 9% of £786 – or £70.74 a month.

This is the same monthly repayment whether they owe £20,000 or £80,000: paying off a chunk of capital will not reduce this monthly bill.

The larger the loan, the longer it will take to repay. But considering the 30-year limit, many students will not pay back more overall. Current projections suggest that 83% of students who have taken out a Plan 2 loan will not repay the full amount.

For these students there seems little financial benefit to paying the debt off early: it may simply mean a smaller sum is written off at the end of the term.

Looking to the next Budget

The second Budget of 2020 could mark the start of a round of tax increases.

The first of 2020's two Budgets took place on 11 March, the day that the World Health Organisation declared Covid-19 a pandemic. At the time, the Office for Budget Responsibility (OBR) calculated that the UK government would need to borrow about £55bn in 2020/21. By mid-July, that estimate had risen to £322bn – almost six times the original figure.

No government can continue to borrow at such a rate and many economists regard the Autumn Budget as when the brakes will start to be applied. The Chancellor is constrained by manifesto pledges not to increase tax rates, but as his predecessors have consistently demonstrated, there are many ways to increase tax that do not involve changing the rates. In particular, three areas of reform are already being considered.

Pensions – HMRC has put the gross cost of income tax relief for pensions at over £37bn in its 2017/18 figures, with a further £16.5bn for national insurance contributions (NICs) relief. In July 2020 the government launched a consultation on a technical aspect of pension income tax relief, a move which could be a precursor to a broader reworking. For example, a flat rate of tax relief for all pension contributions could be introduced.

In the March 2020 Budget, the Chancellor *added* to the cost of pensions tax relief by relaxing the annual allowance rules. There would be a certain symmetry if, in his next Budget, he clawed some money back by reducing tax relief for higher and additional rate taxpayers.

Inheritance tax – Two years ago the then Chancellor commissioned a report on simplifying inheritance tax (IHT) from the Office of Tax Simplification (OTS). The OTS eventually issued two reports, but no action was taken in the March 2020 Budget.


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Matters may be different come autumn. HMRC statistics show that last year IHT receipts fell for the first time in two years. The drop is possibly attributable to the Residence Nil Rate Band (RNRB), introduced in April 2017. The OTS reports made no recommendations about the RNRB on the grounds that it had only just come into being, but it did note widespread criticism of its complexity.

A Chancellor with an eye towards a 'levelling-up' agenda and a need for more revenue could pick and choose from the OTS reports' recommendations to collect more IHT.

Capital gains tax – In July 2020 the Chancellor gave the OTS another tax review to undertake. This time capital gains tax (CGT) was the subject and there was less emphasis on simplification and more on ensuring "the system is fit for purpose".

There is a real possibility that CGT rates will once again be aligned with income tax rates, which could see the top CGT rate increase from 20% (28% for non-exempt residential property) to 45%.

Ahead of the Autumn Budget, there are mitigating measures that could be taken in any of the three areas mentioned above. However, pre-Budget tax planning requires advice to avoid unnecessary or inappropriate actions.

✢ The levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

Pandemic lessons

The Covid-19 pandemic has highlighted the low level of social security benefits.

Do you know the weekly value of Statutory Sick Pay (SSP)?

Before Covid-19, most people would probably have struggled to give even a half-accurate answer. Now that so many people have received SSP for the first time, there is an increased awareness. The size of the sum was a surprise for many – just £95.85 per week for up to 28 weeks. The same could be said for other benefits that came under the spotlight because of the pandemic, such as Universal Credit (UC) and Employment and Support Allowance (ESA).

The government's partial response was to increase some benefits temporarily, e.g. adding £1,000 a year to the UC standard allowance.

More important was the introduction of the furlough scheme, which meant that over nine million people remained 'employed' on up to 80% of their pre-pandemic pay. Without the scheme, a large group of its beneficiaries could otherwise have lost their jobs and received the markedly smaller UC payments.

The furlough scheme is due to close by November, while the rest of the temporary social security increases are set to finish next April. One of the many lessons from the pandemic is that the UK's social security system supplies minimal benefits, and these are often subject to means-testing.

Another lesson is that private insurance cover, such as income protection which pays out if someone is ill and unable to work, can have a vital role in filling the gaps.

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Women's state pension shortfall

More women should ask the Department for Work and Pensions (DWP) to check their state pensions, according to former pensions minister Sir Steve Webb.

Research from a leading law firm has highlighted how many women are losing out from the old state pension system. Analysis shows that many women did not realise that if they reached state pension age before 6 April 2016, they were able to claim a basic state pension of 60% of the full rate based on their husbands' contribution record, if this was larger than the pension they could get based on their own contributions.

While this uplift should have been given automatically since 17 March 2008, before then, a married woman had to make a 'second claim' when her husband reached age 65 – and many women did not make this claim.

To avoid missing out, potentially affected women should call the DWP to see if they have been underpaid. These include:

- Married women whose husbands were 65 before 17 March 2008 and have never claimed the 60% uplift.
- Widows with pensions that weren't increased after their husbands' deaths.
- Widows who think they may have been underpaid when their deceased husband was still alive, even if their pension is now correct.
- Women in their 80s receiving a basic pension of less than £80.45 per week, if they satisfied the basic residence test at age 80.
- Widowers and heirs of deceased women that were underpaid state pensions while alive.
- Divorced women not benefiting from their ex-husbands' contributions.

Some affected women intend to complain to the Parliamentary Ombudsman arguing that the DWP failed to keep them adequately informed.

If you think you or someone in your family may be affected, please get in touch.

A buy-to-let opportunity?

Cuts to stamp duty land tax (SDLT) and its Scottish equivalent have reduced the purchase costs of buy-to-let property, but property investors should also evaluate other factors.

The Chancellor has more than doubled, to £9,000, the amount that can now be saved into a CTF and its replacement, the Junior ISA (JISA) for the 2020/21 tax year, creating the opportunity to make more substantial savings towards younger family members' nest eggs.

CTFs were made available to all children born between 1 September 2002 and 2 January 2011. Their value will vary considerably: some parents will have made substantial contributions over the years, while others will find that this 'trust fund' contains just the initial payments made by the government.

These consisted of an initial £250 to invest in either a cash or stocks and shares CTF plan (lower income In July, the Chancellor increased the SDLT nil rate threshold in England and Northern Ireland to £500,000 until 31 March 2021. The equivalent thresholds were then increased to £250,000 in Scotland and, for main home buyers only, in Wales. All the countries kept their full price surcharges (4% in Scotland and 3% elsewhere) on buy-to-let (BTL) purchases.

While the tax saving can be significant, investors should remember that there are earlier tax changes to consider:

- If you are personally borrowing to make the purchase, then the interest you pay cannot be offset against rent received. Instead you are given a tax credit equal to 20% of your interest.
- Capital gains tax (CGT) is levied at a higher rate on disposals of non-exempt residential property, which can mean a 28% tax charge.
- Any CGT is now due within 30 days of completion.

More changes could be coming in England, as last year the government consulted on "resetting the balance of rights and responsibilities between landlords and tenants".

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