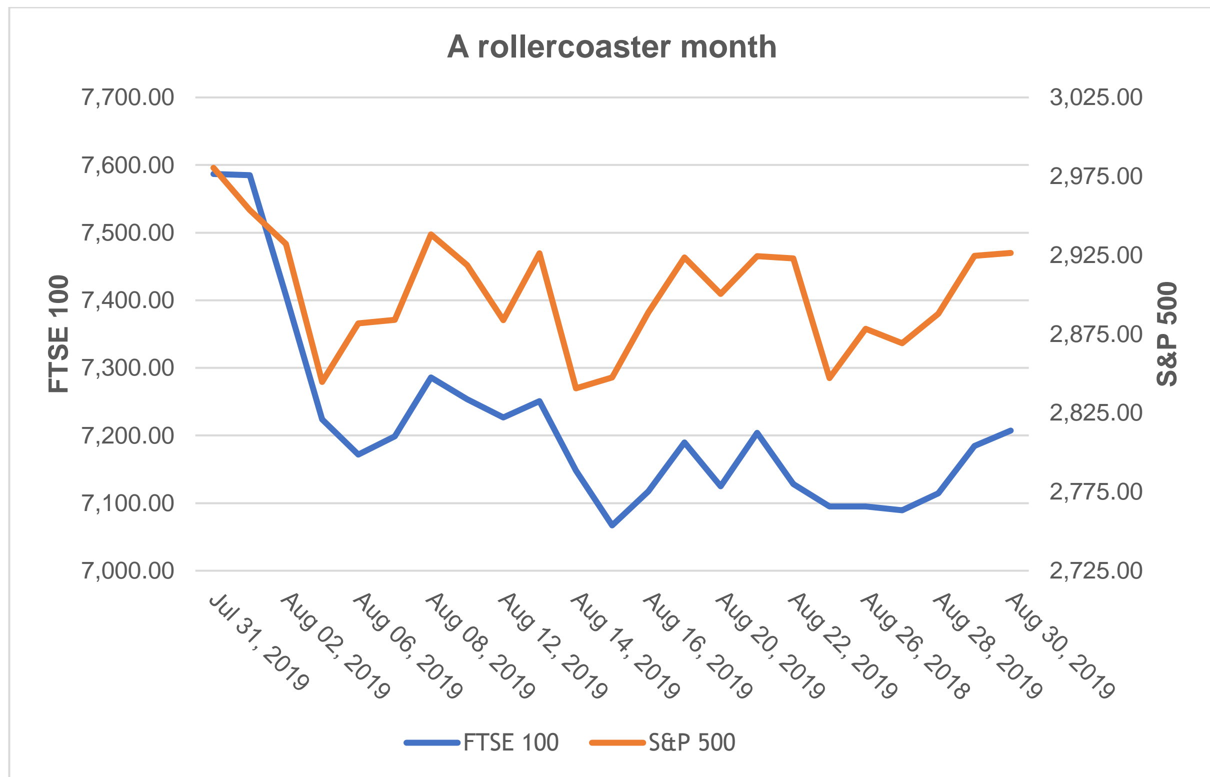
Content Plus September 2019

Contents

A bumpy ride for August on the markets 2
Probate delays affecting estate settlements 3
How do you feel about taking a pension at 75? 4
Cracking down on compliance pays for HMRC 4
Who are the top 1% of income tax payers? 5

A bumpy ride for August on the markets

Stock markets, as well as some family holidaymakers, experienced a rollercoaster August.



The traditional holiday month proved to be anything but quiet on the world's investment markets. As the graph of the major UK and US stock market indices shows, there were plenty of sharp lurches, up as well as down.

Inevitably the downward trends attracted more attention, particularly the fall in US share values on 13 August. "Dow drops 800 points" is a headline that newspaper editors find hard to resist. 'Dow falls just over 3%' would have been equally accurate, but 800 points sounds considerably more dramatic.

Several factors challenged the markets in August:

- Short-term interest rates look set to fall further in the US (where the first cut in ten years took effect at the start of the month). Elsewhere there is less scope to cut as rates are so low, but central banks are hinting at other measures, such as a return of quantitative easing.
- Long-term interest rates also continued to fall, often deeper into negative territory. In the second half of the month the German government sold a 30-year bond which paid no interest and guaranteed investors a loss of 0.11% a year, if they held the paper until 2049.Tumbling and negative yields are seen by some commentators as an indicator that a recession is looming.
- The trade war between the US and China reignited, with a new round of tariff-by-tweeting from President Trump. In response, the Chinese allowed their currency, the Renminbi, to weaken, with knock-on effects for its neighbours.
- The Brexit saga ratcheted up in the UK and Europe, as the new Prime Minister Boris Johnson adopted his 'do or die' stance to 31 October and announced a provocative prorogation of Parliament ahead of the deadline.

As with any rollercoaster ride, the experience can be both exhilarating and nauseating. It is by no means clear when this particular trip will end, but – again like the rollercoaster – it could be highly dangerous to jump out before the journey finishes.

The value of your investment 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 in with your overall attitude to risk and financial circumstances.

Probate delays affecting estate settlements

There are currently long delays in gaining probate on the estates of the recently deceased.

Late in 2018, the government issued a written statement announcing its intent to go ahead with controversial increases in probate fees for England and Wales. Instead of the current flat fees of £155 for applications through a solicitor and £215 for individual applications, draft legislation was issued with a sliding fee scale that rose to £6,000 for estates valued at over £2m. To many, the measure looked more like a new tax than a fee increase.

A start date wasn't set, but the legislation was widely expected to come into force around the end of April 2019. However, the statutory instrument to bring about the change has not yet been presented to the House of Commons. HM Courts and Tribunals Service (HMCTS), which administers probate, has recently told the Law Society that it does not know when, or if, any fee changes will happen. The delay could be due to Brexit dominating parliamentary business, the near universal criticism of the measure and/or a possible election coming up.

Alongside this uncertain legislative approach, HMCTS has launched a new probate administration regime that has already encountered teething problems. This in turn has run into an acceleration in probate applications as solicitors and executors have rushed to pre-empt the planned fee increase and pushed through the paperwork.

The result has been a backlog at probate registries throughout England and Wales. HMCTS is now advising solicitors not to chase any applications until at least eight weeks have passed. However, HMRC has said it will make no concessions on when it will start charging interest on inheritance tax, which is due by the end of the sixth month after the month of death.

Bereavement is already a difficult time for many families, so these delays could cause more stress and remind us that winding up an estate can be painfully slow. If you have life assurance policies, one way to sidestep that delay – and potentially save inheritance tax – is to place the policies in trust. Alas, trusts carry their own complications, so do seek professional advice before taking any action to change policy ownership.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax or trust advice.

How do you feel about taking a pension at 75?

Is a state pension age (SPA) of 75 looking more likely?

Recommendation

The SPA should better reflect the longer life expectancies that we now enjoy and be used to support the fiscal balance of the nation. The SPA in the UK is set to rise to 66 by 2020 (Pensions Act 2011), to 67 between 2026 and 2028 (State Pension Act 2014) and to 68 between 2044 and 2046 (State Pension Act 2007). We propose accelerating the SPA increase to 70 by 2028 and then 75 by 2035.

The statement above in the report *Ageing Confidently – Supporting an ageing workforce*, released in August by the Centre for Social Justice (CSJ), is slightly misleading. A SPA of 68 is pencilled to be phased in between 2037 and 2039. Further legislation will not be introduced until after another SPA review is completed, which, by coincidence, won't happen until after the next election is due.

The CSJ is not a think tank that regularly makes the headlines, but it does have a high-profile chairman – Iain Duncan Smith, the former Conservative leader and former Secretary of State for Work & Pensions. During that tenure he pushed through some of the SPA increases outlined above. With this in mind, the statement by the CSJ could be interpreted as kite-flying on behalf of the Conservative government, just as the Institute of Public Policy Research (IPPR) plays a similar role for the Labour Party.

The CSJ's argument for raising SPA with such haste is financially driven. The report notes that at present there are 28.2 pensioners for every 100 people of working age, but by 2050 this is projected to increase to 48 per 100 – almost one pensioner for each two working age members of the population. As the state pension system is funded on a pay-as-you-go basis, that jump has serious consequences even before the impact of rising healthcare costs is considered. Raising SPA to 75 by 2035 would keep the ratio at between 20 and 25 per 100.

Such a steep rise in SPA would be politically problematic as the ongoing protests and resulting court cases about increases in women's SPA prove. However, the CSJ's point about whether the current SPAs will continue to be affordable isn't going away. If nothing else, it's a reminder that supplementing the state pension with private provision is a surer path to a reliable retirement income.

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Cracking down on compliance pays for HMRC

New figures show HMRC's "customer compliance" efforts are yielding substantial sums.

In early August, HMRC issued its annual report and accounts for 2018/19. While not everyone's choice of holiday reading, it did contain some eye-opening information about the "compliance yield" – how much HMRC raised from its work in countering tax avoidance schemes, tax evasion and plain fraud.

HMRC puts the figure at £34.1bn out of total revenue raised in 2018/19 of £627.9bn. Of that £34.1bn, £13bn was hard cash collected as a result of investigations, a 27% increase on investigations from the previous year. The sharp rise was partly due to individuals settling with HMRC ahead of April's introduction of the controversial Loan Charge, targeting disguised remuneration schemes.

UHY Hacker Young, the accountants, suspect that HMRC's improved compliance cashflow could also be due to last year's offshore tax campaign. This established a 'requirement to notify' HMRC of undeclared income or gains by September 2018, or face penalties of up to 200% of the amount due, plus interest.

There was probably also a boost from the implementation of the OECD's Common Reporting Standard, generating automatic exchange of information between national tax authorities. This may have become apparent from the appearance of questions about tax residence in many financial documents or from existing institutions with which you hold investments.

In its accounts, HMRC highlights that it places about 500,000 'Wealthy Individuals' into their own separate 'customer group'. To join this select group requires an income of over £150,000 or assets above £1 million. Those lucky members are the focus of special teams with "an in-depth understanding of the finances, behaviours and compliance risks of wealthy individuals" and "strong data-led approaches to identify who is not paying the right tax".

The unspoken message from HMRC is that sidestepping tax, whether by contrived avoidance schemes, evasion or fraud, is becoming ever more unlikely to succeed. On the other hand, there remain plenty of straightforward planning opportunities with which we can help you.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

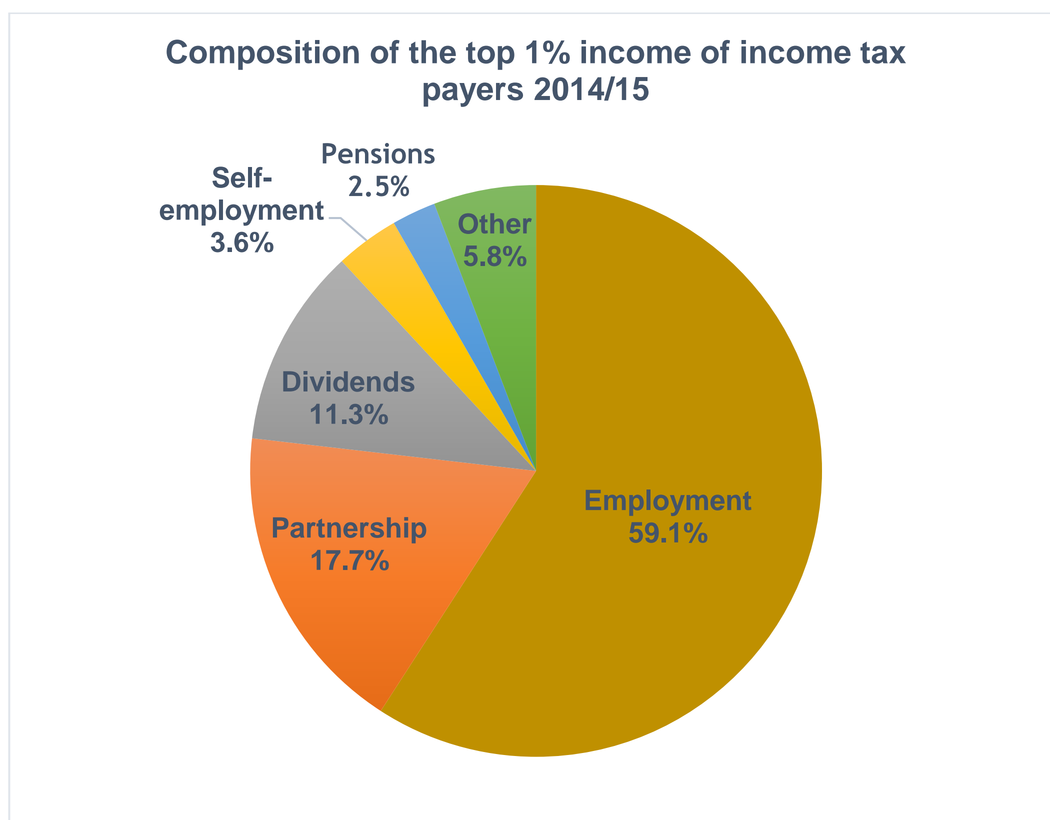
Who are the top 1% of income tax payers?

A recent report looking at who pays the most income tax reveals some interesting findings.

The Institute for Fiscal Studies (IFS) published a briefing note in early August with a detailed answer to the question of what it takes to enter the 1% club. Around 310,000 people make up this cohort, with some predictable and not so predictable traits:

- They have *taxable* income of at least £160,000 in 2014/15. The historic nature of the data reflects both HMRC's systems and the fact that the 2015/16 numbers were distorted by the introduction of new dividend tax rules in the following year.

- Typically, they are male aged 45–54 based in London, with an additional £550,000 of income. To quote the IFS, the 1% club is “disproportionately male, middle-aged and London-based”.
- They live in 10% of the 650 parliamentary constituencies, which contain half of the top 1% population. In 2000/01, 78 constituencies were needed to reach the halfway mark.
- They have over a quarter of their income made up from partnership and dividends, as the pie chart shows. This reflects the fact that many are business owners.
- They manage fluctuating income levels. The top 1% is not a stable group, which may be some solace if you do not currently have the necessary membership credentials. The IFS found that roughly a quarter drop out each year and only half remain for five consecutive years. The corollary is that there is a much higher chance of being in the top 1% at some point in your life than in any given year. The IFS calculated that 3.4% of all people (and 5.5% of men) born in 1963 were in the top 1% at some time between 2000/01 and 2015/16.



However, being a member of the 1% taxpayers club also means accounting for 27% of *all* income tax collected by HMRC. So failing to qualify may reflect some careful and expert financial planning…

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