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NEWSLETTER



January 2021

It's plain sailing...

As Government publishes new report, changes to Capital Gains Tax seem likely

The Office of Tax Simplification (OTS) has published a new report on the principles and policy design underpinning Capital Gains Tax (CGT), suggesting that reform could be on the cards.

In July 2020, the Chancellor asked the OTS to complete a review of Capital Gains Tax, to 'identify opportunities relating to administrative and technical issues in addition to areas where the current rules can distort behaviour, or do not meet their policy intent'.

In particular, Rishi Sunak asked for a review of its use in "the acquisition and disposal of property" and "the practical operation of principal private residence relief".

Blick Rothenberg described the review as an "inevitable tax raid" to recoup some of the money spent during the Covid-19 lockdown period, describing the potential changes as "bad news for investors".

In the 2016 Budget there was a fall in CGT, apart from on property, where the 18% rate dropped to 10% and the 28% rate dropped to 20%.

The first report found "many features of Capital Gains Tax which can distort behaviour, including its boundary with Income Tax and interconnections with Inheritance Tax". The report said that "more closely aligning Capital Gains Tax rates with Income Tax rates has the potential to raise a substantial amount of tax for the Exchequer".

A second report, which will follow early this year, will explore key technical and administrative issues.

Rachael Griffin, tax and financial planning expert at Quilter, commented: "Chunky reports from the government aren't known to be produced

at speed unless there is a real requirement. The OTS itself acknowledge the consultation has been produced in a shorter timeframe and this hints that change to CGT will be on the cards as the Chancellor looks to counteract the escalating deficit caused by the pandemic.

The appeal of changing CGT is clear - only a relatively small number of people pay it. Statistics show that over the course of a decade around 1.5 million people reported taxable gains, far lower than the numbers paying the biggest taxes like income tax and national insurance. It means the tax can be reformed in order to squeeze asset owners, shareholders and landlords without impacting the majority of people.

"It is also a tax that is almost exclusively paid by older, wealthier households. According to the OTS, 97% of CGT tax revenue is paid by over 35s, with most people caught by the tax in their 50s and 60s. It means that raising additional revenues can be positioned as a tax on those with the broadest shoulders.

The OTS has suggested a package of reforms, some of which are tweaks around the edges that will be relatively quick wins and some which will cause a bit of a stir. The prospect of bringing CGT in line with income tax has been touted for some time and so that is relatively unsurprising, although it would lead to a significant rise in tax paid by those subject to CGT. And simplification is again at the heart of the OTS report, which suggests that there be two rates rather than four.

Other proposals, such as scrapping CGT uplift on death, have far reaching consequences and need to be considered carefully. One of the biggest challenges of tinkering with the CGT system is its interaction with several other parts of the tax system, in particular inheritance tax,

so many changes can be complex and have knock-on consequences for other parts of the tax system.

CGT uplift means that CGT is overlooked when an individual dies and they hold taxable assets that have gone up in value. This is because when the assets are transferred to someone else, normally a spouse or family member, they are 're-set' for CGT purposes. Instead, the assets may be subject to Inheritance Tax. The OTS recognise that this means that people are often holding onto assets until they die for the tax benefits. Removing or limiting this relief could be seen as a way to encourage wealth transfers to happen earlier, as well as raising significant funds.

The OTS also suggest lowering the annual exempt amount. Their view is that while small gains should still be exempt in order to avoid administrative hassle for the sake of a minor tax bill, the current allowance results in too many profits being tax free. Cutting it to around £5,000 could see the number of people paying CGT each year doubling. Although the OTS do not acknowledge the variety of assets that are notably free of CGT such as lottery wins, classic cars and vintage wine. This may raise some eyebrows as they seem like easy areas to target the wealthy if that is indeed the government's goal.

In general, the message is clear from the government and the OTS. Use your allowances now or lose them. Changes are on the horizon and why it is not suitable for everyone to change their financial plans because of mere policy speculation it is worth your while to review in light of what will inevitably be a more harsh tax environment. Financial advice is critical for anyone wrestling with all the different rules and considering changes."



Are the self-employed sleepwalking into a bleak financial future?

Over the last few months it has been a tough time for the self-employed. Although many self-employed people have claimed the government grant during the COVID-19 pandemic, nearly 3 million people have not been included in the grant scheme and are still waiting to become eligible to claim.

However, the worrying thing is that the amount of self-employed people who are saving into a pension has halved in the past few years, which means there's a real danger they're sleepwalking into an uncertain financial future. Recent research commissioned by NOW: Pensions and the Pensions Policy Institute revealed the extent of the problem: only 15% of the self-employed are currently saving into a private pension, and many of those who are saving end up with a pension wealth of just 77% of the average and, maybe surprisingly, men are the most heavily affected.

In times of economic uncertainty, the self-employed may find that their workflow is interrupted or halted indefinitely and any income coming in, is typically used to cover your own personal, or family expenditure. The last thing on your mind is to pay into a pension and the thought of saving can feel intimidating. However, now more than ever, it is so important to plan for the future.

Here are a few considerations to help self-employed workers prepare themselves for

retirement.

Maybe It's time to take a (tax) break - You won't have an employer contributing to your pension savings through a workplace scheme if you're self-employed, however, you will be eligible for certain tax breaks. If you earn £40,000 or less a year, you can get tax relief on your pension contributions. This means that for every £100 you pay into your pension, you'll effectively get £25 government input. If you pay a higher tax rate of 40% in England, Northern Ireland or Wales, you can also claim an additional £25 per £100 through your annual tax return.

Don't leave it too late to start - The earlier you start saving into your pension, the better off you'll be in the long term. In fact, research by the Money Advice Service shows that if you compare the retirement funds of someone who started saving at the age of 30 to someone who started with the same level of contributions aged 50, the difference would be around £45,000 at the time of retirement.

Consider what your aims are and what are the options - Most self-employed people use personal pensions, which you invest in for your own use. They allow you to set how much you can contribute, which is useful if your income fluctuates, and you can also choose where you'd like your savings invested. You will also benefit from tax relief added on your behalf at the basic rate. You will need to discuss with your

adviser, which is the most appropriate plan for you. You need to consider what your view of risk is, what sort of age you would like to retire at, what retirement income you hope to achieve and how flexible the plan is.

Be prepared for a rainy day - While pension saving is crucial to help protect your financial future, remember that you can't legally access your pension savings again until you reach the age of 55, except in very special circumstances. These rules are set by the government and enforced by The Pensions Regulator.

So, before you invest, it's wise to make sure you don't leave yourself short of emergency funds for your business. Although we now have a vaccination programme being carried out, regular income may still be difficult to achieve for some time but it doesn't necessarily mean you can't save some money. Some savings could be placed in an ISA for instance, which can still be added to your pension at a later date if you start to earn a more regular income. If on the other hand, you find you are facing an income shortfall, you can still withdraw some capital from the ISA as it is accessible. If it was in your pension however, you will not be able to withdraw it until you are age 55.

If you want to discuss your pension and to have it evaluated to see if it is on target to achieve your financial retirement goals, please contact your adviser who will be happy to help.

End of Tax year Considerations

Refining and maximising all your finances before the end of the tax year is always encouraged and recommended, and with an accurately assessed and completed tax return, it's an optimal time to get prepared and look at your financial options. It is an opportunity to top up and optimise pension contributions, utilising your Capital Gains allowances, considering and using your ISA options including junior ISA's (if you don't have one, it's worth looking at opening or adding), and mitigating inheritance tax, potentially as cash gifts or assets to family and loved ones.

Regarding pensions, UK taxpayers are entitled to tax relief on contributions up to 100% of their annual earnings, although the maximum contribution you can earn tax relief on is £40,000, and this is referred to as your annual allowance. The rules vary slightly if you earn more than £150,000 where your maximum contribution is reduced by £1 for every £2 you earn over this amount, until you hit a 'floor' of £10,000. If you start to draw from a Pension Drawdown scheme, the amount you pay into a pension to get tax relief does diminish; known as the Money Purchase Annual Allowance

(MPAA) that currently has a limit of £4000.

There is a maximum amount you can save or invest in an ISA each tax year, which for 2020/21 is £20,000, and you can split your allowance across any combination of ISA's, cash or stocks and shares ISA's, during the same tax year, depending on needs and eligibility. Income and capital gains are also tax free and available to anyone in the UK over 16 years of age, with parents being able to invest a revised £9000 where previously it was £4368 for children under 18.

Taxpayers only have to pay Capital Gains Tax (CGT) on their overall profits and gains above the tax-free allowance of £12,300, up from £12,000 last tax year, when those assets may be disposed, standing at 10% for Basic-rate payers and 20% for Higher or additional-rate payers (18% and 28% respectively for property assets). Being married or in a civil partnership allows you to transfer assets to each other without paying CGT, that effectively doubles the amount you can accrue before CGT is charged. Such examples of investments where you will need to pay CGT are second property/Buy-

to-let, shares and funds, selling a business, or valuables like jewellery, art, or antiques.

Utilising CGT allowances can mean reinvesting profits into ISA's (though this depends on allowances used thus far) but if you don't make full use in a given tax year, you aren't allowed to carry it forward.

Gifting your family, friends and loved ones while you are alive, is an effective way to reduce the value of your estate regarding incurring inheritance tax (IHT) charges. However, this is capped, even with annual allowances, to a total of £3000 in cash or assets. You can, in this case, carry forward any unused annual exemption to the next year, but only one year.

Anything exceeding this will be subject to IHT, and the amount you will need to pay will depend on the beneficiary gifted, living beyond seven years afterwards. There does exist some gift options and conditions where you would not be liable for IHT, such as charitable donations, but it is recommended to contact your financial adviser to aide in discussing the options available to you.

Market Report

January 2021

Global Review



News confirming that a number of effective vaccines had been developed to combat Covid-19 caused a surge in global equity markets in November, particularly in the stocks of those companies most severely hit by the pandemic. The rally faltered in December as infection rates began to rise, driven by the emergence of a new variant of the coronavirus, prompting fears that further, more stringent, lockdown measures would be necessary to prevent the spread of the disease.

Equity markets were also buoyed by the result of the US presidential election in November with the power split between the upper and lower houses of Congress expected to prevent any radical shifts in policy. Central banks and governments in tandem around the world also continued to announce massive aid packages in an attempt to prop up the global economy through the pandemic. In many cases governments have allocated ten times the stimulus committed during the 2008 financial crisis.

UK



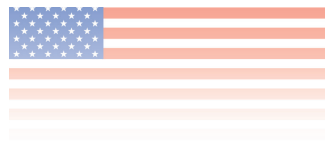
The UK and EU finally reached an agreement on post-Brexit relations just days before the official divorce date of 31 December 2020. The Trade and Cooperation Agreement removes much of the uncertainty on trade between the UK and its biggest export market whilst re-establishing control of law making and immigration. The deal should help mitigate expected declines in GDP on both sides of the channel due to the coronavirus pandemic, with some economies expected to contract by up to 10% according

to forecasts from the International Monetary Fund.

Fears of a further full lockdown were raised with the announcement a week before Christmas that the Government's furlough scheme would be extended to the end of April. In his November spending review, Chancellor Rishi Sunak confirmed that a total of £280bn had been provided in 2020 to combat the impact of Covid-19.

Total borrowing by the Government in the current fiscal year is expected to be close to £400bn, the highest recorded level in peacetime.

US



One of the most divisive presidential elections in US history threatened to derail the equity market recovery in November before results began to swing decisively in favour of Joe Biden. The last crucial results confirming Biden's victory coincided with Pfizer and BioNTech announcing the first vaccine candidate to treat Covid-19, triggering a surge in stock prices.

Not only was there a clear winner, diminishing the success of any challenge from the incumbent President Trump, but the lack of a 'blue sweep', victories for Biden's Democratic party in both chambers of Congress, was seen as positive for markets.

Trump's challenge to the result of the election had jeopardized a near \$1tn coronavirus aid package and \$1.4tn annual government funding bill but both were finally approved in late December.

After faltering due to the growing number of positive coronavirus infections and the election uncertainty, the passing of the bill helped reignite the equity market rally, pushing US stock indices to new record highs.

Europe



Economic growth in the euro area rebounded strongly in the third quarter of the year with those economies experiencing the largest falls during the initial wave of the pandemic recovering the fastest. France, Spain and Italy all recorded over 15% growth in activity accompanied by the strongest quarterly employment numbers for the bloc in 25 years. However, the resurgence in infection rates and new national lockdowns, most notably in Germany and France the regions two largest economies, is expected to see a further contraction in the fourth quarter.

In direct response to the growing number of Covid-19 cases, the European Central Bank expanded its Pandemic Emergency Purchase Program by a further €500bn, taking the total value of stimulus to €1.85tn. The Bank also extended the timetable for purchases to March 2022 whilst leaving interest rates at near zero. This follows commitments by Germany and France to spend around 4% of GDP on local stimulus measures.

Japan



The Japanese government announced a further ¥73.6tn (\$700bn) of fresh stimulus in December taking the country's coronavirus related spending to \$3tn, equivalent to around two-thirds of Japan's economy. The package is the first under new Prime Minister Yoshihide Suga with around ¥40tn of direct fiscal spending including support for businesses and jobs. In addition to money from next year's budget, a ¥20tn third extra budget in the

current fiscal year will be required to fund the program.

Japan's economy exited recession in the third quarter, rebounding from a fall of 8.2% in the second quarter, the worst decline for 40 years.

Contraction over the three previous quarters was initiated by a hike in consumption tax in late 2019 before the emergence of covid-19 in early 2020. The better than expected 5.0% expansion in the three months to September saw economic activity return to near normal levels with the country able to avoid widespread lockdowns.

Asia



China experienced a similar recovery in economic growth in the third quarter as GDP expanded by 4.9% in the world's second largest economy. The Chinese authorities closed more than half the country following the emergence of Covid-19 in Wuhan, resulting in steep falls in activity. However, the strict lockdown saw growth rebound in the second quarter and China is now expected to be the only major economy to expand in 2020. China and its regional trading partners are also expected to benefit from the recently announced Regional Comprehensive Economic Partnership that is designed to eliminate tariffs and quotas on 65% of goods.

India officially entered a recession in the third quarter of 2020 with further falls in economy activity extending the record fall of nearly 24% in the three months to June. The government's stimulus response has been underwhelming with GDP predicted to fall by around 10% during the full financial year. However, there is some hope that coronavirus vaccines will be able to prevent a second wave of infections in the country.

Did you know the History of the Annuity?

When people get closer to retirement, amongst other things, they often consider purchasing an annuity to provide them with a regular guaranteed income for life. Although many people consider other options such as phased or drawdown plans, the annuity in modern times has proved to be a popular choice. However, they are not new and in fact they can be traced back to Roman times.

So, what is an annuity? Although the annuity products of today differ quite a bit from their historical beginnings, the idea of paying out a stream of income to an individual or even a family dates back to the Roman Empire. In fact, the word annuity comes from the Latin word "annua" which meant annual stipends. During the reign of the Roman emperors, the word indicated the existence of a contract that made annual payments. It was common for wealthier Romans to make a single large payment into an annua and then receive an annual payment either for their lifetime, or for a specific period, showing a clear link to the annuity income products offered today.

One of the earliest dealers in the Roman form of 'annuity', or annua, was speculator and jurist Gnaeus Domitius Annianus Ulpianus. In addition to selling annuities, he is also cited as being the father of actuaries as he created the first actuarial table to help in determining the life expectancy of his investors.

Annuity Payment Examples throughout History

Roman soldiers withstood long years of military service and were paid annuities as a form of remuneration for their service. In the Middle Ages annuities were used by lords and kings to help pay the costs of their seemingly endless wars and conflicts with each other.

This continued and during the 17th century, annuities were typically used as fundraising vehicles. In Europe, governments were

constantly looking for revenue to pay for the massive, on-going battles with neighbouring countries. The governments would then create a tontine, promising to pay for an extended period if citizens would purchase shares today. The United Kingdom, who were locked in many wars with France, started one of the first 'group annuity' called The State Tontine of 1693.

Participants in these early government annuities would purchase a share of the Tontine for £100 from the UK government. In return, the owner of the share received an annuity during the lifetime of their nominated person (often a child).

As each nominee died, the annuity for the remaining proprietors gradually became larger and larger. This growth and division of wealth would continue until there were no nominees left. Proprietors could assign their annuities to other parties by deed or will, or they passed on at death to the next of kin.

In the US, the history of annuities goes back to 1720 and the Presbyterian Church, which used annuities to provide its aging ministers with the means of retiring and later, in assisting widows and orphans. Ministers would contribute to the fund in exchange for lifetime payments. Indeed, Benjamin Franklin used an annuity to assist the cities of Philadelphia and Boston in troubled financial times.

It wasn't until 1912 that Americans could buy annuities outside of a group. The Pennsylvania Company for Insurance on Lives and Granting Annuities was the very first American company to offer annuities to the general public.

Annuity growth from that point on was steady, but annuities really started to catch on in the late 1930s. Concerns about the overall health of the financial markets prompted many individuals to purchase products from insurance companies. During the Great Depression, insurance companies were seen as stable institutions that

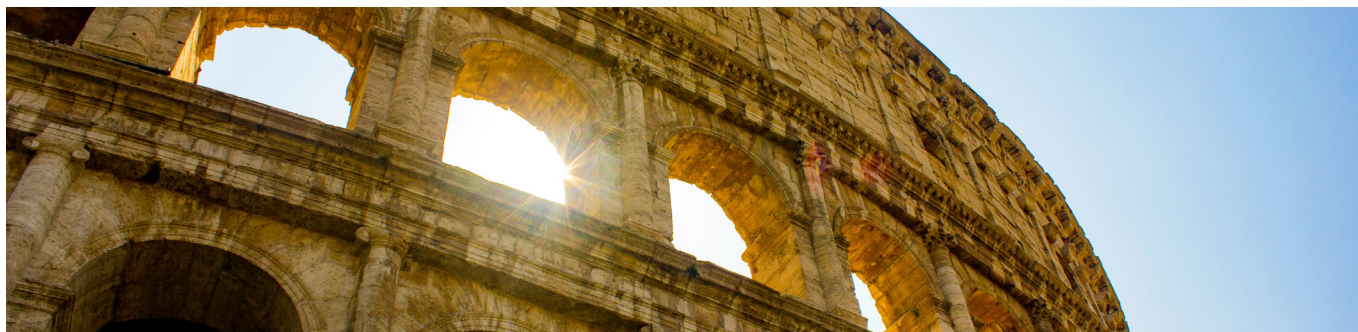
could make the payouts that annuities promised. The entire country was experiencing a new emphasis on saving for a "rainy day." The New Deal Program introduced by Franklin D Roosevelt (FDR), unveiled several programs that encouraged individuals to save for their own retirement. It was around this time, too, that group annuities for corporate pension plans really developed. Annuities benefitted from this new-found savings enthusiasm.

By today's standards, the first modern-day annuities were quite simple. These contracts guaranteed a return of principal, and offered a fixed rate of return from the insurance company during the accumulation period. When it was time to withdraw from the annuity, you could choose a fixed income for life, or payments over a set number of years. There were few bells and whistles to choose from.

What was always proved to be attractive about annuities was their tax-deferred status. Because they were issued by insurance companies, annuities were always able to accumulate without taxes being taken out at year-end. This allowed annuity owners to put the time value of money on their side.

Then, in 1952, the first variable annuity was created. Variable annuities credited interest based on the performance of separate accounts inside the annuity. Variable annuity owners could choose what type of accounts they wanted to use, and often received modest guarantees from the issuer, in exchange for greater risks they assumed. As time has moved on, other features were introduced to include all the options we have available today.

So according to the Pythons, apart from sanitation, medicine, education, roads, central heating, irrigation, roads, public health, fresh water systems, wine, Trusts and Annuities, what have the Romans ever done for us?



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