The Investment Coach

November 2020 Newsletter

Extended self-employed support measures under new lockdown

With the second lockdown now in place, the Chancellor has been forced to return to Parliament and announce extended job support measures. Two further grants under the SEISS were announced in September and have now been updated.

The government's new package of support measures laid out in the Chancellor's Winter Economy Plan have been either put on hold or reworked. Alongside an extended furlough scheme, now running at 80% of employee wages until the end of March 2021, the self-employed income support scheme (SEISS) also saw a substantive increase as the lockdown came into force.

The original SEISS offered two support grants to the self-employed, with applications closing in July and again in October. The new extension covers a six-month period divided into two additional grants. The level of the upcoming third grant has now been increased from the original 40% to 80% of average monthly profits – even higher than the 55% set out at the end of October. Applications for the third grant covering the three months from November 2020 to January 2021 will open on 30 November and will be capped at a maximum of £7,500, paid in a single instalment.

The fourth grant will cover the three months from February to April 2021, however no further details have been released as yet.

Eligibility

To be eligible for the third SEISS grant you must have been eligible for the previous two (even if they were not actually claimed), so this excludes anyone with:

- average annual profits exceeding £50,000; or
- self-employed income that makes up less than 50% of total income.

In addition, you will have to declare that you intend to continue trading and are either currently actively trading, but are impacted by reduced demand due to Covid-19, or were previously trading but are now temporarily unable to do so due to Covid-19. The requirements to be actively trading and to be impacted by reduced demand are new and might indicate that HMRC is tightening up the rules.

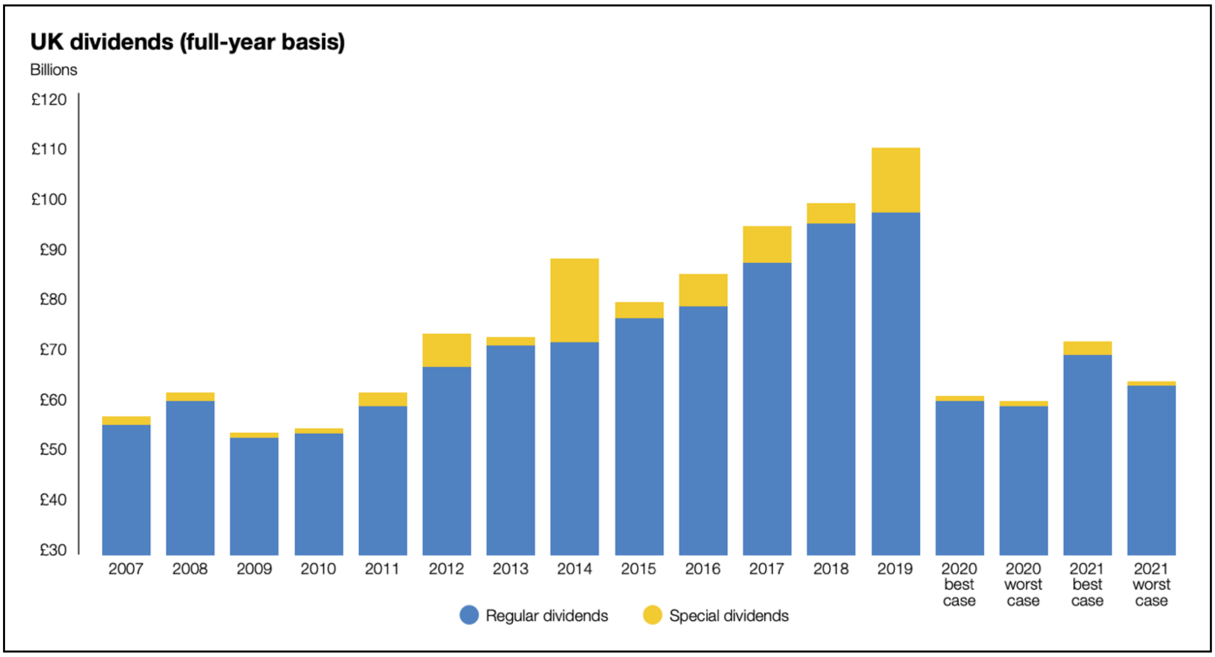
The first two grants were based on average profits for the tax years 2016/17, 2017/18 and 2018/19. At this point, there is no indication if HMRC will allow profits for 2019/20 to be taken into consideration.

The Chancellor appears to have heeded the widespread criticism levelled at the drop in support for the self-employed he originally outlined. The uplift to 80% now matches the extension of the furlough scheme, at least for the time being,

If you need help with any support grants, please get in touch.

Some light in the dividend tunnel

A recent report on UK dividend payments suggests the worst of the cuts may be over**.**



Source: Link Asset Services

First, the bad news:

- In the third quarter of 2020, total (regular and special) dividend payments from UK companies were 49.1% lower than in the corresponding quarter in 2019.
- Two thirds of UK companies either cut or cancelled their dividends in the quarter.
- One-off special dividends fell by no less than 90% year-on-year in Q3.
- Across 2020 as a whole, the fall in total dividends will be around 45%, according to an estimate from Link Asset Services, a leading company registrar.

If you hold UK equity funds – particularly UK equity income funds – or own shares directly, you will be lucky not to have felt the impact of such unprecedented dividend cuts. As the graph shows, the fall in payouts has been much greater than in the wake of the 2008 global financial crisis.

Now, a little good news:

- The fall in the third quarter was less than the second quarter, when the overall drop was 57.2%.
- Similarly, the proportion of companies cutting or cancelling dividends was also higher in Q2, at three quarters.
- Special dividends were unusually high in the third quarter of 2019 – nearly quadruple the amount of Q3 2018 – which distorts the latest comparison.

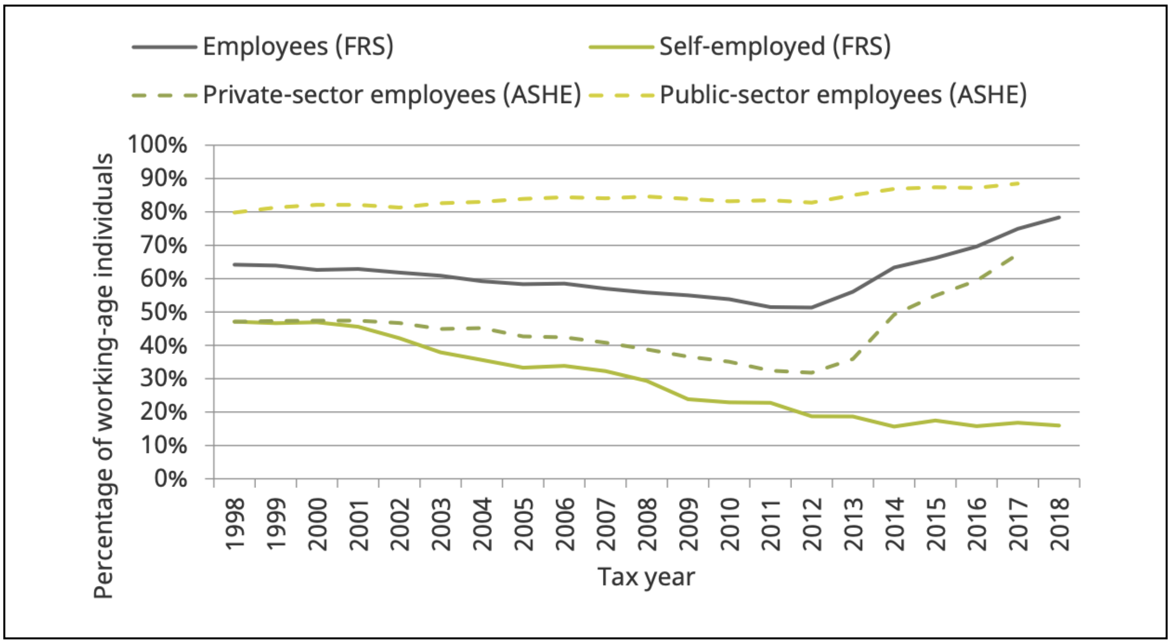
The pandemic has been going on long enough for any company that needed (or, in some cases, wanted) to cut or cull its dividends to have done so. Some companies, such as BP and Shell, have taken the opportunity to 'rebase' their dividends, a subtle way of saying that the new, lower level is the base for future payments. A growing number of companies that suspended dividends have resumed payments or promised to do so.

Then there are the big banks, which were told by the Bank of England to stop payouts, just before their final dividends for 2019 became payable. According to Link, almost 40% of the fall in Q3 regular dividends was accounted for by the banks' dividend curfew. If – and it is a big *if* at this stage in the pandemic – the Bank of England allows the banks to restart paying dividends in 2021, there could be a significant jump in regular dividends across the year.

Link estimates that UK regular dividends could increase in 2021 by between 6% in its worst-case scenario, and 15% in the best case. If you are looking for income in a world of near-zero interest rates, both projections are attractive.

Can you afford to retire if you're self-employed?

New research shows the majority of the self-employed are not saving for retirement.



Source: IFS

Here's a quick quiz:

- Are you self-employed?
- If so, have you contributed to a private pension in the last year?

The Institute for Fiscal Studies (IFS) examined the answers to these two questions and found the probability of answering yes to both is much the same. Drawing on government data, the IFS calculated that in 2018:

- 15.1% of the UK workforce – some 4.8 million people – were self-employed.
- Just 16% of the self-employed contributed to a private pension.

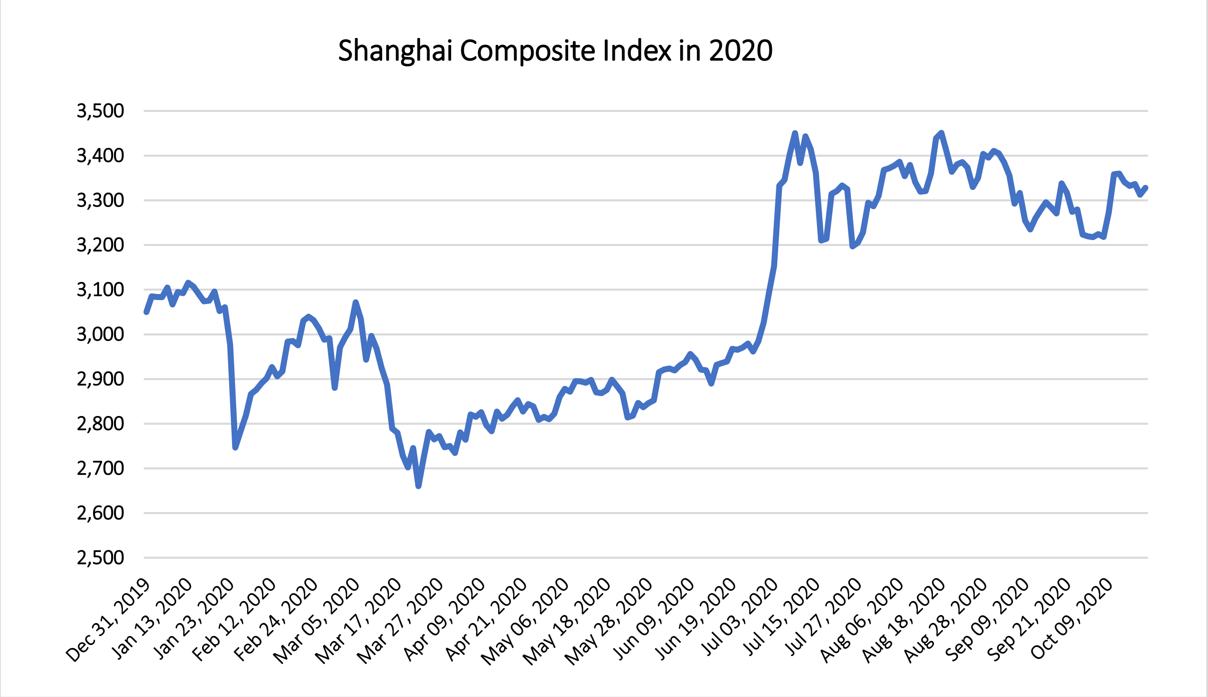
As the graph shows, the proportion of pension contributors among the employed and self-employed workforce was on a steady decline from 1998 until 2012. In October 2012, pension automatic enrolment was launched, and by March 2019, over 10 million workers had joined a workplace pension arrangement. The self-employed were left out of auto-enrolment, hence the sharp divergence of the employee and self-employed lines from 2012 onwards.

The IFS research struggled to establish why only one in six of the self-employed were saving in a private pension, two thirds less than 20 years ago. It found that the characteristics of the self-employed workforce have changed over that period – it now consists of more females, an older demographic and an increase in part-time workers – but none of these factors were enough to account for the fall in pension contributions. Given the tax relief which pension contributions attract, one surprising discovery was that the largest decline in self-employed contributions came from the higher-income bracket and the long-term self-employed.

If you answered yes to the first question and no to the second, then you may be expecting the state pension to make up the largest slice of your retirement income, a view shared by more than a quarter of the self-employed. At present, the state pension amounts to £175.20 a week. If that sounds like a less than comfortable retirement plan, perhaps you need to rethink the answer to that second question…

China: ever larger, ever changing

The Chinese stock market broke the $10 trillion barrier in October.



Source: Investing.com

The total value of China's stock markets in Shanghai and Shenzhen surpassed $10 trillion in October. For comparison, the UK market was worth about $4 trillion at the end of September 2020. However, this was not the first time that Chinese markets had reached the $10 trillion level. In mid-2015, the two markets peaked at $10.05 trillion before dropping precipitously to under $5 trillion in a matter of months as the authorities took action against traders – often individuals – investing with borrowed money.

Much has happened since that whiplash period. The Chinese markets have become less of a gambling for retail players and more like other global markets, with institutional investors taking a leading role. At the same time, a variety of initiatives by the Chinese Government and changes by international index providers, such as FTSE Russell and MSCI, have encouraged investment from outside the Middle Kingdom. Foreign (i.e. non-Chinese) investors now own about 5% of Chinese shares, up from virtually nothing in 2015. Consequently, the weight of foreign and institutional investors has reduced volatility.

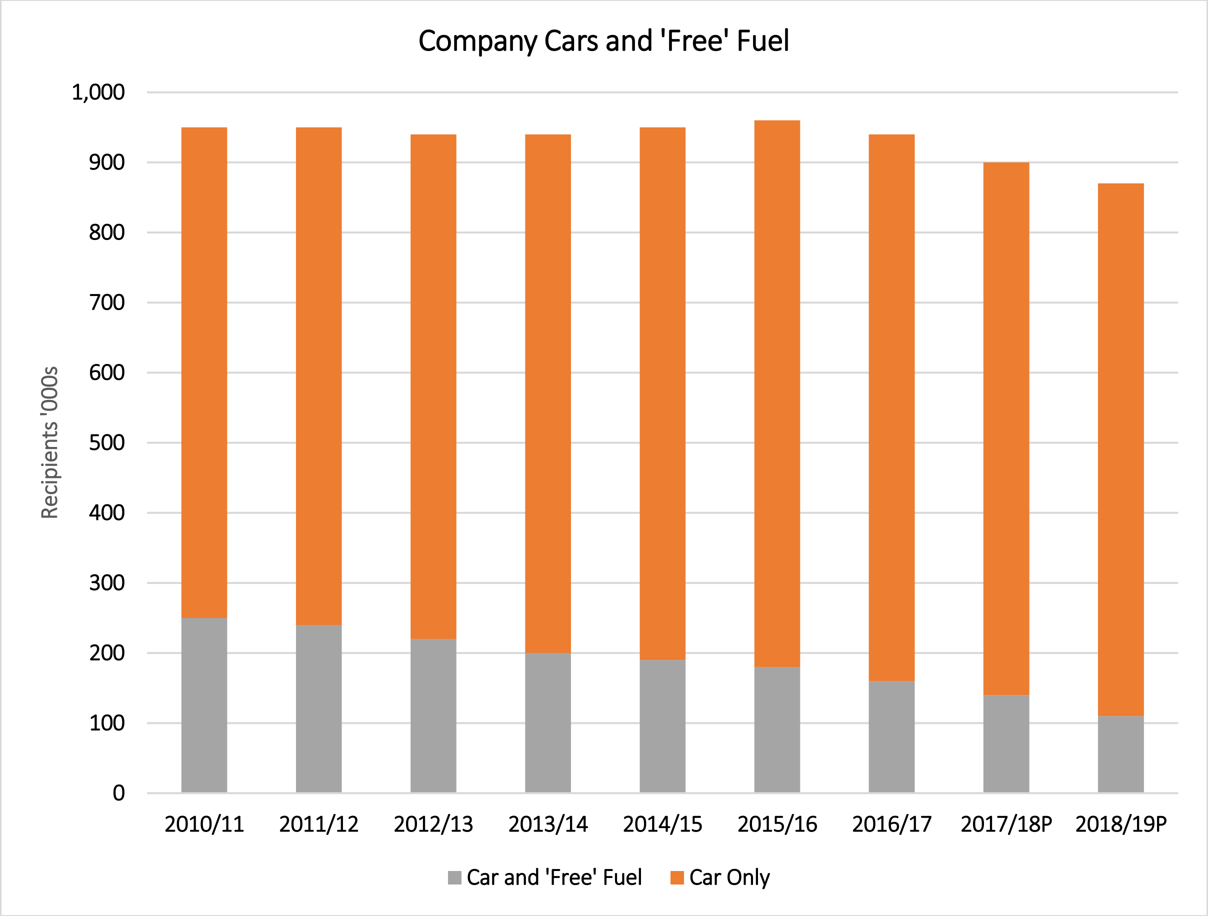
As the graph above shows, that does not mean 2020 has been a smooth ride for the Chinese markets. With the Covid-19 pandemic originating in China, it was inevitable that Chinese share prices would suffer. However, their fall in the first three months of 2020 was less than most other large stock markets. That has meant that, perhaps surprisingly, for the year to date, the Chinese market has performed much the same as the US market.

The latest economic figures out of China show economic growth of 4.9% in the third quarter, after 3.2% in the previous three months, suggesting that China could be the only major economy to grow in 2020.

The $10 trillion value of China’s markets and the resilience of its economy mean the country cannot be ignored by investors. For now, it is still classed as an ‘emerging market’, although its size almost makes it *the* emerging market. To find more information on the choice of China-focused funds available for UK investors, get in touch with us.

Company cars – rolling downhill?

New HMRC data show the popularity of this traditional perk could be waning.



Source: HMRC September 2020

There was a time when the company car was *the* fringe benefit that every employee wanted. You had 'made it' once you had the keys to a car with no worries about servicing, insuring or, sometimes, even fuel costs. It could also make plenty of tax sense, as the cost of the car was not fully reflected in the amount on which tax was charged. Go back far enough and *two* company cars were not uncommon for some senior executives.

Unsurprisingly, the days of company cars as tax-efficient remuneration have largely passed, other than for electric vehicles. The government approach to company cars brings to mind the comment of Jean-Batiste Colbert, a 17th century French Minister of Finance, who said "the art of taxation consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of hissing".

Some 400 years later, successive UK chancellors have steadily notched up the company car benefit scales to raise additional revenue from a stable to shrinking number of company car drivers. For example, the latest HMRC data show that between 2010/11 and 2018/19, the average company car taxable value has risen by 57% against a 19% increase in inflation over the same period.

Similarly, the taxable value of ‘free’ fuel (i.e. employer-funded fuel) has risen by 44%. As the graph shows, the popularity of ‘free’ fuel has steadily fallen – only about one in eight company car drivers now pays nothing to fill up their tank. If you are one of that minority, do make sure you have enough private mileage to justify the tax you pay. The main reason for the drop in ‘free’ fuel numbers is that for many employees, the tax bill would be greater than their personal refuelling cost.

The gradual demise of the company car is a lesson in how the tax system can subtly alter over time. A major revamp in the treatment of salary sacrifice schemes introduced in 2017 changed the tax landscape for other fringe benefits, too. The one that has survived and remains attractive – at least for now – is salary sacrifice to fund pension contributions.