The Investment COACH

The 2020 investment year – a ride to remember

The world's share markets had a rollercoaster ride in 2020.

Index	2020 Change
FTSE 100	-14.3%
FTSE All-Share	-12.5%
Dow Jones Industrial	+7.25%
Standard & Poor's 500	+16.3%
Nikkei 225	+16.0%
Euro Stoxx 50 (€)	-5.1%
Shanghai Composite	+13.9%
MSCI Emerging Markets (£)	+12.3%

Investors had to hold on tight as 2020 turned into a white-knuckle experience.

It began quietly enough and then in the second half of February global stock markets took on the concern at the spread of Covid-19. As infection rates increased and the economic outlook darkened, there were precipitous falls in all the major markets. A sense of panic was in the air, not helped in the UK by two base rate cuts within the space of a fortnight. Then, just about the time the UK formally went into lockdown on 23 March, around the world market sentiment turned sharply. After something of a sideways drift during the summer, November saw a further boost to confidence from the news on the Pfizer/BioNTech vaccine.

By the end of the year, the US, Japanese and Chinese stock markets were all recording overall gains – a far cry from the picture in March. As the table above shows, the UK market was a laggard in 2020. The have been many explanations for that – the FTSE 100's heavy weighting in banks (which stopped paying dividends) and oil majors (which slashed their payouts) are obvious culprits. So too were the uncertainties of the Brexit finale and the government's handling of the pandemic.

On the opposite side of the Atlantic, the US government Covid-19 response was hardly any more impressive, but the US markets benefited from their exposure to technology companies: we were all Zooming, Googling and buying from Amazon.

There are a few useful lessons to draw from 2020:

- It is all but impossible to achieve perfect timing for making an investment. That March sentiment flip seemingly came from nowhere.
- Those who cashed in at the peak of the panic chose the worse time to sell up. Once again, the advice to sit tight proved correct.
- International diversification is important for UK-based investors. The UK may host many large multinational companies but, like Europe, it lacks exposure to technology giants.

The tax year end approaches as filing deadline eased

2020/21 is drawing to a close, with a Budget now slated for early March. Ahead of that, HMRC is easing some of its traditional deadlines in the light of the ongoing pandemic.

If you're struggling to prepare your self-assessment tax return due to the effects of the pandemic, you may get some relief. It has been reported that HMRC will consider being affected by Covid-19 as a reasonable excuse for anyone filing late returns or making late payments this year. Any fines may be waived if you explain how you were affected in your appeal. You must still make the return or payment as soon as you can. The Chancellor is also apparently considering extending the filing deadline for everybody, moving it from 31 January to 31 March, but this has yet to be announced.

The timing of the tax year end, however, is fixed. Immune to weekends and holidays, it always falls on 5 April, which will coincide with Easter Monday in 2021. The odd date stems from the combination of the ancient British tradition that New Year's Day coincided with Lady Day (25 March) and the introduction of the Gregorian calendar across the British Empire in 1752.

The timing of the Budget is considerably more variable. Currently scheduled for every autumn, it is, however, subject to other forces. In 2019, the election got in the way and pushed the Budget to March 2020. A similar time lapse has occurred again, because in autumn 2020 the Chancellor chose to wait until the economic fallout from the pandemic was clearer. Shortly before Christmas he confirmed the Budget would be on 3 March.

This year's Budget could mark the start of measures to restore the public finances, adding to the importance of sorting out your year end tax planning before the Chancellor rises to his feet. Among the areas to consider are:

- *Top up your pension contributions.* For many years there have been rumours that tax relief on contributions could move to a fixed rate, disadvantaging higher and additional rate taxpayers. The pandemic might be the reason the change finally happens in 2021.
- *Use your inheritance tax exemptions.* The Chancellor has a pair of reports on his desk from the Office of Tax Simplification (OTS) about inheritance tax reform.
- *Use your capital gains tax annual exemption.* The Chancellor also has a paper from the OTS on capital gains tax (CGT) reform which included suggestions such as reducing the annual exemption from £12,300 to £4,000 and aligning CGT rates with income tax rates.
- *Top up your ISAs.* With possible CGT increases on the way, the tax shelter offered by ISAs should not be forgotten.

For more information on any of the above and for other year end planning opportunities, please contact us as soon as possible.

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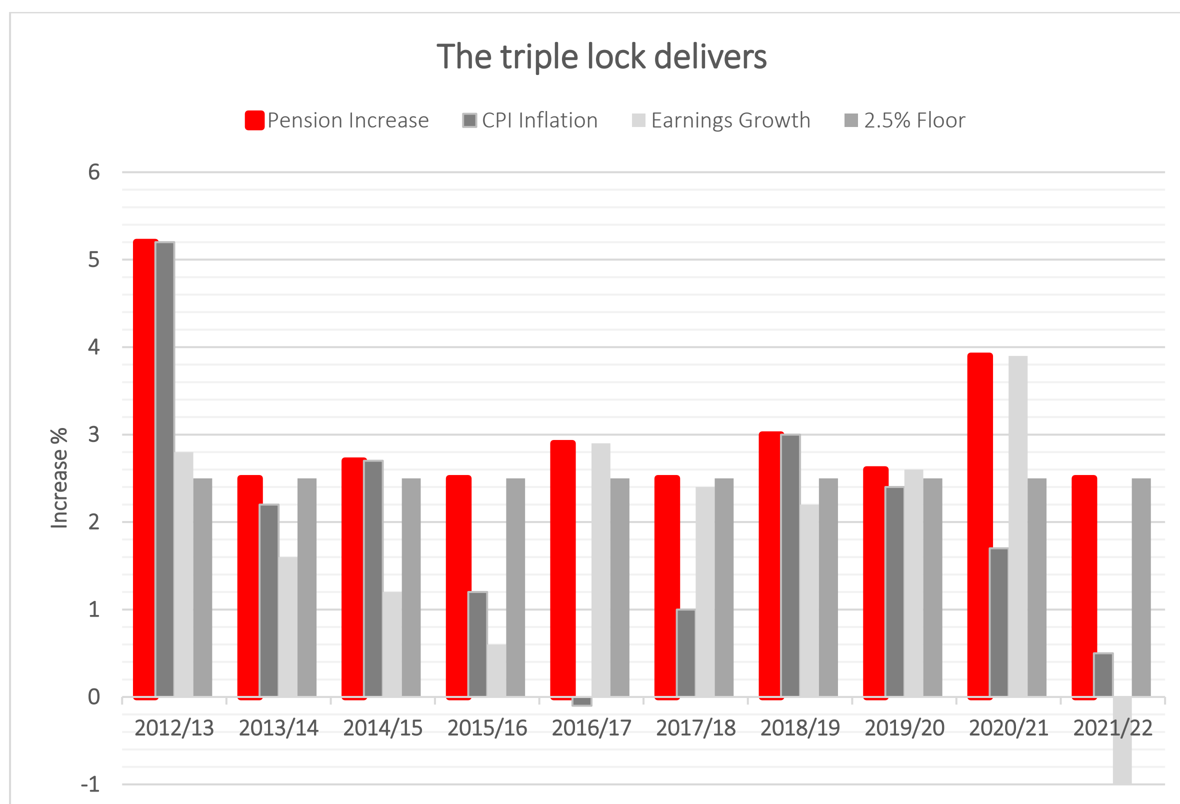
The triple lock marches on…

The main state pensions will rise by 2.5% in April.



The absence of an autumn Budget in 2020 meant that there was no formal announcement of the level of state pensions from April 2021. The numbers eventually emerged on 8 December in a press release from the Department for Work and Pensions:

- The new state pension, which applies if you reach(ed) state pension age (SPA) after 5 April 2016 rises to £179.60 a week, an increase of 2.5%. If you are nearing your SPA (now 66, do not forget) you are most unlikely to receive that figure as your state pension will be subject to transitional rules introduced in 2016, when the old state pension was replaced by the current variant.
- The old state pension, which applies if you reached SPA before 6 April 2016, also rises by 2.5% to £137.60 a week.
- Payments under other state pensions, such the state second pension (S2P), will increase by 0.5%.

The minimal increases outside the two main state pensions are because only the new and old state pensions benefit from the 'triple lock', which raises payment each year by the greater of CPI inflation (0.5% on this occasion), earnings growth (a 1% *fall*) and 2.5%. Where the triple lock does not apply, CPI inflation is used. As the graph shows, the triple lock has delivered above inflation increases in seven of the last ten years. Over that period the gap between a CPI-linked pension and a triple locked pension has grown to nearly 11%.

Both the cost and intergenerational fairness of providing the triple lock have regularly been called into question. Although the Conservatives' 2019 manifesto promised to protect the lock, the pandemic

expenditure and this year's inflation-busting increase have once again brought a spotlight on the triple lock's affordability.

Whether or not the triple lock survives, UK state pensions remain among the least generous in the developed world. The latest survey from the OECD showed the UK at the bottom of the organisation's league table for replacement income, providing less than half the OECD average.

Thus, while the state pension has been outpacing inflation, it is still far from being sufficient to fund a comfortable retirement. For that, additional private pension provision is necessary.

New rules on pension drawdown and investment

From February new rules apply if you choose pension drawdown but do so without taking advice.

The Covid-19 pandemic has deferred many events of all sizes, from the Tokyo Olympics to millions of foreign holidays. One of the less prominent delays has been a change to the Financial Conduct Authority (FCA) rules on pension drawdown.

Back in June 2018, the FCA issued a consultation paper following a two-year review of the impact of the Pension flexibility reforms introduced in 2015. One aspect which particularly concerned the FCA was those pension owners who, having received various prompts to seek advice, decided to access their pensions through drawdown without taking advice. The FCA found:

- Many of these individuals were solely focused on taking their tax-free cash and paid little or no attention to the investment of the remaining funds to be used for drawdown.
- Around one in three were unaware of where their drawdown money was invested. Many others only had a broad idea.
- Some pension providers were “defaulting” non-advised clients into cash or quasi-cash investments at drawdown. As a result, one third of the non-advised users of pension drawdown held their entire drawdown fund in cash.

The FCA concluded that its findings “strongly suggest that a significant number of non-advised consumers are likely to hold their funds in investments that will not meet their objectives for how they want to use that money in retirement”. The FCA’s proposed solution to this was to mandate pension providers to provide a range of “investment pathways” for drawdown funds, based on the client’s objectives for their pension pot. The regulator also proposed that there would be specific warnings issued to those who held more than 50% of their drawdown fund in cash or cash-like investments.

The proposals were due to be put into force in August 2020, but the implementation date was put back to February 2021. With cash returns virtually zero, the delay has potentially been costly for some non-advised pension owners.

If you are unclear where your drawdown funds are invested, take note of the FCA’s concerns and then take *advice* – the investment pathways will be a help, but they are not an advised solution, tailored to your circumstances.

Taxing wealth – a viable option?

An independent body of tax experts has set out the framework for a one-off wealth tax. Will the Chancellor be tempted?

"[W]e have a responsibility, once the economy recovers, to return to a sustainable fiscal position."

So said the Chancellor Rishi Sunak in his November statement, during which he also highlighted that the government was spending £280 billion this financial year on coping with the Covid-19 pandemic.

A wealth tax is one way that has been suggested to repay at least part of the massive debt that has accumulated. The idea was given a boost in December when a 125-page report detailing how a wealth tax could operate was published by the Wealth Tax Commission, which is independent of government. Its main proposals were:

- The tax should be a one-off, levied at the rate of 5% on individual wealth above £500,000.
- The definition of wealth would include *all* assets. So, for example, there would be none of the special reliefs for pensions, farmland or business assets that currently apply under inheritance tax.
- The valuation date would be on or shortly before the first formal announcement of the tax, to prevent post-announcement forestalling actions. The value of housing and land would in the first instance be calculated by HMRC's Valuation Office Agency (VOA).
- In practice the tax payment would normally be at the rate of 1% (plus nominal interest) for five years.
- Deferred payments could be made by asset-rich, cash-poor individuals. For pensions, payment would be drawn from the tax-free lump sum, when benefits are drawn.

The Commission estimated that such a tax would raise a net £260 billion. It would be payable by 8.25 million people, meaning it would reach many who pay income tax at no more than basic rate.

Rishi Sunak said in July, "I do not believe that now is the time, or ever would be the time, for a wealth tax". However, as several commentators have noted, the Commission's report has given the Chancellor cover to increase revenue from two related taxes he currently has under review – capital gains tax and inheritance tax.