

Calling all young adults

Child Trust Fund money continues to be forgotten.

Nearly all children born between 1 September 2002 and 2 January 2011 were the lucky recipients of a government handout – usually £250 or £500 – which was locked away in a Child Trust Fund (CTF). CTFs were introduced by the Chancellor at the time, Gordon Brown, with the worthy idea that every child would have some savings to their name when they reached the age of 18. It was hoped that parents and others would make regular top ups to the modest government payment to increase these coming-of-age funds.

Like so many other well intentioned resolutions, the CTF scheme was far from successful. The initial government payment was sent as a voucher to the child's parent or guardian. If the vouchers were not used to open a CTF within 12 months, HMRC was left to open a default CTF for the child, with the CTF provider selected at random from an accredited list. No less than 30% of CTFs were opened this way.

In 2010, the poor take up of CTFs encouraged the new Chancellor George Osborne to make a significant cut to payments. Eventually, from the beginning of 2011, the scheme was closed, albeit payments into existing CTFs, by parents for instance, were allowed to continue. By then there were 6.3 million children with CTFs.

The latest detailed data from HMRC (from April 2021) revealed the total investment in CTFs, at that time, as nearing £10.5 billion, with more than four in five of them having a value of under £2,500. (The average value in April 2021 was £1,911 and is currently sitting around £2,100).

HMRC now faces the opposite problem to the one it encountered at the start, when parents overlooked this new investment opportunity: CTF pots are not being claimed by 18 year olds. To quote a recent HMRC press release, "Tens of thousands of teenagers in the UK who have not yet claimed their matured Child Trust Funds savings could have thousands of pounds waiting for them". It is likely that many teenagers (and their parents) have forgotten or were unaware of the CTF's existence, especially if it was set up by default.

To trace a CTF, go to <https://www.gov.uk/child-trust-funds/find-a-child-trust-fund>.

CTFs were replaced by Junior ISAs, which stand more chance of being remembered at age 18 as they must be established by parents or guardians and do not involve any direct government contributions.

The lessons from the U-turns

The rapid unwinding of most of September's so-called mini-Budget has important implications.

Gone are the days when a Chancellor made only two set piece announcements each year and, for the remaining days of the year, tax remained generally out of the headlines. 2022 has seen four Chancellors (at the time of writing) and plenty of parliamentary statements, but no formal Budget. September and October contained a plethora of announcements and un-announcements that left even the tax nerds struggling to keep up. If you are not one of those nerds, the following list of what is and is not happening may be helpful:

- The 1.25 percentage point reduction in National Insurance Contributions (NICs) and the abolition of the Health and Social Care Levy have survived.
- Basic rate income tax (outside Scotland) will now stay at 20% 'indefinitely'. The previous Chancellor Kwasi Kwarteng's plan to cut the rate to 19% from 2023/24, and former plans to make the same change from 2024/25, have both been abandoned.
- The additional rate tax (45% outside Scotland) will remain.
- Dividend tax rates will stay at their current levels (8.75%, 33.75% and 39.35% for the basic, higher and additional rate bands) and will not be cut by 1.25 percentage points from next tax year as previously stated.
- The corporation tax rises legislated for in 2021 will go ahead, meaning that the main rate will rise in April 2023 from 19% to 25%, and companies with profits between £50,000 and £250,000 will face a marginal rate of 26.5%.
- The 2017 and 2021 reforms to off-payroll rules (often referred to as IR35) will not be scrapped. All but the smallest employers will continue to be responsible for determining the employment tax status of their workers and meeting the potentially large costs of making the wrong judgement.

Away from the tax arena, but nevertheless relevant here because of its cost, the Energy Price Guarantee, which originally capped average domestic utility bills at £2,500 a year until October 2024, will now end in March 2023. From April 2023, a more targeted scheme will be introduced, which Chancellor Jeremy Hunt says 'will cost the taxpayer significantly less'.

As we have observed over the last few turbulent months, tax rules can be dizzyingly complex, making sound personal tax planning all the more crucial.

Gilts get their moment in the limelight

Government bonds, often called gilts, are traditionally dull investments. However, as recent events highlighted, they are an important part of the financial landscape.

Gilt-edged securities (gilts) earned their name in a bygone, pre-electronic era, when they were issued as certificates literally edged in gold.

While now merely electronic records, gilts are also the main way in which the government raises money to fill the gap between what it spends and what it collects in taxes and other revenues. But the pile of debt has built up over the years as outgoings have regularly exceeded income: the last year the government was in the black was 2000/01. Annual government borrowing surged during the global financial crisis and was gently declining until the pandemic, and the almost immediately ensuing energy crisis, caused it to increase once more. The result is that the value of gilts outstanding – government debt – reached over £2,200 billion (£2,200,000,000,000) by mid-October 2022.

Gilts are traded in much the same way as shares, but, despite its size, the gilts market generally attracts much less attention than the share markets. This is partly because over 60% of gilts are owned by the Bank of England, insurance companies and pension funds, all of which tend to be long term holders. The Bank of England features prominently because until recently it had been the largest buyer of gilts under its quantitative easing (QE) programme, which it is now beginning slowly to unwind.

But in late September gilts hit the headlines, when the market became spooked by the level of fresh borrowing implied by the former Chancellor Kwasi Kwarteng's mini-Budget. The concerns prompted gilt prices to fall and thus gilt interest yields to rise and the selling snowballed. Suddenly there were many sellers of gilts but no buyers, a situation which forced the Bank of England to intervene and start buying gilts once again. The Bank's actions, combined with the reversal of several contentious aspects of the mini-Budget, eventually stabilised the market. However, gilt yields settled at higher levels than had been seen for over a decade.

The bad news is that government borrowing now costs more, which could lead to higher taxes (or yet more borrowing...). The good news is that higher gilt yields mean improved annuity rates and make investment in gilts and other fixed interest bond funds potentially more attractive for income seekers.

After the storm: self-employed tax planning

If you are self-employed or work via a company the winding back of many of the proposals in September's mini-Budget have altered tax planning.

The range of tax and other changes proposed in September affecting companies and employment, included:

1. Freezing the rate of corporation tax at 19% for all companies.
2. Reducing the basic rate of tax to 19% from 2023/24 (outside Scotland).
3. Ending the 2017 and 2021 reforms to off-payroll working rules (often called IR35).
4. Abolishing the additional rate of income tax (outside Scotland).
5. Scrapping both the 1.25 percentage point increase in National Insurance Contributions (NICs) from 6 November 2022, and the Health and Social Care Levy, which had been due to start in 2023/24.

Less than a month later, the new Chancellor, Jeremy Hunt, culled the first three on this list, the fourth having been already scrapped by Mr Kwarteng. Mr Hunt might also have buried the fifth, too, were it not for the fact that the necessary legislation was just about to become law.

Mr Hunt's reworkings of his predecessor's plans has several implications for shareholder directors:

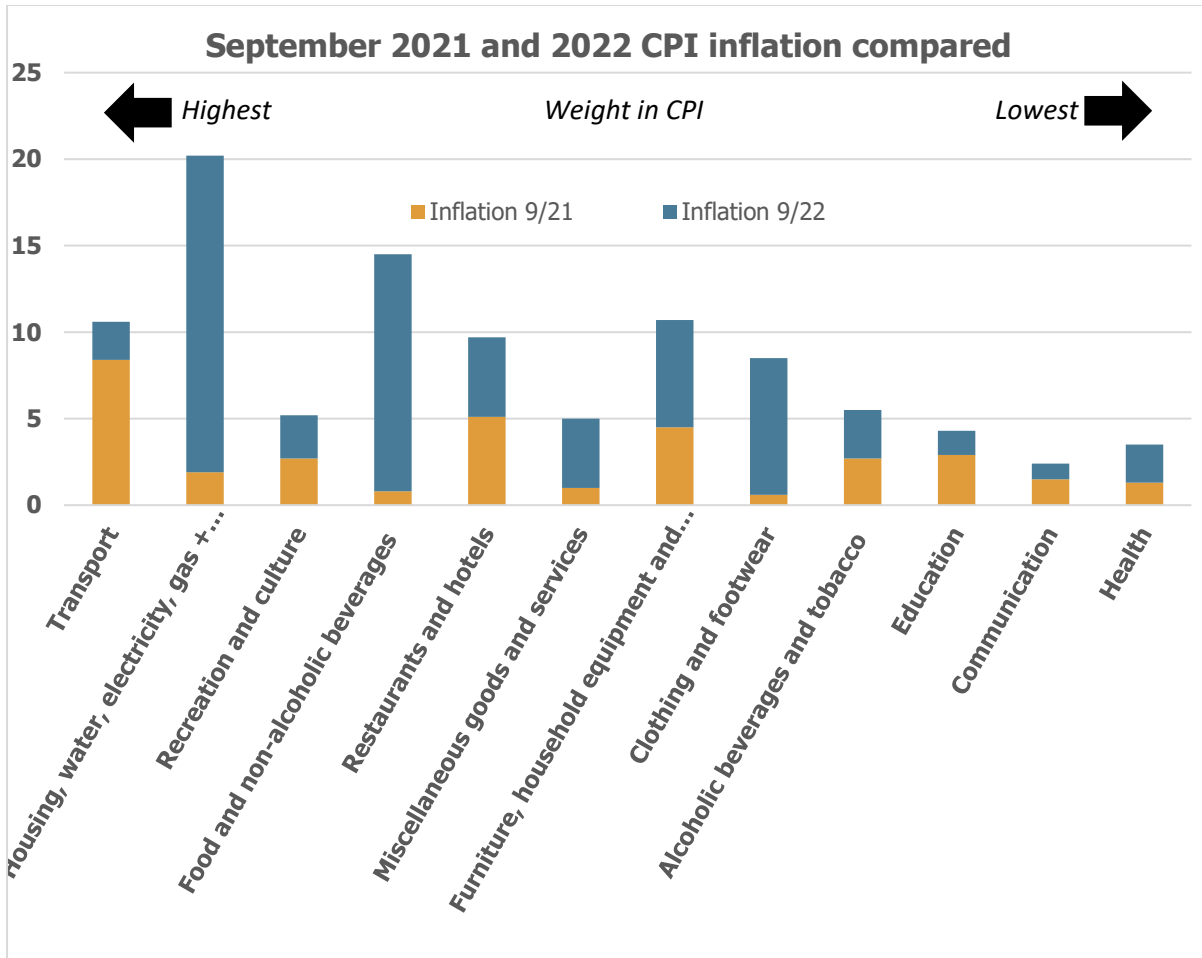
- If you are wondering whether to pay yourself a bonus in this tax year or next year, you and your company will still both save NICs by waiting until after 5 April 2023.
- If you are considering a dividend instead of a bonus, there is now no point in delaying until 2023/24 as your dividend will still be taxed at the same rate, assuming your other financial circumstances do not change.
- If you are considering an investment in plant and machinery, there may now be less rush to take advantage of the 130% super-deduction, due to end on 31 March 2023. With the annual investment allowance staying at £1 million after March 2023, and the main corporation tax rate changing to 25% in April 2023, the mathematics have changed. You could even benefit from greater tax relief by delaying investment.

If you are self-employed and considering becoming a director by incorporating your business, you may also want to think again. The higher rate of corporation tax from next April, for businesses with gross profits above £50,000, has reduced the tax attractions of operating as a company.

Yet again, this autumn has highlighted the need for advice in keeping abreast of tax developments and their consequences.

Dissecting inflation: what a difference a year makes

Annual CPI inflation hit 10.1% in September, but that does not mean every price is showing a double-digit increase.



Source: ONS

The September Consumer Prices Index (CPI) inflation reading is probably the most important inflation metric in a given year. Traditionally, this number is the one used by the Government as the basis for increasing tax allowances and bands, as well as benefits – including the state pension.

In recent years the significance of September’s CPI reading has waned, as the Government has chosen to freeze or restrict increases to limit the cost to the Exchequer of these benefits. The most obvious recent example is the freeze to the personal allowance (£12,570) and higher rate threshold (£50,270 outside Scotland), which would be £14,270 and £57,170 from April 2023 had the first two years of a four-year freeze not happened.

This year, the September 2022 annual inflation rate of 10.1% is more significant and not all it seems. The graph above shows the annual inflation rate in the 12 categories that make up the CPI ‘shopping basket’ of goods and services.

Only a third of those categories registered inflation above 10%. And another third recorded rises of no more than 5%. All the categories experienced higher inflation in September 2022 than September 2021, when the annual inflation rate was a more modest 3.0%, but the changes brought about over the intervening twelve months have had significantly varied effects across the different categories:

- Housing, water, electricity, gas and other fuels inflation has increased from 1.9% to 20.2%, due to the war in Ukraine, resulting in soaring energy bills.. This category is shortly expected to see another jump, as the Government's new energy price guarantee took effect from 1 October.
- Food inflation jumped from 0.8% in 2021 to 14.5% in 2022. This can also be largely attributed to war in Ukraine. Not only has the war affected the production of grain and sunflower oil, directly increasing their prices, but the higher cost of fossil fuels – used in transportation and in fertiliser manufacture – has exacerbated the price increase.
- At the other end of the scale, however, the communications category, primarily telecoms, is experiencing only 2.4% inflation (albeit in 2021 the corresponding figure was 1.5%). Health (medical, hospital and outpatient services) has also seen a modest rise, from 1.3% to 3.5%.

These large variations help explain why your experience of inflation may seem, at different times, better or worse than the headline figure.

The Office for National Statistics (ONS) recognises this fact and has recently introduced an online personal inflation calculator which is worth exploring:

<https://www.ons.gov.uk/economy/inflationandpriceindices/articles/howisinflationaffectingyourhouseholdcosts/2022-03-23>

It is important to build the impact of inflation into your financial plans, and wise to seek professional advice to better understand how these figures affect you personally