The Investment COACH

Child Trust Funds: £394 million unclaimed

A recent report has highlighted the high number and value of Child Trust Funds (CTFs) left untouched by their now adult owners.

The National Audit Office (NAO) recently issued the results of an investigation into CTFs. They were a subject well suited to the NAO, which is charged with examining how efficiently government money is spent. In the case of CTFs, over £2 billion was paid into accounts for 6.3 million children born between 1 September 2002 and 2 January 2011. Most children received one payment of around £250 each (£500 for those in low income families) from the government at the time their account was set up. With few exceptions, any other input to the CTF was privately funded, typically from parents. Between 2005 and 2010, just over a third of CTFs received such top-ups.

CTFs were initially designed to mature on a child's 18th birthday. However, shortly before the first accounts matured in 2020, regulations were introduced to allow the matured CTFs to retain their favoured tax treatment until the (adult) child decided to withdraw or transfer their funds. It is as well this action was taken as the latest HMRC data (to 5 April 2021) shows that:

- 175,000 18-year-olds had withdrawn or re-invested the funds from their matured CTF account; but
- 145,000 (45% of the total) had not claimed their matured accounts.

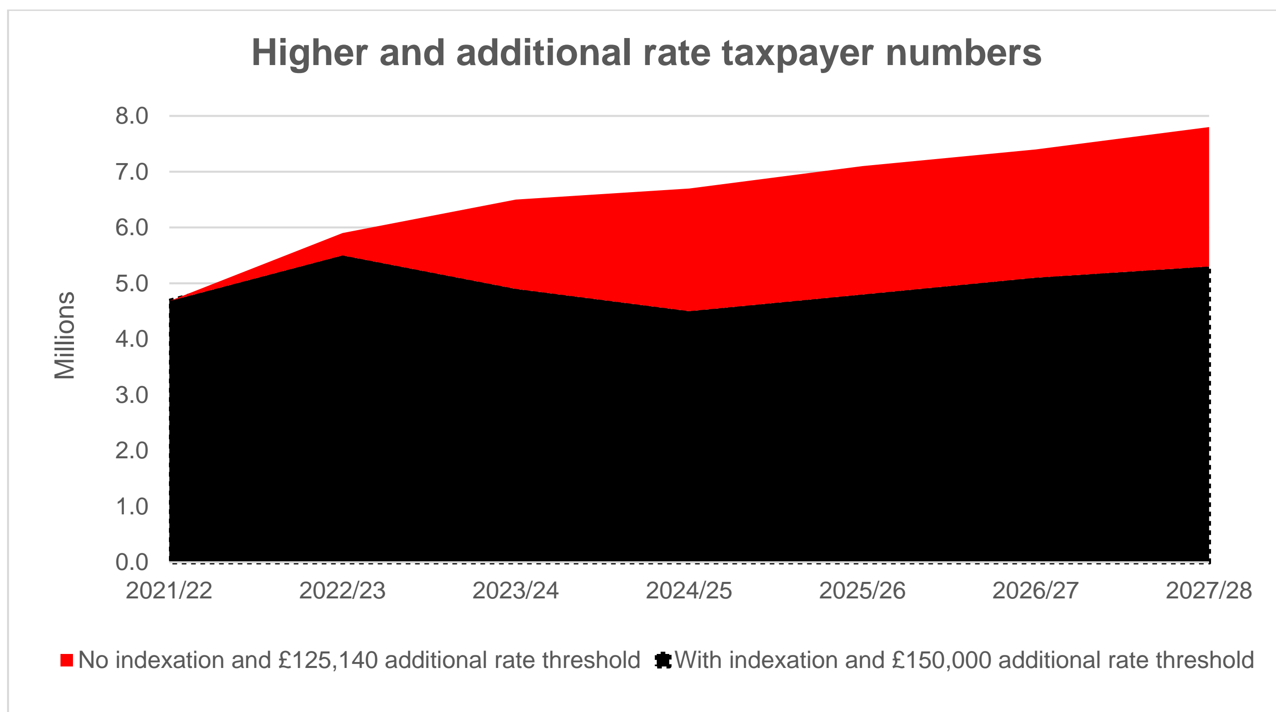
The report revealed that £394 million was sitting in the unclaimed accounts, an average of £2,717 for each CTF. A more recent estimate from the Investing and Saving Alliance suggested that, by August 2022, 27% of CTFs that had matured at least one year earlier remained unclaimed. That figure is eerily close to the 28% share of CTFs that were set up in default by HMRC because the child's parent or guardian had taken no action in the 12 months after receiving an initial CTF voucher.

It is not only the owners of CTFs that have lost interest in their accounts: the number of CTF providers has also dwindled, from 74 in 2011 to 55 by February 2023. ISAs offer a much greater choice of providers and may offer lower charges than CTFs, many of which charge a 1.5% annual fee. Existing CTFs can be transferred to Junior ISAs, while matured accounts can be moved into adult ISAs. As ever, where investment transfers are involved, seeking advice comes before action.

To trace a lost CTF, go to www.gov.uk/child-trust-funds/find-a-child-trust-fund.

More taxpayers moving to higher rate

Figures released alongside the Budget have highlighted a projected surge in the number of people who will pay more than the basic rate of tax.



Source: OBR, HMRC.

Both the Budget and the Autumn Statement are usually accompanied by a weighty document called the Economic and Fiscal Outlook (EFO). The EFO is the work of the Office for Budget Responsibility (OBR), the body charged with producing an independent assessment of the government's tax and spending plans. The EFO that emerged in March 2023 ran to 172 pages, so it may not have been entirely digested in most coverage of the Budget.

However, the OBR's number crunching can yield some interesting information, not always to the government's liking. The graph above is an excellent example. What it shows is the impact of three key changes to the income tax rules in the past two years:

1. Prime Minister Rishi Sunak's announcement in March 2021 as former Chancellor that the higher rate tax threshold would be frozen at its 2021/22 level of £50,270 for the following four tax years (to 2025/26);
2. The subsequent extension of that freeze for another two tax years by Chancellor Jeremy Hunt in last year's Autumn Statement; and
3. Mr Hunt's reduction in the additional rate threshold to £125,140 from 2023/24 (followed by Scotland doing the same for its top rate).

The black area on the graph shows the OBR's projected number of higher and additional rate taxpayers that there would have been if the higher rate threshold had been inflation-linked after 2021/22, and the additional/top rate threshold held at £150,000 (where it started life in

2010/11). The red area sitting atop the black shows the increase in taxpayer numbers that occurs because of the six years of higher rate threshold freeze combined with the additional rate threshold cut.

The jump in the first half of the period is down to high inflation, which was not anticipated by the OBR (or anyone else) back in 2021. As the OBR projects less than 0.5% a year average inflation in the three years from 2024/25, the two blocks run roughly parallel in the second half.

By 2026/27, the OBR calculates that there will be 2.1 million more higher rate taxpayers and 0.4 million extra additional rate taxpayers because of the three measures. That means about one in five of all income taxpayers will be paying more than basic rate tax.

As the new tax year gets underway, what better reason to start your tax planning.

SPA increase to 68 deferred

The government has deferred its decision on when to raise the State Pension age (SPA) to 68.

In the US drama series, *The West Wing,* the day before the parliamentary recess was referred to as “Take out the Trash Day”. On both sides of the Atlantic, this day marks an opportunity for the government to publish a flood of announcements, statistics and reports, safe in the knowledge that immediate scrutiny will be limited by the absence of politicians and the media’s difficulties in sifting through the sheer volume of information.

One of the 17 ministerial statements made on the day before parliament’s Easter recess concerned plans to raise the SPA to 68 (it will rise to 67 between 2026 and 2028). The Department of Work and Pensions (DWP) commissioned an independent review of the subject in December 2021 and an announcement had been expected for some time.

In the event, there was what might best be labelled a non-announcement. The government published its 40-page review alongside the 138-page independent review but did not reach a conclusion on when the SPA would rise from 67 to 68. Instead, the Secretary of State for Work and Pensions said the decision would only be made after another review, scheduled to happen “within two years of the next Parliament”. In other words, as happened in 2017, the issue has been kicked into the post-election long grass.

As the law currently stands, a SPA of 68 is due to be phased in between April 2044 and April 2046. The first independent review reported in 2017 had proposed bringing the schedule forward by seven years, largely in response to projections of improved life expectancy. Since then, life expectancy improvement has slowed significantly. One recent estimate is that the life expectancy of a man aged 65 in 2022 is about two years shorter than that of his counterpart from 2012.

The life expectancy data suggests that the phased approach during 2044–46 should remain but, as the Institute for Fiscal Studies has highlighted, that extra seven years could cost the government more than £60bn.

The saga of changing the SPA to 68 is a reminder that your retirement plans should not be overly reliant on your state pension.

2023/24 – the 23-month tax year?

If you are self-employed, the new tax year may be longer than you think.

If you are self-employed, until 2023/24, you have normally been taxed on the profits made in the accounting year that ends in the tax year. For example, if your accounting year ran to 30 April, then in the last tax year, 2022/23, you are taxed on the profits for your accounting year ending on 30 April 2022 – a few weeks after the start of the tax year.

Some while ago, the government decided that it would speed matters up by forcing all the self-employed (including partners in partnerships) to pay tax on the profits earned in the tax year. As is obvious from the example above, moving from the accounting year system to a tax year one implies a catch-up exercise that theoretically results in more than 12 months' profits being taxed in a single tax year.

Unless your accounting year ends on 31 March or 5 April, that is what will start happening in this tax year. Taking the 30 April year end again, in 2023/24 the default position will be that your taxable profits are:

- The "normal" calculation of profits for the accounting year ending 30 April 2023, plus
- One fifth of a catch-up element equal to:
    - Your profits from 1 May 2023 to 5 April 2024 (341/366ths of the profits in your account year ending 30 April 2024), less
    - Any overlap relief because of double taxation that occurred earlier (typically when you started trading).

In the following four tax years (during which the personal allowance and higher rate threshold are frozen), your taxable profits will be those earned across the 12 months of the tax year (with pro-rated calculations, if necessary), plus that one fifth catch-up element. As an alternative, you can opt for any amount more than a fifth up to the full catch-up element to be taxed in 2023/24 with corresponding adjustments for later years.

If your head is hurting, you are not alone. At least you have the remainder of the tax year to consider the implications and prepare for what is likely to be a larger tax bill (as more income is being taxed) come January 2025. Make sure you take advice about the planning opportunities that arise – 2023/24 could be the ideal time to make a large pension contribution.

Bank deposit protection set to rise?

The recent problems in the banking world have raised questions around the current maximum protection for bank deposits: is it overdue for an increase?

The figure of £85,000 is one you might have regularly seen in articles (or some adverts) about bank deposits. It is the maximum deposit value in an authorised deposit-taking institution that is covered by the Financial Service Compensation Scheme (FSCS). If the deposit is in joint names, the £85,000 is doubled. However, there is a trap to watch out for – more than one bank may operate under the same banking license. For example, the Halifax's license also covers the Bank of Scotland, Birmingham Midshires and St James Place Bank.

With the recent problems in the banking world, such as the demise of Silicon Valley Bank in the US and Credit Suisse's forced marriage to its Swiss rival, UBS, attention has been turning again to that £85,000 compensation figure. It was last revised in January 2017, when it was increased from £75,000. The limit had also been £85,000 between December 2010 and July 2015 before being cut under EU deposit protection rules, which set the limit at the sterling equivalent of €100,000 (the pound was stronger in those pre-Brexit days).

If the limit had been index-linked since it was first set at £85,000, it would now be around £120,000. Both the Chancellor and the Governor of the Bank of England recently suggested that the FSCS limit should be raised, but not because inflation had cut its value by almost a 30%. Their concern was more that the UK's last experience of a bank run – queues outside Northern Rock in 2007 – reflected a different era.

If there were a Northern Rock Mk II crisis today, the news would be all over social media instantly and there would be no queues outside (any surviving) branches because all the customers would be withdrawing their deposits by phone, tablet or computer. Money would drain away much quicker than it did 16 years ago.

The logic behind the call for a higher level of deposit protection is that it would mean a smaller number of depositors anxious to withdraw their money. Stemming the outflow is crucial to keeping a bank alive.

What neither the Chancellor nor Governor mentioned was the wisdom of having £85,000-plus in deposit at a time when inflation is so much higher than the rate of interest available.