Wealth tax, take two?

Hard on the heels of the *Sunday Times* Rich List, will new proposals for a wealth tax gain any traction?

In 2020, a group of economic research bodies set up the Wealth Tax Commission to examine the options for a wealth tax to cover the huge costs then being incurred to handle the Covid-19 pandemic. The Commission produced a comprehensive report at the end of the year that suggested:

- A one-off wealth tax (as opposed to annual);
- A rate of 5%, payable at 1% a year for five years; and
- The tax to be payable on *all* wealth above £500,000, including pensions and main residences.

The tax would have produced £260 billion in total, almost as much as income tax is projected to raise in 2023/24. While the proposals received considerable attention at the time, they were given the cold shoulder by the government and soon disappeared from view.

About two and a half years later, a new wealth tax proposal has been put forward by a group of three tax-campaigning organisations. Their launch came shortly after the latest *Sunday Times* Rich List was published, showing that 350 individuals and families together hold combined wealth of £796.5 billion.

The new wealth tax was substantially different from the Commission structure:

- It would be an annual tax;
- The rate would be 2%; and
- It would only be payable on all wealth above £10 million.

The high threshold means that the annual amount raised each year would be less than the previous proposal – the campaigners suggested up to £22 billion, although the Commission's 2020 research suggested a figure of around £17 billion for a similar structure– there are only around 22,000 individuals with wealth of greater than £10 million, according to the Commission.

Polling for one of the three organisations, undertaken by YouGov, showed 74% public support for the 2% wealth tax. Such a result is hardly surprising – most people are in favour of a tax from which they could only benefit.

This latest wealth tax proposal seems destined to suffer the same fate as its predecessor. Were the government to provide a counter argument, it could point out that the freezes it has made to the personal allowance and higher rate threshold alone will raise an extra £21.9 billion in 2023/24, rising to £25.5 billion by 2027/28. This seems unlikely however…

FCA takes on crypto: handle with great care

The Financial Conduct Authority (FCA) recently announced a plan for tougher regulations of cryptoassets, such as Bitcoin.

Recently published research undertaken for the FCA showed that in August 2022, nearly five million UK adults owned cryptoassets, typically cryptocurrencies such as Bitcoin and Ethereum. That was more than double the number in 2021, despite a drop of 75% in the total market value of cryptoassets between November 2021 and June 2022.

The degree of crypto's volatility puts such investments in serious jeopardy. In fact, there is some question as to whether crypto should be classed as investment at all. Making decisions around what to include in your investment portfolio should always include professional advice.

The FCA is understandably concerned about the spread of cryptoassets. Since the start of 2022, there have been several failures of crypto businesses that the regulator says has resulted in "significant losses for consumers". Some of those crypto-crashes hit the media headlines, including the spectacular fall from grace of Sam Bankman-Fried's FTX and the demise of the Terra/Luna stablecoin. Across the Atlantic, two of the world's largest surviving crypto exchanges, Binance and Coinbase, were sued in June by US regulators for allegedly breaking securities law.

The FCA is in a slightly awkward position when it comes to crypto because the government is anxious to "put the UK at the forefront of the developing global cryptoasset fund management sector", in the words of the Andrew Griffith, Economic Secretary to the Treasury. Banning cryptoassets or limiting them to institutional and high-wealth investors, is therefore not a straightforward option the FCA could adopt. In a simpler world, the regulator might well justifiably prefer an outright ban because of the demonstrably high risks involved in crypto.

Instead, the FCA is addressing the promotion of cryptoassets to ensure that would-be purchasers are fully aware of the potential risk. From 8 October 2023:

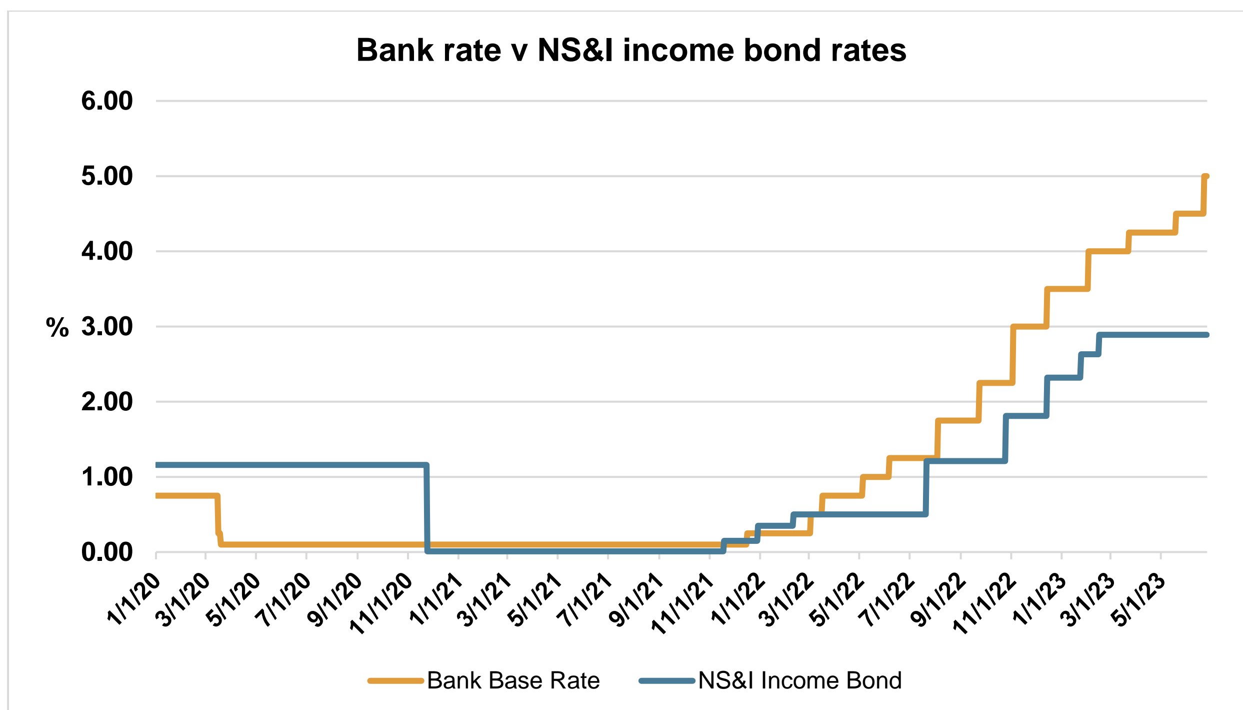
- Risk warnings will make clear that consumers should not expect to be protected by the Financial Services Compensation Scheme or the Ombudsman Service if something goes wrong.
- Investment incentives and refer-a-friend bonuses will be banned.
- There will be a 24-hour cooling off period for first-time investors.

Interestingly, the FCA consumer research shows the most common reason for buying cryptoassets was "as a gamble". That attitude matches the view of the Treasury Select Committee, which recently recommended cryptocurrency trading should be regulated as gambling.

The kind of attention that cryptoassets are increasingly under should serve as warning enough for those tempted to by-pass professional advice. The Committee said that "…cryptocurrencies such as Bitcoin have no intrinsic value and serve no useful social purpose, while consuming large amounts of energy and being used by criminals in scams, fraud and money laundering." That viewpoint could actually make a good risk warning for the FCA to use. In the meantime, the FCA's concerns should be heeded.

Not that interested: savers short-changed on rate hikes

The Bank of England has been looking at the impact of its regular interest rate increases since December 2021, with analysis revealing savers are being short-changed.



Source: Bank of England, NS&I.

Every three months the Bank of England issues a weighty Monetary Policy Report. In it the Bank sets out the economic analysis and inflation projections that its Monetary Policy Committee uses to make their interest rate decisions. While that might sound like a cure for insomnia, it often includes some valuable insights into the Bank's thinking and how UK plc is functioning.

The May report was released on the day that the Bank of England announced its twelfth consecutive increase in Bank Rate, to 4.5% (there has been another 0.50% added since). It seems hard to believe it now, but the Bank Rate's starting point was a mere 0.1%, the level that was introduced just as the Covid-19 pandemic began. Perhaps because the Bank has travelled so far, the report examined how the rate rises had worked through the economy.

It found that "staff analysis suggests that changes in risk-free rates have passed through as expected into new mortgage and corporate borrowing rates… but pass-through into household instant-access deposit rates has been muted."

Translated from bank-speak, that means the Bank's experts – like many a layperson – had decided that interest charged to borrowers was keeping pace with the Bank's rate increases, but the returns to depositors were not. The Bank's researchers found that the average instant

access account rate had risen by 1.42% (to 1.53%) between November 2021 and early May 2023, whereas the Bank Rate had increased by 4.15%.

The Bank's comments about short-changed savers have been echoed by the Treasury Select Committee, which has been asking "…why savings rates are much lower than the current interest rate, how the banks and building societies determine the level of interest rate increases to pass on to savers, and whether they inform their loyal customers that higher alternatives may be available." As the graph shows, the government itself – in the guise of National Savings & Investments – has also been less than generous.

For their part, the major banks have every incentive not to pass on Bank Rate increases in full to savers, as widening their interest margin is an easy way to raise profits. For savers, the message is to:

- make sure you know what your cash is currently earning;
- move it if you are not happy – you should be earning close to 4%; and
- be wary of holding too much on deposit, as no available interest rate comes near matching current inflation.

Pension dashboard programme delayed

12 June 2023 was a day of procrastination for the new Pensions Dashboard Programme, with a new deadline set for 2026.

"[The Treasury] should challenge the industry to make a pensions dashboard available to consumers by 2019, bringing together industry and consumer representatives to help them set direction and drive progress." So said the Treasury and the Financial Conduct Authority in 2016, in the wake of the introduction of pensions flexibility and the replacement of the old state pension scheme the single tier new state pension.

The logic of the proposal was indisputable. Together, the reform of both state and private sector retirement provision, the 2012 launch of automatic enrolment for workplace pensions and changing employment patterns had created a need for a pensions dashboard. In theory, one central information dashboard would give individuals the opportunity to keep track of their various pension entitlements and understand what income they might receive when work ended.

However, government theory and government practice, especially when large IT projects are involved, rarely have much in common with each other. It was not until that 2019 date that the Pensions Dashboards Programme (PDP) was established by an arm of the Department for Work and Pensions. The PDP was charged with responsibility for "designing and creating the pensions dashboards ecosystem, which contains the digital architecture that will make dashboards work."

The PDP has since presided over a series of delays. At the beginning of 2023, 31 August 2023 was meant to mark the first "connection deadline" for pension schemes to link to the dashboard. However, in March, a parliamentary statement revealed the target would not be met but gave no new date. Three months later, another parliamentary statement supplied the missing information – 31 October 2026.

With no apparent sense of irony, the statement said that "the government remains as committed as ever to making pensions dashboards a reality and we are ambitious about their delivery." On the same day, the government also announced a delay to the deadline for filling gaps in national insurance contributions, although ironically that will still end 18 months before the dashboard deadline.

The unspoken message is clear – if you want to understand how pension arrangements fit together, non-governmental advice is essential.

The Investment COACH

Tax is too complicated… say the legislators

A parliamentary committee has been examining efforts to simplify tax, but progress is still a long way off.

Among other things, last year's ill-fated 'mini-Budget' was notable for the swiftness with which Jeremy Hunt reversed most of the proposals it contained. The promise of reduced corporation tax and abolition of additional rate income tax went nowhere. However, a few of then-Chancellor Mr Kwarteng's plans did survive and are now working their way into legislation.

One proposal that was spared Mr Hunt's axe was the abolition of the Office of Tax Simplification (OTS). Mr Kwarteng's justification was that "Instead of having a separate arms-length body oversee simplification, the government will embed tax simplification into the institutions of government." In the March Budget, Mr Hunt followed this up with a statement that "…officials were given a clear mandate to focus on simplicity of tax policy design throughout the policy-making process and on simplifying existing tax rules and administration."

Among others, the House of Commons Treasury Committee is unimpressed by the planned demise of the OTS. In a recent report, the Committee noted, "The Chancellor appears to agree with us that the tax system is overcomplicated and the trend of ever more complication must be reversed." It suggests that "disbanding the independent champion for simpler tax risks signalling that simplification is not a priority for the government."

The obvious danger is that the Treasury and HMRC will effectively end up marking their own homework, rather than having it subjected to external scrutiny. To reduce this danger, the Committee recommended the government should "report to the Treasury Committee annually on steps taken to simplify the tax system, covering both new and existing taxes."

Whether that happens is a decision for the government, which in recent years has largely ignored the advice it has received from the OTS. In any event, HMRC appears to be anxious to reduce its direct contact with taxpayers. For example, it has announced the "trial" closure of its self-assessment helpline until 12 September.

The chances of tax becoming simpler any time soon look poor, which is another reminder of the importance of independent tax planning advice.

NICs deadline deferred, again

If you were planning to fill the gaps in your national insurance contributions (NICs) record by 31 July, you no longer need to rush or worry – you now have until 2025.

As is often the case with financial deadlines, publicity in the form of press stories and subsequent public awareness often arrive late in the day, and in the case of voluntary NICs, this has caused the Department for Work and Pensions and HMRC to reassess its July deadline.

Back on 7 March, the government was forced to extend the deadline from 5 April to 31 July. In addition, the Treasury said that all voluntary contributions would be payable at 2022/23 rates – a useful perk when the main voluntary rate (Class 3) was raised by 10.1% for 2023/24 to £907.40 a year. It seemed highly unlikely that there would be any further extension of the deadline beyond July, but in mid-June, the government announced a further deferral, all the way out to 5 April 2025.

Why it matters

The introduction of the new state pension in April 2016 was one of the most significant reforms to state benefits in decades. If you did not reach state pension age before 6 April 2016, there were two important adjustments to rules relating to pension entitlement and NICs:

- The period of NICs (including any credits) required to obtain a full pension was increased from 30 tax years to 35 tax years; and
- The corresponding minimum period for entitlement to any pension benefit moved from just one year to ten.

These changes left some people worse off, particularly those with contribution records of under ten years. To mitigate the effects, the government relaxed the rules permitting voluntary NICs to be made to fill in any missing years. These had normally only been payable for a maximum of the previous six tax years, but a temporary extension of the backdating period was introduced to allow voluntary contributions to cover the years from 2006/07 onwards, after which voluntary contributions could only have been made to cover periods from 2017/18 onwards.

If you have any gaps in your NICs record between April 2006 and April 2017 – even if you have now passed state pension age after 5 April 2016 – this is now (almost) certainly your last opportunity to fill them. However, it will not always be beneficial to make the top up, so you should seek advice before making any payments.