



## WEALTH KNOWLEDGE

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### IFS: 'People born in the 1980s face long wait for inheritance'

**The average person in their 30s and early 40s faces a wait until they are 64 to inherit their parents' wealth, according to the Institute of Fiscal Studies (IFS).**

The average age of those losing their last surviving parent is tipped to rise from 58 for those born in the 1960s to 62 for those born in the 1970s and 64 for those born in the 1980s.

For about a third of people born in the 1980s, the IFS claimed this will not happen until they are at least in their 70s.

This is not necessarily the moment when all wealth gets passed down, and these trends may lead to more wealth being passed down the generations before parents die, or being passed straight down from grandparents.

But it seems the natural tendency will be for wealth transfers to occur later and later, largely due to the general trend of rising life expectancies in the UK.

Younger generations and charities were among the biggest losers from COVID-19 last year, and making gifts from an estate can be a tax-efficient strategy.

Neil Rushton, financial expert at Old Mill, said:

"Passing on wealth to children and grandchildren earlier, rather than as an inheritance, enables people to see their family benefit while they are alive.

"It also makes sense to pass it on when they actually need help, rather than have them inherit when they are retired or approaching retirement."

### Value of defined-benefits pension pots 'to fall in 2030'

**Retirees can expect to see their future payments fall from 2030, after a planned change to the way inflation is calculated.**

Many of those with defined benefit or final-salary workplace pensions see their pension payments rise annually in line with the cost of living.

Inflation is currently calculated using various measures, including the retail prices index (RPI).

The RPI, which most defined-benefit pension schemes use to uprate annual payments, is deemed to no longer be a valid measure and is to be replaced for this purpose.

As a result, RPI is likely to be aligned with another, newer, measure of inflation called the Consumer Prices Index plus housing costs (CPIH) from February 2030.

Chancellor Rishi Sunak ruled out RPI reforms before this point to allow anyone investing in index-linked gilts from now on to be aware of the upcoming change.

The CPIH is usually lower than the RPI, often by about 0.8%, although the gap is currently narrower.

The Pensions Policy Institute (PPI) said the proposed changes will affect some people more than others.

Daniela Silcock, head of policy research at the PPI, said: "Women, who live longer and start out with smaller pensions than men, and younger pensioners will see a greater decrease."

## Changes to capital gains tax in the pipeline for 2021/22

Capital gains tax is an area that is ripe for reform in the Spring Budget on 3 March 2021, according to the Office for Tax Simplification (OTS).

Tax on gains made in the UK is charged at 10% and 20% for most taxable assets, or 18% and 28% for residential property that is not a main home.

The OTS said harmonising capital gains tax rates with income tax rates could raise an extra £14 billion a year for the Treasury.

Should the Treasury adopt this measure, people who own second homes or assets not held in tax-free wrappers would pick up most of the bill.

Other proposals include slashing the £12,300 annual capital gains tax-free allowance and replacing it so that it only covers asset price increases that are equivalent to inflation.

The OTS said lowering this allowance to £5,000 would double the amount of people who pay capital gains tax, while reducing it to £1,000 would almost triple the number.

Neil Jones, tax and estate planning specialist at Canada Life, said:

“The direction of travel is clear. Investors need to consider where assets are invested and whether changes need to be made. This could include ISAs, pensions and bonds.

“Investment bonds could have a key role to play, especially if other tax-advantaged investment wrappers have been fully utilised.

“Any gains in an investment bond are rolled up, with gains subject to income tax when the money is withdrawn from the wrapper, which is a very useful tool.”

## Stamp duty land tax holiday fuels mortgage approvals boom

Mortgage approvals in England hit their highest level in more than 13 years as buyers rush to complete house moves before the end of March 2021.

Approvals for home purchases soared to around 97,500 in October 2020, the highest since September 2007, according to the Bank of England.

The figure was 33% higher than mortgage approvals in February 2020, before the pandemic, and around ten-times higher than in May 2020.

Experts expect the number of approvals to continue to increase up to 31 March 2021, when a stamp duty land tax holiday in England is due to end.

The nine-month tax break was announced on 8 July 2020, with similar measures revealed in Scotland and Wales shortly after.

The stamp duty land tax holiday applies in England and Northern Ireland, and temporarily raised the tax-free threshold from £125,000 to £500,000.

Around nine in ten people getting on or moving up the property ladder will pay no stamp duty, the Government previously said.

Buyers can save up to £15,000 on stamp duty land tax if transactions are finalised before 31 March 2021, with the average buyer saving around £4,500.

Given the amount of buyers caught up in complex chains, pressure is mounting to extend the scheme by six months.

Alternatively, the Government could announce a gradual tapering off of the holiday to avoid a cliff-edge.

Subject to future change, the nil-rate band in England and Northern Ireland will drop from £500,000 to £125,000 from 1 April 2021.

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

ISA eligibility depends on individual circumstances.

Pension eligibility depends on individual circumstances. Pension benefits cannot usually be taken until age 55.

Your home may be repossessed if you do not keep up repayments on your mortgage.

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