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WEALTH KNOWLEDGE

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Stamp duty land tax holiday fuelled equity release spike

Homeowners released £1.17 billion of property wealth between April and June 2021, said the Equity Release Council (ERC).

Tax savings on offer from the stamp duty holiday are thought to have spurred on over-55s to help their children get onto the property ladder.

The ERC said June 2021 was the busiest month so far this year, with a total of 3,348 new equity release plans agreed before the first stamp duty deadline.

June 2021 was also the first month for more than a year that saw more lump sums (1,726) than drawdown plans (1,621) agreed, the ERC added.

The stamp duty holiday also prompted a spike in house price growth, which increased the amount of equity homeowners had to play with.

David Burrowes, chairman at the ERC, said:

“June’s stamp duty deadline will have prompted some older homeowners to pass on a ‘living inheritance’, so younger family members can climb the property ladder.”

Equity release is a way for homeowners over the age of 55 to unlock the value of their property, but can be a potentially disadvantageous way to raise cash.

Typically, this is done by either taking out a lifetime mortgage or selling a percentage of a house to a home reversion company.

Equity release does not pay the full value of a home, however, and it reduces the value of an estate left to pass on.

‘Auto-consolidation could help savers track their pensions’

The Government should introduce an auto-consolidation policy to reunite savers with lost pension pots, according to a report.

Scottish Widows polled 5,010 savers and 72% backed a plan to automatically consolidate pension pots when they move jobs.

This could like auto-enrolment into defined contribution workplace pensions, which took effect in October 2012.

This allowed millions of people to have a workplace pension for the first time, although many lose track of them over time.

Separate research from the Pensions Policy Institute suggested the number of lost pension pots could hit 27 million by 2035.

Pensions dashboards should give savers a fuller picture of their pension pots, but they won’t stop providers from charging fees to move their savings.

Pete Glancy, head of pensions policy at Scottish Widows, said:

“Auto-enrolment has been a roaring success because it didn’t require people to take any action and a similar approach to auto-consolidation could be equally successful.

“It would reduce the number of savers paying multiple fees unnecessarily, and could also help the industry reduce costs, meaning the fees paid by savers would fall, too.

Capital gains tax receipts climb 3% to record-high

HMRC collected a record of £9.9 billion from capital gains tax receipts in 2019/20, according to official statistics.

The tax authority said this was 3% up on the previous tax year's receipts, but the number of taxpayers paying tax on their gains fell 6% to around 265,000.

Most of the liabilities collected came from 1% of taxpayers who made the biggest gains in 2019/20, with 41% of the receipts coming from those who made gains of £5 million or more.

More than a quarter (28%) of these revenues (£2.8bn) came from business assets that qualified for entrepreneurs' relief, which saw its lifetime limit slashed from £10m to £1m with effect from 11 March 2020.

Basic-rate taxpayers pay 10% tax above the annual exemption in 2021/22, while those in the higher-rate and additional-rate bands pay 20% on disposal of most assets.

Higher capital gains tax rates – of 18% and 28%, respectively – can apply when selling certain assets, such as an investment property or second home that has significantly increased in value.

The annual capital gains tax exemptions are frozen at £12,300 for individuals and £6,150 for trusts until the end of 2025/26.

With asset prices increasing and the annual allowances frozen, it stands to reason that more taxpayers could be impacted by paying capital gains tax over the coming years.

An increase in capital gains tax rates also appears more likely than any other fiscal policy tweak, after the Office for Tax Simplification (OTS) published two capital gains tax reports containing a raft of recommendations.

Last year, the OTS suggested the Government should align capital gains tax with income tax, and reduce the annual allowances because its current structure creates "odd incentives" and "distorts behaviour".

UK economy set to grow at fastest rate since records began

The UK economy is on track to rebound to its pre-pandemic level by the end of the year.

The Bank of England said UK GDP was expected to have grown by 5% in Q2 2021, before a further rise of around 3% in Q3 2021.

But the UK economy remains on course to grow by 7.25% in 2021, following a sharp 9.9% contraction as a direct result of COVID-19 restrictions in 2020/21.

Should this come to fruition in the final quarter of the calendar year, it would be the strongest annual economic growth in the UK since the Second World War.

Separately, policymakers unanimously voted to keep interest rates at a record low of 0.1%, despite warning that inflation could hit around 4% by year-end.

The Bank insists surging consumer prices are temporary as demand exceeds supply, and expects inflation to fall back towards its 2% target over the medium term.

Andrew Bailey, governor of the Bank of England, said:

"We don't think that demand will continue to rise as fast, and some of the shortages that are currently making it difficult for businesses to produce their products should ease.

"We expect above-target inflation to be temporary and for inflation to fall back, reaching our target in around two years."

Some economists had called for the central bank to rein in quantitative easing, but that remains unchanged.

This policy sees the Bank buy government bonds or corporate bonds from other financial companies and pension funds.

The lower interest rate on the bonds then feeds through to lower interest rates on loans for households and businesses.

It intends to boost spending in the economy and keep inflation at target.