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WEALTH KNOWLEDGE

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Equity release market on course for record-breaking year

The UK's equity release market is on track to break the £4 billion barrier as 2021 comes to a close, according to the Equity Release Council (ERC).

Homeowners reportedly took out £1.049bn in property wealth in the three months to 30 September 2021, the council said.

This represented an 18.8% year-on-year increase – up from almost £884 million – although the number of equity release plans fell by 3.2%.

The total amount of equity released from the values of people's homes up to the end of September 2021 was £2.989bn, just short of the £3.4bn figure in 2020.

Will Hale, chief executive at Key Retirement, said:

"Against the backdrop of the pandemic, the equity release market is on track to potentially touch £4.5bn in 2021.

"We've seen more people using equity release to support families, manage their current borrowing and use the historically low [interest] rates to remortgage existing equity release plans."

Equity release allows 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.

UK economy on verge of regaining pre-COVID peak

The UK economy should bounce back to its pre-pandemic level by the "turn of this year", according to the Office for Budget Responsibility (OBR).

The OBR revised up its forecasts for UK GDP growth in the coming years, with growth in 2021 expected to be 6.5% – up from its previous forecast of 4%.

Estimated growth for 2022 is lower than forecast in last March's Spring Budget, falling from 7% to 6%, but has been revised upwards for 2023 and beyond.

As such, the OBR said UK GDP is forecast to grow over the next three years by 2.1% in 2023, 1.3% in 2024 and 1.6% in 2025.

Inflation, meanwhile, is a significant concern for consumers as 2021 comes to a close, with the OBR now expecting it to be 4% on average over the next year.

This is twice the Bank of England's target of 2% rate of inflation, as measured by the Consumer Prices Index, raising the prospect of interest rates increasing early in 2022.

Paul Johnson, director at the Institute for Fiscal Studies, said:

"According to these new forecasts, over the next year a median earner will find their pre-tax pay just about outpaces inflation.

"But after the extra income tax and National Insurance contributions due, their take-home pay will fall by about 1%, or £180 per year in real terms."

Tax reporting deadline for additional property sales extends

Buy-to-let landlords and second homeowners have twice the amount of time to report and pay capital gains tax after selling a residential property in the UK.

The deadline is now 60 days – up from 30 days – and applies on sales of UK residential property completed on or after 27 October 2021.

This extension also applies to non-UK residents disposing of any type of property in the UK, whether directly or indirectly owned.

When mixed-use property is disposed of, the 60-day payment window will apply only to the residential element of the gain.

The extension enacts a recommendation contained in a report published by the Office for Tax Simplification (OTS) in May 2021.

It claimed that many taxpayers only found out about their obligations after they had completed the sale of their property.

This left around 150,000 people with insufficient time to consider if they had a gain, and even less time for the 85,000 people who had to report it.

Between 6 April 2020 and 6 January 2021, one in three UK property tax returns were filed later than the 30-day window according to HMRC.

Michael Steed, co-chair of the Association of Taxation Technicians' technical steering group, said:

"The very short time limit for reporting disposals of residential property has proved really challenging for those affected.

"A large part of the problem is that many taxpayers are simply not aware of the new requirements and with such a short deadline, it was very easy to miss.

"The OTS also called for more work to be done to make people aware of these reporting rules and we would still like to see the Government do more to alert people to these obligations."

DWP to ban flat-fee charges on small pension pots

Pension providers will no longer be able to charge flat fees to savers with small qualifying workplace pension schemes worth less than £100.

The ban will come into force from April 2022 in a bid to stop charges and admin fees eroding the value of small pension pots.

The move should boost workers who have built up multiple defined contribution workplace pensions after frequently changing jobs.

Working adults who are aged between 22 and state pension age, and earn £10,000 a year or more, are auto-enrolled into workplace pensions.

Eligible employees put in at least 5% of their salaries in exchange for a minimum employer contribution of 3%, although they can also opt out.

Guy Opperman, pensions minister, said:

"There's a greater chance those who regularly take on short-term work will be automatically enrolled into new workplace pensions multiple times, building up a collection of deferred small pots.

"Removing flat fees on pension savings worth less than £100 will provide a boost to hundreds of thousands of people and help them enjoy the retirement they deserve."

Research from Aegon suggests as many as 26% of working adults in the UK have small pension pots, while 15% don't know if they have one or not.

Furthermore, 58% of those polled have never combined multiple small pensions into one via pension consolidation.

Aegon said the Government could yet enable an automated solution for low-cost transfers and consolidation for the auto-enrolment mass market.