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Homecroft WEALTH

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PENSIONS


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Pension triple lock falls to double

Next April's increases to State pensions will now follow a less expected, and less expensive, path.

What percentage increase should apply to State pensions in 2022?

For the last ten years, the triple lock has protected the old basic State pension and the new State pension, meaning the increase is the highest of the CPI change to September, earnings growth or 2.5%. However, the triple lock is not law: the statutory rules simply link rises to earnings growth.

Even that is not straightforward, because the method of measuring earnings growth is left for the Secretary of State at the Department for Work and Pensions (DWP) to determine. The practice to date has been to use the year-on-year increase in average weekly earnings (including bonuses) in the May–July period. In 2020 the pandemic produced a 1.0% drop in earnings.

> *The DWP revealed next year's basic and new State pension increases would ignore earnings inflation: for 2022/23 only, the triple lock becomes a double lock.*

As the UK economy has recovered, earnings have rebounded. Some of the rise is a statistical quirk, but the net result is dramatic. The latest (April-June) annual rise was no less than 8.8%. If that had been applied to the basic and new State pensions, the cost would have been over £4bn extra a year according to the DWP.

The Prime Minister was reluctant to renege on his triple lock manifesto pledge. It was perhaps no small coincidence, therefore, that on the day increases to national insurance contributions were announced to fund health and social care reforms, the DWP revealed next year's basic and new State pension increases would ignore earnings inflation: for 2022/23 only, the triple lock becomes a double lock.

You can check a forecast of your expected State pension on www.gov.uk/check-state-pension. Assuming 3% CPI inflation, the new State pension will rise to about £185 a week rather than the £195 it might have been. Even the latter is still a long way from enough for a comfortable retirement...

TAX

Important changes for the self-employed

It was a busy summer for government announcements for the self-employed.

As well as details of the fifth and final Self-Employed Income Support Grant (closed as of the end of September), additional changes to taxation - actual and potential - came out which are worth bearing in mind for the future.

Loss carry-back

Guidance was issued on the new extended loss carry back provisions. For trade losses made in 2020/21 and 2021/22 tax years only, unrelieved losses can be carried back and set against profits of the same trade for *three* years before the tax year of the loss. The previous maximum period was one year.

Tax basis for self-employed

HMRC launched a consultation on changing the basis of self-employed taxation. At present your tax liability
is generally based on your profits in the 12 months ending on your accounting date, e.g. if that date was 30 June, then your 2021/22 assessment would use your profits for the year to 30 June 2021.

From 2023/24, HMRC wants to tax actual profits made in the tax year. The result could be a large tax bill covering the 2022/23 transitional year – for profits from 30 June 2021 to 5 April 2023 for a 30 June accounting date.

✢ *The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.*


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PROTECTION

Income protection – the simple safety net

The pandemic has highlighted the importance of having a financial safety net should things go wrong. This may be in the form of savings to cover unexpected bills such as a new boiler, or a period of unemployment.

Insurance also has an important role to play, particularly when it comes to protecting your finances through periods of ill-health. Covid-19 has certainly shown the indiscriminate nature of illness, and how a 'it will never happen to me' attitude can be suddenly shattered.

The pandemic has also highlighted the relatively low levels of help available from employers and the state. There is certainly no fallback furlough scheme paying 80% of wages for those who are unable to work through injury or illness. Although some do pay more, employers are only obliged to


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meet Statutory Sick Pay requirements, paying £96.35 per week for 28 weeks. Thereafter, those still unable to work have to apply for Universal Credit, currently just £411.51 a month for single claimants over 25 (including the £20 temporary uplift to the end of September).

Income protection

These policies insure a portion of your take-home salary and pay out if you are unable to work through ill-health. This can cover mental health conditions such as stress and depression, as well as physical conditions. Definitions and what is covered vary between product providers.

Payments start after a deferral period so you can set up the insurance to kick in when support from your employer ends if you have one. If not, you may want payments to start sooner. You will need medical evidence to support a claim and money is paid monthly to cover regular bills.

Critical illness

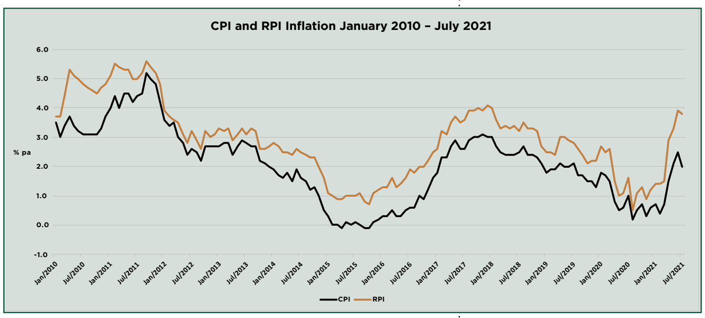
This pays out a one-off tax-free lump sum if you are diagnosed with one of the serious conditions listed in the policy. These include most cancers, heart disease and stroke. Payments can be used to pay off an outstanding mortgage or other debts, or simply to provide a financial buffer to give you time to recover from a serious illness.

✢ *Life Assurance plans typically have no cash in value at any time and cover will cease at the end of term. If premiums stop, then cover will lapse.*

INVESTMENT

The return of inflation?

Inflation has picked up sharply in recent months, with a potential impact on investments.



Source: Office for National Statistics

The value of the future payments of interest and eventual return of capital for fixed interest investments such as bond funds are similarly eroded by inflation. On the other hand, the appeal – and value – of index-linked bonds typically rises when the spectre of inflation looms and investors seek cover.

UK annual inflation was just 0.4% in February 2021, as measured by the Consumer Prices Index (CPI), or 1.4% measured by the Retail Prices Index (RPI). By early August it stood at 2.0% CPI and 3.8% RPI.

The big question now is whether inflation will abate along with the pandemic. Some economists predict that the inflationary spike will prove 'transitory' and the pandemic distortions will disappear over the coming year. However, others fear that the price increases could lead to parallel wage rises, creating a wage/price spiral.

Depleting investments

If you are an investor, rising inflation can often be bad news. With interest rates close to zero, the buying power of any cash you hold is being steadily eroded. If you have more cash than you need for your rainy day reserve, make sure you have a good reason.

In the long term, investment in shares has proven to provide better protection against inflation than either bonds or cash deposits. However, in the short term, inflation can be a drag on some companies' profits – think of those wage pressures – and depress their share price.

With inflation uncertainty set to remain for some while, it makes sense to review your investments now to make sure you are ready for whichever set of economists proves to be correct.

✢ *The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

INVESTMENT

NS&I's new Green Bond

National Savings & Investments (NS&I) has released more details of its Green Savings Bond, originally announced in the spring Budget.

The bond will have a fixed term of three years with no early encashment options. It will be open to all investors from age 16 upwards, with a maximum investment of £100,000 and a minimum of £100. Interest will be added to the bond every year with no tax deducted at source and paid on maturity. However, the interest will be taxable, meaning that investors could face a tax liability each year, but no corresponding income payment.

Frustratingly the one piece of information NS&I did not supply was the interest rate the bond would pay – that "will be available later in the year". It is unlikely to be a chart-topping figure. NS&I is currently offering just 0.4% for reinvestment on maturing three-year Guaranteed Growth Bonds and three-year government bonds yield under 0.2%.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