ESG INVESTMENT
ESG funds have performed well in turbulent times

STATE PENSION SHORTFALL
Women may have been underpaid by DWP

BUY-TO-LET OPPORTUNITIES
Do stamp duty changes benefit property investors?

Henson Crisp
making your future possible

Financial FOCUS

Peterborough: 01733 355120 • London: 020 3637 7140 • enquiries@hensoncrisp.com AUTUMN 2020

Looking to the next Budget

What can we expect in the second Budget of the year?

StevenW Wild Media/Shutterstock.com

In this issue...

With people starting to return to the office and schools and universities reopening, it appears that life is beginning to tentatively resume its usual rhythms this autumn. As the longer term effects of the lockdown become apparent, we look at some short-term future implications of the pandemic – such as student loans and the upcoming Budget. We explore how ESG funds have been performing during the last few months and investigate whether the summer changes to stamp duties make buy-to-let a more attractive investment. We also explore how some women's state pensions may have been underpaid. As ever, if you are affected by any of the topics, we're here to help.

03
ESG investment comes into its own
Funds actively engaged with corporate governance have weathered recent market storms well

04
Looking to the next Budget
Paying for the Covid-19 crisis with increased taxes

05
Pandemic lessons
The small benefit of state benefits

06
A buy-to-let opportunity?
Do stamp duty changes help property investors?

07
Womens' state pension shortfall
Underpaid women urged to contact the DWP

Sharp fall for dividends
The second quarter of 2020 saw drops of over 50% in payments

08
Higher education costs: to pay or not to pay?
Should you pay student loans off early?

Round up
News in brief

Cover image: Kamira/Shutterstock.com

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice.
© Copyright 28 August 2020. All rights reserved.

Welcome to the Autumn edition of our quarterly client newsletter which provides topical information on areas of financial planning. We are sending you this edition of Financial Focus because you are a client of Henson Crisp, or you have dealt with us in the past, and you have confirmed that you would like to receive this information. If however you would prefer not to receive future editions please email us to let us know at enquiries@hensoncrisp.com.

I hope you have all had a pleasant summer, though I'm sure for most it has not been the summer you had planned or expected and some adaptation has been needed by all. With the travel restrictions in place and the nature of Covid-19 making any kind of travel uncertain, I sincerely hope that if you have trips planned that you are able to make these.

Speaking of adaptation, our time working remotely is now hopefully coming to an end. We have plans for a phased return to the office from 1st September 2020 at which point there will be at least two members of staff in the office at all times, with the remainder continuing to work remotely. All being well, we hope to be back to a full compliment in the office from 1st October 2020. Additionally, I would like to inform you of a change to our office hours; the office will be closing at 1:30pm each Friday with reduced staff members present for the morning. We hope that this shouldn't cause any disruption to the service that we offer you as clients; in the event of an emergency or urgent work needed completing on a Friday afternoon, we will still be able to action this as we all have plenty of experience of working outside of the office now. The reason for this change is twofold, firstly to allow for an increase in cleaning procedures within the office as a cleaner will be present at our office each day, and undertake a more thorough clean on a Friday afternoon to comply with our Covid-19 health and safety policy. Secondly, we hope this will allow our team to have a better work life balance going forward whilst still maintaining the best service to our clients.

I would like to take this opportunity to congratulate Gary on passing the CII exam R01 – Financial Services, Regulation & Ethics since our last newsletter and wish him the best of luck in the rest of the exams that he is looking to complete.

If you have any questions in relation to the articles contained within this newsletter please do not hesitate contact us and we will be happy to provide any guidance required.

Lockdown savings boost

A surprising number of people have picked up the savings habit in recent months as lockdown has curtailed opportunities to spend. How can this unexpected nest egg be put to good use?

In some cases, the savings have been substantial, with the average household holding on to £2,879 during the 13-week lockdown. It's not hard to see where these savings have come from: commuting costs have been slashed, holidays postponed, and spending on daily coffees, beauty treatments, restaurant trips or cinema tickets entirely curtailed.

Of course, for some people, lower spending has been offset by more serious reductions in income, be it salary cuts or redundancy. But for those able to work from home, or whose income has been supported by the government's furlough scheme, the question is how to make the most of this temporary savings boost.

Many have used these funds to clear debts. Bank of England figures show a record £5bn of credit card debt cleared in April, significantly more than the £300m cleared in a standard month.

For others it may make sense to use some of these surplus funds to boost longer-term savings, top-up pensions and add to investments. This can be done via one-off payments or increasing regular monthly savings.

Whether you chose to reduce debt, build up a cash safety net or boost pensions and investments, it is wise to think about where and how you have saved money during the lockdown, and whether you can make more permanent changes to your spending habits.

Most of us won't necessarily want a 'staycation' every summer, but cancelling unused gym memberships or cutting out the cappuccinos as we resume our old routines can help turn these 'unintended savings' into a more thoughtful budget that can bolster finances over the longer-term.

INVESTMENT

ESG investment comes into its own

Taking a more principled approach to investing doesn't mean you necessarily have to sacrifice returns.

This year has been a rollercoaster ride for investors, with markets falling sharply in March as the economic effects of the Covid-19 pandemic became clear. There has been some recovery, although prices remain volatile.

Yet certain funds seem to have fared better than others during this period of turbulence. In many cases, these are funds that engage with a range of environmental, social and governance (ESG) factors alongside standard financial metrics for selecting shares. This is also often labelled 'responsible investing'.

Whereas some ethical funds (see text box) automatically avoid whole sectors, ESG funds do not. Instead they assess how, for example, a company's environmental policies — or lack of them — might impact its future share price. These are investment judgements, of course, so may not always turn out to be correct in retrospect.

ESG funds have generally weathered the recent market storms well. Research from Morningstar shows that in the first quarter of 2020 70% of ESG funds were ranked in the top halves of their investment categories which consist of funds invested in the same assets or geographic region. By contrast, just 11% of ESG funds were in their category's bottom quartile, indicating that they performed better than funds that did not look at these wider ESG factors when selecting stocks.

Bear in mind that this information covers a very short timeframe and there is no guarantee that ESG funds will continue to outperform. However, there are several reasons why these funds may have performed better during recent volatile markets and may continue this trend in the coming years.

One factor is that many have less exposure to oil companies, which have been hit by collapsing oil prices. The Covid-19 crisis has boosted other sectors too, such as those delivering technology solutions to help businesses and people work remotely. This may play into ESG themes about reducing travel and carbon emissions.

While much of the focus around ESG is on environmental issues, it's important to remember that the selection process most of these funds undertake also considers how well a company is run and its corporate polices on such issues as executive pay, gender equality and transparent supply chains.

Over the longer term it remains to be seen whether ESG fund managers will identify the companies that will prosper in future, but with many more people thinking carefully about where to invest their savings, ESG investment is no longer a fringe area. As with all investment decisions, you should take expert advice.

ETHICAL VS ESG FUNDS

Ethical funds: These funds may screen out whole sectors or companies. For example, many ethical funds avoid investing in tobacco, alcohol or armament companies for moral reasons. Guidelines vary from fund to fund. Some ethical funds take a 'best of breed' approach, particularly about such issues as climate change.

ESG funds: Rather than making moral judgements, ESG investing relies on a screening or risk assessment tool, that the fund managers use to assess potential risks and opportunities. They analyse a range of environmental, social and governance factors to see how these might affect share prices.

✢ *The value of your investments and the income from them 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 with your overall attitude to risk and financial circumstances.*

Photon photo/Shutterstock.com

TAX

Looking to the next Budget

The second Budget of 2020 could mark the start of a round of tax increases.

When 2019 passed without a Budget, it seemed an unusual year. 2020, already out of the ordinary, will more than make up for it with two.

The first Budget of 2020 took place on 11 March, the day that the World Health Organisation declared Covid-19 a pandemic. At the time, the Office for Budget Responsibility (OBR) calculated that the UK government would need to borrow around £55bn in 2020/21. By mid-July, the OBR updated its projections, and that estimate rose to £322bn – almost six times the original figure.

No government can continue to borrow at such a rate and many economists regard the autumn Budget as the moment when the brakes will start to be applied. The Chancellor is somewhat constrained by his party's 2019 election manifesto pledge not to increase income tax, National Insurance contributions and VAT rates.

However, as his predecessors have consistently demonstrated, there are many ways to increase tax that do not involve changing the rates. In particular, three areas of reform are already being considered.

> *Many economists regard the Autumn Budget as when the brakes on borrowing will start to be applied.*

distinct possibility that, in his next Budget, the Chancellor could try to claw some money back by reducing tax relief for higher and additional rate taxpayers.

INHERITANCE TAX

A report was commissioned over two years ago by the then Chancellor, Philip Hammond, on simplifying inheritance tax (IHT) from the Office of Tax Simplification (OTS). The OTS issued two reports, but no action was taken in the subsequent Budgets.

Matters may be different, come autumn 2020. Recent statistics from HMRC show that last year IHT receipts fell for the first time since 2017/18. The drop is possibly attributable to the impact of the Residence Nil Rate Band (RNRB), introduced in April 2017. The OTS reports did not make any recommendations about the RNRB on the grounds that it had only just come into being, but it did note widespread criticism of its complexity.

A Chancellor with an eye towards a 'levelling-up' agenda and a need for more revenue could pick and choose from the recommendations in the OTS reports to collect more IHT.

CAPITAL GAINS TAX

Out of the blue, the Chancellor gave the OTS another tax review to undertake in mid-July 2020. Capital gains tax (CGT) was the subject and this time there was less emphasis on simplification and more on ensuring 'the system is fit for purpose'.

There's a real possibility that CGT rates will once again be aligned with income tax rates, which could see the top CGT rate increase from 20% (28% for non-exempt residential property) to 45%.

Ahead of the autumn Budget, there are mitigating measures that could be taken in any of the three areas mentioned here. However, pre-Budget tax planning requires advice to avoid unnecessary or inappropriate actions.

✢ *The levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.*

PENSIONS

The gross cost of income tax relief for pensions has been put at over £37bn by HMRC in its latest figures (for 2017/18), with a further £16.5bn for employee and employer National Insurance contributions relief.

The government launched a consultation in July 2020 on a technical aspect of pension income tax relief, a move that could be a precursor to a broader reworking. A flat rate of tax relief for all pension contributions has long been argued over by a variety of stakeholders.

In the March Budget, the Chancellor *added* to the cost of pensions tax relief by relaxing the annual allowance rules. There is a now a

Pandemic lessons

The Covid-19 pandemic has highlighted the low level of social security benefits

Do you know the weekly value of Statutory Sick Pay (SSP)?

Before Covid-19, most people would probably have struggled to give even a half-accurate answer. Now that so many people have received SSP for the first time, there is an increased awareness. The size of the sum was a surprise for many – just £95.85 per week for up to 28 weeks. The same could be said for other benefits that came under the spotlight because of the pandemic, such as Universal Credit (UC) and Employment and Support Allowance (ESA).

The government's partial response was to increase some benefits temporarily, e.g. adding £1,000 a year to the UC standard allowance. More important was the introduction of the furlough scheme, which meant that over nine million people remained 'employed' on up to 80% of their pre-pandemic pay. Without the scheme, a large group of its beneficiaries could otherwise have lost their jobs and received the markedly smaller UC payments.

The furlough scheme is due to close by November, while the rest of the temporary social security increases are set to finish next April. One of the many lessons from the pandemic is that the UK's social security system supplies minimal benefits and these are often subject to means-testing. Another lesson is that private insurance cover, such as income protection which pays out if someone is ill and unable to work, can have a vital role in filling the gaps.

INVESTMENT

A buy-to-let opportunity?

Cuts to stamp duty land tax (SDLT) and its Scottish equivalent have reduced the purchase costs of buy-to-let property. But property investors should also evaluate other factors.

In his Summer Statement, the Chancellor increased the nil rate threshold for SDLT in England and Northern Ireland from £125,000 to £500,000 for all purchases until 31 March 2021. At most that means a saving of £15,000 in SDLT on a property purchase.

The Scottish Government then increased its equivalent nil rate threshold from £145,000 to £250,000. Both governments kept their surcharges on the full purchase price for buy-to-let (BTL) properties and second homes (3% in England and Northern Ireland and 4% in Scotland). Wales took a different stance and excluded BTL and second home buyers from the new Welsh £250,000 nil rate threshold (up from £180,000).

The higher thresholds prompted press headlines suggesting that the BTL market would enjoy a recovery (outside of Wales). While the tax saving can be significant, particularly in London and south east England, investors should consider the other tax changes from past years before making a BTL purchase:

- If you are borrowing money to make the purchase, you can no longer offset the interest you pay against the rent you receive for income tax relief at your highest marginal rate. Instead you will be given a tax credit equal to the basic rate of income tax on the interest charged. This could mean that all the rent is included in your income tax calculations, minus non-interest expenses, resulting in more income tax or even tipping over one of the tax system's income thresholds.
- Capital gains tax (CGT) is levied at a higher rate on disposals of non-exempt residential property than on other assets. Higher and additional rate taxpayers face a 28% tax charge once they have used up their CGT annual exempt amount.
- Any CGT due on residential property is now payable within 30 days of the completion of the sale, along with an appropriate interim tax return.
- The days of a 10% 'wear and tear' allowance for furnished properties are long gone: relief is now only given for actual expenditure.

> *While the tax saving can be significant, investors should consider the other tax changes from past years before making a BTL purchase.*

More changes could be coming in England on the non-tax front. Last year the government consulted on "resetting the balance of rights and responsibilities between landlords and tenants". The consultation's proposals included the potential abolition of assured shorthold tenancies and an end to 'no-fault evictions.' Both measures could reduce the value of BTL property in England by making it less readily saleable.

The tax holiday may already be driving up prices. Nationwide reported a 1.7% monthly increase in July 2020 after taking into account seasonal factors, more than reversing the 1.6% fall in June. If you are considering investing in BTL property in the current market, however, take advice on alternative investment options first. As ever, you shouldn't let the tax tail wag the investment dog.

✢ The value of your investments and the income from them 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.

The levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice or buy-to-let properties.

Lightspring/Shutterstock.com

PENSIONS

Women's state pension shortfall

More women should ask the Department for Work and Pensions to check their state pensions, according to former pensions minister Sir Steve Webb.

Rumours abound ahead of the expected Autumn Budget that the government may need to loosen the pension triple lock to help recover stretched public finances following the Covid-19 pandemic. Meanwhile, research from a leading law firm has highlighted how relying on the intricacies of the state pension system could mean many are losing out.

Under the previous system, married women who reached state pension age before 6 April 2016 were able to claim a basic state pension of 60% of the full rate based on their husbands' contribution record, if this was larger than the pension they could get based on their own contributions.

> *To avoid missing out, potentially affected women should call the DWP to see if they have been underpaid their state pension.*

This uplift in the state pension should have been given automatically since 17 March 2008, but before then a married woman had to make a 'second claim' when her husband reached age 65 – and many women did not make this claim.

The Department for Work and Pensions (DWP) is checking its records, but the chances are that many women will miss out and should call the department to see if they have been underpaid.

The main groups of people affected, according to the research, are:

- Married women whose husbands turned 65 before 17 March 2008 and have never claimed the 60% uplift.
- Widows with pensions that weren't increased after their husbands' deaths.
- Widows who think they may have been underpaid when their deceased husband was still alive, even if their pension is now correct.
- Women in their 80s receiving a basic pension of less than £80.45 per week, if they satisfied the basic residence test at age 80.
- Widowers and heirs of women who have now died but were underpaid state pension while alive.
- Divorced women who might not be benefiting from their ex-husbands' contributions.

Some married women who did not realise they needed to make a claim for the uplift pre-March 2008 are planning to make a complaint of maladministration to the Parliamentary Ombudsman. They will say that the DWP failed to make sure that they knew about the need to make the second state pension claim when their husband turned 65. Currently the payments for women in that category can only be backdated 12 months rather than the 12 years or more of pension uplift that has been missed.

If you think you or someone in your family may be affected, please get in touch.

INVESTMENT

Sharp fall for dividends

UK dividends were down more than 50% in the second quarter of 2020

The pandemic has hit the global economy hard and devasted the dividend payments of many leading UK companies. Between April and June 2020, total UK dividend payments were 57.2% lower than in the second quarter of 2019, according to Link Asset Services. Many companies – notably the big banks – stopped dividend payments altogether.

Despite the cuts, Link's worst-case-scenario is that UK shares will provide an income yield of 3.3% over the next year – still much better than current deposit rates.

✢ The value of your investments and the income from them 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.

News in Brief...

Beat the scammers

Investment and pension scams are becoming ever more sophisticated, from fancy fake websites to the 'cloning' of authorised businesses. Rule number one is always to reject unexpected offers. Rule two is that, if it looks too good to be true, it probably is. If in doubt, check the FCA ScamSmart site (www.fca.org.uk/scamsmart) and ask our advice.

A long wait...

A third of people born in the 1980s will be over age 70 when they receive an inheritance from their last surviving parent, according to the Institute for Fiscal Studies (IFS). This is a big change compared with the experience of the previous generation. The IFS reports that the average age of inheritance is 58 for those born in the 1960s.

Video witnessing for wills

The government is changing rules to allow remote witnessing of wills via video calls in England and Wales. It is already legal in Scotland, but not yet in Northern Ireland. New legislation in September 2020 will backdate the measure to 31 January 2020, but two witnesses will still be required. The change will last through to 31 January 2022 or as long as necessary through the pandemic.

✢ *The FCA does not regulate will-writing*

EDUCATION

Higher education costs: to pay or not to pay?

The Covid-19 pandemic has changed the way higher education is delivered, with a new emphasis on online learning mixed with some in-person teaching. But this hasn't reduced the cost of going to university and the debt that will come with it.

This autumn sees the latest intake of undergraduates begin their studies. Most students in England will have taken out tuition loans (of up to £9,250 a year) plus maintenance loans to cover living costs. Different systems apply in the devolved nations, with Scottish students charged up to £1,820 a year in tuition fees at Scottish institutions.

In general, it usually makes sense to use surplus funds to pay off debts early. But graduates – or parents looking to help out – should think carefully before using capital to repay student loans. This is because of the way repayments are structured, with any outstanding debt wiped out after 30 years.

Student loans attract interest like any other debt. This is charged when students are studying, at a rate of the Retail Prices Index (RPI) plus 3%— giving a current rate of 5.4%, with rates afterwards dependent on earnings.

Repayments on student loans only start once graduate salaries reach a certain threshold. For the 2020/21 year this is £2,214 a month — or around £26,500 a year. Students then pay 9% of their salary over this amount. So those earning £3,000 a month will pay 9% of £786 — or £70.74 a month. This is the same monthly repayment whether they owe £20,000 or £80,000 — so paying off a chunk of capital will not reduce this monthly bill.

The larger the loan, the longer it will take to repay. But this still does not necessarily mean students will pay back more overall, as current projections suggest that 83% of students who have taken out a loan since 2012 (when this system was introduced) will not repay the full amount.

For these students there may be little financial benefit to paying part of this debt off early: it will not reduce monthly repayments and may simply mean a smaller sum is written off at the end of the term.

Henson Crisp
making your future possible

Henson Crisp Ltd
Ground Floor, Bank House
The Lawns, 33 Thorpe Road
Peterborough, PE3 6AB

t: 01733 355120
f: 01733 555522
e: enquiries@hensoncrisp.com

Henson Crisp Ltd
i2 Office
No.1 Royal Exchange
London
EC3V 3DG

t: 020 3637 7140
e: enquiries@hensoncrisp.com

Authorised and Regulated by the Financial Conduct Authority. FCA Number 469175.