News – March 2015

Auto-enrolment: the penalties begin

The latest report from the Pensions Regulator (TPR) on pension auto-enrolment carries important warnings.

TPR issues quarterly reports on the progress of pension automatic enrolment. These have generally been unexciting affairs until the latest edition, covering the final quarter of 2014. Suddenly, it seems that things are not running quite as smoothly.
In the last three months of 2014:

- TPR issued 1,139 compliance notices demanding that an employer "remedy a contravention" of at least one duty under the auto-enrolment provisions. From October 2012, when auto-enrolment started, to September 2014 the regulator had issued just 177 compliance notices.

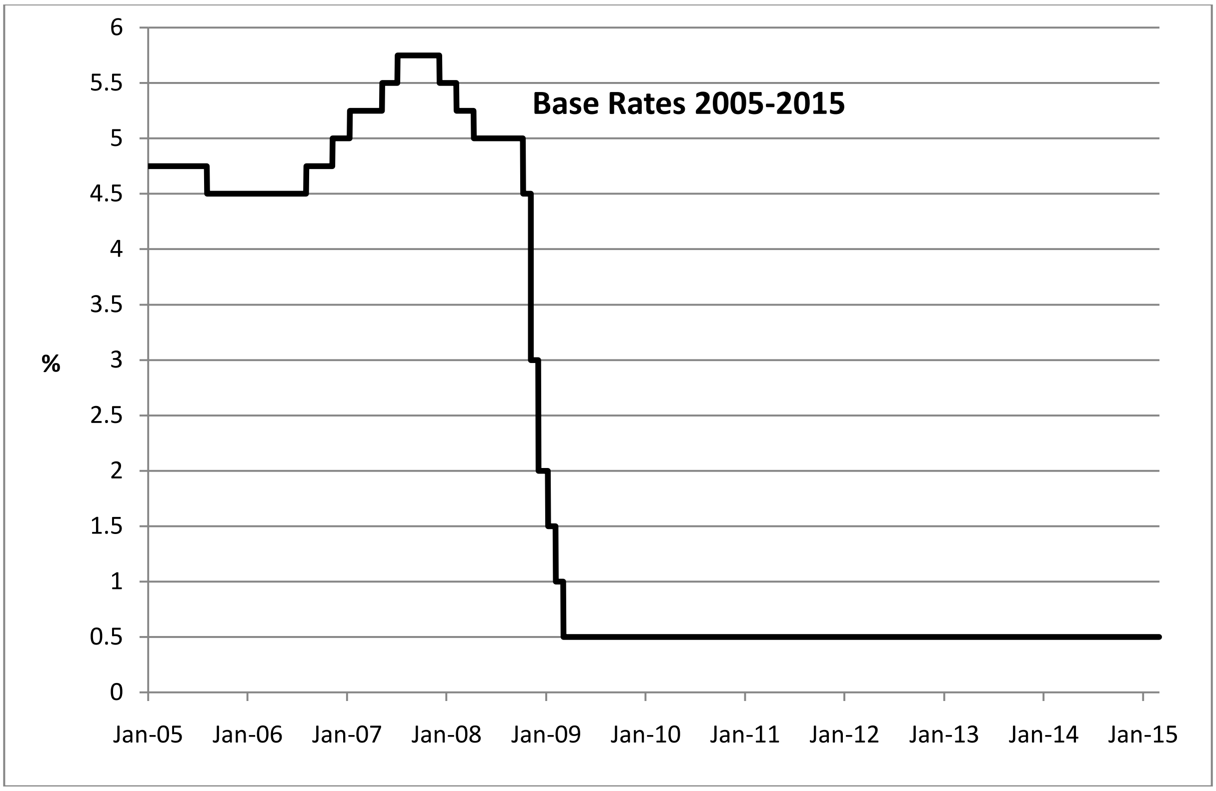
- In response to those who ignored earlier compliance notices, TPR also sent out 166 Fixed Penalty Notices (£400 fines). In the previous two years it had issued just three such notices.

- Seven "Unpaid Contributions Notices" were sent to employers who had either paid pension contributions late or not paid them at all. Only one had been issued in the previous eight quarters.

The sudden jump in non-compliance is almost certainly the result of the fact that the auto-enrolment process is now working its way down through the employer list to medium-sized employers. These do not have the human resources departments of their large counterparts, which were the early targets of auto-enrolment.
When issuing the latest data, TPR reiterated its advice that "we recommend you start your automatic enrolment planning and preparation 12 months before staging [auto-enrolment start date]." The regulator also emphasised that employers should not wait to be prompted before meeting their auto-enrolment responsibilities.
If you have not yet thought about how your business will plan for auto-enrolment, now is the time to do so. Delay could be costly, not only in terms of fines, but also reputational damage and employee relationships.
The value of investments 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.

0.5% base rates: the story continues

5 March marked the sixth anniversary of 0.5% base rates.



When base rate fell to 0.5% back in the dark days of March 2009, there were no expectations that such a low figure would endure well into the next decade. The cut to an historic low was seen as a temporary measure, soon to be reversed as normality returned to the financial world.

Six years on, near zero interest rates remain the order of the day in many leading economies: the corresponding US rate is 0.25%, the Eurozone rate is 0.05% and in Japan 0% rules. By staying put, the UK base rate has now emerged as the highest. Until last month the Bank of England's view was that cutting rates any further would not be possible because of the problems it would cause the financial system. However, the Old Lady's no-lower stance has now been abandoned: the Bank's latest Quarterly Inflation Report says that in certain circumstances it could decide "…to cut Bank Rate further towards zero from its current level of 0.5%." The Bank is confident that the financial system could now cope with lower rates.

At present the money markets are still expecting UK interest rates to rise, albeit with the first increase over a year away and 1% base rate nearly three years away. The Bank's Governor did hint that rates could rise earlier if there is a larger than expected positive economic response to lower oil prices, but after so many assorted warnings from Mr Carney since he took charge, the markets chose not to take much notice.

On the other side of the Atlantic, the possibility is growing that the US Federal Reserve will start raising rates in June. If that happened, it would be the first US rate increase since June 2006 and could cause some ructions in global markets.
Meanwhile, if you are holding money on deposit, consider yourself lucky that negative interest rates have not reached the UK yet, as they have in Switzerland and Denmark. There remain many opportunities to generate more than 0.5% income from your capital – ask us to run through the extensive shopping list.

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Pensioner Bonds get an extended lease of life

The Chancellor has announced increased availability for Pensioner Bonds.

When National Savings & Investments (NS&I) finally launched the Pensioners' Bond on 15 January 2015, there was a very predictable surge of interest. The sheer weight of applications brought problems to NS&I's administration systems, despite its Chief Executive saying "We expect these Bonds to be on sale for months not weeks and would like to reassure savers that there is no need to rush to invest".

It turns out she was rather optimistic, as by 8 February £7.5bn of the bonds had been sold out of an initial £10bn offering. This prompted the Chancellor to announce (on the Andrew Marr Show) that the bonds would remain on sale until 15 May "so that everyone who wants to invest can do so." The government is now expecting to raise £15bn, most of it probably transferred out of existing bank and building society accounts.

Some commentators were scathing about Mr Osborne's move. The new deadline looked driven by a desire to avoid unwelcome "pensioners-miss-the-boat" press coverage in the run up to polling day (7 May). From the viewpoint of government finances all the talk about "help(ing) hardworking people secure their financial futures" was, at best, hot air. The under-65 working population are effectively subsiding the 65+ part of the population through the sale of Pensioners Bonds. Based on current government bond yields, the government can borrow wholesale money for a year at an interest rate of about 0.4% and for three years at around 0.8%. Instead it is paying 2.8% and 4.0% respectively for retail money – little wonder the Treasury says the bonds are "hugely popular"!

If you are eligible to invest (i.e. at least age 65) and have not done so because you expected the offer to close very quickly, it could be worth taking advantage of the extended availability period. However, we would strongly advise that you talk to us before taking any action. While the interest rates are unbeatable, the bonds do have their drawbacks and other investments could be better suited to your circumstances.

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Tax avoidance and evasion – do you know the difference?

Tax avoidance and evasion made the front pages of the press again in February, with the distinction between the two lost on most journalists.

Let us make two things clear for a start:

- Tax *avoidance* – planning your affairs within the framework of the tax legislation to reduce your tax liability – is legal.

- Tax *evasion* – not paying tax due by withholding information from HMRC or other means – is illegal.

Tax avoidance ranges from such simple actions as investing in a fund via an ISA rather than directly to complex schemes designed to exploit loopholes in the tax law. At the benign end of the scale, HMRC will not be interested in what you do. At the aggressive end of the scale, HMRC are likely to deny you tax relief under its recently acquired accelerated payments powers and then leave you (and your fellow scheme users) to challenge their view in the courts.

Denis Healey, a 1970s Labour Chancellor of the Exchequer, famously remarked that "The difference between tax avoidance and tax evasion is the thickness of a prison wall." In reality, criminal prosecution for tax evasion is still relatively uncommon: in 2013/14 HMRC undertook 915 prosecutions and secured 716 convictions.

The HSBC Swiss account holders' list which grabbed so much coverage last month has to date yielded only one prosecution. However, that reflects both the 'dirty' nature of the information – it was stolen data – and exemptions available under HMRC's own Lichtenstein Disclosure Facility. More relevant from the Treasury's viewpoint, if not that of the editorial columnists', is that the HSBC list added £135m in tax, interest and penalties to the government's coffers. Collecting cash is generally more important for the Exchequer and HMRC than battling in the criminal courts.

If there is any lesson to be drawn from the HSBC saga, it is that tax evaders can no longer rely on secrecy. Driven in part by US legislation (the Foreign Account Tax Compliance Act - FATCA) disclosure of information between countries is becoming the norm, even for the traditional tax havens such as Monaco. Within a couple of years, the only countries still adhering to secrecy will be those where you would think twice about leaving you money.

Meanwhile, as the tax year end approaches, have you yet sorted out your legitimate tax avoidance through ISA and pension contributions?

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Back to square one for the FTSE 100

The FTSE 100 index has finally surpassed its previous peak.

FTSE 100: 1999 – 2015

Source: Trading Economics London Stock Exchange

Where were you on Friday 30 December 1999?

The chances are that, if you remember, you were preparing for a millennium party due the following day. It is most unlikely that you noticed the closing level of the FTSE 100 (Footsie) on that Friday, which in any case was a shortened trading day on the London Stock Exchange. Yet the day's, year's and for that matter decade's final Footsie reading of 6930.2 marked an all-time high for the index which was only topped on 24 February 2015.

The 15+ years it has taken for the Footsie to regain its millennial peak prompted plenty of comment, some of which suggested the performance highlighted what poor returns investing in shares offered. Alas, not all of the coverage has been well informed:

- The FTSE 100 index does not measure total investment returns, only capital returns. If you allow for reinvested dividends (received net for basic rate taxpayers), an investor in the end-1999 Footsie would, by 24 February 2015, be showing an overall return of about 67%.

- In terms of dividend income, this would have increased by a virtually identical amount: at the end of 1999 the Footsie had a yield of 2.04%, whereas on 24 February its yield was 3.39%.

- The notion that inflation had trounced investment in the Footsie is wrong, because it ignores that all-important dividend income. Price inflation between December 1999 and January 2015 (the latest available figure) totalled 52.7% based on the Retail Prices Index and 36.7%, based on the Consumer Prices Index, both below the overall total Footsie return.