

WEALTH KNOWLEDGE

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CAMPBELL & McCONNACHIE

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ECONOMY SHRINKS 2.9% DURING THIRD NATIONAL LOCKDOWN

The economy contracted by 2.9% in January 2021, according to the Office for National Statistics (ONS), as the UK entered a third national lockdown.

The ONS said restrictions put into place on 4 January 2021 to stop the spread of COVID-19 reduced economic activity during the first month of the year.

The figures are also the first since the Brexit transition period ended and show the steepest fall since April 2020, when GDP nosedived due to the first lockdown.

Despite the UK economy being 9% smaller than it was at the start of the COVID-19 crisis, the recent Budget stimulus and easing trade queues at the ports painted a positive picture.

Suren Thiru, head of economics at the British Chambers of Commerce, said: "The latest data confirms a better-than-expected start to the year for the UK economy as the third lockdown and post-Brexit border disruption combined to trigger only a relatively modest decline in economic activity in January.

"The vaccine rollout and budget stimulus will boost output as restrictions ease. However, the lingering economic effects of COVID-19, including elevated consumer and business debt levels, may severely limit the pace of any recovery.

"There are still many businesses and individuals who have, through no fault of their own, been excluded from Government support over the last year.

"Many will require help if they are to navigate a difficult few months ahead before the economy is able to fully reopen."

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INHERITANCE TAX FREEZE 'SET TO GRAB £985M' FROM ESTATES

The Treasury expects inheritance tax receipts to soar by almost £1 billion by 2025/26, following the decision to freeze two key thresholds in last month's Budget.

The nil-rate band will continue at £325,000, while the residence nil-rate band remains at £175,000 until April 2026.

This means a single person maximising these two nil-rate bands can pass on up to £500,000 with no inheritance tax liability, doubling to £1m for married couples.

The nil-rate band has remained unchanged since 2009/10, but the planned 0.5% increase to the residence nil-rate band in line with the Consumer Prices Index rate of inflation from September 2020 was abandoned.

The Treasury expects the freeze to affect around 161,900 estates over the next five years, including 12,700 new estates dragged into inheritance tax's net.

As more estates become liable for the levy, inheritance tax receipts are estimated to rise by £15m in 2021/22 before rising modestly by £70m in 2022/23.

Receipts are then poised to climb by £165m in 2023/24, followed by £290m in 2024/25 and £445m in 2025/26 to net the Treasury an extra £985m over the five years.

There are ways to beat the inheritance tax freeze such as making regular gifts to reduce an estate's value or increasing contributions into a pension pot.

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FREEZING THE LIFETIME ALLOWANCE 'TO AFFECT UP TO 10% OF SAVERS'

Freezing the pensions lifetime allowance for the next five years will affect those with the largest pension pots, according to the Treasury.

The lifetime allowance limits the amount of pension benefits that can be withdrawn from your pensions before incurring tax charges of up to 55%.

It usually rises in line with the Consumer Prices Index (CPI) rate of inflation from the previous September, in which case a 0.5% rise was anticipated for 2021/22.

But this annual link to CPI has been removed up to and including the 2025/26 tax year in an attempt to claw back huge amounts of money spent on protecting the UK economy from the financial fallout of COVID-19.

In doing so, the Treasury expects to recoup around £800 million by the end of the five years, starting with £80m this year and rising to £300m in 2025/26.

This measure could impact savers with pension wealth close to the limit when they are approaching retirement, plus those with pension wealth over this limit when they retire.

These individuals might have been expecting the lifetime allowance to continue to increase when the CPI increases, and it might influence their pension savings behaviour.

Nigel Peale, director of policy at the Pensions and Lifetime Savings Association, said: "The freeze will affect about 10% of savers, not all of them wealthy, but usually those on higher salaries with a lot of pension savings.

"Employers should encourage their staff to check the size of their pension pot and, if close to £1m, consider seeking financial advice."

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FIRST ENVIRONMENTALLY-FOCUSED GREEN SAVINGS BOND SET TO LAUNCH

Green savings bonds are to hit the UK market this summer, giving investors the chance to buy into projects helping to make the UK a low-carbon economy.

The bond will be offered through the government-backed savings organisation, National Savings & Investments (NS&I), which also offers premium bonds.

The new accounts will enable savers to invest in green projects, with the funds raised going towards cutting the UK's greenhouse gas emissions to net-zero by 2050.

The size, price, yield, term and structure of the new NS&I green savings bond has yet to be determined. But with environmental concerns beginning to take hold with savers and investors alike, the new bond is likely to be popular.

Whether the green savings bond will follow the format of premium bonds, where investors have the chance to win cash prizes of up to £1 million, remains to be seen. Alternatively, they could simply pay a fixed rate of interest.

Chancellor Rishi Sunak said:

"The UK is a global leader on tackling climate change, with a clear target to reach net-zero by 2050 and a ten-point plan to create green jobs as we transition to a greener future.

"In a world-first, we're launching a new green savings bond which will give people across the UK the opportunity to contribute to the collective effort to tackle climate change."

Reports suggest the Government will sell the new bond in two tranches this summer, and hopes to raise £15 billion in the process.

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IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. Pensions eligibility depends on individual circumstances.

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