26 November 2021

COLLECTIVE financial planning

Talking points

In this edition we explore the rising popularity of equity release, ways to beat inflation, when interest rates could rise, what your rights are when it comes to bank fraud, and more.

INVESTING

Where to invest to beat inflation

Inflation around the world has been riding high this year as economies have reopened following the pandemic-induced lockdowns. There are various reasons, including the release of pent-up demand as well as supply bottlenecks and shortages as global patterns of trade reassert themselves. Higher energy prices and a tightening labour market have also added to inflationary pressures. Central banks believe it's a temporary phenomenon and that things will soon settle back down. However, prices could continue to rise at a faster pace than we've been used to over the past couple of decades.

Inflation is bad news for savers because it eats away at the spending power of your money. With interest rates so low at the moment, any money in a cash savings account is actually falling in real terms. An inflationary environment can also be challenging for investors. Yet a diversified portfolio that provides exposure to a broad range of assets, including both equities and bonds, as well as different geographical regions is usually the best way to protect the value of your money and provide opportunities for both income and growth. Professional investors have the skills and experience to identify companies best placed to maintain their profits as well as other assets that tend to perform well when inflation is elevated.

MORTGAGES

Equity release surges in popularity

A surge in homeowners looking to free up cash from their properties propelled the figure for equity release to £1.05bn in the three months to the end of September, driven by high house prices, gifts to family members and uncertainty caused by the coronavirus pandemic. The value of equity released jumped by nearly one-fifth from £884m in the third quarter of 2020. While the number of loans taken out was slightly down year on year, the average amount of housing wealth freed up was 23% higher, at £101,593 per borrower.

More than two-fifths (42%) of the cash given to family and friends was used for house deposits. For homeowners over the age of 55, equity release offers a way of unlocking the value of their properties, whether for home improvements, paying off other debts or to help family members. Those who use equity release at a younger age risk accumulating a much higher interest bill when the moment comes to sell, so many advisers recommend people hold off for as long as they can before taking out a loan. Equity release is not for everyone and it's important to seek professional advice before making any decisions.

TAX

HMRC drives to digitise

Making tax digital (MTD) for VAT went ahead for businesses with a turnover of £85,000 or more in April 2019 and will apply to all remaining registered businesses from April 2022. They will no longer be able to type the figures for their VAT returns directly onto the template within their HM Revenue & Customs (HMRC) online filing account. Instead, they will only be able to submit the figures from accounting software or specially enabled spreadsheets. Along with businesses, this applies to overseas businesses, charities, local authorities, academy schools and government departments.

Exemptions for the MTD technology will be made for businesses that are not able to use the technology or have moral or religious grounds for not using it, as well as the elderly or infirm or those that cannot access digital technology. In addition to filing the VAT return figures, there are now extra record keeping requirements (like a new digital VAT account) and data transferred between sources will need to be done with digital links (from accounting software to spreadsheet and vice versa or from third-party sources).

ECONOMICS

When will interest rates change?

The Bank of England is under mounting pressure to increase interest rates in December after inflation rose to the highest level in a decade in October amid the squeeze on living standards from soaring household energy bills. A sharp increase in gas and electricity prices pushed inflation as measured by the Consumer Prices Index to 4.2% in October, up from 3.1% in September – its highest rate since November 2011. This is higher than economists forecast and more than double the Bank of England's 2% target. The jump in the annual inflation rate was also driven by higher prices in restaurants and hotels after a partial removal of a VAT cut for the hospitality sector, as well as soaring prices for second-hand cars.

Much of the increase reflected depressed price levels a year ago as the coronavirus pandemic dragged down economic activity around the world. The Bank of England forecasts inflation will peak at close to 5% next year in a temporary increase, before gradually fading back towards its 2% target as disruption caused by the pandemic recedes. These developments prompted speculation that the Bank of England might increase interest rates in December, although the governor of the Bank of England's recent comments about the labour market and inflation situation suggest a rise in December is not yet a done deal.

Did you know?

Income protection insurance typically pays out 50% to 65% of your income if you are unable to work because of illness or injury. This type of protection could cover your mortgage or essential bills, giving you some peace of mind.*

*www.moneyhelper.org.uk/en/everyday-money/insurance/what-is-income-protection-insurance

FINANCIAL FRAUD

Compensation for victims of APP scams

The Financial Ombudsman Service, which manages disputes between financial firms and customers, is ruling against banks in 73% of authorised push payment (APP) fraud cases, according to data obtained by Which? This means if you have been tricked into sending money to a scammer, you may be able to get a refund from your bank. The biggest banks are signed up to the voluntary Contingent Reimbursement Model (CRM) Code, which is designed so victims of APP fraud are treated fairly and consistently when they ask for compensation. If your bank refuses compensation, you can escalate your case to the Financial Ombudsman Service (FOS).

The number of customer complaints about banks' handling of authorised fraud (the vast majority of which are APP) to the FOS more than doubled in the 2020/21 financial year, from 3,600 to 7,770, and three-quarters of these were upheld in favour of the customer. Banks are required to refund you for some losses, such as card fraud, but not APP fraud. The voluntary CRM code was launched in May 2019 and requires signatory banks to provide effective warnings to customers, identifying vulnerable customers and acting quickly when a scam is reported. Crucially, signatory banks must reimburse customers even if both parties have done nothing wrong. Data shows that many victims have been wrongly denied compensation but haven't approached the FOS. Escalating a complaint to the FOS is free and can be done online, but not all victims will be aware of the service or able to use it effectively.

Collective Financial Planning Ltd
Suite 625 Milton Keynes Business Centre, Foxhunter Drive
Linford Wood
MK14 6GD

01908 062448

info@colfinancial.co.uk
www.colfinancial.co.uk