NEWSLETTER

CLAIRVILLE YORK FINANCIAL ADVISERS

HMRC Interest Rates

HMRC has come under widespread criticism for what is seen as an unfair differential in the interest rate it pays to those who over-pay their tax and the rate it charges those who owe tax.

The recent increase in the Bank of England's base rate has led to an increase in the penalty rate of 0.25% to 3.25% while the repayment rate has been frozen at 0.5% - where it has been since 2009.

The penalty rate being high (best cash ISAs were paying less than 2% on 31st August 2018) is understandable really as being a very clear incentive to pay tax speedily. Paying such a low rate on repayment, however, seems less defensible, especially given that such repayments often arise from errors at HMRC.

A spokesperson for HMRC responded to the criticism by saying 'The rate we pay on repayments never falls below 0.5% even when the Bank of England base rate is low'. The statement continued 'The different interest rates provide fairness to taxpayers who pay on time……..it is only right that those who don't, pay a higher rate of interest…'

All of which emphasises the need to ensure that tax returns are checked thoroughly and both under and over payments are avoided – since both seem to be penalised by this system.

An end to high pension transfer values?

The introduction of 'Pension Freedoms' in the 2015/16 tax year led to a massive growth in interest in transferring pension pots from 'defined benefit' pension schemes to personal arrangements so that the funds could be accessed as lump sums instead of as regular income.

In fact, these transfers were already fairly popular as the long term trend for reduced annuity rates (caused by falling gilt yields and increased longevity) meant that funds which promised a guaranteed level of income had been increasing in value for some years.

Recently, as highlighted by events surrounding the British Steel pension fund, there have been other reasons for scheme members to consider transferring out of the scheme and these, combined with the sheer size of some of the transfer amounts being offered, have led to significant numbers taking up the transfer opportunity.

The Pensions Regulator (TPR) has become concerned about this, not just because of the financial risks to those transferring funds out of the scheme (although those can be considerable) but also for the potential harm done to those who remain in the scheme.

The TPR has written to around 14 schemes so far this year questioning whether the methods used to calculate transfer amounts for departing members remain appropriate.

The potential problem would occur where the employer sponsoring the scheme is going through a period of apparent turmoil (merger, sale etc) which may lead to a reduction or even cessation of employer contributions in the future.

Some schemes are offering quite generous transfer payments to departing members, even where the scheme is in deficit. If large numbers leave such schemes sponsored by an employer which seems vulnerable, there is a risk that the scheme would be depleted to the extent that remaining members would be at risk of not receiving their full pensions.

The TPR's letter is not an instruction, nor should it be taken as meaning that a particular employer or scheme has problems, it is simply a reminder of the factors which trustees must consider when calculating transfer values – a real balancing act to ensure that leavers and those who remain are both treated fairly. Few schemes would actually need this reminder as most are well administered.

Banks should treat fraud victims (more) fairly.

It seems that 'scams' of all sorts are constantly in the news and that they grow in complexity and sophistication all the time. With one of the more sophisticated scams, 'authorised push payments', victims have been blamed for their own loss by the banks. This isn't a minor issue; victims lost a total of around £236 million to these push payment scams in 2017 alone. It is estimated that around £1 billion has been lost in this way since 2014. In many cases, banks have refused compensation to victims due to the victim's 'negligence' in having authorised the payments. Individual victims have lost an average of £3,000 each to these scams.

The Financial Ombudsman Service (FOS), which is the main arbiter of complaints about products and services in the UK's financial services market, has instructed banks to provide customers with better protection in the form of the introduction of round the clock fraud detection lines and enhanced response times.

Authorised Push Payment fraud is, in simple terms, a fraudster persuading a victim to transfer funds out of their own account and into one which the fraudster has access to.

Examples cited include victims who responded to 'phone calls or e mails purporting to come from their banks by giving an authorisation code to 'check security', fraudulent payment requests from someone representing themselves as the victim's conveyancer and asking for payment of a deposit etc. etc.

Proposed new rules start to come into effect this month.

Relevant bodies have produced a website – www.takefive-stopfraud.org.uk which explains how to protect yourself against this type of fraud and includes a useful video and self-test.

No resposibility can be accepted for the accuracy of the information in this newsletter and no action should be taken in reliance on it without advice. Please remember that past performance is not necessarily a guide to future returns. The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested.

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