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The Budget: an end to austerity?

The 2018 Budget – delivered on a Monday for the first time since 1962 – produced a number of surprises, not least some high-profile 'giveaways'.

Announcements in the Budget included:

- A £650 increase in the personal allowance to £12,500 for 2019/20, the level originally pencilled in for 2020/21.
- A £3,650 increase in the higher rate threshold to £50,000, again targeted for 2020/21.
- A £25,000 increase in the pension lifetime allowance to £1,055,000 from April 2019.
- A one-third reduction in business rates on smaller retail premises, starting from next April.
- An increase in the annual investment allowance (AIA), from £200,000 to £1,000,000, from January.

However, Mr Hammond's generosity was not all it appeared. For instance, the personal allowance and higher rate threshold will both be frozen in 2020/21, while the business rates reduction and higher AIA will only last for two years. The Chancellor also kept many tax thresholds and allowances unchanged.

A good example of the impact of frozen thresholds is the personal allowance that will continue to be tapered from an income level of £100,000. This threshold has applied since April 2010, and it creates high marginal rates for some taxpayers. Combined with the increase in the personal allowance, for income between the taper threshold of £100,000 and the starting point for additional rate tax of £150,000:

- the first £25,000 will be taxed at up to 60% (61.5% in Scotland); and

- the next £25,000 will be taxed at 40% (41% in Scotland).

By far the largest element of spending announced in the Budget was for the NHS. Investment is £7.35bn out of a total £15.09bn in 2019/20, rising to £27.61bn out of a total £30.56bn in 2023/24. With such large amounts to secure for the health service, the Chancellor has limited scope to reduce personal tax in the medium term.

If you would like to discuss the impact of the Budget on your finances, please get in touch.

✢ *Tax laws are subject to change.*

The Financial Conduct Authority does not regulate tax advice.

Inflation eating into the value of savings

Inflation still outpaces nearly all available deposit rates.

At the end of September, the US bank, Goldman Sachs, launched a new online easy-access savings account in the UK under the name of Marcus. It has offered a similar account in its home territory since 2016, gaining over 1.5 million customers according to the bank's second quarter results. In the UK, 50,000 Marcus accounts were opened in the first fortnight after its introduction.

Marcus gained heavy press coverage at launch, not least because the interest rate on offer was – and at the time of writing, still is – top of the instant access league tables. The headline rate is 1.5%, but that is not quite the whole story. The rate is actually a variable 1.35%, plus a 0.15% 'bonus' payable for the first 12 months. However, even the 1.35% would leave Marcus very close to the top of the league tables.

UK banking history is littered with new-name deposit accounts that were league-topping at launch, only to disappear without trace a few years down the line, such as ING Direct or Cahoot. The strategy Goldman Sachs has adopted with Marcus in the US, however, has so far kept the account in a leading position: it is paying 1.95% against a national savings rate average of just 0.32%.

However, to paraphrase a common warning, past performance (in the States) is not necessarily a guide to the future (in the UK).

In the UK, Marcus's 1.5% interest rate is still 0.9% below September's CPI inflation figure of 2.4% or, if you prefer the old RPI measure, 1.8% short. Short-term interest rates, as measured by the Bank of England Base rate, have been below CPI inflation for much of the last 10 years. Even if you had an account consistently paying 0.75% above base rate (the dotted line), as Marcus is currently, your cash would still have lost buying power – and that is before considering any tax on interest.

There is no argument that Marcus is a competitive account, but it is perhaps not a long-term investment choice. If you would like to discuss your investment options, please get in touch.

✢ *The value of your investment 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.

Long-term lessons from a record bull run

The US stock market recorded its longest ever bull run in August.

A new record was set for the Standard & Poor's 500 (S&P 500) index on 22 August 2018, when the market reached the 3,453rd day of a run that started on 9 March 2009.

The S&P 500's current bull market saw the index increase in value by 331% since March 2009, equivalent to an annual growth rate of 16.6%, before any dividends are considered. Over the same period the UK benchmark, the FTSE 100, little more than doubled in value.

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Investment strategies

The nine years of US bull markets offer investors some lessons:

- **International diversification of investment can deliver rewards.** Many leading UK-listed companies are multinational, but none have matched the performance of the likes of Apple or Facebook.
- **Currency can play a part in adding to returns – or reducing them.** Changes in currency valuations impact on both foreign-listed shares and UK-listed shares of companies with overseas earnings.
- **Timing entries and exits to markets can be difficult.** US markets have seen a few small dips since 2009, but staying invested and ignoring the market 'noise' has proved to be a sensible strategy.

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Annuity options for long-life planning

Life expectancy has stopped increasing according to a report from the Office for National Statistics (ONS) issued in September, but we are still living longer than ever before.

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Between 2000 and 2010, average life expectancy at age 65 rose by 2.4 years for men and by 1.8 years for women. However, since 2010 improvements have slowed markedly and the latest figures from the ONS show that, on average, a man aged 65 in 2015-2017 could expect to live for another 18.6 years, while a woman aged 65 could survive for a further 20.9 years.

The important word here is 'average'. Calculations by the ONS suggest that at age 65 there is a one-in-four chance of a man living for another 29 years, to 94, and a woman living another 31 years, to 96.

The annuity option

Investing in an annuity is the only way to guarantee income for however long you live, but they have recently fallen out of favour. The latest FCA figures suggest over five times as much money is placed in income drawdown as annuities, despite drawdown's greater complexities.

The important role of annuities in providing secure income is in danger of being ignored. Annuity income can be structured in a variety of ways, building in automatic increases – for instance in line with inflation – minimum payment terms and/or continuing until the second death of you and your partner.

If you would like more information on annuities, perhaps to provide a core level of retirement income alongside drawdown, please talk to us. We can supply guidance based on your health and lifestyle circumstances.

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HMRC focusing on inheritance tax returns

HMRC investigated almost one in four inheritance tax (IHT) returns in 2017/18, according to research published in September by UHY Hacker Young.

HMRC can impose penalties of up to 100% of the tax due on UK estates that underpay. These penalties apply even though it is often a family member who acts as executor after a relative has died. This is a stressful time, but executors have a legal duty to ensure all information is correct when applying for probate or filing an IHT return.

Particular care should be taken to ensure property values reflect current market conditions, and that assets are not omitted from the return.

Not all estates will be liable for IHT. The rules can be complex, so seek advice if necessary.

✢ *Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.*

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