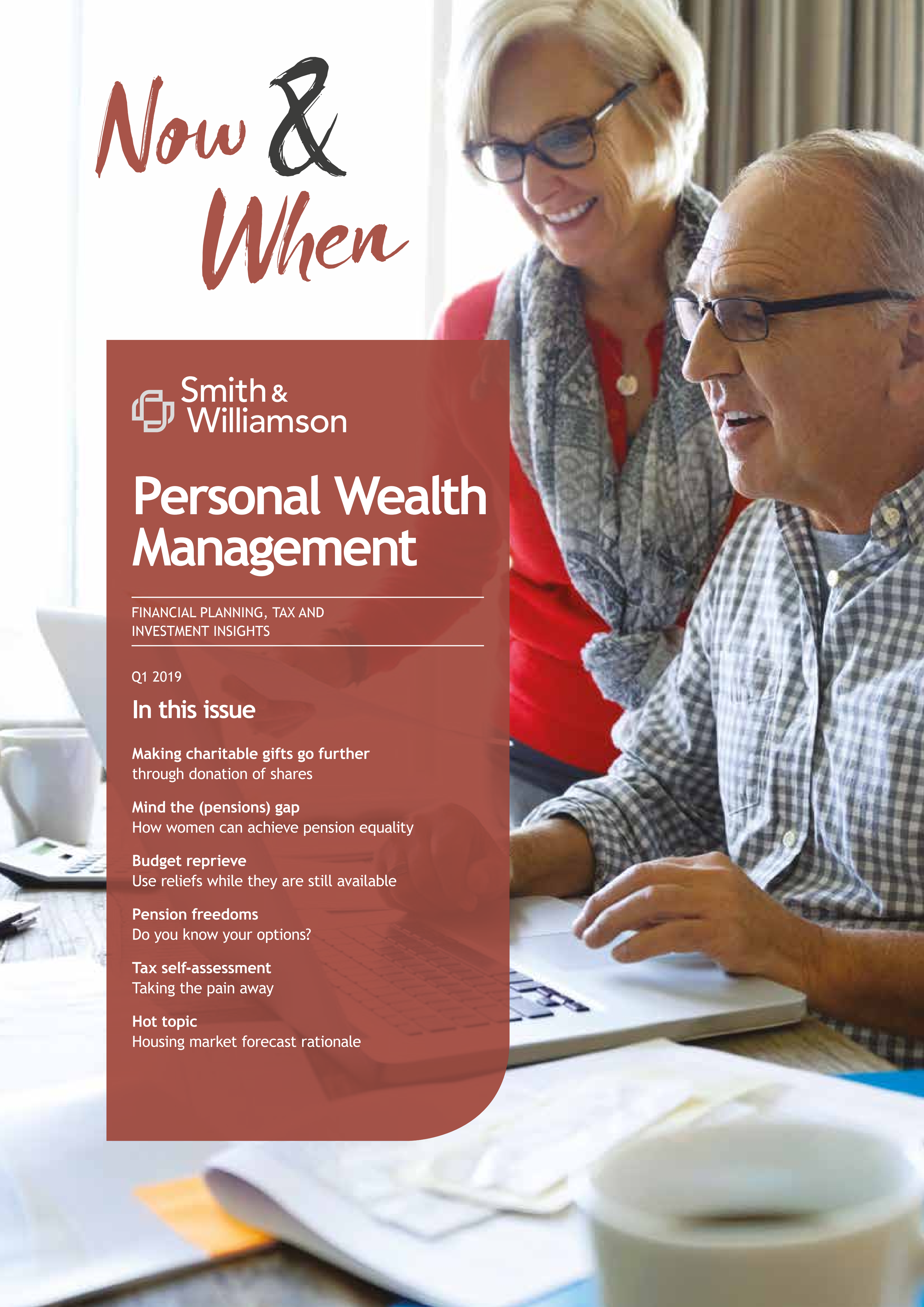

Now & When

Smith & Williamson

Personal Wealth Management

FINANCIAL PLANNING, TAX AND
INVESTMENT INSIGHTS

Q1 2019

In this issue

Making charitable gifts go further
through donation of shares

Mind the (pensions) gap
How women can achieve pension equality

Budget reprieve
Use reliefs while they are still available

Pension freedoms
Do you know your options?

Tax self-assessment
Taking the pain away

Hot topic
Housing market forecast rationale

Now & When

Leaving a legacy

Managing your taxes

Building your wealth

Receiving a legacy

Preparing for retirement

Gifting your wealth

Managing life changes

Exiting your business

Dealing with divorce

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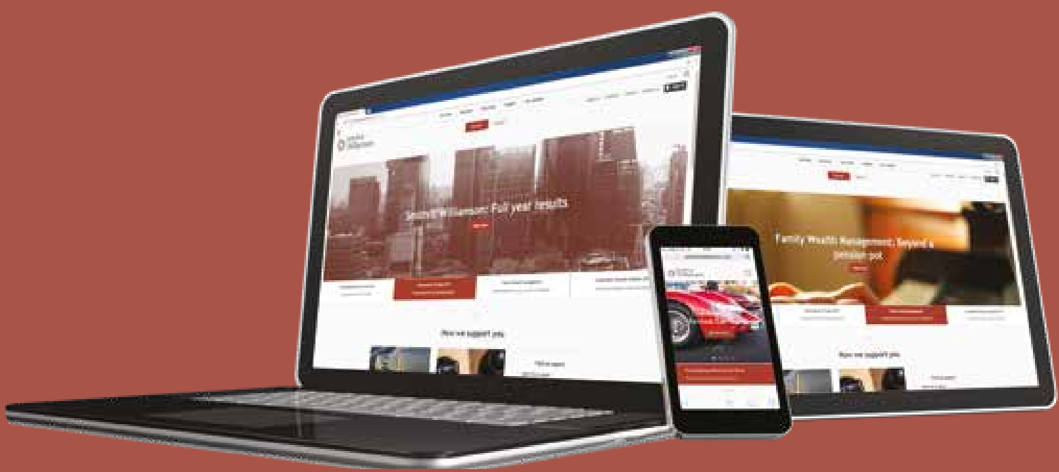

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Foreword

Welcome to our *Personal Wealth Management* newsletter. These are particularly unpredictable times and we hope it will help you identify and navigate some of the key financial challenges in your life, helping you prepare for whatever lies ahead.

We provide some insight into the current economic outlook, through our investment outlook and a look at the UK housing market. Today's financial markets are creating a lot of 'noise' but looking longer-term and reassessing your own financial goals can help avoid short-term and poorly timed decision-making.

Pension provision is an important part of a long-term financial plan. It remains a sad inevitability that while women are achieving equality in many walks of life, on pension provision, they still lag considerably. On average, a woman's total pension pot will be about one-fifth that of a man, thanks to a combination of poorer salary, career breaks and slower progression. We look at some ways families can address this gap.

At the same time, pension freedoms have brought new options. Happily, they were untouched in the recent budget — but the implementation of those freedoms by individual pension providers has been piecemeal. We ask whether your pension contract offers the freedom you need.

Tax reliefs on pension contributions remain under threat and investors may wish to make the most of the allowances while they still can. We look at how to do that.

Please remember we are here to help. Our investment management, financial planning and tax specialists can help set you on the right path and support you whatever challenges you face. ■

Investment Outlook

The global economy is in the middle of a soft patch

With a number of recent key indicators showing slow growth in the global economy, some have speculated that we are heading for a recession. What therefore is the prospect of recession risk to financial markets in the coming months?

As a backdrop, the International Monetary Fund (IMF) recently lowered its 2019 global output growth expectations to 3.5%, its second downgrade in three months and the lowest rate for three years. Sluggish growth has been captured in some recent macro data releases reported in January. For instance, US pending home sales declined nearly 10% from a year ago, the biggest contraction in 5 years, French consumer confidence fell sharply following the yellow jacket (or gilet jaunes) demonstrations, and Chinese auto sales fell 5% in 2018, the first annual decline for 30 years. The partial shutdown of the US Federal government through most of the month, and the still unresolved trade spat between the US and China, adds another layer of uncertainty to the economic outlook.

Even so, January also saw some positive developments. First, the US announced its biggest increase in payrolls for nearly a year, with another increase in average hourly earnings, and a rise in the participation rate. This broadening and deepening in the labour market should put the economy on a solid foundation. Second, US personal spending has picked up, as evidenced by online shopping sales that rose over 20% from a year ago, during the important Christmas season. Third, the Chinese central bank announced additional monetary stimulus to complement tax cuts for both Mainland consumers and businesses this year. And fourth, Fed Chair Powell gave some dovish comments, to suggest the US central bank is flexible and prepared to adjust policy tightening if required.

On balance, it is our assessment the global economy is in the middle of a soft patch, rather than heading for a hard economic landing that could entail material risk for financial markets. Provided economic growth stabilises (our base case view), equities can rally from current attractive valuations and oversold positions.

Approaching Brexit crunch time

The UK is set to leave the EU on the 29 March 2019. However, following Prime Minister May's heavy defeat over the "meaningful vote" on the government's withdrawal plan from the EU in the House of Commons in January, sterling appreciated against the US dollar, suggesting the foreign-exchange market believes the UK may not actually leave the single market at the end of March. And in what has been a pretty hectic month, the government survived a vote of no confidence tabled by the opposition Labour party, as Tory Brexiteers and the DUP, the government's confidence and supply partner, gave their support to the embattled PM. The UK is in the bizarre situation where Tory backbenchers have confidence in the government, but no confidence in its flagship Brexit-policy.

In terms of market risks, Brexit-related scenarios can really be grouped into two broad buckets. The first bucket includes the less risky options for equities (at least initially), such as an orderly Brexit or no Brexit (either through revoking Article 50 or extending Article 50).

The second bucket includes the riskier options of no deal Brexit and a possible left-wing Jeremy Corbyn-led Labour government if a snap election were called. Indeed, based on current opinion polls, Electoral Calculus, a general election predictor, predicts 280 seats for Labour, 41 for the SNP and 291 for the Conservatives in the 650-seat House if an election were to be held now. Assuming the speaker and 3 deputies do not vote, and Sinn Fein do not take up their seats in the Commons, Labour could, with the help of the SNP, form an effective working majority with 321 seats in the House.

A no deal Brexit or snap election could lead to substantial UK capital outflows. To put this risk into some perspective, Bank of International Settlements data shows the EU has cross-border claims of nearly GBP1trn on the UK, while the UK has claims of GBP572bn on the EU. Should the UK's relationship with the EU end in acrimony, under a no deal Brexit scenario, or Labour introduces higher tax rates under a new government, capital could leave the UK quite quickly. This could lead to sterling depreciation and a mark-down in UK financial asset prices.

With the clock running down, it is unclear how this deep political crisis in the UK will unfold. Both major political parties are split on which direction to go on Brexit. Though parliament is trying to wrestle with the government over how to use the available time in the House to agree a deal with the EU, the uncertainty created by Brexit is filtering through to sentiment and the real economy. For instance, with UK consumer confidence at its lowest level since mid-2013, retail sales volumes slumped in December. Given these political and economic risks, we believe that investors should be looking outside the UK for better equity returns.

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On balance, it is our assessment the global economy is in the middle of a soft patch, rather than heading for a hard economic landing that could entail material risk for financial markets.

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Making charitable gifts go further through donation of shares

For any client wishing to support a charity, it is worth bearing in mind that there are a number of ways of making their gift go further, thanks to generous tax reliefs from HMRC which they can take advantage of with the help of their Investment Manager.

As well as claiming income tax relief on the value of their donation, be that cash or shares, any shares (or property) gifted to charitable organisations are free from the capital gains tax that an individual would be subject to, should they gift these assets (to anyone except their spouse) or indeed sell them in the open market.

'Gift Aid' is the most commonly claimed relief and this goes straight to the charity the individual chooses to support. HMRC recognise that, for a basic rate taxpayer, a gift of say, £1,000 from 'net' salary would have cost the donor £1,250 of their 'gross' annual earnings. The charity is able to reclaim the tax paid by the individual through the Gift Aid scheme. In the financial year ending 2017, this amounted to £1.3bn for the benefit of charities across the UK. Those paying income tax at higher rates can reclaim further tax relief through their self-assessment.

Gifting shares is slightly more complicated, but can be more beneficial when the shares in question have appreciated significantly in value since the initial investment was made.

Once a higher rate taxpayer has exceeded their capital gains allowance for the year (currently £11,700), any further sale of securities, or gifts, are subject to a 20% charge on any appreciation in value since purchase. Gifts of publicly quoted shares to charity however will not result in a Capital Gains Tax liability. Further to this, as Gift Aid cannot be claimed by the charity when accepting shares, all of the income tax relief is to the benefit of the donor.

With the example above, if, instead of a cash donation of £1,000, the gift had consisted of shares with a market value of £1,000 and these shares had appreciated in value by 100% since their original purchase, i.e. the investor had bought the shares for £500. Any market sale of these shares would result in a tax liability of £100 (£500 gain x 20%). Instead, by gifting these shares straight to charity, the individual would save the £100 Capital Gains Tax, whilst their taxable income for the year would also be reduced by £1,000.

Larger, more established charities, will have their own investment portfolios into which clients can transfer shares. If interested, your investment manager and their team will be able to suggest a holding with significant gains and arrange the gift. For UK charities, this is very easy to do and the transaction will be reflected in your capital gains 'tax report' at the end of the year, (although should still be highlighted to your accountant).

For smaller charities, the transfer of shares can be harder to arrange and new transaction reporting standards mean that it may no longer be possible for shares to be sold whilst still held in the donor's investment account, if the gain is to be recognised as the charity's and not the donor's.

As a means of overcoming this obstacle, clients of Smith & Williamson who also have accounts with the Charities Aid Foundation (CAF) can ask to have shares transferred into the Charities Aid Foundation dealing account at Smith & Williamson. Once held in this account, Charities Aid Foundation will be able to instruct the sale of any shares, and the proceeds transferred to the individuals own 'CAF' account, for distribution as and when they see fit, keeping administration to a minimum for smaller charities. CAF should also be able to assist any client who wishes to make a donation to a charity overseas.

It is also possible to gift shares to organisations such as ShareGift although, in this case, and particularly for smaller holdings, it is not always possible to specify the specific charity that will be supported. Since ShareGift was set up in 1996, over £29m has been channelled to charities through the organisation.

To conclude, for clients subject to tax on significant capital gains across their portfolio, gifting shares rather than cash can be a logical and efficient alternative, and can ensure that even modest gifts go much further. ■

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Managing life changes

Exiting your business

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Mind the (pensions) gap

Women may be achieving equality in many walks of life, but on pension provision, they still lag considerably. On average, a woman's total pension pot will be about one-fifth that of a man, due to a combination of lower salary, career breaks and missed opportunities.

The Chartered Insurance Institute found in October 2018 that the average pension wealth for women at age 65 is £35,800, one-fifth of a man's at the same age and a fraction of their financial needs even if they don't need end of life care. To put this in income terms, a woman's average pension pot would buy a retirement income of just £1,704, while a man's would bring £8,520.

These are averages, but even at the higher end, we see poor recognition of the importance of women's pensions. Even though it is tax efficient for married couples to use both pension allowances every year, particularly given the restrictions on tax relief for high earners, it is not a priority for many.

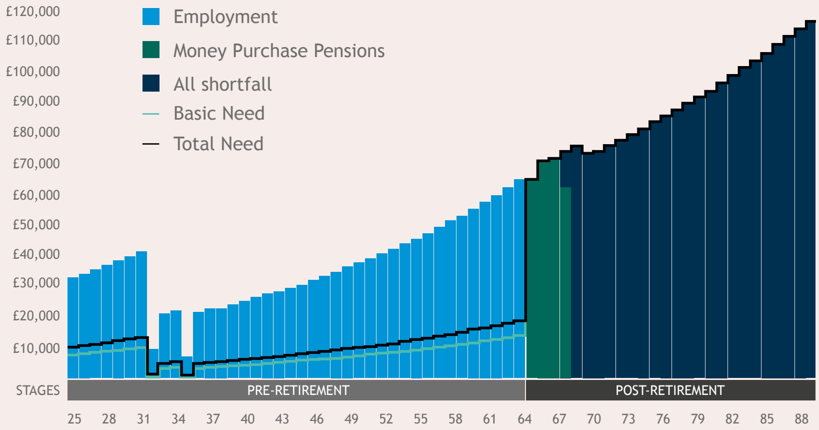
On the following page we look at how different approaches to saving can make a difference to women's outcomes in retirement. At one end is 'Jane', who is risk averse and uses lower risk options for the majority of her savings pot. She goes back to work part-time after her two children are born and saves 10% of her salary. In this scenario, with portfolio growth of 3% per annum, she runs out of money just 3 years into her retirement.

At the other end of the spectrum is 'Angela' who returns to work full time after her two children are born, saves 20% of her salary and achieves an investment return of 6% per annum. She manages to achieve a secure income in retirement and her pot should last for her full life expectancy of 89.*

When contemplating retirement income, there are a number of key variables. First, it matters how much goes in the pot. This seems self-evident, but there was a time when pension schemes were based on final salary at retirement. Companies have largely abandoned these schemes as they were costly to run and now it is all about contribution levels.

The pension gap is often exacerbated due to women tending to earn less. The gender pay gap for the year to April 2018 for full-time workers was 8.6%. This is down from 9.1% in the previous year, but still represents a sizeable difference. Pension contributions from employers are usually based on a percentage of salary, so this matters for overall pension savings.

Case study: Jane and Angela



Jane

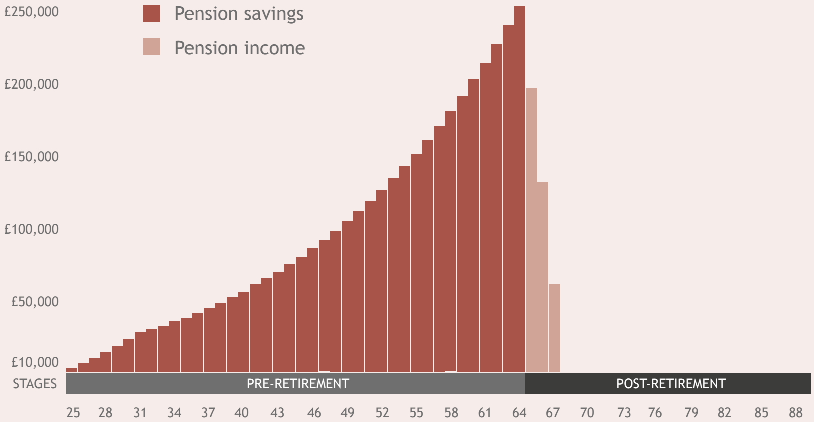
Investment type: Cautious portfolio

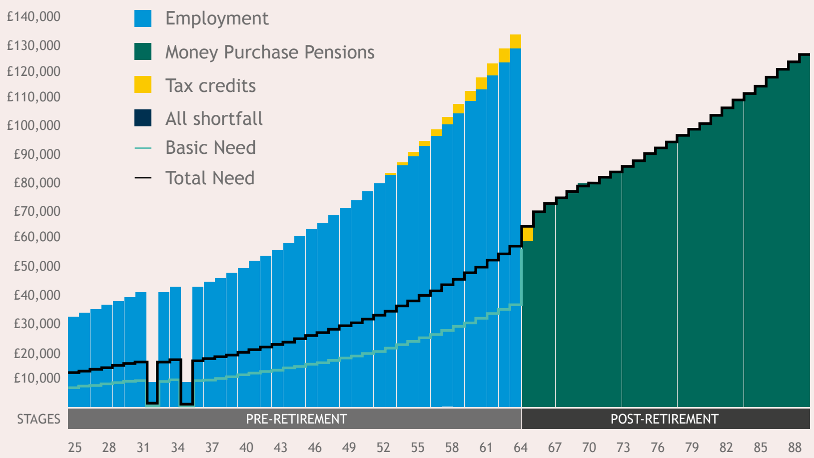
FT/PT: She goes back to work part-time

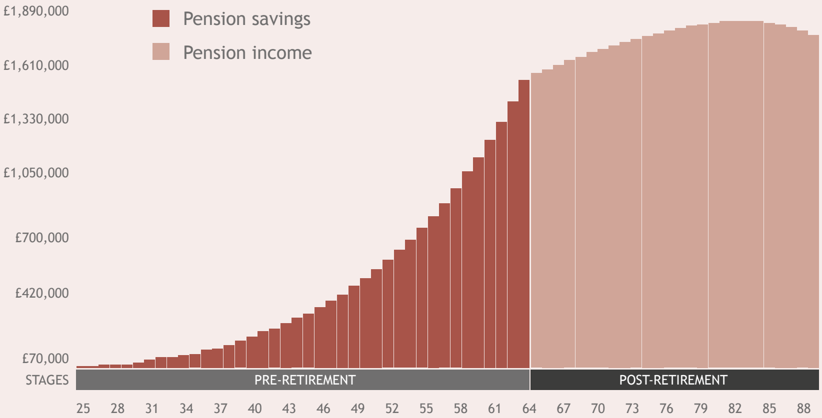
Savings contribution: 10% of her salary

Portfolio growth: 3% per annum

Result: Runs out of money just 3 years into her retirement.







Angela

Investment type: Balanced porfolio

FT/PT: She goes back to work full-time

Savings contribution: 20% of her salary

Portfolio growth: 6% per annum

Result: Achieves a secure income in retirement and her pot should last for her full life expectancy of 89*

Also problematic is that more women than men tend to work part-time after having children. This not only means they are paid less, but it can also stall their career progression. By the time a first child reaches 20, mothers earn almost a third less, on average, than similarly-educated fathers, according to February 2018 research from the Institute for Fiscal Studies (IFS) undertaken for the Joseph Rowntree Foundation.

Even if women do return to work full time after having children, they may see a reduction to their pension contributions during their maternity leave. This can dent their overall pension pot. Contributions will only be paid as a percentage of annual salary, which can be lower during maternity leave, depending on the firm's maternity policies.

Any gap or fall in contributions can have an important compounding effect. If a woman loses, say, £10,000 in contributions and does not make it up, this could equate to a circa £43,000 loss (assuming a growth rate of 5%) in their final pot 30 years later.

There are lessons to be learned here. The first is to keep contributions as high as possible for as long as possible. That means starting early and keeping contributions going through maternity leave or other career breaks. This may mean contributing to a wife's pension pot during these breaks for married couples. This can also be a tax efficient way to approach it and seeking financial advice regarding this matter is recommended.

The benefits of starting to save early should not be underestimated. Recent research from Fidelity shows how this can make a difference. It showed that Investor A, invests £1,000 a year into the stock market from the age of 18 and keeps doing so for the next 20 years. By the time they reach 38, and based on an annual return of 5%, their investment would be worth £34,719. If they were to make no further contributions, but their investments continued to grow at 5% return each year, by the time they reach 65, their investment would have grown to £129,623.

In contrast, Investor B, doesn't start investing until they are 38. Even if they invest the same £1,000 a year and achieve a 5% per annum return, they can't catch up. At 65, Investor B's portfolio is worth £57,403, less than half of investor A's. Starting early is vital for women if their earnings are likely to become less predictable later in life.

Another variable is investment risk. Women are often reluctant investors – outside their pension, just one fifth of women have any investment portfolio at all, compared with 33% of men. 52% of women prefer to look at low risk investments despite being aware they will receive lower returns, compared with just 36% of men. Just 0.7% of women prefer taking a higher risk with their savings to gain from better returns in the long-run.

> ...keep contributions as high as possible for as long as possible.

This is a problem, particularly given lower contribution rates. A monthly contribution of £1,000 over 30 years, growing at 6% per annum gives an overall pot of £1,004,515. The same contribution over the same time period growing at 3% per annum gives a pot of £582,737. Investors are almost halving their retirement income. The reality is that no matter how scary it feels to watch the capital value of a pension pot bounce around, this is a long-term investment. Contributions are often made monthly, so even if the capital value is falling, those contributions are being invested at a lower level. This should help smooth volatility over time.

There is no magic formula to improving women's retirement outcomes. It should improve as the gender pay gap closes and auto-enrolment rates rise. However, it won't happen by accident. It is important to recognise the role that contribution levels and investment growth play in building a pension pot over time. ■

***Case study assumptions**

Jane and Angela starting salary - £32,680

Jane and Angela start work and pension contributions aged 25

Salary increases – 4%

After returning from maternity leave
Part-time – 50% of salary prior to going on leave
Full-time – 100% of salary prior to going on leave

Maternity pay calculation – paid for 39 weeks. 6 weeks at 90% of weekly salary; £145.18 for 33 weeks; 13 weeks unpaid.

Pension calculations: Full time – 50% of final salary each year, inflation-linked at 2.5%. Part-time – 100% of final salary each year, inflation-linked at 2.5%

Sources:

'Annuity rates set for second successive year of rises' - FT Adviser, 7th August 2018
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www.mhpc.com/wp-content/uploads/2018/07/Women-investing_what-are-the-hurdles.pdf

Institute for Fiscal Studies (IFS) undertaken for the Joseph Rowntree Foundation – 5th February 2018
The Chartered Insurance Institute's (CII) *'Insuring Women's Futures'* – 24th October 2018

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Budget reprieve: Use reliefs while they are still available

In spite of fevered speculation, the Chancellor kept most investors' reliefs intact in this year's Budget. As things stand, tax relief on pensions, capital gains, inheritance and for entrepreneurs are largely untouched. However, these reliefs remain under threat and investors may wish to make the most of the allowances while they still can.

The Chancellor has said there could be another Budget in the event of no deal being reached with the European Union on the terms of the UK's exit. This may require tougher measures with 'fiscal buffers' maintained to provide support for the economy.

Below is an overview of the valuable reliefs available – for now:

Inheritance tax

Even though people do not choose when they die, they can make the most of their gift allowances. There could be significant benefits if wealth can be passed on to the next generation while a person is still alive.

Specifically:

- They can give away £3,000 worth of gifts each tax year (the limit applies to each individual, not to each gift). They can also carry any unused annual exemption forward to the next year.
- They can make regular small gifts out of income, if they can show that giving the gifts left enough for their usual standard of day-to-day living.
- They can give limited gifts on celebration of marriage. Gifts to charities and political parties also fall outside the IHT net.
- They can make 'potentially exempt transfers'. There's no limit on the value of a potentially exempt transfer but, if they die within seven years or retain use of an asset (such as a family home), IHT could still be due.

Pensions tax reliefs

In spite of much speculation that the Chancellor would abandon higher rate tax relief, for now, it remains in place. However, it remains an open target in future Budgets for balancing the books.

Broadly, investors can currently contribute up to 100% of their earnings to £40,000 and get tax relief. This reduces progressively to £10,000 for those earning between £150,000 and £210,000. Non-earners can contribute up to £3,600.

Carry forward: if a pension saver hasn't used their full annual allowance in previous years, they may be able to carry it forward for up to three years and use it in the current tax year. This can be a way for higher earners to get more into their pensions.

Either way, where possible, individuals should maximise their pension contributions while they still can. The 40% or 45% tax relief remains a valuable benefit and a compelling way to boost a long-term pension pot.

Capital Gains Tax

The rate of Capital Gains Tax (CGT) is low, relative to historic rates. Investors currently receive an annual allowance of £11,700 rising to £12,000 in April 2019 and then pay tax at between 10% and 28% on any gain depending on the asset (the highest rates are for residential property).

CGT rates have varied considerably over time and could be vulnerable in the future. Investors sitting on assets showing considerable gains may want to consider selective disposals while rates remain relatively low.

Entrepreneurs' relief reduces the amount of CGT paid when businesses are sold. Entrepreneurs pay tax at 10% on gains of up to £10 million.

There were changes to the conditions to qualify for this relief in the Budget. The new conditions require anyone claiming the relief to be beneficially entitled to at least:

- 5% of the company's distributable profits; and
- 5% of its assets available for distribution to equity holders in a winding up.

The qualifying period over which conditions must be met was extended from 12 months to two years. However, the relief remains largely intact. Entrepreneurs considering a sale should take note. ■

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Stop Press...

Since the advent of the Tapered Annual Allowance for pension contributions in tax year 2016/17, those with income from all sources over £150,000 (including the value of their employer pension funding) have had less scope to fund their retirement tax efficiently. Indeed, those with income of over £210,000 have lost all but £10,000 of their tax efficient pension saving ability.

As you are able to carry forward any unused allowance for a period of three tax years, there is still the ability to carry forward from 2015/16, before this piece of legislation was introduced and the allowance stood at £40,000.

Any unused allowances must be paid prior to 5th April 2019 so there is only a short window of opportunity to use this allowance prior to it being lost!

> ...where possible, individuals should maximise their pension contributions while they still can. The 40% or 45% tax relief remains a valuable benefit and a compelling way to boost a long-term pension pot.

Pension freedoms: Do you know your options?

Defined contribution pension freedoms — the legislation is in place but does your pension contract offer you the freedom you need?

It's approaching 4 years since the pension freedoms were introduced in April 2015, which meant those entering or planning for retirement no longer needed to buy an annuity. While we have all read plenty of press coverage on this subject, it's important to separate the anecdotal from the actual.

What do pension freedoms really mean?

Here's a brief recap.

Flexible access to your personal pension from the age of 55 allows you the following options to withdraw funds from your pensions:

- 25% of your pension fund can be withdrawn as tax-free cash. This can be taken in phases or as a one-off lump sum.
- The remaining 75% of your fund can be accessed as and when you wish through flexible drawdowns, a complete withdrawal, the purchase of an annuity (the guarantee of a set level of income for life) or a combination.

It must be noted that this 75% of your fund will be taxed at your marginal rate of income tax when you withdraw it, so taking the full amount could result in a up to a 45% tax charge for additional rate taxpayers before it reaches their bank account.

For those whom an annuity remains an attractive option, this is still available and you can use your pension fund to purchase an annuity at the prevailing annuity rate. This may be particularly attractive in circumstances where an enhanced annuity rate may be available.

If you are fortunate enough to have a pension which you do not need to access during your life, the funds can remain in the pension untouched and can potentially pass to your nominated beneficiary.

The freedoms also introduced more flexibility in how pensions can be passed to nominated beneficiaries as a pension fund in their name, thus retaining the tax efficient pension wrapper and allowing beneficiaries to access the fund as and when is deemed appropriate, irrespective of the beneficiaries age.

Under the 2015 rules, if the pension holder passes away before the age of 75, and the pension is designated to the beneficiary within two years of death, the beneficiary can draw on the pension without incurring an income tax liability. If the pension holder is older than 75 at the time of death, any withdrawals by the beneficiary are liable to income tax at the beneficiary's marginal rate of income tax.

These do, indeed, offer a far greater degree of freedom than previously enjoyed but are you sure you are benefiting from the full freedoms available?

Providers of contracts set up prior to 2015 have not been obliged to update their terms to allow for the pension freedoms. Many people approaching retirement age are planning how to access their pension to best suit their lifestyle but are finding their existing pension contracts don't offer them the flexibility expected - their only option is an annuity. Equally, we have found that a number of pension administrators have not adopted the full death benefit flexibilities, particularly when it comes to passing wealth down the generations. In both of these cases, a transfer to a new pension contract would be required to gain these freedoms and arrange the withdrawal options that suit you. ■

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Taking away the pain of tax self-assessment

HMRC has previously said that within 5 days of the 31 Jan deadline, some 3 million people hadn't filled their return. It remains one of the most unpopular jobs of the year and many people understandably put it off for as long as possible.

This reluctance is compounded by the increasing complexity of the rules. With 635 changes to tax legislation in the last five years alone, tax really is taxing for many people, particularly those trying to tackle their tax returns themselves.

HMRC has tough measures in place for those who fail to file a return. For just one day's delay in submitting their return, taxpayers face a fine of £100. This escalates progressively; if tax remains unpaid or the tax return is not submitted after 12 months, taxpayers will face up to 100% of the tax due. To make matters worse, HMRC has increasing powers to investigate and penalise people for non-submission and non-payment. It is clear that tax returns need to be dealt with, no matter how onerous the task.

We find that not everyone is clear whether they have to prepare and submit a self-assessment tax return. HMRC will not always know to send out reminders or ask you to complete a form, particularly if you have new sources of income. In general, you will need to submit a tax return if you:

- Have been issued with a tax return by HMRC
- Generate self-employed income
- Receive income in excess of the basic rate band
- Receive director's pay or benefits
- Make a claim for tax relief on pension contributions or other investments
- Are liable for the high income child benefit charge
- Receive UK rental income
- Have a capital gain in excess of the annual exemption or proceeds of 4 x this amount
- Receive foreign income
- Do anything else that could give rise to an additional tax liability

The process can be particularly difficult if you have a lot of assets, own more than one property, have international interests, multiple investments or are a business shareholder. If you have sources of income not yet confirmed, it is possible to put in estimated figures and then submit final figures afterwards. This is better than not submitting anything at all.

There is no magic bullet to collecting tax return information. It helps to be organised through the tax year, filing all relevant information as it comes in, rather than having a huge scramble by the end of the tax year. If your circumstances are particularly complicated, it is worth starting to gather all the relevant information well ahead of time.

Our private client tax team are on hand to help you though the process. We will work with you to understand what you need to submit and when. Our specialists cover all types of tax returns for UK and non-UK individuals, trusts, partnerships and companies. We can liaise with HMRC on your behalf as well as with tax advisers in other countries to provide a joined-up service, as well as collating information from various third parties to complete your return.

In the longer-term, we can also review your personal and financial affairs to optimise your tax position in the UK and abroad. In addition, our in-house tax investigation service will help you deal with any HMRC enquiries.

Ultimately, we are here to help whatever your circumstances. ■

For further information, advice or help with your taxes, please contact:

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Housing market forecast rationale

There are several factors that will influence the UK housing market over the next five years. The first is the economic and political situation surrounding Brexit and the second is a paradigm shift in the housing market where demand drivers are weaker and the drags on the market are stronger.

The principal reason for this new paradigm is a shift in the drivers of higher house prices and greater weight to the drags on prices. In short, many of the significant housing market boosts we have seen in the recent past, such as a fast expanding population, low interest rates and the view that housing is a lifetime investment necessity (principally due to historically strong long-term house price growth), have each now largely played out.

At the same time, constraints are also likely to play a bigger role. Overall house price affordability, tighter mortgage lending rules, less support from the Bank of Mum & Dad (as parents need to use housing wealth for their retirement) will start to loom larger. The investor landscape is also now less favourable meaning that owner-occupiers and the affordability issue becomes even more significant. So, demand drivers are likely to be weaker over the forecast period – and quite possibly beyond - compared with most of the last 20 years.

With regard to the first factor, and for the purposes of generating base case UK housing market forecasts, we assume that the UK agrees a deal with the EU on Brexit, that it is approved by Parliament and that the UK economy recovers to circa 2% pa GDP growth during 2020-2023.

There are also several other factors that will influence the UK housing market.

Consumer confidence is key

Consumer confidence is a critical driver of the housing market. The uncertainty surrounding Brexit has dented consumer confidence while also casting a shadow over the job and personal financial prospects of millions of people. Such uncertainty is not conducive to big ticket purchases and has therefore impacted the UK housing market.

Other factors such as negligible real wage growth and, more recently, higher interest and mortgage rates are also not supportive of a thriving housing market. A lack of affordability, especially for first-time buyers, is also hampering transactions and house price growth, despite support from Help to Buy and the Bank of Mum and Dad.

Investor influence fading

Government initiatives to dampen the role that investors play in the housing market look to be working. Although only a part of the story, the number of loans to BTL landlords has fallen by 46% between the Referendum and July 2018.

The principal disincentive is the less favourable income tax regime, with higher stamp duty an added financial deterrent. We expect investor appetite to remain muted while house price growth prospects remain both uncertain and relatively weak. This shift is important because it means that owner-occupiers, and therefore fundamental affordability, are even more important than before.

The consequence of all these influences has been a slowdown in UK house price growth and housing transactions since the EU Referendum. New housing supply, which was in the midst of a five-year surge, has also slipped back over the past year.

Base case housing forecasts

Our base case forecasts are for UK house price growth to weaken further during 2019. We expect transactions to slow too, while housing starts will also ease down.

Assuming the Brexit process continues along the current proposed timetable, the economy and consumer confidence will improve during the second half of 2019 and into 2020. This greater certainty will lead to a marginally improved UK housing market.

From 2021 we expect greater certainty to lead to an economic recovery and improved business and consumer confidence. This will lead to a brighter UK housing market with house price growth and the number of transactions increasing – especially in London and south-eastern markets. Housebuilders should also feel more confident, increasing housing starts gradually.

Overall, however, we expect house price growth to be reasonable over the next five years.

Forecast risks

There are a number of risks to our base case forecasts. The main risk is that UK economic weakness is prolonged by a year or two. This would result in lower house price growth and transaction forecasts in the early years of our outlook, pushing the housing market recovery into 2022 or 2023.

The second most likely risk is that the Brexit deal negotiated and approved is not as favourable for the UK as we assume. In this scenario our house price growth and transaction forecasts will be slightly weaker over the forecast period. The other risk is that the UK exits the EU with ‘no deal’. This would result in a far weaker UK economy and housing market over the next five years. ■

Neil Chegwidden
JLL, Director, Residential Research

2019	0.5%
2020	1.0%
2021	3.0%
2022	3.5%
2023	3.0%

Source: *JLL*

2019	1.15m
2020	1.18m
2021	1.23m
2022	1.28m
2023	1.32m

Number of transactions pa

Source: *JLL*

All information correct as at December 2018

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