Family Wealth Management

Spring 2017

Personal financial planning, tax and investment

Beyond a pension pot

How to maximise new mechanisms for retirement saving

In this issue:

Smith & Williamson

Foreword

Beyond a pension pot

While the quick reversal of the Chancellor's planned NI changes grabbed the headlines, the Spring budget was a relatively cautious one with few notable changes. This reflected the Treasury's limited room for manoeuvre ahead of Brexit negotiations and the implications they will have on the UK's finances. As the Brexit effect becomes clearer we expect to see more concrete moves by the Chancellor in the Autumn Statement as he looks to address the budget deficit — watch this space.

While the budget was fairly muted, there were issues of note including the delay to the introduction of Making Tax Digital and the advent of quarterly tax returns. The scheme is now expected to be fully operational by the end of 2020 and we discuss the rollout of the proposed new rules and their impact in this issue.

We also witnessed a reduction in the money purchase allowance for pensions in the budget and new rules that came into force in April last year, restricting the annual allowance for pension contributions for individuals who have 'adjusted' income for a tax year of more than £150,000. While the government is changing how much can be paid into pension schemes, we have seen an increase in the amount that can be paid in to ISAs, as well as the types of ISAs available to savers.

With an array of products now available, especially for higher earners preparing for retirement, savers must weigh up the benefits of investing in a 'traditional' pension scheme relative to utilising their ISA allowance first.

So while on the one hand the government has been limiting tax efficient allowances for pensions at the top end, it has been expanding other retirement saving mechanisms, which are less cumbersome for it to administer as it digests the impact of mass auto-enrolment.

The Autumn Statement may bring further changes affecting those considering which strategies to adopt when planning for retirement. In the interim if you have any questions regarding your current or future arrangements, do not hesitate to contact a member of the team listed at the back of this publication.

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Trusts — Is the crusade over?

Once a staple of tax planning, use of family trusts dropped dramatically in 2006. Should they have been written out of history? How a trust can still help you reduce your inheritance tax exposure.

Trusts have been used for hundreds of years, however it was not until the shift from common law to the concept of equity that we saw an increase in their use and NOT for tax planning reasons. Those going on the Crusades would entrust their estate to another while they were away. On their return they would reclaim their lands from the trustee, however the trustees often had other ideas which meant a petition to the Lord Chancellor.

The use of trusts was common practice in tax planning, but more importantly family wealth planning, until 2006 when there was a significant change to their Inheritance Tax (IHT) treatment. Before 2006, the only transfer into trust which resulted in a chargeable event for IHT purposes was a transfer into a discretionary trust. Since 2006, a transfer into any trust has been a chargeable transfer for IHT purposes, precipitating a dramatic reduction in the number of trusts created.

Is there still a place for family trust?

By way of example, if grandparents want to provide for their grandchildren's education, they could each put up to £331,000 into a trust in year one (the nil rate band of £325,000 plus the unused annual allowance for two years of £3,000). Grandparents could therefore place £662,000 into either a single, or separate, trusts. Provided they survive seven years, this gift will be outside the scope of IHT, meaning they once again have the full use of the nil rate band. This could result in an IHT saving of £264,800.

Of course there will be costs of administering the trust. Let us assume these are £3,000 per annum (note: we have ignored investment management fees for this purpose as it is anticipated these are currently being paid personally). Over ten years, this amount to £30,000 which is a lot of money, but is considerably less than the potential tax saving of £264,800. Trustees would also be able to obtain income tax relief on trust administration expenses.

Seven years after the first gift, the grandparents could consider further transfers.

The example above concentrates on grandparents. The concept equally applies to parents, however they need to enter into a trust with the knowledge that they should not access the funds for the benefit of their children before they are 18. If they do, this would have tax consequences on them as parent settlor.

A trust often protects the beneficiary from themselves as the trustees can control the flow of money. An alternative is to place funds in a bare trust; however the assets become the beneficiary's as of right from the age of 18, in other words just when they are typically going to university.

Given the flexibility it is likely that a fully discretionary trust would be preferable, however we would suggest a full discussion on the type of trust when discussing with an adviser.

Any trust is subject to income tax, capital gains tax and IHT and we will discuss these in future articles in Family Wealth Management.

For further information, including our capabilities as a professional trustee visit: www.smithandwilliamson.com/personal

ISA rules revamp aids retirement saving options

The shake up of the ISA regime brings huge opportunities for tax efficient savings. What are the changes and how will they help you?

Increased ISA limit

From 6 April 2017, the total amount which can be saved each year into all ISAs will increase from £15,240 to £20,000, £4,000 of which can be contributed to the new Lifetime ISA.

New Lifetime ISA

On 16 January 2017, legislation creating the new Lifetime ISA (LISA) gained Royal assent. This new type of ISA follows on from the Help to Buy ISA, which became available in Autumn of 2015. Like the Help to Buy ISA scheme, the new LISA, has the dual purpose of assisting first-time buyers to gain a foothold on the property ladder and helping them to save for retirement. The LISA is certainly the more attractive of the two accounts as you can invest far more and it benefits from increased versatility:

	Lifetime ISA	Help to Buy ISA
Maximum bonus	£1,000 per year	£3,000 in total
Maximum property value	£450,000	Up to £250,000 (£450,000 in London)
Maximum annual contribution	£4,000	£2,400 (£200 per month), plus £1,000 on opening account

NB: At the time of writing, the LISA rules have not been finalised.

Who can take advantage?

From 6 April 2017, anyone aged between 18 to 39 will be able to open a LISA. Whilst an individual is under 50 they can contribute up to £4,000 per year and receive an additional 25% government bonus. This means for every £4 contributed, the government will add a further £1 (worth up to £1,000 a year). In addition, couples can both benefit from their bonus when they come to buy their first house together.

LISA contributions will count towards an individual's total annual ISA contribution limit (£20,000 from April 2017), however any bonuses received do not.

The LISA tax-free funds, including the government bonus, can be used to purchase a first home worth up to £450,000 at any time from 12 months after opening the account.

How does the government bonus work?

For the 2017/18 tax year only, the LISA bonus will be added at the end of the tax year regardless of the frequency of the contributions. This means no penalty will apply to withdrawals but likewise a property purchase will not benefit from the bonus in that year. However, from April 2018 onwards the bonus will be paid monthly.

Over their lifetime, savers can make contributions totalling £128,000 matched by the government for a maximum bonus of £32,000 with tax-free investment growth on both. For instance, a 25-year-old who made a £4,000 contribution each year that grew at 4% per annum would have almost a five times larger fund by the time they are 60.

Can existing ISAs be used to fund a LISA?

Individuals can transfer any existing ISA savings to fund their Lifetime ISA and this will not impact their annual ISA contribution limit. In addition, any Help to Buy ISA funds that were saved prior to the introduction of the LISA on 6 April 2017 will not count towards their Lifetime ISA annual contribution limit.

Individuals who have a Help to Buy ISA can transfer those funds into a LISA, but this transfer must take place between 6 April 2017 and 5 April 2018 and only one such transfer can be made. At the end of the 2017/18 tax year savers will receive a bonus on the full amount of the transferred Help to Buy ISA and their Lifetime ISA contributions. However, any subsequent transfers made after 5 April 2018 will count towards an individual's £4,000 LISA allowance. In addition, from April 2018 they will only be able to use the government bonus from one of their accounts to buy their first home.

What are the rules around LISA withdrawals?

Funds can be withdrawn from the LISA at any time and as with all ISAs, withdrawals do not affect an individual's annual ISA allowance. However, if the withdrawal is not for one of the following purposes, it is deemed an 'unlisted withdrawal' and a penalty charge of 25% will be applied and any bonuses will be reclaimed.

Non-chargeable withdrawals:

- Deposit for a house, worth up to £450,000
- Retirement income from age 60
- Terminal ill health
- Death

This 25% 'unlisted withdrawal' charge may seem like the Government simply reclaiming the bonus it paid but the charge is levied on the entire LISA funds, including any interest paid and investment growth. Consequently, if an individual incurs a 25% withdrawal charge this could mean that they receive back less than they invested. For instance, a £4,000 contribution plus £1,000 bonus, which is followed by a £5,000 'unlisted withdraw', would be subject to a £1,250 charge leaving the saver with £3,750 (£250 less than their initial contribution amount).

New Flexible ISA

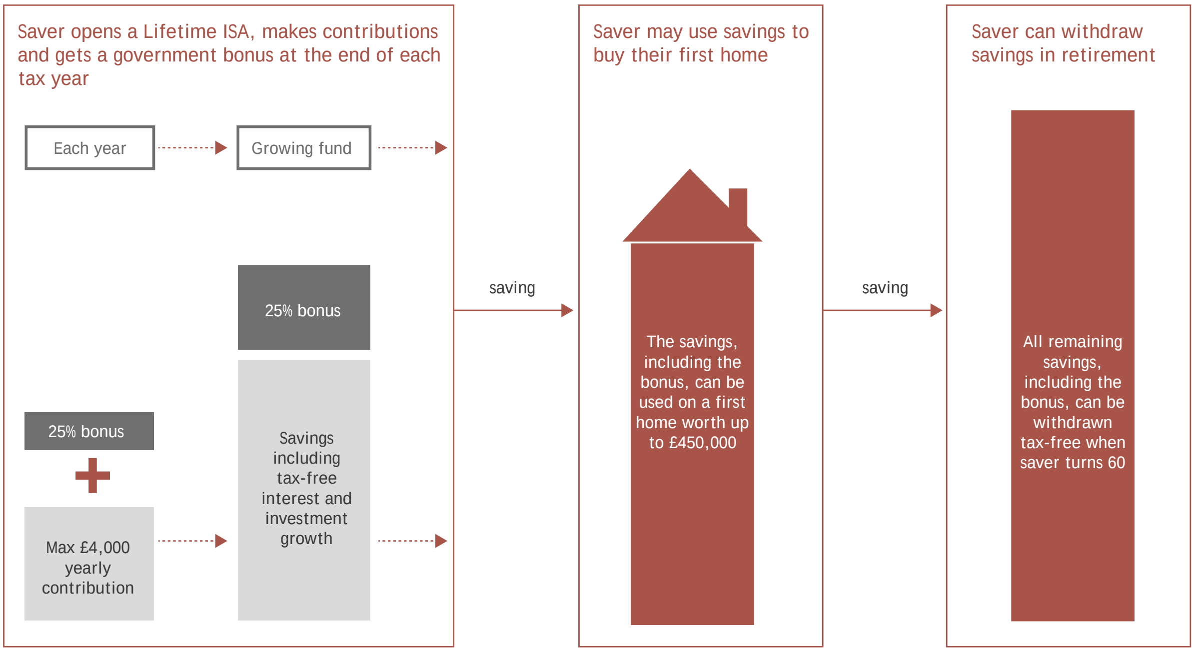
In addition, since 6 April 2016 savers have been able to re-invest withdrawals into ISAs if completed within the same tax year. For example, for the new tax year ending 5 April 2018 an individual who contributed an initial £12,000 then withdrew £2,000, would be able to contribute a further £10,000 into the ISA within the same tax year i.e. the £2,000 withdrawn, plus the remaining £8,000 allowance.

It is more complex if an individual withdraws ISA funds from previous tax years and the current tax year. Withdrawals are first treated as coming from the current tax year's allowance. When an individual withdraws funds that exceeds the amount that they have contributed within the current tax year, the surplus withdrawn is treated as being from previous years. However, when replacing cash, it is the opposite. Funds contributed back in are treated as replenishing previous years until fully replaced, then the current tax year. Again, the funds must all be replaced within the same year as withdrawn.

Many ISA providers do not currently offer this flexibility. There are also certain kinds of ISAs that cannot be flexible, these are Junior ISAs, Help to Buy ISA and any element of a Stocks & Shares ISA that is not in the cash account.

Please get in touch if you would like further information about your LISA and flexible ISA options.

How the LISA will work



Source: HM Treasury

Pension funding changes: How will your retirement be affected?

Since 6 April 2016, individuals who have ‘adjusted’ income for a tax year of greater than £150,000 have had their annual allowance for making pension contributions in that tax year restricted.

The reduction meant that for every £2 of income they have over £150,000, their annual allowance was reduced by £1.

The maximum reduction is £30,000, so anyone with ‘adjusted’ income of £210,000 or more will have an annual allowance of £10,000.

High income individuals caught by the restriction may therefore have to reduce the pension contributions paid by them and/or their employers – or suffer an annual allowance charge.

However, the tapered reduction doesn’t apply to anyone with ‘threshold income’ of no more than £110,000.

The definitions of the two incomes are crucial to understanding whether you are affected by the tapered reduction or not.

So what is ‘adjusted’ income and ‘threshold’ income?

Both definitions include all taxable income, so this is not restricted to earnings – investment income of all types and benefits in kind such as medical insurance premiums paid by the employer will also be included.

The difference being adjusted income includes all pension contributions (including any employer contributions) while threshold income excludes pension contributions.

Those with income expected to fluctuate around the higher rate income tax threshold could consider delaying contributions until a later year when higher rates of tax relief might be achieved.

However, those with income together with pension inputs above £150,000 per annum must consider the restriction in the annual allowance.

Carry forward

It is possible to use carry forward where the tapered annual allowance applies in a tax year. So, any unused annual allowance from the three tax years prior to the tax year in question can still be carried forward as normal and are done so in consecutive order.

The conditions that must be met to be able to carry forward unused annual allowances are minimal. An individual must have been a member of a registered pension scheme in the tax year they wish to carry forward from and the current year's annual allowance must have been 'used up' in full (so, an excess above the current annual allowance will trigger an automatic carry forward).

Of the previous years, earlier ones are used in preference to later years; this ensures that unused allowances remain available for up to three tax years.

Annual allowance for each tax year to date:

Tax year	Annual allowance
2014/15	£40,000
2015/16	£40,000
2016/17	£10,000 - £40,000
2017/18	£10,000 - £40,000

The 2015/16 tax year was split into two periods, based on 8 July, which can mean an annual allowance of up to £80,000.

What about self-employed?

Whilst personal contributions are granted relief in the tax year in which they are paid, the relevant UK earnings that support them don't necessarily arise in the tax year; the self-employed must justify tax relief on their personal contributions by reference to their trade profits.

Self-employed individuals can choose an appropriate period over which to compute their profits. A 31 March year end, for example, will normally mean that profits are calculated over the period from 1 April to 31 March, (treated as coterminous with the tax year), though it is possible to have a period of account that is longer or shorter than 12 months and to change the year end date, where appropriate. A 31 December year end, on the other hand, will mean profits calculated over the calendar year support pension contributions made during the tax year in which that accounting year ends.

Correct timing of contributions is essential, particularly towards the end of the tax year and especially for traders that make up their accounts to 31 March relying on projected figures.

As well as utilising relevant UK earnings for the year in question and generating tax relief by reducing the tax bill — well-timed contributions can reduce future balancing payments and payments on account under self-assessment; thereby providing cash-flow benefits whilst enabling adequate pension provision.

Act sooner rather than later...

It would be sensible to use pension funding allowances early in the tax year (cashflow permitting) so there is certainty about the tax relief position.

Speak to your adviser or visit: www.smithandwilliamson.com/personal/our-people#

Lasting powers of attorney

Planning ahead for important decisions

Julia Abrey, head of elder law at Withers LLP, discusses the two types of lasting power of attorney, and why it's vital to have them in place.

A lasting power of attorney (LPA) is a special legal arrangement under which someone (the 'donor'), delegates legal authority to a trusted person to make decisions on their behalf about either their finances, healthcare or welfare should they lose the mental capacity to make these decisions for themselves at some point in the future.

LPAs are very popular – the Office of the Public Guardian (the body responsible for registering LPAs and supervising and supporting attorneys) received 141,000 applications to register LPAs in the first three months of 2016.

Why make an LPA?

Along with making a will, estate planning and matters such as life insurance, LPAs are part of normal financial 'tidiness'. It is very sensible to have arrangements in place that ensure financial and/or welfare and healthcare decisions can be made by a trusted person in the event that one day you are unable to make decisions for yourself.

There are two types of LPAs: for financial decisions and for health and welfare. A donor can make one or both. LPAs for financial decisions can be used while the donor still has mental capacity or can be limited so that the powers of the attorney will only come into force if he or she loses that capacity in the future. Attorneys under health and welfare LPAs can only act once the donor has lost mental capacity.

What powers will my attorney have?

The powers of an attorney under a financial LPA are wide-ranging. They can cover matters such as buying and selling property, paying a mortgage, investing money and paying bills. The LPA document, although made on a standard form, is flexible and it's possible to include bespoke provisions or restrict the kind of decisions your attorney can make. In these cases, it's often sensible to take legal advice about how the LPA should be drafted. Special powers may also need to be included, such as authorising the attorney to use a discretionary investment management service.

The Mental Capacity Act 2005 sets out what attorneys can't do, such as make a will for the donor. There are other limits to their powers. For example, attorneys can make gifts from the donor's money of a reasonable size on 'customary occasions', such as birthdays, Christmas or other anniversaries, or to charities. But other gifts need the authority of the Court of Protection.

Attorneys have a very responsible role. Unless the LPA contains limitations (and the majority don't) they can effectively deal with the majority of your assets. However, attorneys must keep an account of what they do, always act in your best interests and must keep their own money separate. If things go wrong, the Office of the Public Guardian and the Court of Protection have a wide range of powers to sanction and remove attorneys who have not acted properly

Making an LPA

Making an LPA is straightforward. A standard form is used and you do it online at www.gov.uk/power-of-attorney/make-lasting-power. The website allows the document to be drafted in full on the screen and then printed off and signed.

The donor and the attorney(s) must sign the LPA, as well as a 'certificate provider' – an independent third party who certifies that the donor understands the LPA and that they are not being forced into making it.

Once executed, the LPA must be registered with the Office of the Public Guardian to come into effect. A registration fee is charged, which has just reduced to £82 for each LPA. The registration process takes a few weeks and once complete the LPA is ready to use (although, of course, it may not come into force until mental capacity is lost).

Don't assume everything will be fine without one

Many people think that their next of kin will automatically be able to take over and deal with financial and healthcare matters for them should they lose mental capacity. But this is not the case without an LPA. If an LPA hasn't been made and mental capacity is lost, it can be very difficult and stressful for family members. Often, an application has to be made to the Court of Protection for a deputy to be appointed to deal with the financial affairs of the incapacitated person. This can be complex and take time.

All in all, it may well be the best £82 (or £164) you ever spend.

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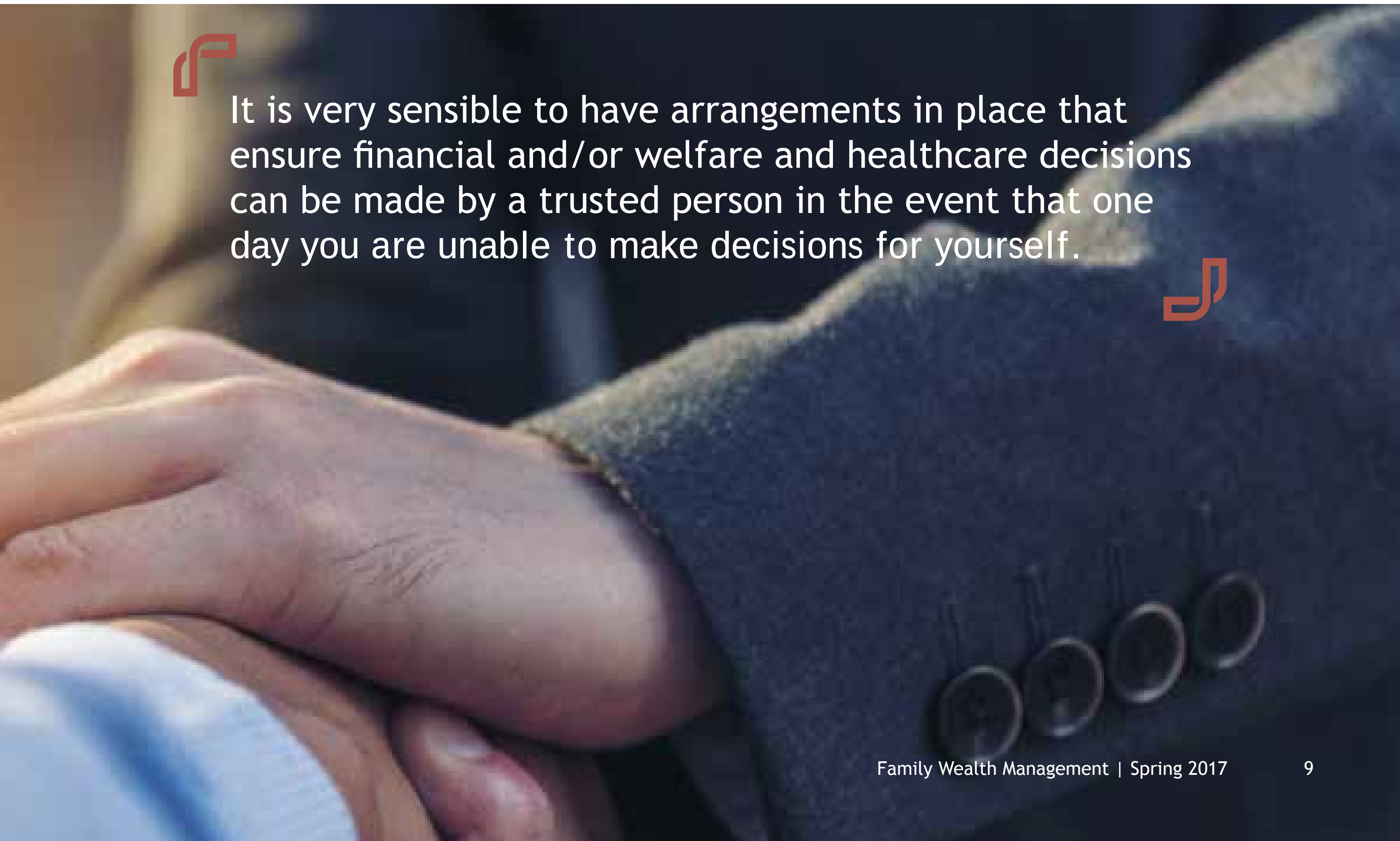

It is very sensible to have arrangements in place that ensure financial and/or welfare and healthcare decisions can be made by a trusted person in the event that one day you are unable to make decisions for yourself.

Spring Budget 2017

Highlights of new initiatives

The recent Budget was the first, and last, Spring Budget from the Chancellor, Phillip Hammond. Apart from on National Insurance, there was a distinct lack of announcements on major changes to the tax system, with the focus being instead on smaller, more iterative amendments seeking to keep Britain living 'within its means' in a generally cautious Budget.

Delay in changes to rules for non-domiciled individuals

The Government has confirmed its commitment to reform the rules governing the taxation of non-UK domiciled individuals ('non-doms'). No substantial announcements were made in the Spring Budget, with minor changes being made to the limit below which minor interests in UK residential property will be disregarded for the purposes of IHT, being raised from 1% to 5%, and an announcement that the segregation transitional rules will apply to income, gains and capital originating from both before and after the 6 April 2008.

Some further clarifications were made in the recently published Finance Bill, but unfortunately the rest of the legislation is being delayed until a future year, meaning that the whole package remains uncertain.

Life assurance gains

A welcome change has been announced in respect of gains on life insurance policies that will allow greater flexibility in determining the taxable gains to better reflect the underlying economic position. The change means that policyholders who have generated a taxable gain that is wholly disproportionate to the economic gain may apply to HMRC to have the amount taxable recalculated on a just and reasonable basis.

These changes seek to prevent excessive tax liabilities arising on disproportionate gains, such as a recent case in which a tax payer had suffered a 700% tax liability on the partial surrender of a life policy.

Pensions

There has been a reduction in the money purchase annual allowance (MPAA) from £10,000 to £4,000; this will further restrict the amount of pension contributions that can be made by those who have flexibly accessed their pension funds. The MPAA limits the scope of those aged over 55 who have flexibly draw down from their pension funds to continue to save into them; the MPAA was introduced in part to prevent savers recycling funds to obtain a second round of tax relief.

The Government has set out its intentions to closer align the treatment of UK and foreign pensions. Legislation is incorporated into Finance Bill 2017 to clarify that all lump sums paid out of funds within a defined benefit specialist pension scheme built up before 6 April 2017 will be subject to the existing tax treatment.

A 25% charge has also been announced for transfers requested on or after 9 March this year made to a qualifying recognised overseas pension scheme (QROPS). Exceptions will apply to the charge in certain situations, allowing transfers to be made tax-free where individuals have a genuine need to transfer their scheme, including when the individual and the pension arrangement are both located within the European Economic Area.

Legislation will also apply to UK tax rules to payments made on or after 6 April 2017 out of funds that have received UK tax relief that have been transferred to a QROPS. The UK tax rules will apply to all payments made within the first 5 tax years following the transfer, regardless of the residence status of the individual.

Dividends and savings

Investors will note there is a reduction to the tax-free dividend allowance. From 6 April 2018 the £5,000 dividend allowance will be reduced to £2,000, a 60% reduction just two years after the allowance's introduction.

The tax rates applying to dividend income exceeding this allowance remains unchanged.

As previously announced, the main annual ISA subscription limit will rise to £20,000 for 2017/18 (£15,240 for 2016/17).

There are also two new income tax allowances of £1,000 each being introduced for trading and property income, these are primarily targeting 'micro-entrepreneurs', for instance those occasionally letting property or selling goods via online auction sites, and will be available from 6 April 2017. There are some detailed rules around these, so it is often best to obtain advice first.

Speak to a specialist

If you have questions about how the latest Budget will affect you and your family's finances, contact your Smith & Williamson adviser.

For further information, visit:

www.smithandwilliamson.com/spring-budget-2017

Making Tax Digital

The Government's Making Tax Digital (MTD) initiative to introduce digital accounting and quarterly reporting was further clarified in the Spring Budget. It is the Government's hope that MTD will reduce errors by the taxpayer by virtue of more regular accounting and lead to a reduction in the 'tax gap'.

Deferral of start date

The Government has responded to comments in the public consultation and recommendations from several sources to defer the initial start date of MTD for some smaller businesses.

The latest draft legislation confirms that unincorporated businesses and landlords will not have to use the new digital system before April 2018. Those whose unincorporated and property business turnover is below the VAT threshold (currently £85,000) will have an extra year, joining MTD by April 2019. The revised start dates are therefore:

- April 2018 – profits chargeable to income tax (turnover in excess of the VAT threshold), but excluding larger partnerships, but including some companies that pay income tax
- April 2019 – profits chargeable to income tax (turnover below the VAT threshold but over £10,000)
- April 2019 – VAT reporting
- April 2020 – businesses chargeable to corporation tax (CT) and larger partnerships with turnover of at least £10m.

While the delay for some is welcome, concerns remain over the exceedingly ambitious timescale for the project, especially among those smaller unincorporated businesses who will require time to establish new systems.

Businesses and landlords face additional compliance burdens under MTD, not only to retain records digitally, but also to submit information to HMRC at least once a quarter. In addition, it is unfortunate that access for tax agents will not be available until later this year, so joining the pilot is also delayed.

Consultation on administration of interest and penalties

A consultation document published in March considers the design of the MTD tax administration system. The intention is to ensure a consistent and simpler approach is adopted across taxes. This might include a points system for penalties, rather like the one for motoring offences.

Any simplification or improvement of the consistency of the UK tax system is welcomed and encouraged. In our opinion, given the reduction in HMRC resources, MTD is the way to go, but the pace of change is worrying many people. Smith & Williamson is heavily involved in the consultation and aims to support clients through the transitional years.

Speak to a specialist

If you have questions about how Making Tax Digital will affect you or your business, or if you are interested in joining the pilot when it is available, contact your Smith & Williamson adviser.

or visit:

www.smithandwilliamson.com/spring-budget-2017

Investment Outlook

April 2017

Sanguine market response to the Fed's interest rate hike and Trump reflation exuberance continues to fade

Despite a strong first quarter for global equity markets, the Donald Trump reflation exuberance has continued to fade in recent weeks. With Trump approaching his first 100 days in The White House, his credibility has already come into question. US equities appear to be fuelled on the hope, rather than expectation, that Trump can deliver the key fiscal stimulus measures that will lead to higher growth. There has been a notable divergence between 'soft' (survey based) and 'hard' (quantifiable) economic data, with the former ratcheting higher and the latter pointing to a notably weak first quarter GDP figure. Tighter financial conditions experienced towards the end of 2016 appear to have impacted the US economy. The next few months will be a key test for Trump and the sustainability of the reflation trade.

US Equity outlook

On the positive front, there has been a relatively sanguine market response to the Federal Reserve's (Fed) largely expected interest rate hike in March. The Fed expressed their desire to proceed with caution and still expect rates to peak at just 3% during this cycle. Although this remains above current market expectations, the Fed appears to have struck the right tone between keeping policy accommodative and remaining positive on the economic outlook. Our main area of caution is US equity market valuations. Despite heightened expectations; we have seen analyst forecasts drift lower. With US equity valuations looking stretched and moving to a wide premium to the other developed markets, we will need to see earnings upgrades in the US to alleviate valuation concerns. Much appears to be priced into markets leaving scope for disappointment.

UK and Europe outlook

With Theresa May officially handing over the Brexit divorce papers to the European Union, the tone of subsequent negotiations will be the focus for markets as the year progresses. We expect very little in the way of substantive news flow in the near-term but the early conciliatory tone from both sides has been encouraging.

The more immediate focus for the UK is the impact of the squeeze on real incomes. With inflation rising and wage growth flat lining, we are already seeing signs of the UK consumption growth losing momentum. At 2%, we believe the Bank of England's 2017 GDP forecast remains too optimistic and the headwinds facing the consumer could force the bank to backtrack towards their previous forecast of 1.4%.

Longer-term UK bond yields (a proxy for GDP growth) have responded to the uncertain economic outlook by moving lower. UK equity market valuations still look relatively attractive and a weak sterling continues to support earnings for the more internationally-exposed FTSE 100. But given the headwinds facing the UK consumer, we have a more cautious stance on the outlook for more domestically focussed UK companies.

Political concerns in the Eurozone have continued to subside. However, the French election could still produce a scare for markets if Macron (the current clear favourite) started to lose momentum running into the most capricious contest in decades. It has been encouraging to see the continued improvement in Eurozone economic data and should this cyclical rebound in the economy persist; this should continue to support sentiment towards Eurozone equities which have performed well in Q1.

With improving earnings estimates and attractive valuations relative to the US, we remain positive on Eurozone equities. The improving growth and inflation outlook in the Eurozone could lead to a more hawkish (or notably less dovish) stance from the European Central Bank (ECB). We still believe the ECB will maintain an accommodative stance.

Emerging markets

Emerging markets have been a key beneficiary of the weaker dollar and have outperformed their developed market peers year to date. Further signs of stabilisation in China have also helped buoy emerging markets. A relatively quiet and stable period for the Chinese economy has been a positive and has supported the global reflation theme. Capital outflows appear to have also stabilised in recent months but the high levels of debt in China remain a lingering concern. An inflating housing bubble and a surge in credit could force the authorities into tightening monetary policy later in the year, potentially curtailing economic activity.

Looking ahead, markets appear willing to give the Trump reflation trade the benefit of the doubt and volatility has remained at relatively low levels, however we sense patience will soon wear thin going into the second quarter. Any positive impact from what is likely to be a watered down fiscal stimulus plan could now be delayed until late 2018.

With US equity valuations looking rich, we believe there is more than enough scope for a period of heightened volatility should news flow continue to disappoint. Although we remain more positive on Eurozone, Asian and emerging markets, the strong relationship between global equity market performance means it’s difficult to see wider markets sustaining the rally without the US leading the way.

With this in mind, we continue to see the benefits of holding a more balanced portfolio of equities, bonds and alternative assets, such as absolute return funds, to help ease volatility.

The divid-end?

In one of the biggest rises in headline income tax rates for over 40 years, a 7.5% rise in tax on dividend income over £5,000 for basic rate taxpayers was announced in the Summer 2015 Budget.

Given that it only became effective in April 2016, a 60% cut in the dividend allowance to £2,000 (effective 6 April 2018) in the 2017 Spring Budget came as something of a surprise.

Meant to address the disparity between tax rates for employees and the self-employed, especially director-shareholders, the changes only go so far in meeting the Government's aims.

They do not tackle the fact that corporation tax rates are significantly lower than personal tax rates and that the greatest benefit in operating a personal company arises from 'rolling up' income within the corporate environment*.

The dividend divide

Winners

- Employees in Save As You Earn schemes
- Higher rate (40%) and additional rate (45%) taxpayers receiving annual dividends below £5,000 (£2,000 from April 2018).

Losers

- Those in receipt of 'significant' dividend income outside of a tax-efficient wrapper. E.g. higher rate taxpayers receiving over £21,666 (£8,666 from April 2018) of dividends annually or additional rate taxpayers with over £25,250 of dividends (£10,098 from April 2018). Below this, higher and additional rate taxpayers could be slightly better off.
- Holders of shares in ISAs, pensions, charities and most companies will be unaffected.

What should you do?

In the short term, those with spouses should leverage both allowances, and ensure that dividends flow to the spouse in the lowest tax band. If you receive dividends over £5,000, seek advice on whether a tax return is required.

Longer term, consider how to protect your assets and income. Strategies could involve repositioning your assets and looking at alternative structures, such as ISAs, pensions, offshore bonds and OIECs; making gifts to children and establishing trusts or family investment companies.

**At the time of writing, the Government is still consulting in this area and we may see further measures introduced to address this.*

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Important information: The value of investments and the income from them can fall as well as rise and investors may not receive back the original amount invested. Past performance is not a guide to future performance.

THE LLOYDS BANK NATIONAL BUSINESS AWARDS UK 2016

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