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Foreword

As 2020 dawns, the US equity bull market is now into a record 10th year and has outperformed all other major stock markets and assets classes.

That raises the bar for US stocks to continue to outperform, but monetary and fiscal policy is increasingly being used to support economic growth and we believe global growth can accelerate in 2020. In this environment, companies should be able to deliver on earnings expectations.

However, if the global business cycle is to be extended, we see better investment opportunities outside of the US. In this month’s issue of Personal Wealth Management, Daniel Casali, our Head of Investment Strategy, discusses why the UK and Eurozone could be the markets to watch.

In the longer-term, we recognise that passing wealth to the next generation is a priority for many people. This is particularly important for business-owning families, who must also consider the future of family assets. We discuss the new and growing set of challenges for families planning succession and how to prepare those who will inherit responsibility for the business - either as shareholders or through a governance role.

Social care can take a significant chunk out of money set aside for future generations. Financial help is available, but the system is unwieldy and difficult to navigate. People are often given conflicting and incorrect advice. There are some key steps that can help steer a course towards a care solution that both meets the needs of an individual and avoids the spectre of catastrophic, uncapped costs.

Tuition fees can also be a minefield for parents. Should they pay and if so, how? Most do not want their children to be saddled with loans and the rates for student loans continue to look high. We outline the options for parents.

Finally, we look ahead into 2020 at the various tax rates and available reliefs. At the time of writing, the outcome of the election is unknown, so these rates may be subject to change. Whatever the result, Smith & Williamson will be on hand to help you navigate any new tax regime. Please get in touch with any questions.
Clearing macroeconomic provide 2020 vision for equities

Long-term equity returns are traditionally driven by Earnings per Share (EPS) and dividends. However, from our calculations, we find these fundamentals only explain around 17% of total global equity returns so far in 2019. Instead, equity performance has been driven by most of the major central banks easing monetary policy.

To get some perspective for the 2020 investment outlook, it is worth reviewing how markets fared in 2019 and over the past decade. Global equities (including dividends) returned 27% in 2019, the best performance since 2009 and almost all regional markets have made gains - see the market highlights page opposite. Markets were driven higher, as central banks cut interest rates to kick-start the economic recovery in the last few months of the year. This accommodative policy more than offset the drag from tit-for-tat US-China trade tariffs, which led to slower company earnings growth over the course of 2019. On a longer-term horizon, the US equity bull market is now into a record 10th year and has outperformed all other major stock markets and assets classes. That raises the bar for US stocks to continue to outperform on a relative basis.

Looking forward to 2020, we see clearing macro clouds, with an outline US-China trade agreement now possible. It probably doesn’t make sense for President Trump to escalate the US-China trade spat to hinder output/jobs growth and risk his re-election bid. Moreover, globally, monetary and fiscal policy is increasingly being used to support economic growth. Our base-case scenario of faster global growth in 2020 increases the probability that companies can deliver on earnings expectations. Not only should this raise risk appetite, but it also adds clarity on the market outlook.

Given that the US has not experienced a recession in 2010-2019 (the first time the economy didn’t contract at some point in a single decade since the data began in 1850), tail-risk late cycle vulnerabilities persist. Nevertheless, US recession risk has been mitigated by what looks like a recovery in the manufacturing sector, healthy non-farm payrolls and stronger consumer confidence that continue to provide uplift for the US (and thus the global) economy.

**Rising opportunities for non-US equities**

If the global business cycle is to be extended (our base case scenario), we see better investment opportunities outside the US. This view is broadly predicated on the rest of the world catching up with the growth rate of the US. The IMF forecasts that nominal GDP in Advanced Economies ex-US will expand +0.1% point faster than the US in the years 2020-2024, a stark contrast to a -1.7% growth deficit against the States in the previous decade. Translating this macro backdrop into company earnings, the consensus forecasts that World ex-US 2020 Earnings Per Share (EPS) growth at 10.3% versus 9.4% for the US. Consequently, faster relative earnings growth should favour non-US equities. Moreover, US-centred risks have grown, with valuation headwinds from the tech sector, which trades on 7.7 times its book value (the highest level since the tech boom in 2000) and accounts for nearly a quarter of market cap. Tech stocks may also face potential break-up risk and greater regulation over data privacy should a progressive left Democratic candidate win the presidency in November 2020.

Out of non-US markets, the UK is perhaps the standout opportunity for 2020. Following an election that delivered a Tory majority government, the political risk of a left-wing Labour government has likely been averted for the next 5 years. The government will now be free to concentrate on “Borisomics” (see our September 2019 Investment Outlook) of low tax rates and deregulation to provide a business-friendly environment for companies to operate. Over time, we expect current cheap UK equity valuations (and particularly domestically focused stocks) to mean revert and drive up equity prices in the process. Though the government has introduced legislation that prohibits an extension to the transition period beyond 2020, we believe the risk of a “no deal” Brexit deal with the EU is probably contained. That’s largely because; i) it is in the interest of both the EU and UK negotiators to work out an economically beneficial Canada-style Free Trade Agreement (FTA); ii) PM Johnson has a sizeable majority in the House enabling him leeway to agree terms of any potential FTA; and iii) after being part of the EU for over 40 years, the UK is already aligned to EU regulations and product standards, which should make negotiations easier than for a non-EU country.

The Eurozone is another equity market that looks increasingly attractive. Lead indicators of growth, such as money supply, point to upside in economic activity. Given that European equity funds have seen heavy net outflows worth 12% of assets under management since the start of 2018, even a modest increase in the region’s growth prospects should improve the market outlook.

Finally, after lagging global markets in 2019, Emerging Markets (EM) at current undemanding valuations are an opportunity for investors. EMs typically perform in the up-phase of a global recovery cycle. Fundamentally, the consensus forecasts EM EPS growth of 15% in 2020, the highest out of all the major regions, backed by growth-friendly policy support from China (see our December Investment Outlook). A key risk for EMs is the direction of the US dollar, which has typically depressed relative performance, but with the Fed easing monetary policy, the risk of Greenback upside seems contained to us.

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* All values as at 31 December 2019. Total returns in sterling Returns are shown on a total return (TR) basis i.e. including dividends reinvested unless otherwise stated Net return (NR) is total return including dividends reinvested after the deduction of withholding tax. Source: Thomson Reuters Datastream and Bloomberg.
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Not leaving succession to chance

Engaging the next generation for business-owning families has always been necessary; now it has the added context of increasing human longevity. The ‘younger generation’ while by definition ‘next’ may not be ‘young’ at all. They may have their own grown-up children already established in their adult lives. This presents a new and growing set of challenges for families planning succession and preparing those who will inherit responsibility for the business: as shareholders or with additional governance roles.

The owners of family businesses will be all too familiar with some of the gloomy predictions that are made regarding succession: the enduring anecdote of ‘clogs to clogs in three generations’ is supported by statistics that show only around 13% of family businesses make it to a third generation.

However, family businesses are growing wiser and defying these expectations. Many are keen to encourage future generations into the business but are being more careful and strategic about exactly how they do it. Our latest Family Business survey shows that few still believe in an automatic right of succession, but are taking steps to ensure future generations are better prepared and more adept to take the reins.

Many family businesses believe that the best way to preserve the values of a family business is to hand it down from generation to generation. Family members may be best placed to uphold the values of the original founder, and may feel honour-bound to sustain any philanthropic or social capital role.

That said, few family businesses believe in forcing younger generations to be part of the business or conferring any automatic right of succession. The survey results make it clear that the right to succession requires both enthusiasm and merit. If there is no one within the family with the right blend of interest, skill and qualifications, the business may need to bring in external management. Most believe the business would survive.

Family businesses are acutely aware that enthusiasm for the business is not automatic. As such, many believe that bringing future generations into the family business is about ‘constant, tender nudging’, rather than any kind of compulsion. One
owner explained: “There is no sense in shackling someone to something they don’t want to do - it’s important that they’re given the opportunity but it shouldn’t be mandatory. Their children’s happiness comes first.”

Equally, they shouldn’t be at the helm if they haven’t got the right skills. Most are clear that they would not prioritise family succession ahead of the proper running of the business. Some have chosen to opt out of having operating owners, where family members need to work in the business. Instead, the family provides a supervisory role, monitoring the board and management through the family’s shareholding ownership. Only 19% would elect for a sale should there not be a competent and willing family member to take operational control of the business.

At the same time, most implement a clear separation between the income that comes from a shareholding and that which comes from involvement in the business. This is necessary to prevent disputes between involved and non-involved siblings, for example.

With 75% of families keen to sustain family involvement, many take steps to build that enthusiasm and skill to help ease future generations into the business. With the exception of agricultural business, most believe children shouldn’t be involved too intensely too early. In the survey, the most popular age to involve children in the business was “at or after the age of 25”, followed by “after completing university”. Only 3% thought it a good idea at age 16.

However, building a sense of the value of money and the importance of hard work should start far earlier. Inheritance should be managed carefully and steps taken to avoid a sense of privilege. This even extends to their education. One owner said: “Put them into a school where people aren’t excessively privileged and don’t give them any more money than their peer group.”

Most are keen that their children should value money, recognising how hard it is to make it and how easy it is to lose. Some had made mistakes. One rued the moment he had bought each of his children a house, claiming that if they’d had larger mortgages, they might have worked harder. All agreed that too much income too early could prove to be demotivating.

The key is to encourage a sense of stewardship rather than entitlement. Families place a value on internships, either internal or external, and on building skills that can be brought in to the family business. Children need to achieve on their own merits.

One example of a third generation entrepreneur that defies the clichés is Sean Ramsden. When he entered Ramsden International, the family business, he used his skills and experience to build an entirely new part of the business: the export side. He had family support but the work was his own. Today, the business now operates in 140 different countries with a range of around 24,000 products.

Our survey shows that family businesses are acutely aware that succession cannot be left to chance. While that might sound self-evident, many families find that, in effect, that is the result of delayed planning and preparation. Most are keen to involve future generations and understand the necessity of devoting time and resources to nurturing the right skills in the next generation.

Our Family Business Survey aims to reveal a range of insights into the challenges faced by families in their intra-generational planning. Read more about our findings and insights here: www.smithandwilliamson.com/en/campaigns/family-business-survey

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Source: Smith & Williamson’s Family Business Survey 2019/20
Engaging the next generation for business-owning families has always been necessary; now it has the added context of increasing human longevity.

Our survey aims to reveal a range of insights into the challenges faced by families in their intra-generational planning.

Download today:

**75%** of family businesses thought it was important to encourage the next generation.

**KEY FINDING**

Only **5%** wanted the next generation to join straight from university.

**KEY FINDING**

**80%** believe that qualifications are important, but many believe these are better gathered outside the company.

**KEY FINDING**

Only **13%** of family businesses make it to the third generation.

**KEY FINDING**
Sense & Sensitivity

In our ever-changing world, how will you adapt your finances?

- Supporting your family
- Exiting your business
- Dealing with divorce

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#NowAndWhen
Navigating the minefield of social care

Negotiating your way through the UK care system can be a challenge - particularly for the majority who pay for all or some of their own care, known as “self-funders”. Many find themselves being passed between GP services, local NHS Trusts and social services departments, receiving contradictory and sometimes incorrect advice and information.

Much confusion is caused by the distinction between social care and health care. Health care, where someone’s needs are predominantly medical, is the responsibility of the NHS and is free at the point of need. Social care, often described as “activities of daily living” (for example, eating, dressing, washing, mobility etc), is the responsibility of the local authority and is means tested. This distinction can seem arbitrary and for many it’s not easy to know whether someone’s care needs fall neatly into one category or the other.

Care is also a devolved matter, with different systems and eligibility criteria operating across England, Northern Ireland, Scotland and Wales, making navigation even more challenging for dispersed families.

This situation is made only more complicated when one appreciates the extent to which UK social care has been underfunded for many years, while an ageing population has created increased demand, leading many to describe the current system as being ‘in crisis’. Indeed, one can go back over twenty years to December 1997 when Tony Blair’s Labour Government set up a Royal Commission on the funding of long-term care to explore ‘a way to fund long-term care which is fair and affordable for the individual and the taxpayer’’. Since then we have seen numerous consultations, official commissions like the Dilnot Commission, green and white papers and acts of parliament, but it can be argued that little of significance has changed for the majority of those in need.

Care is also a devolved matter, with different systems and eligibility criteria operating across England, Northern Ireland, Scotland and Wales, making navigation even more challenging for dispersed families.

These issues are exacerbated by becoming the reality that most people only start to think about care needs when matters are urgent, typically when a family member has been discharged from hospital after an accident or illness and social care is needed. But all is not lost! There are some key steps that can help steer a course towards a care solution that both meets the person’s needs and, in the case of self-funders, avoids the spectre of catastrophic, uncapped costs.

Many self-funders don’t fully appreciate the role of financial advisers. With typical care home fees ranging from £30,000 to £50,000 per annum, dependent upon location and service provision (and in some cases fees being significantly higher), it’s important that all possible ways of funding care are considered so that any chosen solution is both affordable and compatible with whatever existing financial planning is already in place.

Furthermore, financial advisers with specific qualifications (such as the Chartered Insurance Institutes’ CF8 Long Term Care qualification) are the only professionals qualified and authorised to advise on products called immediate need care annuities. These products are the only current means to cap care fees by paying fees for life in exchange for a one-off lump sum payment. While such products won’t be the most appropriate solution for everyone, understanding how much it might cost to cap one’s liability to pay fees potentially for many years provides a benchmark against which to more easily assess the value of all other ways of paying for care.

Carebox Health
Anthony Miles, Technical Director, My Care Consultant, www.careboxhealth.com

The steps to take

1. Seek to fully understand the nature and extent of the person’s care needs and what it might cost to meet these needs.
2. Find out which relevant care services from the local authority or other third parties (e.g. charities and support services) are available free of charge.
3. If some of the person’s needs require health care, establish whether they qualify free NHS Continuing Health Care funding (NHS CHC) - don’t forget, if they don’t currently qualify, but their health deteriorates, they may still become eligible in the future.
4. If they don’t qualify for NHS CHC, establish whether they qualify for an NHS contribution to Registered Nursing Care.
5. If their needs are deemed social care ask for a local authority ‘needs assessment’ to determine the extent and nature of the person’s requirements and then a ‘financial assessment’ to establish whether they are eligible for local authority funding.
6. If they’re deemed a ‘self-funder’ identify any insurances that may cover some or all care costs and check whether they are entitled to any state benefits.
7. Seek qualified financial advice.
A question I’m often asked is how to pay for university. I have noticed there are some common themes worth exploring. Most families do not want their children to graduate saddled with debt but are unsure whether to take loans. Do they offer a good choice in terms of meeting the cost?

Some clients have few concerns about meeting the cost but for others it may mean scaling back their retirement plans. Many will view it as an opportunity to help their children understand the value of money. Certainly, handing over the role of managing money presents a great opportunity to learn some valuable financial literacy lessons.

Ideally, planning for how to meet the costs should start early. In this way, affordability can be assessed, along with deciding who needs or wants to be involved and the most effective way of meeting the cost.

What are the costs?
- Tuition fees
- Accommodation costs
- Living Costs

Most universities charge the full rate allowed for tuition. As such, the majority of undergraduate degrees cost £9,250 for the academic year in England and Wales.

Accommodation in the first year will usually be in halls and the costs will vary depending on location, facilities and décor. Expect it to cost somewhere between £5,000 and £7,000 (though it is best to research specifics). For example, a single ensuite at LSE could cost in the region of £11,000 per year whereas a room in Corpus Christi Cambridge could cost as little as £3,300 for the academic year (term-time only).

Living costs need to include books, travel, food and entertainment. An average budget of £115 per week, or £4,400 for the academic year, would be a good starting point.

Expect a total cost in the region of £20,000 per academic year.

How to meet the cost?
Generally, the most cost-effective way of financing is through the use of family assets, whether held in trust or paid for by individuals. However, for many, student finance will be necessary.

The main types of finance are:

Tuition fee loan: A non means-tested (not dependent on household income) loan, available for UK or EU full and part-time students.

Maintenance loan: A means-tested loan for full-time UK students to help cover accommodation and living costs.
Maintenance loans start to taper away where household income is in excess of £25,000 a year. For example, a student where household income is £100,000, studying outside of London would expect to receive £4,168 for the academic year. There is a useful calculator here that provides indicative figures: gov.uk/student-finance-calculator

Scholarships and bursaries are available, with some universities and colleges offering financial assistance. In most cases, the maintenance grant will not cover the cost of halls. Students will need clarity around how they will meet the funding gap.

Are loans good value?
Loans accrue interest from the day they are issued until the day they are repaid or written off (currently after 30 years). There is an argument that over the long term students may never have to repay the loan in full if they don’t hit the earnings limit. The tipping point for having to repay everything borrowed with interest is earnings around the £40,000 mark.

The current rate of interest is 3% plus RPI - that equates to 5.4% today. Compounded every year, the costs are significant.

Loans don’t need to be paid back until graduates earn over £25,000. They make payments of 9% above that and the repayment is collected at source via PAYE. A useful summary can be found here (anyone starting University now would be on Plan 2).

gov.uk/repaying-your-student-loan/what-you-pay

Family help
The most appropriate option for meeting the cost will be entirely dependent on each family situation. Factors include income levels, assets available and affordability. Best practice would be to provisionally agree a strategy early on and ideally in conjunction with wider family members.

The first place to start is to assess what is affordable. It might be that your income levels are such you can pay for it from earnings. However, parents need to be aware of the trade-offs. Are they scuppering their own retirement by not saving enough in their high-earning years?

Once you have established what cost you wish to meet, the next step would be to consider the assets available. For example, we saw one father who was considering reducing his pension contribution to help pay for university costs for his daughter. He had taken out an onshore bond a number of years previously. Assigning parts of the bond to his daughter proved a very tax efficient way of paying the cost. He avoided the income tax liability deferred in the bond and kept the tax relief from his pension contributions.

Some clients decide to buy a property for their children’s accommodation in the second year. Additional rental income can help meet the costs of living. The motivation can be to help with estate planning or for the young adult to gain experience of managing an asset.

Another option is to provide for the costs but in the form of an interest free loan on the understanding that your child will pay it back one day. There is an opportunity cost here in that you will be losing out on any potential growth in that capital. You could decide to write the loan off in the future.

This is a good time to consider wider family wealth and how it might help. Grandparents may have excess income or capital and are often in a position to make gifts. It may turn into a wider family conversation as often grandparents want to consider how the help fits in with other adult children and to balance fairness with need. Where clients have a large final salary income that is enough to meet income needs and is building up in the bank, gifting the unused income to grandchildren to buy books and food reduces the estate from an inheritance tax perspective. Trusts can also be used to help.

Flying solo
Maintenance loans are paid at the beginning of each term and this can seem like a great sum of money to put in the hands of an undergraduate, who has only recently left home. A good place to start is to help with budgeting and then step away. Run through the likely monthly costs with your child so they have a good sense of what they will be. Setting up a savings account, paying in the maintenance grant and using it to emulate a monthly salary to a current account would be another way to help.

It might be that getting a part-time or summer job is required. This will help your child understand taxation and how to save income now to help over the course of the year.

If up to now you have been paying for and administering the car, mobile phones, clothes etc., this is now a good time to hand over the administration. Be prepared for some mistakes and maybe the odd text message to say they need a sub till they come home! Should you provide it? That’s part is to you...

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Logic & Longing

Have you prepared your finances for the future?

Building your wealth  Preparing for retirement  Managing your taxes

Get practical support today, so you can prepare for tomorrow.

#NowAndWhen
45% tax and loss of personal allowance
The highest rate of tax remains at 45%, applying to individuals with total income over £150,000. Personal allowances are tapered for individuals with income between £100,000 and £125,000 (2019/20), giving an effective tax rate in this band of 60%.

The following can help reduce taxable income:

- Making pension contributions or charitable gift aid payments.
- Transferring income-generating assets between spouses/civil partners if possible.
- Using tax-free investments and/or tax efficient investments.
- Investing in assets which generate capital growth rather than income.
- Altering the timing of income to maximise use of lower rate bands.

Tax-free/tax-efficient investments
There are various tax-free and tax-efficient investments available. For independent, fee-based advice on whether any of these investments are suitable for you, we can put you in touch with a contact in our financial services team.

- Consider making tax-free investments through ISAs or National Savings.
- The Help To Buy ISA for first time buyers provides those who save up to £12,000 toward their first home with a further 25% government bonus. For every £200 a first time buyer saves, the government will provide a £50 bonus, up to a maximum of £3,000.
- Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trust (VCT) investments provide tax shelter/deferral incentives.

Pension contributions annual allowance
Pension contributions are still a tax-efficient way of saving for retirement, with tax relief given at your highest marginal rate of income tax. Tax relief is restricted to the lower of your annual allowance, or your net relevant earnings.

It may also be possible to take advantage of your unused annual allowance from the three previous tax years.

This is a complex area as pensions are subject to a lifetime cap as well as potential restrictions for higher earners, so you should seek advice before making any contributions.

Savings income
Individuals have a starting rate band of £5,000 for savings income (subject to total income), and £2,000 for dividend income. Savings and dividend income falling within these bands is taxed at 0%.

Separate to the starting rate savings band, a personal savings allowance is available to basic and higher rate taxpayers but not to additional rate taxpayers. The allowance is £1,000 per year for basic rate taxpayers and £500 per year for higher rate taxpayers. Spouses and civil partners should review who holds any taxable savings.

Charitable donations
Gift aid donations to charity give tax relief at your highest marginal tax rate. Any cash donations made before 31 January of the following tax year, or the date of the submission of your tax return if earlier, can be carried back to the previous tax year. Cash donations made before both 31 January 2020 and the submission of your 2018/19 tax return can be included on to your 2018/19 tax return.

Spouses should ensure that any charitable donations are made by the spouse with the higher income to maximise income tax relief.

Individuals can gift quoted shares or an interest in land to a charity. This has the advantage of income tax relief being available on the market value of the asset as well as the disposal being exempt from Capital Gains Tax.
**Capital Gains Tax**

Subject to the availability of any reliefs, Capital Gains Tax is currently charged at either 10% or 20%, depending upon the marginal rate for the year of disposal, for all gains above the annual exemption (currently £12,000 in 2019/20 for individuals). Rates of 18% and 28% apply on gains arising on the disposal of investment residential properties.

Non-resident individuals and trustees selling UK land (directly or indirectly) may be required to file a return and pay any Capital Gains Tax within 30 days of the sale. The requirement to file a return may still apply even where no capital gain arises. From 6 April 2020, these rules will also apply to UK residents disposing of UK residential property at a gain.

Consideration should be given to selling assets at a gain to use your annual exemption. Assets could also be transferred between spouses where appropriate to maximise reliefs available.

Consideration should also be given to selling any assets which stand at a loss if you have large capital gains and also making a ‘negligible value’ claim on assets that currently have no value.

Both tax and investment advice should be taken in advance.

**Making Tax Digital (MTD)**

The Chancellor confirmed in the Spring Statement that the Government will not be mandating MTD for any new taxes or businesses in 2020, in order to focus on supporting businesses that are adopting MTD for VAT.

**Trusts**

Trustees may want to review whether distributions should be made before 5 April 2020.

Trustees may also wish to give consideration to the Capital Gains Tax annual exemption to determine whether any assets should be sold in the tax year.
All figures are subject to change in the annual Budget. Sign up to our budget updates here - smithandwilliamson.com/insights

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Talking Tax
In each Talking Tax episode, we’ll provide a variety of topics people or businesses are thinking about now. We’ll also feature a tax headline section giving a quick overview on the recent changes that have occurred to date.

smithandwilliamson.com/thepulse/talking-tax

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**Deadline: 31 January**
Previous year’s tax returns due. Non-submission will result in a penalty

- Balancing payment for your previous year’s liability due¹
- First payment due for following tax year’s tax liability

¹ We will calculate this whilst preparing your tax return

² This is calculated based on your previous income tax liability

**Deadline: 30 December**
Online tax return due if £3,000 tax liability (or less) to be collected through tax code for employment or pension.

(Paper deadline: 30th September)

**Deadline: 3 March**
5% surcharge applied to any outstanding tax liability for previous year
Jargon-busting: What you really need to know

The investment industry is fond of jargon. Deciphering this alphabet soup of acronyms can give the impression that investing is complex and impenetrable. It may even deter people from making the best long-term decisions for their wealth. Much like flat-pack furniture, the clearer the instructions, the better the outcome.

That said, while it is our job to understand and interpret the detail, it is worth getting to grips with some key concepts. This can help unlock some of the complexities of investment markets. With this in mind, we’re outlined five pieces of jargon it is worth understanding, as well as five you can comfortably ignore.

Five to understand:

1. **Volatility** - Volatility is the extent to which the price of an asset moves around. It is used as a proxy for risk - so higher volatility would be higher risk. However, this isn’t exactly true because a stock that moves up very rapidly has the same volatility as a stock that moves down very rapidly but they may not mean the same thing to an investor.

2. **Diversification/asset allocation** - This is how different assets - bonds, shares, property, cash - are blended in a portfolio. The ideal is to build a portfolio that suits the investor’s overall goals and is robust in different market conditions. A more risk-averse investor, for example, would have more in bonds and less in stock market investments. Asset allocation may also change over time and with income needs. A diversified portfolio will hold a range of different assets, including cash, bonds and shares. This means it remains resilient at each point in the business cycle. If stock markets are performing poorly, then high quality government bonds should do well. As well as ensuring that their overall portfolio is diversified, it is worth ensuring that the sources of income are diversified, generated by bond, equity and/or property holdings.

3. **Total return approach versus income only** - Under a total return approach income and capital gains generated by the portfolio are treated identically in terms of performance. By contrast, an income approach, the income yield and capital gains are treated separately and increasing yield becomes the focus.

4. **Target return and time horizon** - It is important to know what you want your investment to achieve (target return) and how long you have to achieve those goals (time horizon). This influences the amount of investment risk you can take and how much you can allocate to higher growth, and more volatile areas, such as emerging market equities.

5. **Benchmarks** - The idea is to provide a comparative measure against which someone can judge the portfolio’s positioning and performance. The benchmark should match the investor’s long-term goals - be that long term capital growth or income.

Five you can comfortably ignore. But just in case you’d like to know...

1. **EBITDA** - Earnings before interest, tax, depreciation and amortization OR, in layman’s terms, a measure of profitability before taking away the nasty bits.

2. **Negative capital growth** - The value of the investments has gone down! Many investment managers find it more palatable than suggesting your investment has fallen.

3. **Alpha and Beta** - Beta is the performance of the market and alpha is the performance that a fund manager adds over and above the market performance. Both are complex calculations and not necessarily very informative for investors looking at the performance of their portfolio.

4. **Operational leverage** - Operational leverage describes the split between fixed and variable costs for a firm. Fixed costs do not vary with the number of sales while variable costs increase with an increase in sales. A firm with high operational leverage has high fixed costs and low variable costs. Therefore, a small increase in revenue can translate into a large increase in operating income.

5. **WABUA and FAANGs** - Two popular acronyms for groups of companies - Walmart, Amazon, Berkshire Hathaway, United Health and Apple and Facebook, Amazon, Apple, Netflix and Google.

It is important not to be distracted by jargon or let it turn you off investment altogether. The alternative is to have a high weighting in cash, which may feel like the straightforward option, but will not protect against inflation and may see your portfolio lose money in real terms over time.

It is important to remember that investment does involve risk and the value of investments and the income from them can fall as well as rise and you may not receive back the original amount invested.
Our expertise

For over a century, we have managed the financial affairs of private clients and their business interests.

With over 1,800 people in 12 offices in the UK, Ireland and Jersey, we are a leading investment management business and one of the UK’s ten largest accountancy firms.*

Clients, whether individuals or companies, value our ability to provide tailored financial and professional services to enable them to achieve their ambitions.

*According to the latest survey of the market by Accountancy Age

Business services

- Assurance and accounting
- Business tax
- Corporate finance
- Corporate trustee services
- Forensic accounting and litigation support
- Fund administration
- Pensions and employee benefits
- Restructuring and recovery

Private client services

- International
- Investment management
- Pensions and personal financial planning
- Strategic advice
- Tax and trusts
- Tax investigations
- Trustee and executorship service

Capital at risk. The value of investments and the income from them can fall as well as rise and the investor may not receive back the original amount invested.

References to taxation are based on Smith & Williamson’s understanding of current tax legislation and HM Revenue & Customs practice, which may change in the future.

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