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“Those who do not read newspapers are uninformed. Those who do read newspapers are misinformed.”
Mark Twain

This Financial Bulletin’s front page focuses on clearing up the confusing signals given out by the media and property organisations.

Real wealth was created by investing in property – residential or commercial – during the 30 or so years to the end of 2007. The next 10, 20 or maybe even 30 years will be about real wealth destruction by investing in property. The word real shows we are comparing to inflation. When you grow real wealth you increase your standard of living. When real wealth falls you reduce your living standard.

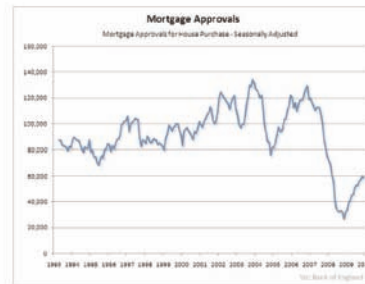
During the last four decades we have seen three years of real price rises then three of real falls, followed by two of rises and two of falls, followed by seven of rises and seven of falls. Remarkable but true. The last fall (1988 to 1995) was the first post 2nd World War fall which had actual price falls, not just inflation-adjusted falls. The chart below shows our real national house price cycles.



When a fall is inflation adjusted, it is less noticeable than an actual fall. From 1973 to 1975 average earnings rose some 50% (Source: MeasuringWorth.org) yet national house prices were basically flat (and fell c 40% against inflation....the first post-war house price crash).

To 2007, we had 11 years of growth, as everyone knows. Looking

back at those symmetrical cycles, we can deduce 11 years of falls from 2007. The high prices seen in the UK will continue to come back to reality.



Consider the above chart, from Royal Institution of Chartered Surveyors (RICS AKA estate agents). Mortgage approvals rose steadily from c 80,000 pm to c 130,000 pm at the height of the 11 year bull market. Even after last year’s price rises, approvals (and therefore home sales) are still less than a half of what they had been. Now that the public sector cuts (that we forecasted) are underway, the supply of property for sale will soar and demand will stay, at best, flat. Prices will nosedive, again. We forecast that prices will fall ‘till 2013-14. This will be due to

- Higher unemployment
- Higher repossessions of both owner occupied and buy-to-lets
- Higher deposits required for mortgages
- Higher taxes
- Stronger Pound v Euro
- Lower capacity of banks etc to lend mortgages

After 2013-14, prices will at best rise below inflation. Thus, it is entirely plausible that the housing cycle does not get going again before 2018.

What should you do to secure your finances or help secure those of your friends or your private and trustee clients? Call me personally to discuss how we can help.

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Many Spring Budget changes survive into law

The March 2010 Budget contained little to frighten the voters. The June Budget could well be rather different.

Alistair Darling's final Budget was predictably heavy on politics and light on new measures. For all its pre-election caution, the Budget still produced a raft of detailed proposals, although not all became law before Parliament shut down. There were 71 separate HM Revenue & Customs Budget Notes on tax law changes, covering everything from tackling tobacco smuggling in the post to bank payroll tax. The more interesting and less obscure included:

Capital gains tax (CGT) The Chancellor made one change to CGT: he doubled the lifetime limit for entrepreneurs' relief to £2 million. This relief reduces the effective tax rate to 10% on gains made on the disposal of certain business assets, such as shares in a private

company. The Chancellor pointedly said that he was not making any other revisions to CGT, but that is only a temporary stay of execution. The new government has said that CGT rates for non-business assets are set to be 'similar or close to those applied to income'.

Inheritance tax (IHT) Last December Mr Darling announced a freeze in the nil rate band for 2010/11 and in the Budget he extended this to 5 April 2015. This measure was passed in the 'wash-up' Finance Act. The Conservative manifesto pledge of a £1 million nil rate band has been shelved: the coalition government says increasing the personal allowance 'should take priority'.

ISA increases The overall investment limit for ISAs was £7,000 at launch in April 1999 and remained there until April 2008, when it increased by a paltry £200. In the 2009 Budget, the Chancellor announced a rise to £10,200, but staggered its introduction. Mr Darling decided that from 2011/12, the ISA limit will at last be index-linked each year, with each rise rounded to the nearest £120.

Annual investment allowance (AIA) The annual investment allowance was introduced in 2008 and gave a 100% initial capital allowance to the first £50,000 a business invests in plant and machinery. The Chancellor doubled that figure to £100,000 in his Budget, although the rise came at the same time as a temporary 40% first-year allowance disappeared.

The next Budget on 22 June may contain more surprises than March's, including some unwelcome tax increases. After all, the Treasury has forecast a £163 billion Budget deficit for this year. The FSA does not regulate tax advice.



Could you live on the basic state pension? The basic state pension rose by 2.5% in April, to £97.65 a week for a single person and £156.15 a week for married couples. Other state pensions, such as the old graduated pension, were frozen. The previous government knew that the basic state pension is inadequate, which is why the means-tested Pension Credit standard minimum guarantee is £132.60 a week for a single person and £202.40 for a couple. If none of these numbers look adequate to you, then make sure that your private provision is sufficient to cover the gap.



Looking beyond the pound

The pound has had a rough time of late, but for some investors that has been good news.

It was not so long ago – December 2007 – that the pound would buy you over US\$2 or €1.40. Since those heady days, sterling has fallen sharply, but that is not necessarily bad news from an investment viewpoint. If you hold overseas assets or investments, their sterling value will rise, even if the home-currency value remains unchanged.

Overseas investment not only provides currency diversification, but it can also give you access to a greater range of investment opportunities. For example, there are no UK companies to match US software businesses such as Microsoft and Google.

If you want to add overseas exposure to your investment portfolio, there is a wide variety of opportunities available. The two most significant are:

Funds investing in major UK companies

Investing in UK companies to gain overseas exposure makes sound financial sense. Many of the largest UK companies – for example HSBC, BP, Vodafone – operate on a global basis. It is estimated that over 70% of the earnings of the FTSE 100 companies now comes from abroad. A falling pound means that those foreign earnings

become more valuable when they are converted back into sterling.

Funds investing in overseas companies

These can be broken down into three main categories:

- **Global funds**, where you can leave the fund manager to decide in which countries to invest.

- **Regional funds**, the next tier down, covering broad geographic areas such as the Far East.

- **Single country funds**, which let you choose the country in which to invest.

Overseas funds have traditionally been growth investments, but there is now a selection of global and regional equity funds with an income focus. These can, of course, come with increased risk to your capital, so always take specialist advice.

Exchange rate changes may cause the value of overseas investments and the income from them to fall as well as rise. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Tax planning implications of retiring abroad

If you are thinking of retiring abroad to enjoy a better climate and escape the UK tax system, you might find it harder than you expect, especially after a recent well publicised tax case in the Court of Appeal concerning Mr Robert Gaines-Cooper, who retired to the Seychelles.

Mr Gaines-Cooper thought that he had kept to all HM Revenue & Customs (HMRC) rules about non-residence. For many years, he made sure that he was here for fewer than 91 days in a tax year, following the guidance set down in HMRC's guidance leaflet, 'IR20,' on the subject.

Unfortunately, an analysis of the number of days in the UK revealed that he had spent considerably more time in the UK when days of departure and arrival were

included. HMRC argued that the leaflet only amounted to guidance and could be departed from.

HMRC also argued that Mr Gaines-Cooper's ties with the UK continued to be so strong that, in any case, he had not ceased to be a UK resident in the first place.

The Court of Appeal ruled in favour of HMRC on both counts, agreeing that Mr Gaines-Cooper had remained a UK resident. So what are the implications of this judgment for people who want to leave the UK and escape HMRC's net on most of their income and gains?

There was one piece of good news for some would-be expatriates. The Court ruled that those who leave the UK to work abroad under a full-time contract of employment are subject to very different rules from

those who leave the UK 'permanently or indefinitely' for retirement or some other purpose.

For those who retire abroad or are leaving for some other reason, it is essential that there is a demonstrable change in a person's normal pattern of living that clearly shows a break from UK residence.

For example, a cutting of all business, social and family ties to the UK and the creation of meaningful ties with the new country of residence (for example, buying a property and/or having children educated there). Even if you manage to achieve non-resident status, remember that when you are counting days in the UK, any day in which you are here at midnight is considered to be a day in the UK.

The FSA does not regulate tax advice.

Did you know that, in a world of 50% tax, the personal allowance has become more valuable? Independent tax for married couples opened up a variety of tax planning opportunities when it was introduced in 1990. New opportunities have now appeared with the arrival of 50% income tax and the phasing out of personal allowances in 2010/11. For instance, it is possible that a switch of £10,000 of income between you and your spouse or civil partner – for example by transferring investments – could save over £5,500 in tax during 2010/11. If you have not reviewed your independent tax plans recently, now is definitely the time to do so. The FSA does not regulate tax advice.



New investment opportunities

Investors now have access to a much wider range of investment funds than in the past and they can provide some really valuable new opportunities. These funds go under the name of UCITS (Undertakings for Collective Investment in Transferable Securities). It's taken years for UCITS funds to grow and develop in popularity, but they are finally bringing the offshore market to onshore UK savers.

UCITS were designed to break down border restrictions for investors and fund managers. The scheme was initially slow to find fans, but is now massively successful: around 40,000 UCITS funds manage about three-quarters of Europe's investment fund market.

European funds tend to be much smaller than their US peers, seven times smaller on average. The discrepancy means higher costs to the individual investor. Ironing out that divergence is one of the main reasons for the new UCITS IV regulations, which come into effect in 2011. They contain provisions that aim to make consolidation easier, and encourage 'master feeder' fund structures, to promote the efficient pooling

of assets. Fewer but larger funds mean more competitively priced opportunities for savers.

For the UK saver, a key benefit has been access to absolute return funds, also known as hedge funds. With the flexibility on investable assets that UCITS III now permit, hedge fund managers are discovering that it's simple, and not prohibitively expensive, to launch a UCITS-compatible 'clone' of their existing funds, which they can then offer to retail investors.

As more fund managers adopt UCITS III, investors have been granted access to a wider pool of securities, including not only hedge funds, but asset classes such as internationally-traded commodities. There's some doubt, however, over whether these increasingly volatile and complex investments are what UCITS was designed for.

UCITS have opened up a wealth of alternative assets to retail investors, but they come with their own risks. With version IV just around the corner, you might want to hold off entering the world of UCITS until it's clear what changes are on their way.



These investments may not be suitable for everyone. You should take independent financial advice before making any decisions. Returns may go down as well as up, and you may not get back the full amount you originally invested.

The grey plastic package

Did your 2009/10 tax return arrive in early April?

In 2008/09 HM Revenue & Customs (HMRC) managed to answer only a little more than half of the 103 million calls to its main tax helplines, according to a House of Commons report issued recently. However, HMRC is much more efficient when it comes to issuing tax returns to its 'customers'. No sooner had Easter and 5 April passed than the nation's doormats were being blighted with weighty grey plastic packages containing 2010 tax returns.

You have until 31 October 2010 to send back your paper return, although if you choose to file online, HMRC gives you an extra three months' leeway. If the recession meant that your income fell in 2009/10, you may want to act more quickly. Your second payment on account for 2009/10 is due on 31 July 2010, and if your projected 2009/10 tax bill is lower than that for 2008/09, you could reduce or even eliminate that payment. If you cannot get the information together and complete your return in time, you can still make a claim to reduce payments, but you will be charged interest if it subsequently transpires that you have underpaid. The FSA does not regulate tax advice.



Trusts accumulation rules change

Legal changes will boost the earning potential of trusts – but those trusts already in existence generally won't benefit.

The Perpetuities and Accumulations Act 2009 came into effect on 6 April this year, and finally abolished the 21-year limit that previously restricted how long income could accumulate for. New trusts can now build up income for their entire 125-year lifespan, bringing them more in line with popular offshore structures.

The limits were intended to prevent assets from being tied up for too long, preventing beneficiaries from actually profiting from accrued capital and income. But they also generated unwanted side effects, like trustees being forced to distribute income to minors, who would be better off if the assets continued to accumulate capital.

To take advantage of this enhancement, it will need to be properly incorporated into a trust – the longer accumulation period isn't automatic.

Moreover, existing trusts won't retrospectively become eligible, so it's worth reviewing anything you may have already established. With the Act in force, live trusts can be varied and wills can be republished to benefit.

Now that the changes have come into effect, check to see if you and your family could benefit from making changes to planned or existing trusts. The FSA does not regulate tax advice, will writing and some forms of estate planning.

Annuity rates looking up?



Annuity rates are mired at ultra-low levels. But could this be about to change?

At about 6.5% (for a man aged 65), it is many decades since UK annuity rates appeared so unattractive. In 1990, a 65 year old man would have received more than 15% from an annuity. The massive

decline means today's retirees see their hard-earned retirement savings converted to annuities that produce income levels similar to late 1990s bank base rates.

Historically, annuity rates were closely linked to the yield on longer term UK government debt (gilts). This is no longer the case, as most annuities are now underpinned by corporate bonds, which generally offer higher yields than gilts. At the peak of the credit crisis, the gap between corporate bond yields and gilt yields widened substantially, pushing up annuity rates. However, over 2009 the reverse happened as corporate bond yields tumbled and the credit crisis abated. Annuity rates came back down in their wake.

With economic uncertainty, weak sterling and sharply rising inflation, there is a possibility that long-term interest rates will rise soon. However, a return to 15% annuity rates is most unlikely. One simple reason is growing life expectancy. The man who reached 65 in 1990 was expected to live for another 15.8 years, according to the Government Actuary's Department. The 65 year old in 2010 has 21.3 years ahead of him – over a third more. Perhaps that 6.5% guaranteed for life is not such a bad deal, after all...