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All

Housing market still strong but for how long?

House price growth hit nearly 8% in January, according to the latest Zoopla House Price Index. The average value of a home in the UK rose by nearly 1%, or around £2,000, between October 2021 and January 2022 alone. This pace of house price growth may seem counterintuitive given the growing economic headwinds – both the mortgage rate and cost of living rises that have been on the cards for some time, as well as rising global economic uncertainty caused by events in Ukraine. However, the fundamentals underpinning this growth have been in place for some time, as buyer demand continues to outstrip the supply of homes being listed for sale. What is increasingly important to highlight however, is the range of house price growth now being seen across the country. The average UK rate may be at 7.8%, but this ranges from price falls of -2.2% in the City of London, to rises of 16.6% in Powys in Wales. There are two main factors at play here. The first is the correlation between price rises and affordability. In a post-lockdown market, where a large cohort of office-working buyers have had the chance to move further afield, markets which offered more space at more affordable prices have seen the greatest competition for homes, and the highest price rises. An additional factor, in South Wales and the South West of England especially, is the added attraction of rural and coastal locations, which have added more pressure on demand in these markets. The London market, with higher average prices and higher affordability ratios, is now starting to return to pre-pandemic conditions, with a step up in demand for flats, a market which has been relatively subdued compared to the vibrant market for terraced, semi-detached and detached houses during the last 18 months. Yet the data on supply levels suggests the market is now at a turning point and that the supply squeeze is starting to ease. New listings are starting to run ahead of the five-year average level, suggesting that more homeowners are putting their home on the market. This could engender even more listings in time as one of the factors inhibiting listings at present is vendors' worry that in such a fast-moving market, they will not be able to secure a purchase before their home is sold. It will take some time to unwind the large imbalance between buyer demand and stock levels, but this is a sign that pipelines are starting to build, which will also lead to a return to more 'normal' market conditions, and an easing of the upwards pressure on pricing. This, alongside the economic headwinds mentioned above, commentators believe, will put the brakes on price growth during the course of 2022.

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Chancellor targets excess profits

Industry executives are pushing back as Rishi Sunak explores a raid on profits among electricity generators to try and offset soaring energy bills, having hiked taxes on North Sea oil and gas producers from 40% to 65% in May. Billions of pounds have been wiped off the stock market value of major generators such as Drax and SSE since The Financial Times reported late last month that the Chancellor was considering trying to raise £10bn by hiking taxes on the sector, while also working on wider market reforms. It comes at a delicate moment for the sector, with the Government also trying to stimulate billions of pounds worth of investment into clean energy, and convince generators to stay open to help keep the lights on this winter as Russia's war on Ukraine rocks energy markets. Developers are now queuing up to warn Sunak the plans could deter investment and convince him that the scale of any profits has been wildly overestimated. Analysts warn of legal challenges if the policy is badly designed. Kwasi Kwarteng, the Business Secretary, is believed to be unenthusiastic, wary of the investment risk. Experts question how the market has been allowed to reach this point. They argue that a windfall tax is an admission of failure of sorts.

The argument goes that you would not need windfall taxes if you had the proper tax regime for the North Sea and you had a proper electricity market system which priced on the basis of costs. The prospect of a windfall tax on the electricity sector follows months of high wholesale electricity prices, which helped trigger a 54% rise in energy bills in April and the biggest cost of living squeeze in a generation.

All

Sterling in crisis

Sterling could be facing an existential crisis, analysts have warned, with the pound being compared to currencies in emerging markets. The outlook for sterling 'looks grim', according to research from Bank of America, which said the pound 'is no longer the doyen of foreign exchange markets that investors think it is'. The pound has fallen 6.6% this year in dollar terms, leaving it as one of the worst performers among the world's major currencies. Only the Norwegian krone, Swedish krona and Japanese yen have fallen further. The pound has lost 11% of its value against the US dollar over the past 12 months, sliding from $1.42 a year ago. Sterling's fall from grace has been epic and in many ways has caught the investor community by surprise. Commentators also warn that there is a risk that the UK's current account deficit, a deterioration of the relationship with the European Union over Northern Ireland and questions around the Bank of England's credibility combine to create a 'perfect storm' for the currency. Some even go as far as to accuse the Bank of 'losing control over its mandate'. Families have been battered by soaring inflation this year, which has led to the Bank of England increasing interest rates on four occasions since December.

Property Owner

Record number of London homes sold off market

There has been a significant increase in the number of homes sold off-market in recent years, according to Hamptons. Selling off-market has traditionally been a strategy in prime parts of the country, predominantly in central London where privacy and pricing concerns are the primary motivation for most secret sellers, the agency says. During the first five months of the year the company says 23% of homes in London changed hands without being openly marketed, up from 20% in 2021. However, today, a higher proportion of homes (24%) are now sold discreetly in prime country markets than in London, with 59% of off-market sales now outside the capital. With 10% of homes sold off-market nationally, the absolute numbers are running above 2015 levels. This extension into both country and non-prime markets has primarily been driven by a lack of stock and a seller's ability to secure a higher price in a competitive market, rather than privacy concerns. In the five years running up to the start of the pandemic, the average home sold off-market achieved £1.2m. But the growth in off-market transactions has increasingly been driven by lower-priced properties. So far this year, the average discreetly marketed home changed hands for £858,000, down from £979,000 in 2021. With off-market sellers achieving record prices, Hamptons reports that more vendors have embraced this route. Buyers, who have been battling a stock shortage amongst stiff competition, have been prepared to pay a premium to seal a deal before a home is advertised more widely, including online. Hamptons also claims that so far this year, residential properties marketed discreetly have achieved a higher proportion of their asking price than their counterparts which were more widely marketed. The average off-market home sold in 2022 achieved 99.5% of its asking price, surpassing the 2014 record of 98%, which was set in a strong prime central London market. Meanwhile, similar homes marketed to a wider audience have achieved an average 99.1% of their initial asking price so far this year, also a record.

Investor / Saver / Retired

Pension projection problems

Experts from across the pensions industry have raised concerns over the Financial Reporting Council's (FRC) proposals to change pension projection methodology for pensions dashboards. Responding to the FRC's consultation, which closed 31 May, pension professionals warned against the introduction of new rules that would base the projected growth of individual's pensions on historic fund volatility. The pensions industry is deeply concerned about the proposals to change the methodology and that while it was important that projections for the same pension appearing in different places matched up, every pension an individual has will be invested in different funds and can be expected to generate different future returns. The concern is that while there may be technical logic behind the proposals, a volatility-based approach could be almost impossible for most people to understand. This would be at odds with the FCA's new Consumer Duty which seeks assurances from firms that customers understand communications. Introducing such a complex concept could put people off using dashboards completely, instead of a hoped-for boost in engagement. While most welcome the drive to standardise assumptions about the growth of pension funds, the proposed method could have perverse consequences, with assets generally thought of as higher risk being projected at unrealistically low growth rates, whilst lower risk assets could be assigned unrealistically high returns. The proposed approach is likely to produce unrealistic and confusing results and the industry has called on the FRC to opt for a much simpler and more intuitive approach. The thinking behind the FRC's plans to base projections on the volatility of someone's underlying investments is to build consistency into the system. In striving for this aim, they risk delivering an unwanted hat-trick of bringing in changes that will be of zero benefit to savers, layer complexity into an already complex system and become a costly nightmare to administer. The plans also risk creating perverse outcomes. For example, someone with their entire portfolio invested in one highly concentrated, high-risk (and therefore volatile) fund would likely be projected a higher return than someone with a well-balanced, diversified portfolio. This feels like an odd message to be pushing to savers, many of whom presumably will be engaging with their pensions for the first time. What's more, the FRC's approach, if adopted, will mean savers viewing two different pensions via dashboards could potentially see two different growth rates. This will inevitably create confusion, particularly among those who are relatively new to saving and investing.

Investor / Saver

Mistakes to avoid in times of stock market volatility

Investors are getting hit with scary news and stock market volatility they haven't seen since the beginning of the COVID-19 Pandemic. There are a few significant and problematic topics in the news headlines ranging from Russia invading Ukraine, the ongoing global COVID pandemic, and inflation, to name a few. These negative headlines could lead some to make costly investing mistakes. If you are a day trader or speculate on the hottest stocks of the day, you should likely make major adjustments to your investment portfolio based on short-term news. On the other hand, if you invest for long-term goals like retirement or financial freedom, making significant adjustments to your financial plan based on daily news will greatly reduce the odds of reaching your various financial goals. Doing nothing may seem counterintuitive, but it is often the best course of action for those with a well-thought-out financial plan and diverse investment allocation. If you had a crystal ball and knew what the stock market would do every day, timing the market would be easy. The reality is that no one can successfully time the stock market consistently over time. You just need to be right too often. While a bear market is never fun, it is far from a crash wiping out the vast majority of the value of your portfolio. If you have been investing over the past few years, you likely have only lost some of the impressive gains you made during the recent stock market run-up. Stock market correction and bear markets are a normal part of the stock market cycle and do not mean we are heading to the next great depression or repeating the financial crisis of 2008. Warren Buffett famously said, "Be fearful when others are greedy, and greedy when others are fearful." If you wait until all the news headlines are positive, you will have likely missed months, or even years, of positive stock market returns. When times get tough, you may be tempted to go to cash or stop contributing to your investment accounts until things calm down or the stock market has left a correction or bear market. But there will always be a reason to be negative. Trying to time the stock market is a fool's journey to the poor house. You just can't do it, and if you are just buying investments with every pay-check or automatic contributions, you will continue to buy stock on sale and get the long-term benefits of compound interest. The best general investing advice is to set up automatic contributions to your investments, so you buy when times are good and bad. Have a diversified portfolio that is consistent with your financial needs and goals.

Estate Planner

Planning for inheritance tax

While inheritance tax accounts for only a small amount of the overall tax paid to HM Revenue & Customs – around just 1% – it is a very emotive tax in that it impacts the people we care about. Latest figures show that HMRC's receipts of IHT have risen from £5.3bn in 2020-2121 to £6.1bn in 2021-22. This increase is only partly explained by Covid-related deaths. Perhaps the most concerning increase in IHT is due to the nil rate band having been frozen until 2026. This, combined with rocketing house prices, is pushing more families into the scope of IHT. The good news is that relatively simple planning can save a significant amount of IHT. The bad news is that simple planning undertaken without sufficient tax and legal advice can result in unintended tax consequences. The most straight forward form of IHT planning is giving one's assets away. Forty per cent of the value of surplus cash and assets will go to the taxman (after nil rate bands) if nothing is done. But if the intention is to pass on assets to the next generation, it would be wise to consider taking this step during one's lifetime. Gifting during a lifetime does have complexities. These are some of the most common:

1. **The 7-year rule:** If you give away an asset, you need to survive seven years for the gift to be fully exempt from IHT. Surviving three to seven years will reduce the IHT due on the gift. This is called a potentially exempt transfer (PET).
2. **The gift needs to be absolute:** If an individual gives away an asset but still retains a benefit this could be ineffective.
3. **Proving gifts have been made**: Ensure sufficient records are kept so that executors or personal representatives can identify lifetime gifts. On death, it will be the executors who must provide details of such gifts to HMRC. An absence of information can result in additional tax being paid. The records kept do not need to be onerous, but sufficient information should be documented to evidence the timing and nature of the gifts.
4. **Be wary of other taxes:** If an asset is given away that would have otherwise triggered capital gains tax if sold, for example a holiday home, then it is likely that CGT will be payable at the time of the gift. In the eyes of HMRC, if you give something away, you owe tax as if you have sold the asset at market value despite receiving no cash. As well as CGT, in certain instances stamp duty land tax will also be due if a property is involved.

All

Level of offshore tax evasion unknown

UK authorities have failed to assess the scale of tax evasion from an estimated £570 billion held by British residents in overseas tax havens, according to a series of freedom of information requests. The UK's tax agency (HMRC) said it had received information from foreign banks showing that British residents held some £849bn in 6.4 million foreign accounts in 2019. Two-thirds of it is held in tax havens. But HMRC said it had not carried out any assessment of how much tax had been evaded by cross-checking with individuals' annual returns. The admission comes as the UK grapples with a growing economic and cost-of living crisis with surging food and fuel prices. The UK has obtained data on sums held in foreign bank accounts since 2017 following the introduction of a system known as the Common Reporting Standard (CRS). About 100 countries have signed up to exchange cross-border banking information following a series of tax avoidance scandals. All British taxpayers — except for non-doms who only pay tax on UK income — have to declare income from foreign accounts on their annual tax returns. The CRS programme has revealed large-scale offshoring with tax authorities worldwide, obtaining data on 84 million accounts held by their residents amounting to about €10 trillion in 2019, according to the Organisation for Economic Co-operation and Development (OECD). The information about the £849bn came from the CRS, but critics said that the failure to analyse the information could allow tax evaders to slip through the gaps.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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