KMI Exclusive Bulletin 1st April 2019

Dear Clients and Investors

As April 1st and All Fools Day arrives, the British Parliament is having a few more Brexit votes. No possible connection there then!

However love it or loath it (and I've a pretty good idea where most feelings may lie on that one) there is just no escaping the dreaded 'B' word and so our latest newsletter reflects on the current state of play. We also look at how the UK economy is faring whilst its government frets and fiddles and highlight some tax planning ideas for the end of the financial year in the UK.

It's been a big week for UK news, of course Brexit dominated much of the headlines.

Reportedly a million people marched through London to demand a new referendum, arguably the biggest since the march against the Iraq war in 2003. The petition to revoke Article 50 and cancel Brexit has reached 5 million signatures at the time of writing, becoming the most popular petition on record. The revolt against Brexit is gaining momentum as people join together in supporting cancelling Brexit, amid the chaos of May's EU negotiations.

Brexit has already provided plenty of concern for investors and more may lie ahead this month as we await the final outcomes. It’s important to note that what may feel uncomfortable today, may just be a blip through the months and years ahead. Volatility is all part of the journey with investing. The danger lies not in the volatility itself, but in selling when markets fall due to panic, thereby capitalising any losses.

However, it’s not all about Brexit, with the announcement of UK Unemployment numbers, with UK employment at record highs. Wages are growing at their fastest rate for a decade, with pay rises typically outpacing the cost of living. However, while real wages are rising, it’s important to note that hiring tends to lag behind any changes in activity by 6-9 months, as firms adjust and account for any recruitment (or redundancies).

Almost 30 years ago, US Economist David Shulman coined the term ‘Goldilocks Economy’ – an economy where expansion is at just the right pace, not blowing too hot or too cold, with good jobs growth.

It’s interesting to compare this analogy to the current UK economy:

- The economy expanded by 0.2% in the last three months, and by 1.4% across 2018. Steady but maybe lacklustre growth.
- The Bank of England notes expansion has been held back due to a lack of business investment since the referendum, whilst also experiencing a slowdown with our major trading partners, China and the EU.
- Prices rose by 1.9% in the year to February, close to the target of 2%. Inflation seems to be almost just right, signifying life in the economy but not too fast as to be too punitive.
- The Base Rate set by the Bank of England has been below 1% for over a decade; great for borrowers, less so for savers. If the trend of faster real wage growth continues and if a Brexit Deal agreed, some economists believe there could be a small rise in interest rates this year.

However, with much of the Global Economy slowing again, while the risk of a disruptive Brexit lingers, we’re sure the next few months will have a few twists and turns in store. Whilst the UK appears in a decent state currently, it’s important not to make any rash decisions. Please speak to your adviser if you have any concerns.

Planning for Tax Year End – A Checklist for our UK Clients

As we approach the end of the tax year (5th April), here are ten ideas for our UK Clients to consider to help ensure you make the most of your tax allowances and exemptions before it’s too late.

1. Make use of your ISA allowance of £20,000.

2. Check to see if your spouse or partner has maximised their ISA allowance also, to fully use the combined allowance of £40,000.

3. If you’re looking to maximise your pension savings, consider fully utilising your Annual Allowance before the end of the tax year. The Annual Allowance is the limit to the total amount of contributions that can be paid in to your defined contribution pension. This is currently £40,000 (or your earnings, if below this). Any unused allowance can be carried forward from the previous three years. Even if you have
4. used your full allowance this year, it’s worth checking if you have any unused allowance from the previous three tax years, to make the most of available tax relief and to maximise planning for retirement.

5. If you have children, make contributions of up to £4,260 per child in to a Junior ISA to help them get a head start.

6. Consider using your IHT gift exemption of £3,000 for this year.

7. Take advantage of your annual Capital Gains Tax exemption by realising gains of £11,700 in this tax year. If you have larger gains, it may be possible to realise these gains over two tax years and also make use of tax-free inter-spouse transfers.

8. If you are looking to take a large withdrawal from your pension, it may make sense to spread this over two or more tax years to minimise your Income Tax liability.

9. If you are a high earner, you can also take measures to bring your taxable income down via pension contributions or making donations to charity. This can help to -
   - Bring income below the additional rate tax band, which starts at £150,000.
   - Regain the Personal Allowance, which gets reduced for incomes over £100,000.
   - Avoid losing any Child Benefit, which gradually gets removed if any one parent in the household earns over £50,000.

10. If you own a business, consider reducing your salary and taking dividend income to make the most of the dividend allowance of £2,000.

11. Consider diverting your company’s pre-tax profits in to a personal pension to reduce your company’s liability to Corporation Tax, Income Tax (including on dividends) and National Insurance Contributions. Please note these contributions will need to be paid before the company’s financial year end to qualify in that accounting period.

The articles for the main body of this month's bulletin have been written by Ellie Armson from our UK office.

If you would like further information on tax year end planning, please speak to your Financial Adviser.

Happy investing!

Mike Towning
Area Director KMI Consultants

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27 years of uninterrupted financial advice for the Expatriate Market Head Office: Vladislavova 46/3, 110 00 Praha 1, Czech Republic, Tel: +420 224 942 421 Fax: +420 224 942 426

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