INDEPENDENT FINANCIAL ADVISERS

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2023 Budget Summary

~ STRAIGHTFORWARD ADVICE..... IN BLACK AND WHITE ~

About Hurst Financial Consultancy

Hurst Financial Consultancy was founded in 1997 by the Managing Director, Michael Hurst. The company has operated successfully in Salisbury from inception serving clients locally, nationally and internationally.

The company focus has always been on excellence.

We have also developed a strong focus on state of the art information technology being aware of its significant value in not only collating data, but managing the performance of investments. We have our own in-house IT department and use its services constantly to develop the service that we give to our clients to ensure it is always “leading edge”.

As Independent Financial Advisers we have access to the full range of products and services available in the UK as opposed to a Tied Agent or Company Representative who may only advise and offer products from the company or companies they represent - they give "restricted advice" - we give independent advice. This means that we are able to give you impartial advice and recommend the most appropriate products for you, so that you will enjoy choice, value for money and our high-quality service.

Budget Summary March 2023

A 'back to work' budget was the theme presented by the Chancellor with measures aimed to encourage the 8 million or so economically inactive into work.

Things aren't as bleak as forecast last November mainly due to falling energy prices and higher tax revenues. This will reduce Government borrowing this year and next by £30bn less than expected.

Anyone hoping that we would see major tax cuts will be sorely disappointed. Whilst the economic backdrop is better than expected, the Government faces challenges of persistent low economic growth and public sector pay demands which makes broad relaxation of the tax burden unlikely for the foreseeable future.

There was a seismic change for pension taxation with the announcement of the abolition of the lifetime allowance – this is proving to be controversial and will need to pass the vote in parliament.

If it proceeds it will simplify the defined contribution pension market and with the proposed 50% increase of the annual allowance from £40,000 to £60,000, we do expect many of you to change your pension funding and if this is an area of interest, please do not hesitate to contact your adviser.

Income Tax

No further changes were announced in relation to the personal allowance and tax bands.

These were previously confirmed to be frozen until 2028 in the Autumn Statement in November 2022 except for the Additional Rate threshold falling to £125,140.

Also, announced in the Autumn Statement, the dividend allowance is due to decrease from April 2023 to £1,000 and then again to £500 in 2025.

The Chancellor did confirm in the Budget 2023 that the starting rate for savings would remain at the current level of £5,000 for the tax year 2023/24.

Capital Gains Tax

The capital gains tax annual allowance will reduce from the current £ 12,300 to £ 6,000 for 2023/2024 and is also due to reduce to £ 3,000 in April 2024.

Trust and Estates

Simplification measures for 'low income trust and estates'.

A package of measures has been announced:

- trusts and estates with income up to £500 will not pay tax on that income as it arises
- removal of the basic rate and dividend ordinary rate of tax that applies to the first £1,000 slice of discretionary trust income
- beneficiaries of UK estates will not pay tax on income distributed to them that was within the £500 limit for the personal representatives
- technical amendments to ensure for beneficiaries of estates that their tax credits and savings allowance continue to operate correctly.

This will be effective from April 2024, with the exception of the last bullet which will take effect from April 2023.

Inheritance Tax

No new measures announced in the Budget 2023.

Stamp Duty Land Tax (SDLT)

No measures announced in the Budget 2023 in relation to the main rates of SDLT.

National Insurance

It was announced that the Lower Earnings Limit and Small Profits Threshold will remain at 2022-23 levels. No further changes were announced.

ISA Allowances

ISA allowance remains unchanged at £20,000 for 2023/24.

JISA (CTF) allowance also remains at current level, £9,000 for 2023/24.

Pensions

The Lifetime Allowance is no more – subject to parliament approval.

We haven't had any material changes to pensions for some 5 years or more. However, this changed today with the abolition of the lifetime allowance tax charge from 6 April 2023.

Many different payments from pensions refer to the lifetime allowance in their definition, with that in mind the Government have stated that the lifetime allowance will be completely abolished from 6 April 2024, giving time to work the changes through.

That said, we know that from 6 April 2023:

- The maximum that clients can claim as Pension Commencement Lump Sums will be capped at 25% of current LTA (£268,275), except where existing protections apply.
- For serious ill-health lump sums, defined benefits lump sum death benefit and uncrystallised funds lump sum death benefits, currently where the amount paid is above the available LTA its taxed at 55%, but from 6 April 2023 the amount that would have been taxed at 55% will instead be taxed at the individual's marginal rate.

The Annual Allowance

The Annual Allowance (AA) increases from £40,000 to £60,000 for 2023/24.

The Money Purchase Annual Allowance (MPAA) increases from £4,000 to £10,000 for 2023/24.

The tapered annual allowance becomes a bit more generous. The adjusted income level for the tapered AA increases from £240,000 to £260,000 for 2023/24 and the minimum tapered Annual Allowance will be £10,000 for those with income of £360,000 and above.

Corporation Tax Rates

As previously announced changes to corporation tax rates come into effect from 1 April 2023. This increases the main rate of corporation tax to 25% and the small profits rate at 19%. Marginal Relief is available for companies whose profits are between £50,000 and £250,000.

Full Expensing

Announced today, this measure will temporarily increase the relief available for capital expenditure on plant and machinery in the year the expenditure is incurred. For qualifying expenditure incurred on or after 1 April 2023 but before 1 April 2026, companies can claim:

- a 100% first-year allowance for main rate expenditure – known as full expensing; and
- a 50% first-year allowance for special rate expenditure.

Market Commentary

Troubles at Credit Suisse, Silicon Valley, Signature bank and First Republic have been in the headlines this week, things are moving very quickly and you will appreciate that this has been rewritten a few times as information becomes available – it may well be out of date by the time you read it!

The main cause for concern has been the large bond portfolios held by banks. Banks are required by regulators to hold a significant proportion of customer deposits in "safe" assets such as government bonds.

As interest rates rose rapidly last year these "safe" assets saw significant capital losses, as an example the US treasury market fell by 16% over the year.

The current problem has occurred as generally banks hold these bonds to maturity but the current problem has arisen as in particular Silicon Valley (SVB) and Signature bank were forced to liquidate parts of their bond portfolios to meet withdrawals of deposits by their clients which in turn crystallised the bond losses.

As concerns mounted about SVB's financial position, customers started to withdraw their money on Thursday 9th March. This was exacerbated because the bank had a concentrated deposit base - only 12% of accounts, which were largely held by companies, were covered by the FDIC insurance scheme.

SVB sold its most liquid bond holdings to meet deposit demands, causing the bank's earnings to take a hit and the value of its capital on its balance sheet to fall. Some feared this could pose a systemic risk to the US and global financial sector. The collapse of SVB led investors to sell US bank stocks last Thursday, which spread to Europe on Friday.

On Sunday the Federal Reserve (the Fed) announced that it would provide additional funding to eligible banks to help them meet the demands of their depositors. This new 'Bank Term Funding Program' (BTFP) offers loans up to 1 year against pledged US treasuries and other assets, which will be valued at par. US Treasury Secretary Janet Yellen has approved actions to allow the FDIC to act in a manner that fully protects all depositors, whether they are insured or not. This means that depositors will continue to have access to their money, which reduces the risk of further bank runs.

Meanwhile, the UK arm of SVB was taken over by HSBC early Monday morning following all-night talks led by the Prime Minister Rishi Sunak and the Bank of England.

We certainly do not believe this is like 2008 as the problems at SVB came about because of the bank's inadequate risk management practices.

Credit Suisse

The problems at Credit Suisse are more complex. Its auditor PwC identified a 'material weakness' in internal financial controls at the group. Its largest shareholder, Saudi National Bank, said it would not commit more capital to the troubled bank raising the risk of a collapse of the bank. Ultimately, the bank secured a credit facility of $54 billion from the Swiss National Bank and its share price – along with that of the other banks – has partially recovered.

Credit Suisse was a greater concern for markets because it is deemed to be 'systemically important' – its weakness could threaten the integrity of the wider system. It has been the subject of a series of scandals and poor management, particularly in its investment banking division, which a series of restructuring attempts have failed to address. For the moment, the bailout has calmed markets, but this may prove to be more of a sticking plaster, rather than a solution to solve the deep-rooted problems at Credit Suisse. At this juncture, it is not clear if this additional funding is enough to build-up trust in the bank from its customer base and investors alike. Credit Suisse still needs a more permanent solution to its problems.

Looking Ahead

There are also concerns about the US regional banking sector. Unlike the larger banks, which have been subject to significant regulation in the wake of the global financial crisis, these banks have less diversified deposit bases. Cash assets for smaller banks are at much lower levels. Depositors have been withdrawing cash and putting it into money market funds, where they receive better interest rates. This has dented liquidity.

Overnight we have seen US stocks rally after a consortium of 11 of the biggest US banks came together to inject $30 billion in capital into First Republic as the sector works to stave off a broader financial crisis.

This has been viewed as a show of strength and confidence in the US banking system by the banks themselves.

At the closing bell the S&P 500 was up 1.7% the Dow Jones higher by 1.2% and the tech heavy Nasdaq rising 2.5%.

The interconnectedness of the banking sector means that the weakness of one bank can create disruption and markets may be febrile for a while as they digest the impact of this fragility.

Nevertheless, the majority of major banks – particularly those in the UK and Europe – are extremely well-capitalised and liquid, with diverse depositor bases. They also have smaller investment banking and financial markets divisions compared to the US.

Interest Rates

The final consideration is whether it moves the Federal Reserve (Fed) to change its position on further interest rate rises. Higher interest rates are the catalyst of the current problem in the banking sector. The Fed Chair, Jerome Powell, recently implied that interest rates might rise higher than the market expected, which contributed to the current crisis.

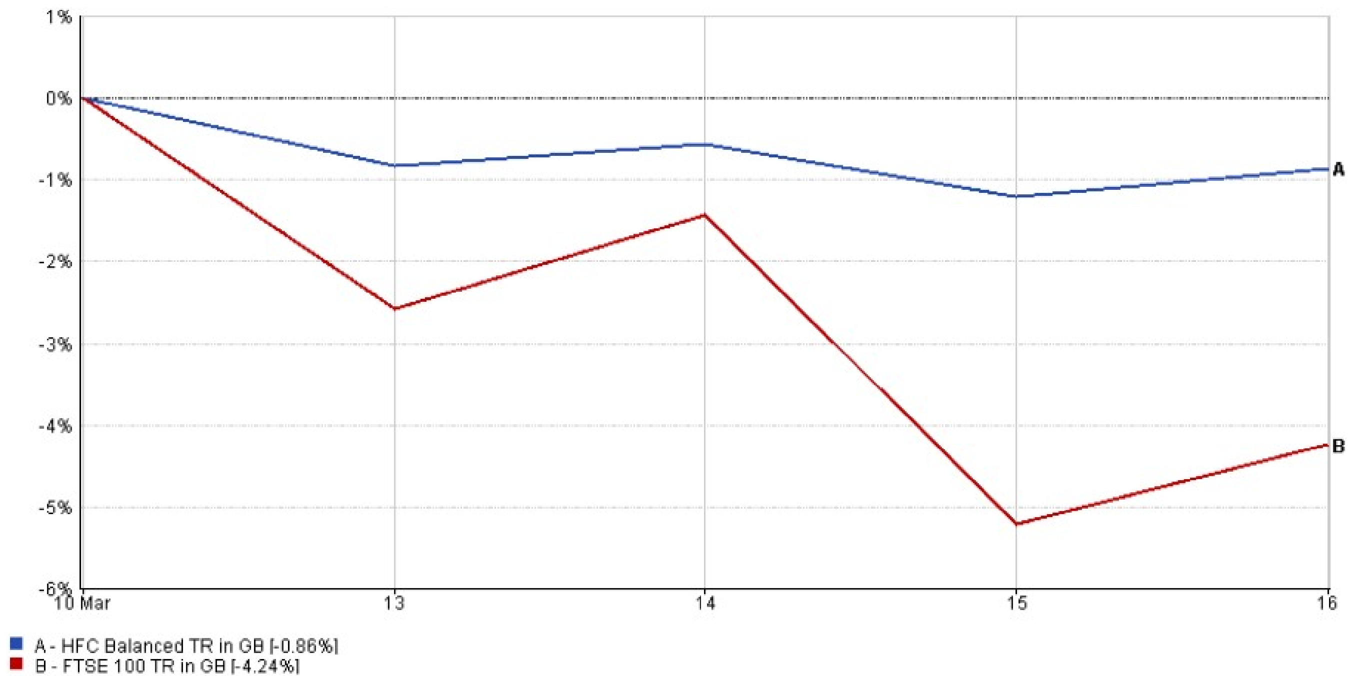
The Fed will not want to be blamed for another financial crisis and they may turn less aggressive. This possible change in tone from the Fed may help calm things down, leading to lower bond yields, which could improve the value of the banks' bond holdings. The Fed futures markets are now indicating a 0.25% rise later this month, rather than the 0.5% suggested by Jerome Powell.

FTSE 100 & Our Diversified Portfolios

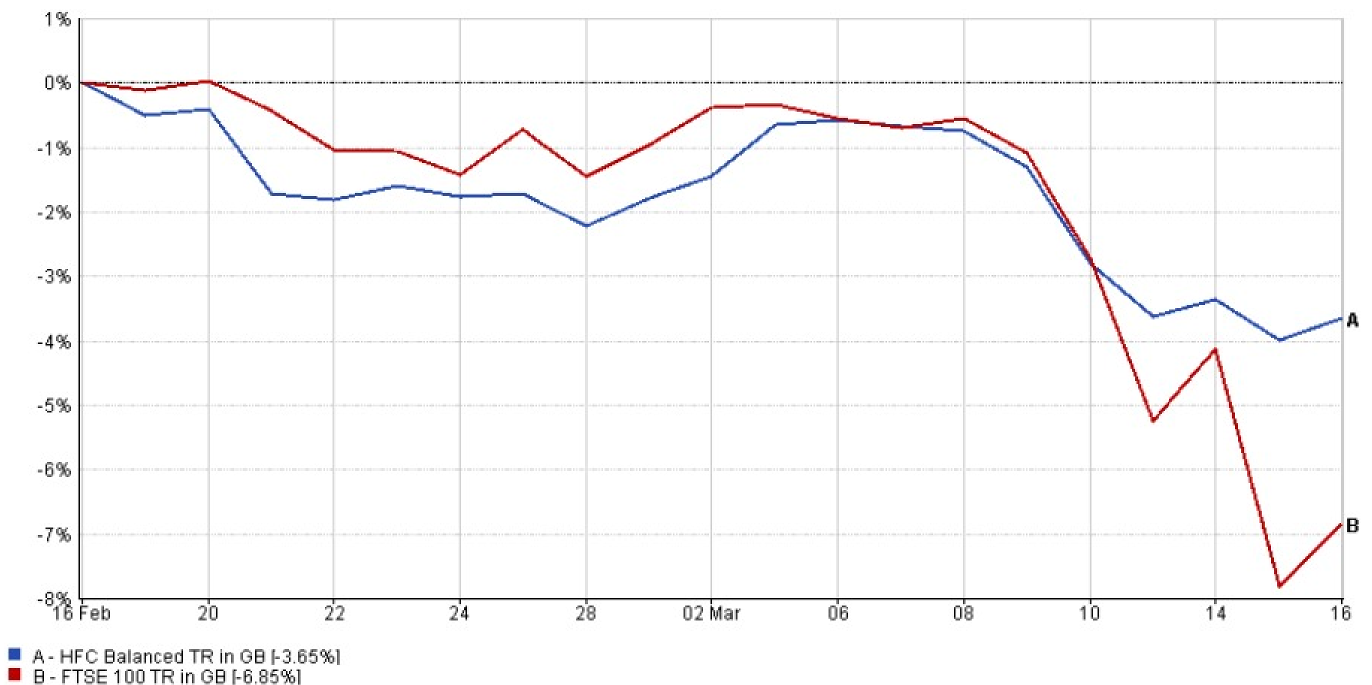
We received an increased number of calls as the FTSE 100 approached its all-time high of 8000 with clients asking why their portfolios did not track the index.

The simple answer is that you are not invested solely in the FTSE 100 and the risk associated with the index is significantly higher than your chosen attitude to risk. You do have exposure to stock in the FTSE 100 but this is balanced with other asset classes to produce a diversified portfolio matching your agreed attitude to risk.

The following chart from the last week highlights the volatility of the FTSE 100 as it is heavily weighted in oil and bank stocks.



The following chart highlights the volatility further over the last month.



Summary

It is important to remember that volatility in markets is something investors should expect and will be linked to your portfolio risk rating.

There are signs that confidence is improving in the wake of Switzerland's central bank loan to Credit Suisse. It is also worth noting that banks are generally far better capitalized and have less bad debts than in the run up to the global financial crisis and measures of financial market risk – such as the spreads on credit default swaps – are nowhere near their level in 2008.

The last week has shown the benefit of being invested in a diversified portfolio and not concentrated in one sector or geographical region.

As always with these periods of volatility, our advice is to sit tight and look forward.

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