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technical news

For professionals working with international clients

No sign of a revival in UK market

London's reputation as a financial centre needs restoring.

Semiconductor giant Arm Holdings' (Arm) recent results were great news for the company's investors. But they were disastrous for London's stock market. The stock, listed on America's Nasdaq index, soared by almost 50% after Arm reported sales up 14% year on year and strong demand related to artificial intelligence (AI).

The shares of the Cambridge-based company, once in the FTSE 100 but bought by SoftBank of Japan in 2016 as its institutional investors fled the UK market, had relisted on Nasdaq in September 2023 at $51 a share, valuing the company at $54bn. Arm listed in New York rather than London in the belief that the shares would be more highly valued by US investors; the subsequent jump of more than 100% of the share price to $115 proved it right.

Had it listed in the UK, the Nasdaq valuation would have made it one of the largest FTSE 100 constituents and the subsequent surge in the share price would have had a material impact on the index's performance, potentially to the benefit of the whole market. But nobody believes that the stock would have been priced as highly or performed as well had it listed in London.

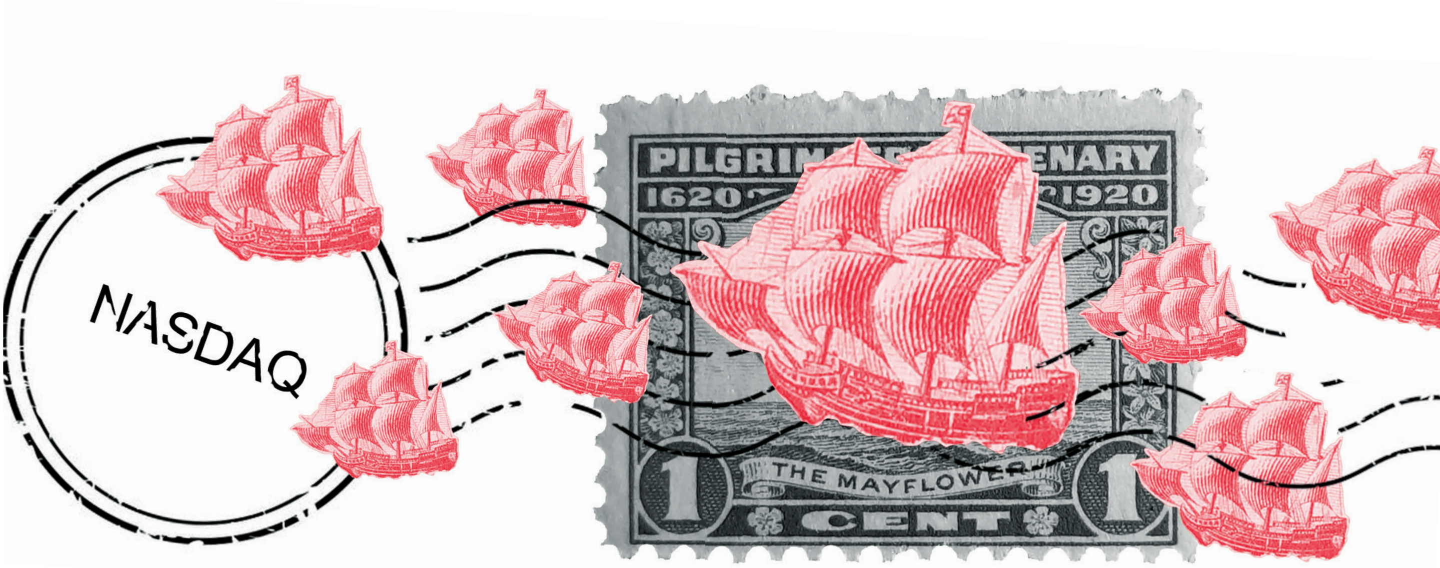
As a result, any private British company seeking a listing will head straight for New York, especially if it is a global technology-related business. The temptation for companies already listed in London to switch in the hope of a higher rating will increase and it will be assumed that any substantial company that does list in London will have been refused access to New York and must therefore be of low quality.

Without new listings, London's stock market will continue to shrink as firms are taken over and shares bought back. This does not mean that they will perform badly; the ability to buy back shares cheaply, thereby enhancing earnings growth, in addition to the increased risk of a takeover, may galvanise management into action. There is plenty of evidence that British companies are striving harder to increase returns.

But a good part of London's financial-services sector and the wealth it generates depends on a healthy, growing equity market. Without new listings, business and employment will suffer, skills will be lost, tax revenue will fall and London will slip down a few notches on the rankings of global financial centres. With diminished access to equity capital, investment could suffer – yet most economists agree that the UK already underinvests. Without domestic investment, how happy will overseas investors be to step in?

The government's answer to the malaise is "the Mansion House reforms", an initiative of a previous lord mayor of London, Nicholas Lyons, to persuade ten leading managers of defined-benefit pension schemes to invest in the UK economy, thereby providing "up to" £75bn for private equity, infrastructure and "high-growth companies".

These are the same ten managers who have been stampeding out of equities, especially UK-listed ones, for the last 20



years in order to charge into increasingly overvalued government bonds, with the blessing of their regulator. These are also the same managers who lost £425bn from their pension funds in 2022 by investing in bonds at their lowest yield for 500 years and engaging in insane leveraged speculation that yields would go even lower.

If the government really wanted to revive the UK stockmarket, increase investment returns and provide capital to the UK, it would focus on the private investor and defined-contribution pension schemes, such as Sipps.

It could reduce capital-gains tax (CGT), extend the inheritance-tax (IHT) exemption allowance for Aim investment to all UK equities, simplify Isas, abolish stamp duty on shares, reintroduce the imputation tax credit on dividends and permanently abolish the lifetime allowance (LTA) for pension funds.

Admittedly, chancellor Jeremy Hunt has undertaken the last of these measures, but the opposition has pledged to reverse it. Otherwise, there is a cross-party consensus to discourage savings through regulation, taxation and making long-term planning as difficult as possible by constantly changing the rules.

There is no need to slant the rules in favour of investing in the UK; private investors naturally overweight Britain because it is the market most familiar to them. To the extent that they invest overseas, the UK economy will benefit indirectly from the consequent wealth creation.

As a result of the lack of interest in effective reforms, there is little chance of the UK regaining its status as a leading capital market powered by domestic savings. That does not bode well for investment or economic growth, but investors need to live with reality, not with some patriotic delusion.

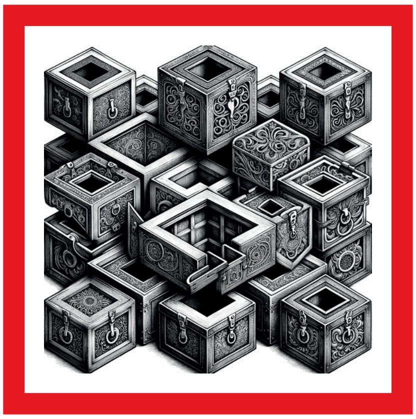
Meanwhile, America's benchmark S&P 500 has broken through the 5,000 mark for the first time. The US economy, powered by improved productivity, is growing strongly, inflation is falling and interest rates will follow soon enough. Although the US market has been driven by the "mega-cap eight" stocks that now account for 28% of the index, Ed Yardeni of Yardeni research reports that the market advance is broadening. Since 12 October, the S&P 500 has gained nearly 40%, and "more than half the 100+ industries that we track are up more than 20%".

Sorting your Sipp

Too many people have multiple pension plans, many of which are underperforming and expensive; they will be worse off in retirement as a result.

Consolidating as many of your pensions as possible into a single account that offers good value and the potential for superior investment performance makes sense. It's not always right to transfer pensions – final-salary schemes offer guaranteed benefits most people won't want to give up, while certain plans come with extra valuable perks – so you may need to take professional advice. But the principle of consolidation is sound.

In which case, you almost certainly need a self-invested personal pension (Sipp), a simple pension wrapper inside which you can make the best-possible investment decisions for your needs and circumstances. There is plenty of choice: providers ranging from life insurers to stockbrokers, as well as technology-enabled new entrants to financial services, all offer these accounts.



Charges are paramount here, but comparing like with like isn't easy, since Sipp providers levy fees in different ways. First, you'll need to consider the charge made for the Sipp itself – often described as an administration fee or a platform charge, if you're looking at plans held on online fund platforms. Some providers charge flat fees, which can be cost-effective if you have a large pile of savings; most levy a percentage of the value of your plans.

In addition, Sipp providers may impose charges when you buy or sell investments inside the wrappers – collective investment funds, say, or individual shares. These will be important if you regularly change investments. And there may be other charges to consider too: transfer fees, say, if you want to move your savings again in the future.

There may also be charges on the investments you hold in your Sipp, especially if you use collective funds. Some providers can negotiate special deals on your behalf. In addition to cost, you should also consider investment options when comparing Sipps. The Sipp rules allow you to invest your pension savings in a huge variety of assets – equities and bonds, for example, as well as funds that invest in them, but also real estate, certain commodities and cash holdings. However, not all providers offer the full choice. This is something to think about if you're planning to go beyond a more conventional investment approach.

Another area to focus on is ease of use and service. With most Sipps, you run the plans online, making investment decisions over the internet, often with access to extensive research materials and support. This can work well, but you'll need to feel comfortable with the provider's online facilities. It's worth having a look at several platforms with this in mind. Good service, meanwhile, is paramount, particularly if you run into a problem.

With so many different factors to consider, it isn't possible to recommend one Sipp provider as the best option. The right choice for you will depend on your circumstances.

Abolishing the non-dom regime

The big news from Jeremy Hunt's Spring Budget 2024 was the abolition of the non-dom tax regime and announcing a new modernised 'tax holiday' for individuals moving to the UK. This represented the most significant reforms to the non-dom tax regime in a generation.

The non-dom tax regime dates back to when Income Tax was first introduced in 1799, where residents were only taxed on income arising abroad to the extent that it was received in this country. This was the first incarnation of the 'remittance basis' of taxation and was only modified in 1914 where the eligibility was restricted to residents who were not domiciled or not ordinarily resident in the UK.

The 'remittance basis' regime, used by non-domiciled individuals, has broadly remained the same since the 1900s. There were broad ranging reforms in 2008 and 2017, but the fundamental principles have not changed - that a non-dom is only taxed on their overseas income and capital gains to the extent the monies are brought to or used in the UK.

Since 2017, a non-domiciled individual could elect for the remittance basis of taxation for a period of 15-years. After that period the individual is treated as 'deemed domiciled' for taxation purposes and taxed on a worldwide basis. However, a non-dom could establish a non-UK trust before the expiry of their 15-year term, and the trust would be theoretically exempt from UK tax in relation to non-UK sources.

The notion that a person's domicile should determine their basis of assessment for tax is unusual. In many regards, domicile, which is inherited from your father at birth, is an outdated concept and not easily understood. In recent years, HM Revenue & Customs have raised an increasing number of enquiries to test whether someone is not UK domiciled, and there is a good degree of subjectivity involved.

The UK's non-dom regime has been hugely popular with wealthy overseas individuals and families, attracted by the generous tax breaks. The non-dom regime was the envy of many European countries, and the likes of Italy, Spain and Portugal created their own versions to attract private wealth to their shores. There has been a longstanding tension with the non-dom regime; why should a wealthy foreigner pay less tax than someone who was born in the UK. A recent academic study, using HMRC taxpayer data records, suggested that abolishing the non-dom regime would raise over £3bn for HM Treasury.

The Labour Party had made abolishing the non-dom regime a key cornerstone of its tax policy and they pledged to use the tax revenue raised to pay for 7,500 doctors and 10,000 nurses and midwives for the NHS, if elected to Government. Chancellor Jeremy Hunt took firm aim at Labour's flagship tax policy by abolishing the non-dom tax regime at the Spring Budget - grabbing hold of the additional £2.7bn tax revenue to partly pay for his 2% National Insurance cut.

This dramatic announcement went against the Chancellor's previous assertions that such a move would end up costing the UK economy £8bn. But this was clearly a tactical political move in a General Election year to take the wind out of Labour's sails.

From 6 April 2025, the archaic concept of domicile will no longer be relevant for determining an individual's tax status. Instead, individuals (who have not lived in the UK for the last 10 years) moving to the UK will have a four-year tax holiday and they can freely bring their overseas monies to the UK. This new regime will be much simpler but more limited in time as non-doms currently benefit from a 15-year period where they don't pay tax on their overseas sources. Once the individual has been UK resident for more than four years, they will pay tax on their worldwide income and gains.

Non-doms who are already here will be left feeling aggrieved, but transitional rules will allow non-doms to remit overseas monies at a generous 12% flat rate tax over a two-year window (2025/26 and 2026/27). In addition, non-doms who will lose access to the remittance basis from 6 April 2025 will benefit from a 50% reduction in their personal foreign income subject to UK tax in 2025/26. And finally, non-doms who have previously claimed the remittance basis will be able to rebase their overseas assets to value at 5 April 2019, such that for disposals after 6 April 2025, only the increase in value from 2019 will be subject to UK Capital Gains Tax. Clearly, these transitional measures have been introduced to 'sweeten the pill' for current non-doms and to avoid a mass overnight exodus.

The rules on non-UK trusts are also radically reformed, as the present Income Tax and Capital Gains Tax protections afforded to such structures will be completely removed. However, the Inheritance Tax benefits of structures established before 6 April 2025 are confirmed to be retained.

Specifically on the topic of Inheritance Tax, the Government ran out of time before the Spring Budget announcement to construct the new rules, and a consultation will be launched in due course to invite stakeholders to provide their input on how Inheritance Tax should be best managed. The headline 40% Inheritance Tax rate is a severe disincentive for individuals to move to the UK and this requires careful consideration. The initial indication from the Government is that after 10 years of UK residence an individual will be subject to Inheritance Tax on worldwide assets.

Without question, the Government's proposed reforms are a significant simplification and modernise a desperately outdated regime. However, there will be a concern from some that the Government has gone too far by only having a four-year regime and losing its competitive edge compared with countries such as Italy, who have 10-year tax holidays.

And finally, there is no guarantee, in a General Election year, that all of this will happen, and an incoming new Government may shelve the proposals completely or want to design their own version. And even if it were to happen, given the huge amount of work that would be required from HM Treasury to overhaul the current system, everything could get pushed back to 2026 at the earliest.

A Pension drawdown rule

Deciding how and when to start withdrawing money from your pension can influence how long the money lasts, and ultimately the lifestyle you can live. Academics at the American Association of Individual Investors (AAII) devised the so-called "4% rule" in 1998 after looking at investment returns and savings data from 1926 to 1995.

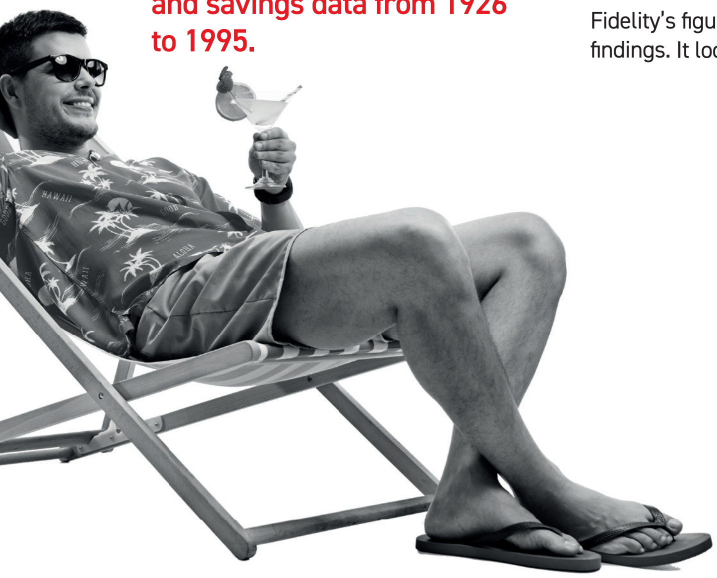
This rule suggests investors should withdraw 4% of the value of their fund in the first year and increase that sum by the rate of inflation each year. A rate of 3%-4% is "extremely unlikely to exhaust any portfolio of stocks and bonds", says the AAII, and will give a typical retiree 30 years of spending. Like all rules of thumb, the 4% concept is based on certain assumptions. It needs to be overlaid with someone's state of health and propensity to spend, which is likely to be higher for younger clients and lower for older clients.

What you plan to do with your retirement will have a huge impact on when you should start accessing your pension. If you have dreams of travelling the world, then you might need much more retirement income than if you are content with a quiet life at home. It's essential to have a realistic projection of your monthly and yearly expenses, including contingencies for unexpected costs.

Investment firm Fidelity recently attempted to see if the 4% rule is still applicable today. While its study suggests the rule is still relevant for retirees, Fidelity's figures contain some important findings. It looked at the impact of the 4% rule over 15 years on two funds, both with a starting value of £100,000. The key difference was one of the funds was first accessed in 2000, while the other was accessed in 2003.

Despite there being just three years between their starting points, the pot beginning in 2003 ended the 15-year period with two-and-a-half times more money. The pot being accessed in 2000 was hit by the dotcom boom, so there wasn't an opportunity to make up for these losses, while the 2003 pot benefited from the post-crash recovery. This illustrates why it's also important to consider your investment mix as well as your drawdown plan when accessing your savings.

Whatever rule you use, it is important to also consider the tax implications. This is because, beyond the 25% lump sum, you will need to pay income tax on withdrawals if you are earning above the personal allowance. It may not take much to go above the allowance, with the state pension rising to £11,500 from April.



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If you require further information about our services and how we can assist your clients, then please call us or send us an email about how and when we can contact you.

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