Financial Adviser Company Name

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In this issue we focus on details of the new stamp duty reform from George Osborne’s Autumn Statement.

An update on inflation, the falling price of oil, contrasting with details and forecast of the housing market for 2014-2105 which has been substantially outstripping inflation.

The Autumn Statement and the new tiered stamp duty

A headline-grabbing Autumn Statement

The coalition government's 2014 Autumn Statement was formulated, unsurprisingly, with more than half an eye on the General Election next May and reforms to stamp duty on residential property garnered most of the headlines. Chancellor of the Exchequer George Osborne introduced a new tiered system in which rising rates of stamp duty will be charged in incremental steps, reducing stamp duty liability for 98% of house buyers.

In a welcome move for savers, new rules will allow spouses to inherit their partner's ISA free of tax following their partner's death.

The Chancellor also clamped down on multinational companies that divert UK based corporate profits overseas – these profits will now be taxed at 25%, raising around £1bn over the next five years.

Elsewhere, Osborne introduced a new £90,000 charge for people who have lived in the UK for 17 of the past 20 years but who claim nondomiciled status for tax purposes.

The Office for Budget Responsibility increased its forecast for the UK's economic expansion during 2014 from 2.7% to 3%, after which it expects growth to slow down. Although the deficit has halved since 2010, the Chancellor was forced to admit borrowing will be higher than previously predicted.

The deficit is expected to post a smaller than expected drop in 2014/15, falling from £97.5bn in 2013/14 to £91.3bn in 2014/15. Looking further ahead, the deficit is forecast to fall to £14.5bn by 2017/18, after which it is forecast to move into surplus.

Stamp duty Reform

The process of buying a house has undergone an overhaul with the wholesale reform of the stamp duty system.

Before the changes implemented in the 2014 Autumn Statement, stamp duty was paid at a single rate on the entire price of the property. However, the coalition government has now scrapped this 'slab' structure and introduced a new tiered system, similar to income tax, in which higher rates of duty are charged in incremental steps.

No stamp duty will be paid on the first £125,000 of a property's cost; 2% will be payable on the amount between £125,001 and £250,000. 5% will be payable on the amount between £250,001 and £925,000, and 10% will be charged on the amount between £925,001 and £1.5m. Anything above £1.5m will incur stamp duty of 12%.

As a result, 98% of housebuyers will pay a lower rate of stamp duty than before, and only those buying properties valued at more than £937,000 will pay more.

Under the old system, for example, a house costing £275,000 would incur stamp duty of £8,250 – however, under the new rules, the buyer will pay stamp duty of only £3,750, saving £4,500.

Looking ahead, Halifax expects house prices to increase by between 3% and 5% in 2015. This slowdown in growth will be exacerbated by expectations of higher interest rates in 2015 and political uncertainty surrounding the General Election. Nevertheless, the bank believes economic expansion should provide support for housing demand, bolstered by stronger growth in real earnings.

December 3rd 2014 saw George Osborne's Autumn Statement announcements: the biggest announcement being the new tiered stamp duty reforms.

George Osborne's surprise cut to stamp duty could lift house sales, reversing a slowdown that has cooled surging growth.

The falling price of oil

The price of oil has more than halved since the middle of 2014 to reaching its lowest level for six years. This sharp fall has raised questions about the possible consequences for the global economy, for companies and for individuals. Prices have been driven down by a combination of strong supply and waning demand.

Demand for oil has been dampened by slowing economic expansion in some key developing economies alongside anaemic growth in developed economies such as the eurozone. Meanwhile US production of shale oil and gas has surged and the US now produces more than half the oil it uses. Nevertheless, the Organisation of the Petroleum Exporting Countries (Opec) – a cartel of 12 oil-producing emerging nations – has refused to cut production, perhaps fearing market share could be permanently lost.

The Energy Minister of the United Arab Emirates, an Opec member, has commented: “We are experiencing an obvious oversupply in the market that needs time to be absorbed.” Countries that are net importers of oil are likely to reap the benefits created by lower oil prices in the shape of lower input costs and improved disposable incomes. Conversely, countries that export oil are likely to suffer from the effects of reduced revenues and the risk of fiscal deficit. Lower oil prices also tend to push up currencies in oil-importing nations, while weakening currencies of oil exporters. Nonetheless, currency problems have – for now, at least – remained limited to just a few exporting nations, of which Russia has been the most conspicuous. For its part, the International Monetary Fund (IMF) views the recent slump in oil prices as “a shot in the arm for the global economy”.

In the short term, reduced energy costs have the potential to free up a larger proportion of disposable household income, boosting consumer spending and economic growth, and eventually stoking demand for oil. Lower oil prices will enable some countries to cut energy subsidies and use the money for other purposes. At the same time, other countries will be able to increase energy taxes while reducing duties on other products. In the longer term, however, sustained low prices will drive down inflation, raising concerns over the possibility of deflation. Looking ahead, the IMF believes that, although risks to financial stability have increased, they remain relatively limited. Nevertheless, considerable uncertainties do remain and these could undermine sentiment among businesses, consumers and financial markets.

Inflation update

Attitudes to the UK economy entered a new phase in January 2015 following the news the annualised rate of inflation had dropped to 0.5% in December – thereby equalling its lowest-ever level reached in May 2000. The announcement triggered concerns the UK could be at risk of a damaging period of deflation. Prices were pulled down by falling fuel costs caused by plummeting energy costs. Prices for motor fuels fell at an annualised rate of 10.5% in December while food price inflation fell by 1.9% year on year in December, undermined by fierce competition between the supermarkets. While a cut in the cost of living might at first sight seem appealing, a deflationary environment discourages individuals and businesses from spending – after all, if prices are likely to fall, people are more likely to postpone purchases, putting a brake on economic growth. Inflation erodes the real value of your money, but it also erodes the real value of your debts. Conversely, an environment of deflation will actually increase the real value of your debts – not to mention those of the government. UK interest rates have been at their all-time low of 0.5% for almost six years, and an environment of falling inflation reduces the likelihood of an imminent rise. Looking ahead, if the rate of inflation continues to fall, dropping below 0.5%, this means beleaguered savers will finally receive a positive return on their cash, reducing their incentive to spend rather than save.

Housing market Update

Although UK house prices continued to rise strongly during 2014, substantially outstripping the rate of inflation, the overall pace of growth declined. According to mortgage lender Halifax, average house prices rose 7.8% over the calendar year, with the rate of price growth peaking at 10.2% in July.

Halifax expects house price growth to moderate over the course of 2015, with average prices predicted to rise by between 3% and 5%. Nevertheless, housing demand is likely to gain support from a range of factors, including ongoing economic expansion, an improving labour market and an upturn in wage growth, low mortgage rates, and a shortage of properties coming onto the market. Mortgage lender Nationwide also reported a slowdown, announcing a 7.2% annualised increase in UK house prices in December, compared with a rise of 8.5% in November, and commenting: “The pace of annual house price growth continued to soften as 2014 drew to a close”.

Meanwhile, the British Bankers’ Association reported that the number of mortgage approvals fell in November to its lowest level since the middle of 2013.

Looking ahead, Nationwide expects price growth to pick up if the UK economy continues its advance while the Royal Institution of Chartered Surveyors predicts a rise of 3% in UK property prices during 2015. For its part, housebuilder and FTSE 100 constituent Taylor Wimpey believes the slowdown in house price inflation has allowed the housing market to become healthier and more sustainable. The company reported a record order book at the end of December 2014.

UK interest rates have remained at an all-time low of 0.5% for almost six years and Bank of England policymakers are widely expected to implement an increase during 2015.

While higher interest rates would be good news for savers, they could put borrowers and mortgage-holders under pressure. The Bank of England believes most mortgage holders would be able to cope with the effects of higher interest rates – if rates rose from their current level of 0.5% to 2.5%, it has calculated only 4% of mortgage-holders would have to implement changes to their lifestyle, such as reducing expenditure on other items. However, the Bank of England has based its calculations on a 10% increase in household income. If incomes do not rise as hoped, it says the proportion of mortgage-holders under pressure could be as high as 37%.

Election Uncertainty

'Sell in May and go away', runs the old stockmarket adage – but what happens when May involves a UK General Election?

The next General Election is scheduled to take place on Thursday 7 May 2015. However, the result of the election – whether an outright victory for one party or some shade of coalition – is far from inevitable and uncertainty remains the sworn enemy of investors.

The outcome is widely expected to be close and, as May approaches, investor sentiment is likely to be affected by this mounting uncertainty. Nevertheless, it is worth remembering the UK equity market tends to rise in election years. Of the seven General Elections held since the beginning of the 1980s, the stockmarket has ended the calendar year higher in six cases – falling only in 2001.

Many questions about the UK's future remain, as yet, unanswerable. Will we end up with another coalition? What can companies expect from the next government? What will happen to the housing market? Should the banking sector brace itself for further punishment? And what role will the UK play in the EU?

Recent newsflow has focused on geopolitical issues, from the terrorist attacks in Paris to ongoing developments in the Middle East and Russia. Meanwhile, the outlook for the eurozone's faltering economy and the future path of oil prices have continued to create headlines. Looking ahead, however, speculation about the outcome of the General Election and the UK’s future prospects is likely to gain momentum.

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