
HSBC
Premier

To effectively manage your finances, you need to take into account many different factors. Some, like making the most of tax breaks and shrewd portfolio management, are within your control while others, such as the fallout from Brexit, are not. But which could have the greatest impact on your financial wellbeing in 2017?

One of the factors dominating the British economy in 2017, and likely beyond that, is Brexit.

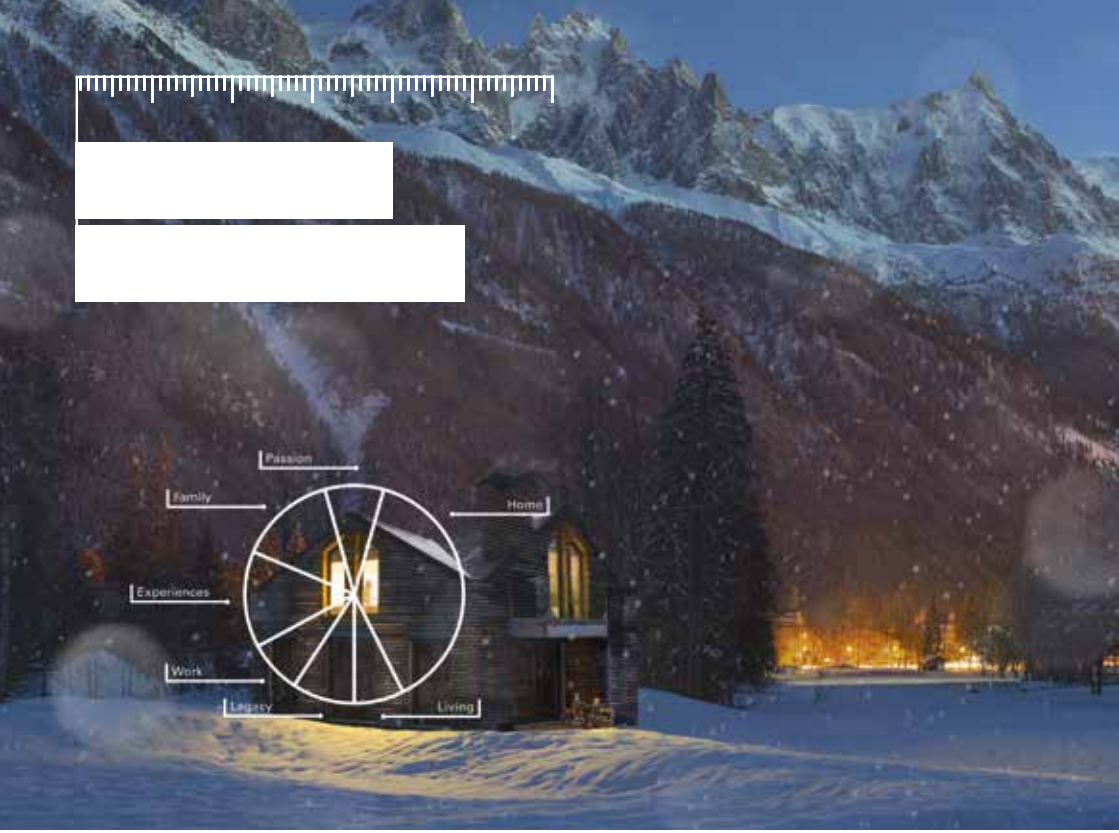
The economy rebounded strongly in the weeks following the referendum in June 2016. Gross Domestic Product (GDP), a common measure of economic growth, was up 0.7% in both the third and fourth quarters of 2016 compared with a year previously[1].

Whether this trend continues now that Article 50 has been triggered remains to be seen. We potentially face a lot of uncertainty in the two-year window for negotiating Britain's departure from the European Union (EU), and it might not fade until a clear agreement is reached.

This uncertainty could impact two major influences on growth – consumer spending, which has helped to drive the economy since the referendum, and business investment, especially from firms relying on access to the EU.

There's a diverse range of forecasts. In January, the National Institute of Economic and Social Research (NIESR) predicted UK economic growth would fall from 2% in 2016 to 1.7% in 2017[2]. But by the start of February, the Bank of England had revised its expectation up from 1.4% to 2%, the same rate of growth as last year[3].

[1] https://www.ons.gov.uk/economy/grossdomesticproductgdp
[2] http://www.niesr.ac.uk/media/niesr-press-release-uk-gdp-growth-expected-slow-2-cent-2016-17-cent-2017-and-19-cent-2018#.WJRQHhuLSUI
[3] http://www.bankofengland.co.uk/publications/Pages/news/2017/001.aspx



After Brexit, sterling weakened significantly against other currencies.

Initially, this worked in favour of some of the companies listed in the FTSE100. Many generate revenues overseas, so when they bring profits back to the UK, they're worth more in pounds. This partly explains why the FTSE100 performed strongly in the months following the referendum.

However, sterling's fall may also result in greater inflation. Weaker sterling means that imports, such as food and fuel, cost more and prices rise when retailers pass these costs on to shoppers. Higher prices typically reduce consumer spending which is a major driver of economic growth.

By lowering interest rates to 0.25% and relaunching quantitative easing, Bank of England (BOE) Governor Mark Carney was credited with calming the markets in the immediate aftermath of the referendum. But if prices climb – the BOE predicts the Consumer Price Index measure of inflation will hit 2.8% in 2018[4], surpassing its target of 2% – then the bank may have to raise interest rates again to offset this effect.

[4] http://www.bankofengland.co.uk/publications/Pages/news/2017/001.aspx

While there's plenty to weigh up domestically, events elsewhere in the world could affect your finances too.

With a new administration taking over the White House and the Republican party controlling both houses of Congress, US policies, particularly trade deals, are subject to change. When Prime Minister Theresa May visited the White House in January, the President said he would prioritise a trade deal with Britain – an important development as the UK negotiates its departure from the EU[5].

In 2017, several of Europe's biggest economies face elections. In the middle of March, the centre-right People's Party (VVD) won the Dutch general election. Following the first round of the French Presidential election in April, the top two candidates go head-to-head in May. The German election takes place in late September and Italy may also have to go to the polls following the Italian Prime Minister's resignation after losing the referendum on constitutional reform.

[5] http://www.independent.co.uk/news/uk/politics/donald-trump-theresa-may-trade-deal-brexit-lunch-european-union-holding-hands-menu-card-a7550956.html

If you have money in the financial markets, you might be wondering how to manage your portfolio.

The first question to ask yourself is whether your portfolio is diversified. That means making sure your investments are spread across different types of asset classes and geographical locations.

Remember, the value of your investments can fall as well as rise and you may get back less than you invest.

Another question you might ask is whether you should hold active or passive investments in your portfolio, or indeed a mix of both. Active funds are managed by a fund manager who can buy or sell assets according to the market conditions. Passive funds, on the other hand, buy and hold assets as they aim to mirror the performance of a benchmark. Over the last several years, passive investments have become more popular, although active funds could reverse this trend as investors seek to take advantage of fluctuations in the markets caused by global political events.

Finally, the new tax year has recently begun, meaning a fresh set of allowances in various tax-efficient accounts are now available to you.

Starting with the Individual Savings Account (ISA), the annual allowance increases to £20,000 in the 2017/18 tax year. A cash ISA protects interest on savings from UK income tax, and a stocks and shares ISA protects returns on investments from UK income and capital gains tax, so make sure you're using up your allowances.

Inheritance Tax (IHT) also changed in April 2017[6]. The nil rate band is still £325,000, but the government introduced the new residence nil rate band. This is £100,000, increasing in stages to £175,000 by April 2020. The residence nil rate band can be set against the value of your main residence if it's left to a direct descendant on death and the total value of your estate is less than £2m. Married couples and civil partners can pass an unused nil rate band and residence nil rate band on to a spouse or partner, so the combined nil rate band may be worth as much as £1 million from April 2020.

Probate fees change from May 2017. A new sliding scale will be introduced based on the value of an estate, starting at £300 for estates worth between £50,000 and £300,000 and rising to £20,000 for estates worth more than £2 million.

The pension freedoms introduced in April 2015 launched the Money Purchase Annual Allowance, the ability to fund a pension whilst drawing benefits. This has now been reduced from £10,000 to £4,000. Incentives for retirement savers are the same as for the 2016/17 tax year. You can claim tax relief on your pension contributions up to whichever value is lower: 100% of your relevant earnings or the annual allowance which will be £40,000 for most people this year. You may be able to carry forward any unused annual allowance from the previous three years if you were a member of a pension scheme during that period. The Lifetime Allowance for most people is currently £1 million. Remember, ask for professional advice if you're not sure about any of these tax implications.

In the 2017 Spring Budget, Chancellor Philip Hammond announced that the dividend allowance will be cut from £5,000 to £2,000 from April 2018. The Personal Savings Allowance (PSA) stays the same: £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. Additional rate taxpayers don't get a PSA.

Tax benefits depend on individual circumstances and tax rules may change in the future. The value of investments can fall as well as rise and you may not get back what you invested.

[6] https://www.gov.uk/guidance/inheritance-tax-residence-nil-rate-band

HSBC Premier

Important information

The information in this article is based on our current understanding of tax rules, legislations, our current views and opinions, it does not constitute advice.

Remember the value of investments can fall as well as rise and you may not get back what you invested. For some investments this can also happen as a result of exchange rate fluctuations as shares and funds may have an exposure to overseas markets.

Most investments should be considered as a medium to long-term commitment, meaning you should be prepared to hold them for at least five years.

Please remember, the value of any tax benefits will depend on individual circumstances and tax rules may change in the future.

You may be eligible for HSBC Premier Financial Advice Service if you have £50,000 or more in savings and investments, are at least 18 years old, UK resident and have an HSBC or First Direct current account or savings account. Fees apply. Date: April 2017.

AC42211