

November 2022

### **Hunt pulls the rug from underneath Reeves and the Labour Party**

The inevitable had to happen! And not because of COVID, nor because of the war, nor even because of 'Kamikwasi' and Truss. Yes, the above all contributed; but the fundamental issues which beset us each day are a combination of a wide range of issues in western economies and most notably the following:

- An underfunded state welfare system which over-promises and under-delivers.

Exacerbated by:

- an ageing population and a falling birth rate.

Exacerbated still further by:

- a significant reduction in the working population as a consequence of the great resignation, lack of migration and most importantly: a significant rethink as to what many people feel is most important in life.

A simple example is the high cost of childcare and the fact that consequently parents are increasingly having no choice but to leave the workforce to look after the children as it is both economical and beneficial to the family so to do.

More generally we see that productivity is misunderstood in the sense that technology is replacing physical human endeavor. (Working from home is a phenomenal productivity gain enabled using technology, but believe it or not, is registered in the system now as a negative outcome). This, to some extent, this is why the recession will be relatively mild, why employment remains reasonably high and despite all of the spending pressures on the population, whether from taxation or energy or from inflation, (and notwithstanding that a substantial proportion of the population are going to suffer significantly), the reality is that the majority will continue to spend and enjoy life reasonably well and this will be shown in the reduced but not cataclysmic spend over Christmas.

The probable reason that productivity is in decline is because of the enormity of regulation, red tape and compliance along with, in many respects, the incomprehensible woke approach which is making decision's so challenging and at the same time reducing economic activity. KMG's experience with local authorities, government and regulators in financial services has seen an incomprehensible increase in frustration, delay, poor performance and lack of action. Here are two examples which are affecting you, our clients, directly:

- the extraordinary delay and cost it takes to approve a Lasting Power of Attorney, and
- the appalling delays in obtaining Probate in order to wind up an estate. It really can be unbelievably unpleasant for those people in most need and at a challenging time in their lives.

So, to the hidden agenda within the Autumn Budget: combining the political with the economic realities of life is always challenging. The Budget was more about damage limitation in the hope that the Conservatives would not be totally destroyed at the next election, and who knows, may even pull the rabbit out of the hat in two years' time.

In appealing to middle England, and in particular house owners, the Budget helps to keep interest rates lower, mortgage rates reasonable and the housing market moving along. (Note the stamp duty element as a good example). If the Conservatives lose control of the housing market, then they are absolutely dead in the water and, of course, this may happen anyway.

Satisfying global markets that the UK can pay its way (the kindness of strangers) is important because we don't have a charismatic leader (such as Churchill or William Pitt the younger). Nor, seemingly, any ability to convince the global community upon which we rely to lend us the money to pay for our social welfare, healthcare and public transport or to fund major projects through government debt unless we appear responsible and economically literate as Kwasi and Truss discovered only a few weeks ago.

We suspect that the effects of the Budget plus several other factors will move very positively towards the current administration's economic outcome and by example here are three possible situations:

- First is the support for the energy market that the government thinks it may need to meet is probably massively over the top and consequently the budget deficit in this factor will be smaller
- Second is the cost of interest that the UK pays on debt. If the Budget works and the cost of our debt remains relatively modest as is indicated by the way in which medium- and long-term gilt yields have substantially come down in the last few weeks, this will save the government and the taxpayer a huge amount of interest charge. At the moment a higher cost of debt has been assumed and if this doesn't materialise this will also be an opportunity to re-balance the books before the next election
- Third is inflation. We are not particularly worried about long-term inflation which we think will come down during the course of next year, but in the short-term higher inflation in the price of everything leads to much higher levels of taxation on purchases and of course if wages continue to increase to reflect higher levels of inflation, then much higher levels of revenue will come back into the government as a consequence.

So, our conclusion at the moment is: the tax hikes may be temporary and in 12 to 18 months' time and ahead of the next election the Conservatives will go into reverse as a great pre-election giveaway (and bribery) to try and remain in power or at least minimise the self-destruction they entered into only a few months' ago.

For many of KMG's clients the increase in taxation will only really affect capital gains tax, dividend tax-free allowances to a marginal degree and those paying into pensions now pick up higher rates of tax relief at an earlier stage.

Of great benefit to all our clients is the fact that we have been constantly rebalancing and taking up your capital gains tax allowance to minimise any changes in this taxation. (We thought it was going to come from higher headline rates which is what would happen if Labour got into power) but for now all that's happening is that stealth tax is evolving by reducing some allowances and freezing the increase in all sorts of other allowances (whether it be income tax or inheritance tax), and this combined with inflation is likely to prove to be hugely rewarding in rebalancing the government's books in the short term ... thus feeding into an attractive giveaway before very long.

With the benefit of hindsight those holding tax-deferred bonds, such as those who took advantage of our advice in inheritance tax mitigation, are now going to be better off as will be their beneficiaries who can enjoy passing through this unpleasant period of higher taxation whilst waiting for changes in headline rates which then become more attractive. These contracts have always proved to be incredibly rewarding through difficult periods of taxation.

In conclusion we don't think that the Budget has much effect upon most of our clients, but we will continue to minimise the effects of taxation and maximise returns on your portfolios whilst looking to the sunny uplands which we feel reasonably comfortable will materialise towards the end of next year and into 2024 and beyond.

Stay safe and well and have a very happy Christmas.

The new year will be better than this year!

*The KMG Team*

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