ONE STOP Finance Ltd

FINANCEMATTERS

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MORTGAGES – WHAT'S HAPPENING IN THE MARKET?

The British Bankers' Association reported that number of new mortgages granted in May rose to 73,000, the highest figure since March 2014, indicating that the property market is in a buoyant state following the General Election.

The Bank of England's quarterly Credit Conditions survey published at the end of June showed British banks reporting a surge in demand for mortgages for the second quarter of 2015, the strongest demand recorded since the end of 2013.

With the Governor of the Bank of England signalling that interest rates may be set to rise around the turn of the year, more homeowners may seek to review their existing mortgage deals ahead of any rises. The Governor has always maintained that he expects rates to rise slowly from 0.5% eventually reaching around 2.5% over a period of several years.

First-time buyers

According to the Halifax, first-time buyers account for 47% of all mortgage-financed house purchases, and are having to find a 6% higher deposit than a year ago, but are paying less Stamp Duty since the changes in the rules introduced in 2014.

Extending terms

More than one in three new mortgages taken out will extend beyond the borrower's 65th birthday according to the Council of Mortgage Lenders (CML), with 80% of these due to be repaid before the borrower turns 70. The CML commenting on these figures said that "Lenders will have to look carefully at borrowers' plans for repaying their mortgages – as well as the potential for their circumstances to change unexpectedly." It also added that there may be a need for new kinds of products that can transition from a mortgage to a lifetime mortgage.

Remortgages

In terms of the number of approvals, the Bank of England's data reveals that remortgage lending accounted for 32% of the total market in May. It seems that low mortgage rates and rising house prices provided borrowers with a stronger incentive to switch their loan than they have had for some years. Rates offered by banks and building societies have plunged, putting average mortgage rates at their lowest since Bank of England records began in 1995.

Interest-only mortgages

This type of mortgage, which allows people to make lower payments as only the interest and not the capital is repaid each month, proved popular a few years ago as the lower payments helped those who struggled with affordability. After the mortgage rules were tightened as a result of the government's Mortgage Market Review, many lenders stopped offering loans on this basis. Now, these loans are once more being made available for those who intend to use the capital from the sale of their existing home to repay the loan on their new one.

Buy-to-let tax changes

The buy-to-let sector has attracted many new landlords as investors have sought to find ways of maximising their returns in a period where interest rates on savings accounts have been dismally low. The Council of Mortgage Lenders reported that 19,100 buy-to-let loans were made in May, worth £2.7 billion in total.

In the Summer Budget the Chancellor announced that tax relief on buy-to-let mortgage interest payments was to be cut to 20%, to be phased in from 2017 to 2020. In addition, the 10% wear and tear allowance will be replaced by an 'actual costs' system next April. These moves have raised fears that landlords will raise rents and there will be less rental property available.

TAXING THE BENEFITS OF BUY TO LET

According to a recent report[1], there are nearly 2 million private landlords in the UK, owning 4.9 million homes and against which, over 1.6 million mortgages are outstanding. For 10% of those landlords, over half of their income is derived from rent; for 8%, being a landlord is their full time job.

All of this means the changes announced in George Osborne's Summer Budget will have consequences for quite a large number of people.

In a move the Chancellor suggested will 'create a more level playing field between those buying a home to let and those buying a home to live in'[2], there will soon be a cap on the amount of tax relief a landlord can claim against mortgage interest payments. The changes are to be phased in over four years, starting in April 2017 and relief will reduce to basic rate tax only by April 2020.

The market for buy to let has boomed since the term 'Buy to Let mortgage' was coined in 1996[1]. 15% of new mortgages are currently issued to those purchasing rental properties[2] and the Bank of England had warned only recently that this 'could pose a risk to [the UK economy's] financial stability'[2].

Until this announcement, Buy to Let had offered investors both an attractive and tax efficient proposition – and the more an investor borrowed to support that investment, the more tax they could save. Additional rate taxpayers were receiving 45p in every £1 of mortgage interest payable, higher rate taxpayers, 40p.

This change will therefore increase the effective cost of borrowing for some buy to let investors. The increase from £55 per £100 of mortgage interest for additional rate taxpayers, or £60 per £100 for higher rate, to £80 per £100 could have an appreciable impact on some landlords' income, an impact that gets worse as interest rates rise.

However, whether this means rents rise or investment returns become less attractive, or a combination of both, buy to let is not dead. Some buy to let investors are basic rate taxpayers and will see no change. Others will still see value in the sector regardless.

Consequently, if you are a landlord, or someone who is considering becoming one, and would like to know more about how the changes might impact your decision, please do give us a call.

Your home is at risk if you do not keep up repayments on your mortgage

1 Paragon Mortgages, "18 Years of Buy to Let", published October 2014. Includes figures sourced from the Council of Mortgage Lenders;

2 Chancellor's Budget Speech, 8 July 15.

HANDING YOUR ESTATE TO YOUR CHILDREN

The Summer Budget brought news for those worried about rising house prices and the impact Inheritance Tax (IHT) could have on their ability to pass on the family home to their children. George Osborne announced a new 'family home allowance', worth up to £175,000 per person from 2020.

This 'family home allowance' will be available if you leave your main house to your children or grandchildren. In these circumstances, the value of the house can be apportioned against the home allowance before the main personal allowance of £325,000 begins to be used.

The allowance is being phased in over four years with an initial £100,000 available from April 2017. However, with a married couple or civil partners looking at the chance to pass on up to £1 million (where the house is worth £350,000 or more), many people's concerns about IHT may begin to ease.

However, for those with larger estates, there will still be concerns. So what can be done to start to reduce a liability?

IHT is a complicated area and professional advice is always recommended for those looking to plan to reduce it. However, in very simple terms, the following outlines some options that might be available.

First, the annual exemption. This is £3,000 a year and can be given to anyone. In addition, you can give up to £250 per person per tax year to as many beneficiaries as you like – as long as no recipient also benefits from the main £3,000.

Second, you can make gifts to couples getting married - up to £5,000 to a son or daughter, £2,500 to a grandchild and £1,000 to anyone else.

Separate from these exemptions is the ability to give away excess regular income that you do not require. As long as you can demonstrate that after giving the money away, you can still afford your lifestyle, you can use it for a number of things, eg:

- Christmas, birthday, wedding, civil ceremony and anniversary presents;
- Regular payments into a savings account; and/or
- Premiums on a life assurance policy.

If you have a very serious liability to IHT, the last one might be useful when considering another approach to reducing your liability - setting up a life assurance policy in trust, the proceeds from which do not form part of your estate and can be used to pay an IHT bill directly.

The only way to reduce your liability beyond the methods mentioned above is to give further assets away while you are still alive - if you could live without them! Even then, taper relief means that if you died within seven years of making any such gifts these would be at least partially added back into your estate.

None of this, of course, is simple. Consequently, if you would like to have a conversation about your own situation, please do get in contact.

This information is based on our understanding of current HMRC tax rules applying for tax year 2015/16, which may be subject to future change, and of the relevant Summer Budget proposals.

The Financial Conduct Authority does not regulate tax advice.

The value of the investment can go down as well as up and you may not get back as much as you put in.

PENSIONS – WHERE ARE WE NOW?

April 2015 saw the introduction of the much-heralded pension changes announced in 2014. These reforms mean that those with defined contribution pensions are able to enjoy unprecedented freedom to choose at what age they retire from 55, and how much they take from their pension pots on retirement. There is no longer a requirement to purchase an annuity at any age, and the scrapping of the 55% tax charge on death means that beneficiaries could inherit far more than was previously the case.

Further changes and new measures were introduced by the Chancellor in the Budget on 8th July.

Annual allowance

From April 2016, those with a net income of more than £110,000 could see the annual amount they can contribute to their pension with the benefit of tax relief reduced from the current annual limit of £40,000 tapering away to £10,000. Those with income, excluding pension contributions, above £110,000 will have to add on their own and their employer's pension contributions. If this calculation gives a figure in excess of £150,000 their annual allowance will be restricted by £1 for every £2 by which their income exceeds the threshold.

Lifetime allowance reduced to £1m

The Lifetime Allowance is a limit on the amount of pension benefit that can be drawn from pension schemes – whether by lump sum or retirement income – that can be paid without triggering an extra tax charge. The figure for tax year 2015-16 is £1.25m.

From April 2016, the maximum amount that pension savers will be able to draw from their pensions without paying extra tax will reduce to £1m. From 6th April 2018, the allowance will be adjusted in line with the Consumer Prices Index. Transitional protection will be introduced for those who have been saving with the current £1.25 million threshold in mind.

Proposals on further tax changes

George Osborne unveiled a Green Paper proposing a significant overhaul of the current pension tax relief system. Announcing the measure, the Chancellor said that he had addressed the issues surrounding flexibility that face those nearing retirement, but that it was now time to look at the other end of the age scale. Pensions, he said, could be treated like ISAs for tax purposes.

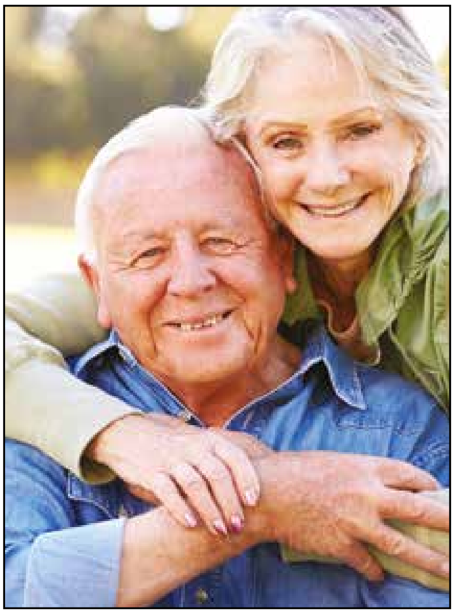
This review will consider whether the existing framework that sees pension contributions receiving tax relief, funds being exempt from tax while invested and taxed when paid out could be overturned. This could, for instance, be replaced by a system where contributions don't receive tax relief, but are tax exempt while invested and tax exempt when paid out. The government's consultation closes on 30th September and the results will be eagerly awaited.

Annuities

In a widely-publicised move, George Osborne announced in his March Budget that around 5 million pensioners who had previously used their pension savings to buy annuities could have the opportunity to sell them for a cash sum from April 2016. In the July Budget, the date for the introduction of the secondary market for annuities was pushed back to 2017, allowing more time for administrative procedures to be put in place.

The State Pension

The state pension 'triple lock' introduced in 2010, guaranteeing to increase the state pension every year by the highest of the rate of price inflation, the rate of earnings growth or 2.5%, will be maintained for the duration of the Parliament (until 2020).



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