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INSURANCE PREMIUM TAX INCREASE TO 10% – WHAT DOES IT MEAN FOR ME?

In his March Budget, the Chancellor increased insurance premium tax (IPT) by 0.5%. The rise from 9.5% to 10% will come into effect from 1 October 2016. This comes on top of the increase from 6.5% to 9.5% that came into effect in November 2015.

This means yet another rise in the cost of pet, car, mobile phone, building and contents, and private medical insurance. The Association of British Insurers has warned that the changes will affect over 26 million drivers and 20 million households.

The Chancellor has announced that the extra money will go towards paying for improved flood defences for those areas in the north of England recently devastated by heavy flooding.

The government's own figures show that the average fully comprehensive motor insurance policy will cost an additional £2, and the average building and contents insurance policy will increase by £1.

The good news is that life insurance and mortgage protection policies are exempt from IPT; travel policies are excluded from this increase as they are already taxed at 20%.

BUY-TO-LET'S LOSS: FIRST-TIME BUYERS' GAIN?

There was a distinct boost in housing market activity in the first few months of this year, according to the Council of Mortgage Lenders[1]. Attributed in part to the changes to Stamp Duty Land Tax (SDLT) on the purchase of additional residential properties above £40,000 in value, introduced in early April 2016.

These changes (also affecting Land and Buildings Transaction Tax in Scotland) meant that a landlord buying a property for £200,000 prior to April this year would have paid just £1,500 in SDLT. After the change, the charge has risen to £7,500 for the same property purchase. This may explain why the value of buy-to-let loans rose to £7.1bn in March – up by 142% on the figure for March 2015.

ANOTHER BLOW

Furthermore, landlords who were previously able to claim mortgage interest relief at the 40% or 45% rate, will now find this relief restricted to 20% after April 2017. That's not all; landlords with buy-to-let mortgages will no longer be able to deduct costs such as mortgage interest, or loans taken out to improve the property, or fees. Instead, after April 2017, they will only receive a basic-rate reduction from their income tax liability for their finance costs. The 10% allowance for wear and tear is also going, with landlords able only to deduct the actual costs incurred.

A POSITIVE FOR FIRST-TIME BUYERS

If this is deterring some would-be landlords, it presents an opportunity for first-time buyers,

given that investing in a second home now incurs an extra 3% SDLT surcharge. With less competition for 'entry-level' properties, the next few months could prove a favourable time for frustrated first-time buyers to enter the market.

IS THE THIRST FOR BUY-TO-LET OVER?

Not necessarily, since some buy-to-let investors are beginning to invest via their own limited companies in order to mitigate these tax changes and, with interest rates remaining low and investment markets volatile, many will elect to stick with property.

House prices have risen strongly over the past few years, as have rents. Both buy-to-letters and first-time buyers may decide that property investment remains a sound choice. Both should look carefully at their budgets and as ever, bear in mind that property, as with all investments, can go down as well as up.

[1] Council of Mortgage Lenders, May 2016

A mortgage is a loan secured against your property. Your property may be repossessed if you do not keep up the repayments on your mortgage or any other debt secured on it.

INSURANCE FOR PROPERTY YOU'RE NOT LIVING IN

You may not be aware but standard home insurance policies usually provide insurance cover only for absences of up to 30 consecutive days. Fortunately, there are policies available that provide cover if a property is left empty for longer periods, applicable in certain circumstances such as:

- During renovations - for instance if you're replacing plumbing or central heating, or having major alterations carried out and can't live in the property whilst the work is being done
- Long holidays abroad or extended trips to stay with family or friends
- Stays in hospital or residential care which can often be prolonged
- The property is for sale, or it's a second home that may be left unoccupied for long periods
- When the property forms part of an estate that's waiting for Probate, or is waiting to be let.

RISKS THAT NEED TO BE COVERED

Unoccupied properties are at greater risk from perils such as fire and flood as there is no-one living there to prevent or spot what is happening, meaning that the damage caused can be much worse. In addition, empty homes can be obvious targets for vandals and thieves.

The cover can be purchased for both the contents and building, or if it's empty, just for the building. Contents policies will often exclude personal and valuable items such as jewellery, works of art and photographic and video equipment, as the insurer expects these to be kept with the policyholder, or stored elsewhere in a secure location.

To qualify for cover, you'll need to have good security in place such as five lever mortice deadlocks or BS3621 standard locks on external doors. The property will need to be regularly checked. This doesn't have to be done by the policyholder or owner; it can be a relative, friend or managing agent. The insurance company will also require the property to be in a reasonable state of external repair so that it doesn't attract unwanted attention.

Make sure you have the right policy in place.

BANK OF MUM AND DAD

In what can be seen as a sign of the times, research from Legal & General[1] shows that the well-known and closer-to-home source of easier borrowing, the 'Bank of Mum and Dad' is on track to lend over £5bn in 2016. This makes it rank in the top ten of UK mortgage lenders.

Their survey shows that first-time buyers are frequently turning to family and friends to provide cash for their all-important deposit, with 25% of all property transactions estimated to need this type of financial support to go ahead, accounting for over 300,000 mortgages on homes worth £77bn.

SIZEABLE CONTRIBUTIONS

The amount provided by parents and grandparents is on average £17,500 or around 7% of the average purchase price of a property. Contributions are often in the form of interest-free loans, with 18% made this way. 57% receive the cash as an outright gift. Only 5% of loans are to be repaid with interest.

Lloyds Bank[2] has carried out research that shows that this form of parental contribution doesn't stop after the purchase of the first property. It estimates that almost one in five 'second steppers' return to the 'Bank of Mum and Dad' when they want to move up the housing ladder, typically asking for more than £22,000.

INTERGENERATIONAL FAIRNESS

Some commentators fear that if prices continue to rise and more is borrowed from the 'Bank of Mum and Dad', then it could face a funding crisis of its own.

Giving away cash to children for a property purchase needs careful consideration; by making large gifts of cash parents could be risking their own standard of living in retirement and there could be inheritance tax implications.

In addition, this form of lending risks creating widespread housing inequality as many young people aren't lucky enough to be able to borrow from their parents and look destined to rent for years to come.

[1] Legal & General, May 2016

[2] Lloyds Bank, Second steppers still need 'Bank of Mum and Dad', October 2015

LIFE INSURANCE – WHAT YOU NEED TO KNOW

With the joys of family life come responsibilities. Making sure that your dependants are provided for in case anything should happen to you is a financial planning priority and, fortunately, life cover can provide an affordable solution.

Sadly, one in 29 children will lose a parent before growing up. If that parent is the main breadwinner then the loss and turmoil experienced by their family are likely to be compounded by the loss of income. The death of a non-working partner has its own financial implications, especially where there are dependant children.

KEEP IT SIMPLE

There are a number of life cover products available but a straightforward level term life insurance policy – where a pre-decided lump sum is paid out should you die (or under many policies be diagnosed with a terminal disease) within a stated period of time – is among the simplest to arrange and you may be surprised by how inexpensive it can be.

Life cover protection is generally recommended to provide ten times the main breadwinner's income. This is paid tax-free, but is added to the deceased's estate. If there are IHT implications, the policy may be written in trust. The level of cover should be calculated bearing in mind any outstanding debts (including mortgage), regular outgoings, potential university fees and inflation, for example. The term should reflect the needs of your dependants; children will probably require financial protection until they leave full-time education and a partner may need the cover to last until pensionable age.

SELECTING JOINT OR SINGLE COVER?

A joint policy will cover the lives of yourself and your partner, paying out only once on the first death within the policy term. Alternatively, both partners might arrange separate single-life policies, which is a little more expensive but would potentially provide two payments.

A young, fit individual should find life cover extremely affordable. Premiums rise with age, unhealthy habits (such as smoking) and other factors which may potentially affect your life expectancy. It's important to be transparent

about your lifestyle, especially if you have pre-existing medical issues. Your adviser can help find an affordable policy for most circumstances.

JUNIOR ISAs – CASH OR SHARES?

Junior ISAs or JISAs allow similar tax benefits to saving in a normal ISA on your child's behalf if your child is under 18 and resident in the UK. Any parent or guardian can open a Junior ISA in their child's name (as long as they don't already have a Child Trust Fund) with the funds in the account belonging to the child, although no money can be withdrawn until they are 18.

At the moment, the maximum that can be placed in a Junior ISA annually by family and friends is £4,080 (in tax year 2016/17) with no tax payable on the interest or investment gains. When the child is 18, the JISA automatically becomes an adult ISA.

CASH, SHARES OR A COMBINATION

There is a choice of opening either a Junior Cash ISA, a Junior Stocks and Shares ISA or both (if opening both, there is a combined annual limit of £4,080). If you're opening a Junior ISA for your child it can be a difficult decision whether to opt for the cash or shares option. Cash savings have been hard hit by the Bank of England's decision to cut interest rates to a record low of 0.5% in March 2009.

With inflation running ahead of the Bank's 2% target for most of that time (though below it at present), the real value of cash savings is likely to be heavily eroded over time.

CONSIDERING THE TIMESCALE

If your child is likely to be accessing all or most of the funds within five years then a Cash ISA makes sense, since investing in a Stocks and Shares ISA is not normally recommended within this time-frame. However, there is no getting away from the poor interest rates offered by most Junior Cash ISAs and, over time, this can make a big difference to growth. Research demonstrates repeatedly that returns from stocks and shares have the potential to outperform cash over longer investment terms, though past performance is not a reliable guide to future performance. If your child's saving horizon extends further than driving lessons, they might be prepared to lose some capital security in pursuit of higher gains.

Your adviser will be able to help you make the most suitable investment decision, based on your circumstances.

Tax treatment varies according to individual circumstances and is subject to change.

Investors do not pay any personal tax on income or gains, but ISAs do pay tax on income from stocks and shares within the funds.

Stocks and Shares ISAs invest in Corporate bonds; stocks and shares and other assets that fluctuate in value.

NEW TAX LANDSCAPE UNFOLDS

Despite media speculation ahead of the March Budget, the Chancellor didn't introduce any new changes to the taxation of pensions. However, in a surprise move, he announced the launch of the Lifetime Individual Savings Account (LISA), another potentially attractive addition to the savings range.

PENSIONS

The Lifetime Allowance was reduced from £1.25m to £1m as previously announced and the annual allowance remained at £40,000. From April 2016, the £40,000 annual allowance will be reduced for those in receipt of income over £150,000, including their own and their employer's pension contributions.

ISAs

To qualify for the new LISA, savers will need to be aged between 18 and 40 in April 2017. Any savings put in before their 50th birthday will receive a 25% bonus from the government at the end of the tax year. There is no specified monthly contribution, but instead an annual limit of £4,000. Savings can be used towards purchasing a first home up to £450,000 anywhere in the UK, or saved until age 60, otherwise a 5% charge will apply and the bonus will be withdrawn if the funds are taken out for any other reason. LISAs can be saved in cash or invested in stocks and shares; income and gains within a LISA are tax-free.

The contribution limit for ISA accounts will increase from the current level of £15,240 to £20,000 in April 2017.

INCOME TAX

For the 2017-18 tax year, the personal allowance will be increased to £11,500 (£11,000 in 2016-17). This will take 1.3 million of the lowest paid out of paying tax altogether. The Chancellor reiterated that the target is to reach £12,500 by 2020. Also in 2017-18, the basic-rate limit will increase to £33,500 (£32,000 in 2016-17) and the higher-rate tax threshold at which individuals pay 40% will increase to £45,000 (£43,000 in 2016-17).

CAPITAL GAINS TAX

From April 2016 the rate fell from 18% to 10% for basic-rate taxpayers and from 28% to 20% for higher-rate taxpayers. However, these new rates do not apply to gains made on residential property. The tax-free allowance for capital gains remains at £11,100 in the current tax year.

BOND FUNDS

From April 2017, bond fund managers will no longer deduct 20% tax from their income payments to investors.

LISA COULD CUT PENSION POTS BY A THIRD

Although the new Lifetime Individual Savings Account (LISA) could prove very useful for those wanting to buy their first home, and equally attractive to the self-employed as a way of saving for retirement, concerns have been expressed that it could encourage savers to opt out of auto-enrolment pensions.

As many commentators have been quick to point out, a good pension is still the most tax-efficient way to save for retirement. By opting out of a workplace pension, savers stand to lose out on employer pension contributions. They would also lose out on valuable tax relief on their own contributions. For higher-rate tax payers, putting £100 in a pension costs just £60 due to tax relief.

Research from a top insurer[1] shows that opting for a LISA instead of a workplace pension could mean that savers receive a third less at retirement based on a comparative quotation over 35 years.

So, although the introduction of the LISA is regarded as a welcome addition to the government's tax-free savings range, it would be foolish to overlook planning your pension too.

[1] Zurich, Research, 2016

Tax treatment varies according to individual circumstances and is subject to change.

The value of pension and investments and the income they produce can fall as well as rise. You may get back less than you invested.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.

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