

# Financial Viewpoint

Your latest newsletter from The Orchard Practice



## The accidental landlord

**European legislation introduced in March 2016 created a new category of Buy to Let lending: Consumer Buy to Let. Its principal aim is to distinguish borrowers who become landlords by accident and therefore require consumer protection, from experienced landlords operating Buy to Let as a business.**

Unlike an investment Buy to Let, where the landlord is renting a property for business purposes, a consumer Buy to Let might be an inherited property, or a property that was once lived in, but is now rented following a change in circumstances.

A consumer Buy to Let borrower now has to go through a similar application process and affordability tests as with a residential mortgage, but their Buy to Let mortgage contract would dictate that the property must be rented out and not lived in by the borrower.

### Are you an accidental landlord?

The Treasury estimates around 11 per cent of existing Buy to Let mortgages may fall into the Consumer Buy to Let category. If you own and live in your own home, but your

circumstances are changing so you need to move out and rent your property, you'll fall into the Consumer Buy to Let category. For instance:

- you may be getting married or entering into a civil partnership where you're moving into your partner's home
- you may have inherited a property and you need an income from it to maintain it
- going travelling – you're letting out your home while overseas to cover the costs of your mortgage
- moving elsewhere but not selling – If you're moving but don't wish to sell your old home, you could rent it out and transfer your residential mortgage onto a Consumer Buy to Let mortgage

In terms of the lending criteria for this new category of Buy to Let, it's likely that the biggest lenders will ask some additional questions around affordability as part of the application process, but there won't be a material change to lending criteria.

**If you are planning on renting out a property and you're unsure as to whether the consumer Buy to Let rules apply to you, please get in touch.**

**Your property may be repossessed if you do not keep up repayments on your mortgage**

# Are cash ISAs still relevant?

**Since 2012, the average cash ISA rate has fallen from 2.84% to just 0.82%, while stocks and shares ISAs are performing far better, delivering an average growth of 7.4% during the 2014/15 tax year.**

**Clearly the latter carry a varying degree of investment risk (depending on the type of funds you invest in), but does a record-low savings rate mean cash ISAs are dead?**

## **The benefits of a cash ISA**

Whatever the current rate of interest, the fact is that savings in a cash ISA are free from income tax and they don't count towards your Personal Savings Allowance. This means you can have a cash ISA and earn up to £1,000 income from other savings (£500 if you're a higher-rate taxpayer), before having to pay tax.

Whether or not you choose to invest in the stock market, you'll always have a need for rainy day funds in the event of an emergency and as a safe, tax-efficient haven, cash ISAs are a useful vehicle. They are easy to open, you normally won't need to give notice to withdraw funds and anyone over 16 can save up to £15,240 in the current tax year.

## **Investing in the stock market**

If these benefits still don't outweigh the chance of a better return on your money, it's worth looking at a stocks and shares ISA, where you can invest in individual company shares, unit trusts, investment funds, government bonds and corporate bonds.

By choosing to invest in a stocks and shares ISA you don't pay capital gains tax (CGT) on any gains made – great if you exceed the £11,100 annual CGT allowance. However, as with any stock market investment your money is at risk, so you'll need to think about how much risk you are prepared to take before you take the plunge.

*The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on individual circumstances.*

*Although there is no fixed term, you should consider stocks and shares ISAs to be a medium to long term investment of ideally five years or more.*

*The value of your investments and any income from it may fall as well as rise and is not guaranteed. You may get back less than you invest.*

*You should not use past performance as a reliable indicator of future performance.*

**If you're not happy about the return you're getting on your savings, please get in touch and we'll help you explore your options.**



# A year on from pension freedoms

## In April 2015 the government introduced the most significant pension reforms for a generation.

The reforms give people who've worked and saved hard greater flexibility over how and when they access their pension savings and mean anyone reaching retirement age has been able to withdraw some, or all, of their pension (subject to tax on everything above the first 25% they take out).

### Lamborghini sales unaffected

A year on and figures suggest over 230,000 people have accessed more than £4.3 billion from pension funds. The average withdrawal is £18,750 – laying to rest the fear that retirees would be tempted to 'blow their entire pension pot on a Lamborghini'.

In fact, with 516,000 payments made, it goes to show many people have chosen to take their money in instalments, rather than everything in one go.

The figures also showed:

- the highest number of partial withdrawals were made by consumers aged 55-59
- consumers with bigger pension funds were more likely to have taken financial advice
- around 60% of drawdown and annuity customers stayed with their existing provider

### Making the right decision

The age at which you can draw your pension is currently 55, but this is set to increase to 57 from 2028 and, from then, in line with the rise in the State Pension age, albeit remaining 10 years below.

From 6 April 2015 those aged 55 or in a defined contribution pension plan are able to access pension savings in a number of different ways:

- buying an annuity
- Flexi Access Drawdown – previously known as flexible drawdown
- uncrystallised Funds Pension Lump Sum (UFPLS) – this allows you to draw money directly from your pension fund. Of each payment you withdraw, 25% is tax-free and the other 75% is taxed as income via PAYE

It's also important to consider not only your pension savings – including the state pensions – but also any other savings and investments you may have. And if you choose to continue to invest amounts that you don't need to access immediately, you should think about:

- your current essential income needs such as your day-to-day living expenses and other known or planned expenditure
- your current health status
- your lifestyle and the 'non-essential' expenditure, such as holidays, new cars, sports and hobbies, entertainment etc
- future possible/anticipated living expenses incorporating, possibly, a budget for care
- unexpected expenses such as car repairs, home maintenance and health problems
- gifts – either now or in the future
- the extent to which you'd like to leave an inheritance for your family and dependants

With choice comes complexity, so it's important to take advice before making decisions on your pension.

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*HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.*

**If you're looking to access your pension savings or you'd like advice on your pension choices, please get in touch.**

# Bank of Mum and Dad

**With rising house prices outpacing income an increasing number of young people will borrow from parents and family in order to get onto the property ladder.**

## **The 10th largest mortgage lender**

The combined amount which parents and grandparents will be prepared to gift or loan their children to help them buy their first home is estimated to be £5bn. This puts them alongside the 10th largest mortgage lender in the country, Clydesdale Bank, which lent the same amount in 2014.

Research from Legal and General estimates the “Bank of Mum and Dad” will be involved in approximately one in four UK mortgage transactions this year, showing the extent of how borrowing from family members is supporting the housing market.

## **The risks of borrowing from Mum and Dad**

However, as well as the obvious benefits, Legal and General suggests people from less advantageous

backgrounds will be increasingly squeezed out, effectively widening inequality in the housing market.

They also caution that the “Bank of Mum and Dad” will, at some stage in the future (they estimate 2035), come into a funding crisis, caused by unexpected care costs for parents and grandparents living longer. The problem is exacerbated for families in London who have been known to contribute more than half their net worth on their children’s house purchase.

## **Other investment options for your children**

There are more ways to help your children financially than contributing to their first home, but whatever approach you take it’s important to start early. By saving for your children from an early age (even perhaps before they are born) you can help put them in a better financial situation for their adulthood.

**If you would like advice on choosing the right savings and investment options for you and your children, please get in touch.**

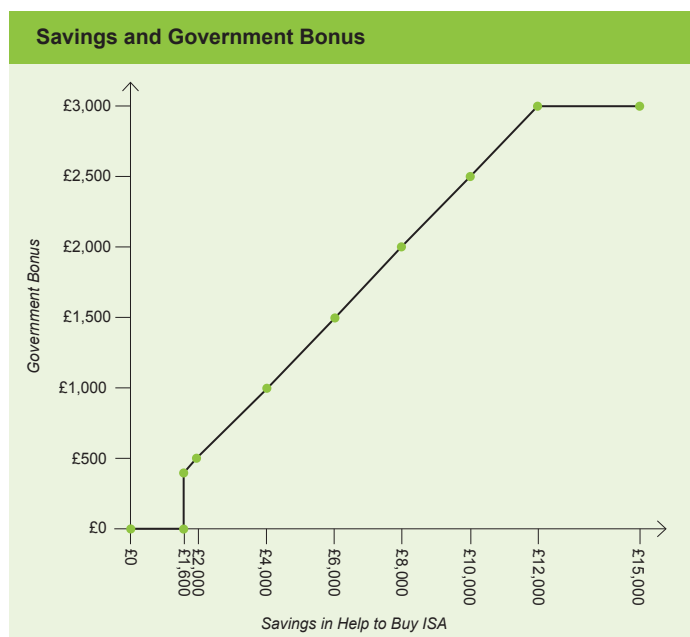


# Help to Buy ISA – things you might not know



If you're saving for your first home you may have heard about the Government's latest initiative, the Help to Buy ISA. This is effectively a cash ISA where you can save up to £200 a month, but the government will boost your savings by 25% up to a maximum of £3,000 (provided you've saved at least £1,600).

What's more, you can open a Help to Buy ISA with a deposit of up to £1,200. This means that over the course of your investment, you could have £15,000 to put towards your first home:



## Using your bonus funds

You can only claim your bonus funds when you are buying a home and the money has to go towards the completion of your property. This means you can't use it to pay your solicitor, estate agent or any other fees or costs associated with buying a home.

## Interest you earn

Your government bonus will be calculated based on the amount of money you have in your account when you close it. This includes the money you have put away and any interest you've earned on that money. You can have more than £12,000 in your account, but you'll be limited to a maximum government bonus of £3,000.

## Applying for your bonus

When you find your home, your mortgage provider will ask you to hire a solicitor or conveyancer to handle the legal aspects of buying it.

When you're close to finalising your home purchase, you'll need to ask your bank or building society to close your Help to Buy ISA and they will give you a closing letter. You will then need to take this letter to your solicitor or conveyancer so that they can apply for your government bonus.

## Closing your account

If your home purchase doesn't go through after your solicitor or conveyancer has received your government bonus, you can re-open a Help to Buy ISA and the same terms will apply.

Your solicitor or conveyancer will give you a document (called a purchase failure notification) confirming your home purchase did not complete. If you take this to a bank or building society, they will open an account for you. At this point, you will be able to deposit your money as a lump sum. So, if you closed your Help to Buy ISA with £12,000 in it, you will be able to re-deposit £12,000.

## First home, new responsibilities

Owning your own homes brings new responsibilities in terms of paying a mortgage and it's important to think about things like income protection, which can help to protect the roof over your head if you're unexpectedly unable to work.

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**If you'd like a review of your savings and investments please get in touch.**

# School sports day



## Are you one of the one in three parents who worry about the risk of serious injury from school sports?

New research from MetLife has found one third of parents with school age children are concerned about serious injuries from sport – and there are real reasons to be worried.

The research shows in the past five years:



around 17% of parents have had to take a child to Accident & Emergency units because of injuries sustained whilst playing sport at school



one in six have had to visit GPs for advice on sports injuries



one third of parents have had to seek medical or dental treatment for children due to school sports injuries

Parents are also becoming increasingly keen to see action from schools and sports bodies to help reduce the risk of injury:

- one in five say they would be happy to back a ban on full contact rugby in schools
- over one third want better recording of injuries suffered as a result of school sports
- 40% want children to be able to opt out of rugby
- one third would support opt-outs for hockey and football

## Should contact sports be banned?

The benefits to children of playing sport are huge. Aside from enjoyment, it improves physical fitness and health, and builds self-confidence. However, it is clear that a substantial number of parents are worried about the risk of serious injury.

The Sport Collision Injury Collective, a group of doctors, academics, sports scholars and health professionals, have called for a ban on tackling in rugby. These calls may be controversial and many will argue that playing contact sports is a great way to develop team work and a broader set of skills.

School sports aren't the only culprit either. MetLife reports over two-thirds of their claims relating to children on their accident and hospital cover policy are for broken bones. With the summer holidays around the corner, children are likely to be outside playing with friends and taking part in summer activities and sports clubs.

Although we can't wrap our children in cotton wool, we can take preventative measures and give them the tools they need to avoid unnecessary risks, as well as putting protection in place in the event an accident does happen.

**If you'd like information or advice about accident protection cover, please get in touch.**

# Financial advice during a divorce

**Going through a divorce, dissolution or separation is one of life's most stressful events, so it's important to have people around you to help with the practicalities. This is particularly true when it comes to financial matters, which can be complex and emotionally straining in these situations.**

## **Achieving a fair financial settlement**

As well as identifying any potential problem areas, a financial adviser can advise on how best to split any assets between you and your partner without attracting an unnecessary tax bill, and help value your pension benefits.

An adviser will also assist you and your partner to complete the paperwork – such as the financial review known as a form E. This can speed up the process of your divorce or separation, keeping stress levels down as low as possible and helping to reduce any legal fees.

## **Extra protection**

As well as splitting the finances, there are also new arrangements that come into play when people with children divorce. You may need to review your life insurance, critical illness protection and income protection insurance so you don't leave yourself exposed.

## **Mistakes you can avoid by getting advice**

- 1 Who keeps the family home?** It's easy for couples to fight for the home without considering the costs of maintaining the upkeep (mortgage, utilities and council tax bills etc). If you decide to take on the family home, make sure you have the financial capabilities to keep it running.
- 2 Sharing the pension pot** – When deciding on how to split the funds within a pension, you need to consider the level of income you will receive in retirement compared to your partner. This will depend on age, health and lifestyle.
- 3 Asset valuations** – It is a legal requirement to declare the true value of your assets (this can be a business, pension or any belongings etc), but it's difficult to value an asset like a pension.
- 4 Identifying all debts** – Any debts in your partner's name means you're also accountable. Make sure you know the full extent of any debts and try to close off any joint accounts and split the money evenly.

*HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.*

**If you're going through a divorce or separation, let the experts take the strain. Talk to us for professional financial advice.**



# The cost of a child

## It's official: Raising a child is now more expensive than buying the average house.

- Average price of a semi-detached house in the UK = **£219,255**.
- Cost of raising a child to age 21 in the UK = **£231,843**.

You've insured your home, but how do you go about insuring your kids?

### The breakdown

Obviously costs change as children grow up, but from birth to 21 £231,843 equates to a monthly cost of £878.

Here's how the total cost breaks down on average:

Childcare & Babysitting	£70,466
Education	£74,430
Food	£19,004
Clothing	£10,942
Holidays	£16,882
Hobbies & Toys	£9,307
Leisure & Recreation	£7,464
Pocket Money	£4,614
Furniture	£3,408
Personal	£1,130
Other	£14,195

59% of parents said they are struggling to manage outgoings including childcare, which amounts to nearly a third of the total cost of raising a child. Surprisingly though, 49% of parents do not have a plan in place for a sudden loss of income resulting from things like a critical illness or even the death of a parent.

## Investing for their future

Even after 21 the costs keep adding up and parents are still spending £1,113 a month on things like education and food. Today, the overall cost of a three-year degree (including tuition fees, accommodation and living expenses), is typically between £35,000 to £40,000. Marriage can be a costly option for those who choose it, with the average wedding estimated to be £20,000. Getting a foot on the property ladder is another growing cost for the next generation. The typical first-time buyer borrows over 3.39 times their income with a deposit of 17% and we've all heard of the Bank of Mum and Dad.

## The importance of protection

What would you do if you suddenly lost the income that pays for your child-related expenses?

- protect your earnings: income protection gives the assurance that you and your children will be provided for if you can't work because of an accident or sickness
- protect your health: critical illness cover pays out a tax-free lump sum on the diagnosis of certain life-threatening or debilitating conditions, like cancer, heart attack or stroke
- insure yourself: life insurance can provide a lump sum payment on death that can help those left behind continue raising the children

**Talk to us about protecting yourself, your income and your family both now and in the future.**

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