

Viewpoint



Cash ISAs

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Bank of mum and dad

34% of first time buyers relied on their parents for financial support.

The State Pension - all you need to know

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Don't crowdfund the cost of your healthcare

A critical illness plan could help you avoid financial hardship when you need it most.

Are Cash ISAs worth the investment?

After the Bank of England (BoE) cut interest rates to reassure the market following the Brexit vote, cash ISA returns plummeted.



For advice on ISAs and other types of investment planning, please get in touch.

According to Telegraph Money cash ISA returns fell by as much as 35% in the six months after the BoE's decision. A quick google shows the best rates on offer currently are just over 1% for an easy access cash ISA (meaning you can withdraw your money at any time) and 1.4% if you're prepared to lock your savings away for three years.

So are cash ISAs still worth the investment?

Before you decide, there are a couple of other factors to consider.

The weaker pound – a by-product of Brexit – is driving up inflation. According to The Office for National Statistics: inflation has been steadily increasing since 2015 and hit 2.3% in March 2017. The BoE has predicted it could reach 2.8% by the middle of 2018.

With interest rates at record lows, this is bad news for savers; inflation eats into the value of your savings, so unless you're earning a higher rate of return, you effectively lose money.

The Personal Savings Allowance (PSA) which was introduced in April 2016. It lets you earn up to £1,000 in interest tax-free on your savings if you're a basic rate taxpayer and £500 if you're an higher rate taxpayer (additional rate taxpayers don't receive a PSA). This cancels out some of the benefits

offered by a cash ISA – earning tax-free interest on your savings – especially since the annual limit is only £20,000 (in the 2017-18 tax year).

Of course, there may be cases when a cash ISA makes sense. If you switch to a higher tax bracket in the future, you might lose out on some or all of your PSA. And if you're already an additional rate taxpayer, then it's the only way you can earn interest on your savings tax-free. Another benefit that may not be available with other types of savings products is that your spouse or civil partner can inherit the money you hold in a cash ISA tax-free.

You need to decide whether or not a cash ISA is right for you based on your personal financial situation, but while interest rates remain low, it might be worth considering investing in a stocks and shares ISA instead. These bring with them an element of risk of course, but there's also the potential for greater return. Stocks and shares ISAs are considered medium to long-term investments and you should be prepared to invest for at least five years.

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 the individual circumstances. The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.



Buy to Let Mortgage market changes

The UK's Buy to Let market is in a state of flux, with an extra 3% Stamp Duty on the purchase of additional properties and changes to the way a landlord's income is taxed.



If you'd like to find out more about Buy to Let mortgages, please get in touch.

Landlords used to be able to deduct all finance costs from their rental income, with net profits taxed at their marginal rate. Starting in April 2017 tax relief available for buy to let related finance costs will gradually reduce each year. Phased over 4 years it will finally be restricted in 2020/21 to a basic rate of tax, currently equivalent to 20%.

In September 2016, The Prudential Regulation Authority (PRA) – those responsible for the prudential regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms – announced expectations of firms' underwriting standards to apply to the Buy to Let market.

Incorporation

According to research by the National Landlords Association (NLA), one in four landlords are considering setting up limited companies to negate the tax changes. If you hold a property in a company, your profits are liable for Corporation Tax at 20%, however, if you hold an investment property personally, your rental earnings are combined with your other earnings (such as income from your job) and taxed as Income Tax up to 45%.

At first glance a company structure could look more tax efficient, especially if you are a higher rate tax payer. But before you consider incorporation you should take into account the cost of commercial mortgages.

There's no doubt the changes in the Buy to Let sector can cause some confusion but we can help find the most appropriate solution for you.

This information does not constitute tax advice. For more details on how this will affect your circumstance you should consult with an independent tax adviser.

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

Some Buy to Let mortgages are not regulated by the Financial Conduct Authority.

What you need to know

The PRA changes mean that landlords:



face tougher affordability assessments which take into account borrower's costs including tax liabilities, verified personal income and possible future interest rate increases.



must provide evidence that rental income covers their mortgage payments by a minimum of 145% at an interest rate of 5.5% for all products other than longer term (five years plus) fixed rates.



with four or more properties will have their whole portfolio assessed for affordability by the lender – even where other Buy to Let mortgages are held with different lenders.

With all of these changes many landlords may find their portfolios are less profitable.

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

Is your pension tax efficient?

Since April 2015, pensioners have had greater freedom over how they manage their retirement savings. No longer forced to buy an annuity, they can now leave their money invested and draw an income from it (known as flexi-access drawdown).

Whether you've already stopped working, or you're planning to retire soon, you should be familiar with the various allowances and tax-efficient accounts which may reduce your tax liability. Here's a brief summary:

Tax-free lump sum

You can take a tax-free lump sum of 25% of your total pension pot. With the rest, you can either buy an annuity or reinvest it and draw an income.

Alternatively, you can withdraw the full pot as cash and pay tax on the other 75%, or delay taking it so it remains invested.

Another option is to take smaller amounts on a more regular basis and leave the rest untouched. Each time the first 25% is tax-free, but you pay tax on the balance. In this case, your pot isn't reinvested.

Personal allowance

For anyone earning up to £100,000, you don't pay tax on any form of income up to the personal allowance of £11,500 (in the 2017-18 tax year). This allowance is reduced by £1 for every £2 earned above the threshold. So when you stop working and start drawing pension income, you won't pay tax on it until the payments exceed your personal allowance. However, as long as you're still employed, even in a part-time job, your earnings eat into your allowance.

The tax-free lump sums discussed earlier don't count towards your personal allowance.

Individual Savings Accounts (ISA)

If you decide to withdraw a lump sum, one option is to put it in a cash or stocks and shares ISA. ISAs are tax-efficient accounts which protect returns (interest earned in a cash ISA, and gains and income generated by a stocks and shares ISA) from income tax and capital gains tax. The annual ISA allowance of £20,000 in the 2017-18 tax year may come in handy if your pot is big enough.

Dividend allowance

You can earn dividends tax-free on investments you hold outside your ISA thanks to the annual dividend allowance. This is £5,000 for the 2017-18 tax year, although it falls to £2,000 from April 2018.

Personal Savings Allowance (PSA)

You can also take advantage of the PSA for any savings you have outside a cash ISA. Basic rate taxpayers can earn £1,000 in interest tax-free and higher rate taxpayers can earn £500. Additional rate taxpayers don't get a PSA.

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

The value of your investments and any income from them may fall as well as rise and is not guaranteed. You may get back less than you invest. Stocks and shares ISAs are considered medium to long-term investments and you should be prepared to invest for at least five years.



If you'd like advice on your retirement options or pension income, please get in touch.



The ninth largest lender

34% of first-time buyers relied on their parents for financial help, making the 'bank of mum and dad', the equivalent of the UK's ninth largest lender in 2017.

If you're trying to get on the housing ladder, you'll know how hard it can be

- The average price of a first home is over £200,000 in the UK (and £400,000 in London)
- The average first-time buyer deposit has more than doubled over the past decade from £15,168 in 2006 to £32,321 in 2016
- Only 29% of all first-time buyer purchases in 2016 were below the £125,000 Stamp Duty threshold.
- 28% of all first-time buyers with a mortgage opted for a 30 to 35 year mortgage term (in 2016)

With numbers like those to the left it's little wonder that so many first-time buyers turned to their parents for financial support in helping them buy their first home. In fact, according to a recent report from Legal and General, the bank of mum and dad could lend more than £6.5bn in 2017, a massive 30% increase on 2016.

The money will help to buy £75bn worth of property and puts parents on a par with the UK's ninth largest mortgage lender, the Yorkshire Building Society.

Is parental support sustainable?

The bank of mum and dad makes an average financial contribution of £21,600 for each property. And of the buyers who received support from their family, 57% received it in the form of a gift while just 5% were given the money as a loan with interest.

According to Legal and General a loan by the bank of mum and dad could wipe out just over half of a family's available net wealth, raising the question of whether this type of support is sustainable over the longer term.



If you're looking to buy your first house with help from your family, we can help you find an appropriate mortgage deal for you.

If you're still in the process of saving your deposit (typically 16% of the value of an average first home), we can help you explore the different ways to invest for your near, mid and long-term plans.

Your home may be repossessed if you do not keep up repayments on your mortgage.



The State Pension – all you need to know

Changes to the State Pension which took effect on 6 April 2016 were designed to simplify the system. With the earnings-related part applying to employed people removed, what you could qualify for depends on your National Insurance (NI) record.

For the current tax year 2017/2018, the new State Pension is £159.55 per week. To be eligible to receive the state pension you'll need to have made NI contributions for a minimum of 10 years and 35 years to be eligible for the full amount. However, you might get more than this if you've built up entitlement to additional state pension under the old system, or less if you were contracted out.

Contracting out

Under the old State Pension rules and up to 5 April 2016, you could 'contract out' of the additional State Pension, which meant you and your employer could pay lower NI contributions into the state system.

You could not contract out of the basic State Pension, but you could pay lower NI contributions if you were part of a private pension, such as a workplace or personal pension scheme, that could build up to replace the element of Additional State Pension you were opting out of.

If you were contracted out, your starting amount for the new State Pension might be lower than it is for people with similar circumstances who remained contracted in. You might get the equivalent amount from your workplace or personal pension scheme unless:



your scheme got into financial trouble and wound up underfunded



your rights were transferred to a scheme that was not linked to your earnings and investments in that scheme did not perform well

You should know if this applies to you, but if you're in any doubt and think you may be affected you can contact your scheme.

'Topping up'

In some cases you may be able to have your State Pension worked out using different rules that could give you a higher rate if you chose to pay married women and widow's reduced-rate NI contributions.

The rules on how you can increase your State Pension and what you can inherit will be different depending on when you and your spouse or civil partner reach State Pension age. You can find out more at gov.uk/state-pension-through-partner

If you've not yet reached State Pension Age and worry you might not have enough NI contributions to get the maximum amount to qualify at all, you can make Class 3 National Insurance contributions. You will need to contact HM Revenue and Customs who will let you know if you can make the voluntary contributions and, if so, how much to pay.



If you would like to discuss your pension requirements please get in touch.

Thinking of fixing your mortgage?

If you think an increase in your mortgage repayments could have a negative impact on your lifestyle or financial wellbeing, you may want to consider fixing your mortgage.



Don't be drawn into trying to second guess what will happen with interest rates over the coming years. We can help you come to the most appropriate decision for your next mortgage.

With a fixed rate mortgage, your payments are set at a certain level for an agreed period, regardless of whether your lender changes its Standard Variable Rate (SVR). Such an increase typically occurs when the Bank of England Base Rate starts to climb.

Fixed rate mortgages can offer protection from rate rises for an agreed period, but there are several considerations you'll need to think about before making your decision.

Predictable repayments – but you won't benefit from rate cuts

With a **tracker** mortgage, your monthly payment fluctuates in line with a rate that's equal to, higher, or lower than a chosen Base Rate (usually the Bank of England Base Rate). The rate charged on the mortgage 'tracks' that rate, usually for a set period of two to three years.

Tracker rates might be more appealing if you don't have a fixed budget and can tolerate higher mortgage payments if rates rise, whilst being able to benefit from reduced monthly mortgage payments if rates go down.

But with a **fixed rate** mortgage, the rate (and therefore your repayments) will stay the same for an agreed period. A fixed rate mortgage makes budgeting much easier because your payments will not change – even if interest rates go up. However, it also means you won't benefit if rates go down.

Longer fixed terms will be more expensive

If you choose a fixed rate mortgage, you'll need to decide how long you want your fixed rate to last. Two-year fixed rate mortgages typically offer the lowest initial interest rate. If you want to fix your interest rate for longer, you will probably pay more for that longer-term security. This may be worthwhile in return for predictable repayments, or you might choose to take the lower rate for a shorter timeframe if you expect that your financial position will improve by the time the deal ends.

A change in circumstances could cost you

Do you have any *known* changes on the horizon that will have an impact on your mortgage?

With a fixed rate mortgage, you could face an early repayment charge if you repay all or a certain percentage of the mortgage during the fixed rate period.

If you have no known changes and want to benefit from a longer period of security, then a longer term fixed rate of five years may appeal. It might cost more initially, but you'll benefit from knowing that your budget is fixed for that period.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Why crowdfund the cost of your healthcare?

Crowdfunding is becoming increasingly common among people who need healthcare that's not freely available through the NHS.



To discuss critical illness protection for you and your family, please get in touch.

Websites such as justgiving.com, crowdfunder.co.uk and gofundme.com are full of campaigns from families trying to raise funds for treatments, or seeking help to avoid the financial hardships that a serious illness such as cancer or stroke can cause.

Even though the vast majority of proven effective treatments for cancer are funded by the NHS, 2,348 crowdfunding campaigns to cover medical treatment were launched on JustGiving in 2016, a seven-fold increase from the year before when there were just 304.

One fundraising charity, Tree of Hope, specialises in helping these young people and their families by running campaigns to raise the funds they need to pay for specialist care.

Supporting young people

Although cancer in young people is rare, it is still the most common cause of death for children aged up to 15. Sadly, 1 child in every 500 under 15 is diagnosed with a form of cancer and 2,200 teenagers and young adults (15-24 years old) are diagnosed every year.

Don't rely on crowdfunding

Instead of crowdfunding at a time when you should be concentrating on treatment and recovery, taking out a critical illness plan will help protect a breadwinner from the financial impact that the diagnosis of a serious illness could have on their life or their family's life.

Many critical illness policies also include cover for children (including step and legally adopted) as an automatic benefit. This can pay out a lump sum if a child is diagnosed with a specified critical illness or is hospitalised.

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