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Viewpoint

CARL SUMMERS
FINANCIAL SERVICES

Local presence, strong partnerships. By harnessing our connections Carl Summers Financial strives to provide you with your perfect solution.

The value of mortgage advice
Five reasons why our advice can be invaluable when it comes to helping you find the right mortgage.

The £1m Inheritance Tax allowance
An allowance that will add £175,000 to each parent's main residence nil-rate band.

Tax changes impacting Buy to Let landlords
If you own a property portfolio you need to know about changes to tax relief.

Just about managing
A change in circumstances could put addition financial pressure on people who are just about managing.

Are your contents underinsured?
UK households contain, on average, £55,000 worth of possessions, but an average GI policy covers just £35,000.

Investment jargon buster
A glossary of some of the common investment-related terms you'll come across.

Eggs aren't just for Easter
We look at the features and benefits of the different Individual Savings Accounts available.

The value of mortgage advice

With so many mortgage lenders offering their products on the high street and online, it can be tempting to cut out the middleman and 'go direct'.

When you're making such a huge financial commitment, the guidance you can get from a qualified mortgage adviser can be invaluable.

Here are five reasons we can make a difference:

1. We know what a good deal looks like

It's easy to underestimate the costs involved when buying a property or remortgaging. An attractive rate may appear good value, but this could change once you factor in things like fees and loan conditions.

We will compare a wide range of lenders and thousands of mortgages on your behalf looking beyond the headline rate so that you understand how the length and type of loan will affect how much you pay over the longer term. We'll highlight any additional costs you should be aware of (like administration fees, booking fees and valuation costs).

2. We know the market

If your mortgage needs or circumstances are 'out of the ordinary', you may find it more difficult to find a mortgage. We have knowledge of lenders' criteria and can save you time and hassle as you search for a suitable lender.

3. We can do the hard work for you

Selecting the right mortgage is just the start. We will work with you to complete the necessary paperwork, liaise with solicitors, valuers and surveyors on your behalf, and help make the process as smooth as possible.

4. We are professionally qualified

Unlike many branch and telephone-based mortgage sellers in banks and building societies, we are able to advise you on a broad range of lenders and products. This means you benefit from genuine choice coupled with quality advice.

5. We look beyond the mortgage

We consider the bigger picture when it comes to advising you on your mortgage. For example, we can help you safeguard your home by recommending products that can financially protect you and your family, should the unexpected happen. We can also recommend providers that can help with other elements of the home-buying process, including solicitors, surveyors and insurance providers.

And, if you want us to, we can stay in touch with you to make sure your mortgage and protection arrangements remain appropriate for your needs.

Conveyancing and surveying are not regulated by the Financial Conduct Authority.

Whether you're looking for a mortgage on your first home or dream home, we can help.

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

OW0636 Exp. 20/04/18

The new £1m Inheritance Tax allowance

If you would like to discuss the impact of Inheritance Tax on your financial planning please get in touch.

In the wake of the 2015 General Election, the Conservative Party confirmed it would deliver on its Manifesto promise that parents could pass their property up to the value of £1m to their children free of Inheritance Tax, thanks to a new 'family home allowance'.

The allowance is called the Resident's Nil Rate Band (RNRB) and takes effect in April 2017. By 2020/21 it effectively adds £175,000 to each parent's nil-rate band (currently £325,000) in respect of their main residence, bringing the total that may be transferred IHT-free on the second death to £1m.

Basic rules

An estate will be entitled to the RNRB if:

- the individual dies on or after 6 April 2017
- they own a home, or a share of one, so that it is included in their estate for Inheritance Tax
- their direct descendants, such as children or grandchildren, inherit the home or a share of it
- the value of the estate is not more than £2m *(estates valued at more than £2m the RNRB (and any transferred RNRB) will reduce by £1 for every £2 over the £2m taper threshold. This means that in the tax year 2020 to 2021, an individual would not be entitled to the RNRB if their estate is worth more than £2,350,000.)*

An estate will also be entitled to the RNRB when an individual has downsized to a less valuable home or sold or given away their home after 7 July 2015, provided the deceased left the smaller residence or assets of equivalent value to direct descendants.

The RNRB allowance

The maximum amount of RNRB will increase every tax year as follows:

Tax year at death	RNRB
2017/18	£100,000
2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

For later years, the amount of the RNRB will increase in line with the Consumer Prices Index.

Any unused RNRB can be transferred to the deceased's spouse / civil partner's estate. This can also take place if the first of the couple died before 6 April 2017 (even though the RNRB wasn't available at that time).

The definition of direct descendant

For RNRB purposes, a direct descendant of a person is:

- a child, grandchild or other lineal descendant of that person
- a spouse or civil partner of a lineal descendant (including their widow, widower or surviving civil partner)
- a child who is, or was at any time, that person's step-child
- an adopted child of that person
- a child who was fostered at any time by that person
- a child where that person is appointed as a guardian or special guardian for that child when they're under 18

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

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Example case studies

Mr A dies in the tax year 2020 to 2021 and leaves a home worth £300,000 and other assets worth £190,000 to his children.

- The maximum available RNRB in tax year 2020 to 2021 is £175,000.
- The RNRB that applies is £175,000 (the lower of the home value or £175,000)
- The Inheritance Tax Nil Rate Band (NRB) is £325,000

Estate value	£490,000
Less RNRB	£175,000
Remaining estate value	£315,000
Less NRB	£315,000*
Value that IHT is due on	£0

*£10,000 of NRB is unused and can be transferred to spouse.

Mrs B dies in the tax year 2020 to 2021 leaving a flat worth £100,000, and other assets of £400,000 to her son. She leaves the rest of her assets of £500,000 to her husband; these are exempt for IHT purposes.

- The maximum available RNRB in tax year 2020 to 2021 is £175,000.
- The RNRB that applies is £100,000 (as it is the lower of the home value or £175,000)
- The Inheritance Tax Nil Rate Band (NRB) is £325,000

Estate value	£500,000
Less RNRB	£100,000*
Remaining estate value	£400,000
Less NRB	£325,000
Value that IHT is due on	£75,000

*£75,000 of RNRB is unused and can be transferred to spouse.

OW0635 Exp. 05/04/18

Tax changes impacting Buy to Let landlords

The way landlords can claim tax relief on their mortgage finance costs has changed.

To talk about mortgage options for your Buy to Let investments get in touch.

Up until 5 April 2017, landlords could deduct mortgage interest from their rental income before calculating how much tax they should pay. Now, however, tax relief on Buy to Let mortgage interest will gradually be reduced.

The restrictions will be phased in over the next three years, resulting in tax relief only being available at the basic rate of income tax (currently 20%) from April 2020:

Tax relief on finance costs	2016/17	2017/18	2017/18	2018/19	2019/20
Old system	100%	75%	50%	25%	–
New system	–	25%	50%	75%	100%

Wear and Tear allowance has changed

Landlords of only fully-furnished residential properties used to be able to claim tax relief for wear and tear on furnishings. This changed in April 2016, when the 'Wear and Tear' Allowance was replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings in the property, such as:

- sofas
- televisions
- fridges and freezers
- carpets and floor-coverings
- curtains
- crockery or cutlery
- beds and other furniture

The initial purchase of furniture, furnishings, appliances and kitchenware is not eligible for the tax relief.

How will the changes impact you?

The tax relief changes can seem complicated, so it's important to take the right steps now, so that you know if and how you are affected and what you need to do to minimise the impact:

- Seek advice from a qualified tax adviser on how the new rules will affect your taxable income
- Discuss your portfolio and the best way to structure it with a qualified tax adviser
- Speak to us and we can explore whether your financial plan needs to change to accommodate any potential loss of profit from the Buy to Let changes.

This article is for information purposes only and does not constitute tax advice. It's best to seek advice from a tax expert on how the rules will affect your taxable income.

Tax information is based on our understanding of the proposed tax legislation and may be subject to change.

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

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

OW0638 Exp. 31/07/17

Just about managing

Two thirds of working households in the UK consider themselves to be ‘just about managing’ financially, according to research.

The Resolution Foundation, which researches the living standards of those on low to middle incomes, has identified six million Jams (as they have become known) spread across Britain. Jams tend to have at least one person in work and most work full-time. Some will earn higher salaries, but typically they will be low earners receiving top ups from the welfare state, such as tax credits.

A priority for the government?

In her first speech as Prime Minister, Theresa May addressed the Jams directly, suggesting that the government would be working hard to help improve their lot. But the impact of years of flat wages, coupled with cuts to working-age benefits and increased rental and property prices, makes this is a huge issue to tackle.

What’s more, the Institute of Fiscal Studies suggests that the weak growth will continue, which means the situation won’t get easier for these families in the short-term.

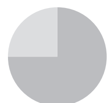
The increasing financial pressure the Jams are under is worrying, and an unexpected change in circumstances could make their situation a lot worse. What would happen if the main breadwinner was to lose their income, or fall ill and have to take time off work?

If you’re in this situation, the first step is to understand what you’ve got coming in and how you’re spending your money. Once you’ve got your budget under control you can look for ways to save money and, if you can afford to, consider how you might protect your income in the event of sickness, ill-health, or worse.

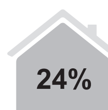
JAMs tend to:

have at least **one child**

have at least **one person in work**



three quarters are likely to be in rented accommodation



spend **24%** of their income on housing

over two thirds have have **less than a month’s** salary in savings

If you'd like help with your financial planning, please get in touch.

OW0691 Exp. 31/10/17

Are your contents underinsured?

When it comes to insuring your home and contents, many people take out far less cover than they need, risking potential upset when it comes to making a claim.

For more information about protecting your home and contents, please get in touch.

The average UK home contains around £55,000 worth of possessions, but an average insurance policy covers just £35,000, potentially leaving £20,000 worth of uninsured valuables per household.

Why do we undervalue our possessions?

One reason could simply be a lack of awareness – both in terms of the real value of possessions and the items we should be insuring. When you're reviewing your contents insurance, don't just think about your jewellery and electronic equipment or other high-value items. Make sure you consider everything, including clothes, shoes, books, furniture – and contents in your garage, garden shed or other outbuildings.

Another reason why people underinsure could be a desire to keep insurance premiums down – but this really misses the point of taking out cover in the first place. If you're in the unfortunate situation where you need to claim and you haven't included certain items in your policy, you won't be covered and this could leave you even more out of pocket.

Ask us to review your cover

By seeking our professional guidance, you may find you're able to reduce your outgoings, identify instances where your protection could be improved or uncover gaps in your insurance.

We can help you understand what you're covered for – and what you aren't. While buying home insurance may feel like an expensive chore, it's critical to ensure it meets your needs and expectations. If you don't fully understand your policy excesses (the contribution you are required to pay towards a claim) and policy exclusions (such as accidental damage), your insurance could end up letting you down when you need it most.

Alternatively, you may not even realise you require specialist insurance. If your home is classed as a 'non-standard construction', or you have high-value contents in the home, it may be appropriate to call in a specialist insurance provider that can meet your needs.

It can be easy to question the value of insurance – until the day you need it most. If you've ever had to make an insurance claim, you'll know just how valuable it can be.

OW0626 Exp. 06/04/18

Investment jargon buster

Assets: *anything an individual, company or fund owns which has economic (tradable) value.*

Asset classes: *Groups of securities or investments with similar characteristics that behave in a similar fashion and are subject to the same laws and regulations. The most common ones are Cash, Shares, Property & Fixed Interest Securities.*

Bond: is an IOU for *a loan to a government or company. Usually for a fixed term and with a fixed rate of return paid to the investor at fixed intervals until the loan is repaid. Sometimes called Fixed Interest Securities.*

Commodities: *bulk goods traded on an exchange. Examples include gold, silver and platinum; iron, steel and tin; grain, coffee and sugar.*

Consumer Price Index (CPI): *periodically measures the price of a basket of goods and services purchased by households, used to give an indication of UK inflation.*

Default risk: *the risk that the bond issuer will not be able to repay the interest or initial investment to the investor.*

Developed market: *an established market economy, with sound, well-established economies and are therefore thought to offer safer, more stable investment opportunities than developing markets.*

Diversification: *a policy of reducing your exposure to any one particular asset or risk. This usually involves selecting a range of asset classes which do not move in perfect synchronisation with each other.*

Dividend: *a distribution of profits to shareholders. Each share is allocated a percentage of the distribution.*

Emerging markets: *less developed economies generally characterised as transitioning from a restricted or controlled economy to a free-market economy, with increasing economic freedom, and gradual integration into the global economy.*

Equity: *a share in the ownership of a company.*

Fiscal policy: *government policies that seek to influence the domestic economy including tax rates, interest rates and spending policies.*

Fixed Income Security: *a loan to a government or company, usually for a fixed term and with a fixed rate of return paid to the investor at fixed intervals until the loan is repaid.*

Investment trust: *Set up as companies with a fixed number of shares and like any listed company the shares trade. Allows you to pool your money with other investors to get access to range of assets through a single investment.*

Mutual fund: *allows you to pool money with other investors to purchase stocks, bonds and other securities.*

OEIC (Open Ended Investment Company): *this is a collective investment fund. Managers pool investors' money to buy shares, bonds cash, property and other investments. The number of shares in circulation varies depending on demand from investors.*

Retail Price Index (RPI): *Like the CPI, this tracks changes in the cost of a fixed basket of goods over time. However, the RPI also includes housing costs, such as mortgage interest payments and council tax, as well as TV licence and road tax costs.*

Risk: *the chance that an investment will lose value or that its return will be less than expected.*

Structured deposit*: a portfolio that offers a degree of protection to capital whilst offering the potential for higher returns. The higher the risk to capital, the greater the potential return.*

Volatility: *a risk measure that describes the degree to which performance varies over time and thus an indication of one's ability to predict whether performance is going to be positive or negative.*

OW0672 Exp. 20/04/18

Eggs aren't just for Easter

The original use of the term 'nest-egg' comes from an artificial egg being put into a nest to induce a hen to lay.

These days we often refer to our hard-earned savings as our nest-egg, and the recent rise in the ISA allowance gives additional incentive to encourage savings to grow tax-efficiently.

Egg-cellent ISAs

On 6 April 2017, the ISA allowance rose from £15,240 to £20,000, giving a boost to savers struggling with continued low interest rates.

Depending on how much risk you're prepared to take with your nest-egg, you have two options: The Cash ISA, which offers a low risk way to save and the interest is completely tax-free. Or the Stocks and Shares ISA, which gives the potential for a better return, but you will be taking more risk with your money.

Cash ISAs

Cash ISAs have similar features to savings accounts but the interest you earn is tax-free. You can open a cash ISA if you're aged 16 or over and resident in the UK. There are a range of cash ISAs designed to meet different needs, so make sure you look at the features and benefits – not just the headline interest rate:

- instant access ISAs – ideal if you need to access your money quickly, but it will probably come with a lower rate.
- regular saver ISAs – you could get a higher interest rate if you're able to pay a regular monthly premium.
- fixed rate ISAs are ideal if you have a lump sum that you can put away for a set term and may attract a higher interest rate.

Remember to check if your provider will charge a penalty for accessing your money if you need it at short notice.

Stocks and Shares ISA

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 a range of different investments including individual company shares, unit trusts, investment funds, government bonds and corporate bonds (providing you are 18 or over and resident in the UK). Any gains you make on your original investment are protected from Capital Gains Tax and you don't need to declare it on your tax return, although you could still have tax to pay within the fund you're invested in.

Lifetime ISA

Adults under 40 can now also qualify for the Lifetime ISA. The maximum annual contribution is £4,000 to which the government will add a 25% bonus to contributions made before the holder's 50th birthday (so a £100 contribution will become £125 in the plan). You can use the funds, including the bonus, to buy a first home at any time from 12 months of opening the account, or you can withdraw the funds tax free from age 60 for use in retirement.

If between April 2017 and April 2018 you need to withdraw money for any other reason, you must fully close your Lifetime ISA and you won't receive the government bonus. What's more, from 6 April 2018, the government will introduce a 25% charge for these withdrawals. The only exception is if you're diagnosed with terminal ill health and have less than 12 months to live, you can withdraw all of the funds (including the bonus) tax-free and penalty-free, regardless of age.

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.

Although there is no fixed term you should consider a stocks and shares ISAs to be a medium to long term investment of ideally 5 years or more.

To find out more about ISAs and for help picking the right one for you, please get in touch.

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