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Viewpoint

Your latest newsletter from Carl Summers Financial Services

European legislation hits the UK mortgage market

Back in March 2011 the European Commission proposed a new directive on credit agreements for consumers secured on property, referred to as the European Mortgage Credit Directive (MCD). The new rules came into force on 21 March 2016, but what do they mean for you?

Protecting consumers

MCD introduces standardised conduct rules for firms selling first and second charge mortgages across the EU, designed to protect consumers taking out credit agreements relating to residential property.

The good news is that the UK already has a robust regulatory regime in place, which means the changes coming in under the MCD are relatively minor.

Mortgage Market Review (MMR)

In April 2014, the UK's financial services regulator, the Financial Conduct Authority (FCA) introduced a number of significant changes to its rules around mortgage regulation, known as the MMR. These changes were designed to tighten the rules in a number of areas ensuring that irresponsible lending practices are stamped out of the mortgage market.

In fact, the introduction of the MMR means that many of the MCD's requirements are already met, as the FCA were able to anticipate some of the emerging EU proposals through the recent MMR changes.

The most significant area of change is to the rules around second charge mortgage lending, meaning all lending secured on the borrower's home will be regulated under the FCA mortgages regime.

Whilst the changes are relatively minor, there will be a few new issues that lenders and mortgage advisers will need to incorporate into their businesses, such as:

- Changes to when and how you are told about the range of products that are on offer, any limitations in the services provided and how much mortgage advice will cost.
- A new Mortgage Illustration which has additional information about the cost of the mortgage and an example of what would happen if rates rose to a 20 year high.
- The introduction of a new mortgage offer that's binding on the lender and a new seven day reflection period for the consumer.
- A new approach to monitoring customers' foreign exchange exposure, including where part or all of their income is in a foreign currency, other than Sterling.
- A new classification of 'Consumer Buy to Let' mortgages to provide additional regulatory protection for 'accidental landlords' (people who did not buy the property with the intention of renting it out but ended up doing so).
- Regulation of second charge lending.

Whether you are buying your first home, moving up or down the property ladder, purchasing an investment property or simply remortgaging, the process is often complex, time consuming and for many people daunting!

Contact us and we'll go through the mortgage process with you to help ensure you make the right decisions.

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

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Dividends Allowance

As of April 2016 the Dividend Tax Credit has been replaced by a new tax-free Dividend Allowance. This means you won't have to pay tax on the first £5,000 of your dividend income, no matter what non-dividend income you have.

Any dividends you receive over £5,000 will be taxed at the following rates:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band

Dividends received by pension funds are currently exempt from tax, while dividends received on shares held in an ISA will continue to be tax free.

Important considerations:

- Married couples should make the most of each other's income tax allowance and tax bands and consider splitting their investments.
- Dividend tax is linked to the rate of income tax you pay. You may be able to reduce your taxable income by deferring withdrawals from a drawdown pension until a new tax year or transferring cash deposits to a lower-earning spouse.
- Using an Onshore or Offshore Investment Bond for part of your investments can defer tax, as investors only pay tax when profits are withdrawn.
- A pension contribution can be used to reduce dividend tax liabilities for many investors by taking advantage of the tax relief on the contribution.

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

Please seek advice before taking any action. For a review of your investments and tax allowances, please get in touch.

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

For specific tax advice please speak to your accountant or tax specialist.

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Ever bought something online that doesn't quite fit?

Sticking with the same provider year-on-year for financial products such as insurance or savings accounts may mean you're not getting the best deal. But using price comparison sites when renewing your policy isn't always the best way to find a better one.

Added extras

An investigation by the consumer body Which? found that policies at the top of price comparison website results often include features you don't want or need, such as a large excess or add-ons you didn't ask for.

The research also found that many price comparison sites:

- don't ask up-front about excesses on home insurance policies
- don't show the compulsory excess on home insurance policies
- don't give a breakdown of compulsory and voluntary excess
- don't display annual and monthly prices side by side
- list policies that don't offer the cover you require
- give the illusion of choice by showing quotes from the same company but offered by a range of brokers

Payment terms

It's also important to check the payment terms and any associated costs. For instance, paying monthly rather than annually for your insurance can add more than £100 to the cost of car insurance and £20 to the cost of home insurance. And the cheapest annual payment policy may not be the cheapest monthly payment policy.

What should you look out for?

When buying insurance for your home or car, income protection, accident protection or life insurance always consider quality as well as cost. Price comparison sites are set up to find you the cheapest possible deals. This may mean you may not get the level of cover, customer service or claims handling you expect.

Getting the right cover probably costs less than you think. Having the right cover in place now can help provide you with the peace of mind that you can cope financially, no matter what life throws at you.

Don't rely on the Internet, talk to a real person who can provide tailored advice that fits your exact requirements. Talk to us today about your insurance needs.

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Are you saving tax efficiently?

If you've always been a saver but never considered an Individual Savings Account (ISA) you could be losing out to the tax man.

Make your savings work harder

ISAs are tax-efficient savings plans that allow you to shelter up to £15,240 in the 2016/17 tax year from income and capital gains tax. Around 13 million adult ISA accounts were contributed to in 2014/15. That's around £79bn being saved with an average of £6,064 in each account.

There are two types of ISA: cash ISAs, and stocks and shares ISAs. You can put your money in to one cash ISA, or one stocks and shares ISA or split your investment between the two.

Tax efficiency

With a cash ISA you don't pay tax on savings accounts interest.

For a stocks and shares ISA you don't pay tax on any income or Capital Gains Tax you've made on your investment. You can include shares in companies, unit trusts and investment funds, corporate bonds and government bonds.

More freedom

Since 6 April 2016, you can withdraw and reinvest money into your ISA without losing your ISA tax benefits as long as the repayment is made in the same tax year as the withdrawal.

A higher allowance from 2017

The Chancellor's most recent Budget announcement confirmed an increase in the allowance to £20,000 from April 2017. This welcome move will allow people to save even more money in a tax efficient way.

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 stocks and shares ISA and any income from it may fall as well as rise and is not guaranteed. You may get back less than you invest.

Contact us for more information or advice about the different kinds of ISA investments. We can help you to make the right choice for your investment.

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Taxation changes impacting Buy to Let landlords

In last year's Summer Budget, George Osborne announced changes to the way landlords can claim tax relief on their mortgage finance costs. In his Autumn Statement, the Chancellor then announced proposed changes to Stamp Duty Land Tax on properties purchased for Buy to Let purposes.

Tax relief on interest costs

Landlords can currently deduct mortgage interest from their rental income before calculating how much tax they should pay.

From April 2017, tax relief on Buy to Let mortgage interest will gradually be reduced. The restrictions will be phased in over four years, resulting in tax relief only being available at the basic rate of income tax (currently 20%) from April 2020:

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- 6 April 2017 – higher rate relief can be claimed on the first 75% of the Buy to Let mortgage interest costs. The remaining 25% will have the basic rate of tax relief applied.
- 6 April 2018 – higher rate relief can be claimed on the first 50% and the remaining 50% will attract the basic rate of tax relief.
- 6 April 2019 – higher rate relief can be claimed on the first 25% and the remaining 75% will attract the basic rate of tax relief.
- 6 April 2020 – Tax relief can only be claimed at the basic rate level.

Wear and Tear Allowance to go

Up until April 2016 only landlords of fully-furnished residential properties could claim tax relief for wear and tear on furnishings.

This 'Wear and Tear' Allowance has been 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 won't be eligible for the tax relief.

Changes to Stamp Duty Land Tax

Stamp duty on properties purchased for Buy to Let purposes will increase by 3% for each band from April 2016. This will mean that even properties up to the value of £125,000 that would previously have attracted 0% stamp duty will now attract the 3% Buy to Let / second home rate.

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

If you let a property and would like to know more about these changes, please get in touch.

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

Too ill to earn

‘Seven Families’ highlights the importance of protecting your income.

Seven Families is a charity-led campaign that aims to raise awareness of the financial and emotional difficulties caused by long-term illness or disability. Launched in November 2014, it follows seven real families in the UK where the main breadwinner has been forced out of work by an accident or illness – without having any protection insurance in place.

The Clarke family

Tracey Clarke and her husband Tim live on a houseboat after financial difficulties forced the sale of the family home.

Tracey was born without functional vision in her left eye. It had never caused her problems until 2011 when her eyesight began to shut down completely. Tracey had to give up driving and, ultimately, her career as a Pharmacy Technician. Soon after, her husband Tim was made redundant.

The effect of losing two incomes unexpectedly meant Tracey and Tim had to rethink their financial plans. They were forced to sell their home of 25 years and find a place that would allow them to live within their means on the benefits they now depend on.

Looking back

Tim and Tracey admit they had to choose between paying various insurance policies and feeding the family. Looking back, Tracey says *“Obviously feeding the family had to come first. We should have looked again at the budget to find a way of maintaining the payments for the insurance policies.”*

Have you protected yourself and your family?

Income protection cover will help provide an income if you are unable to work due to an accident, sickness or, in some cases, unemployment.

Get in touch to find out how we can help protect you and your loved ones.

You can find out more about the Seven Families campaign at www.7families.co.uk

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Spring clean your finances

A quick Google of 'Spring Clean' will throw up a million and one Buzzfeed articles or 'life hacks' on how to make spring-cleaning easier and quicker. You'll find tips about using cola to clean the toilet, lemon to clean the taps and vinegar to clean just about anything.

When you're done cleaning your worktops with baking soda and your windows with newspapers, why not try spring-cleaning your finances with our handy hints:

Work out what you're spending

Keeping track of your income and outgoings gives you a great snapshot of your finances. It can help highlight any problem spending areas and where you can potentially make savings. To get started, you'll need copies of your recent bills, wage slips and bank statements. Tally them up and write them down (or use a spreadsheet), including your other main monthly outgoings. Compare this to your monthly income to quickly see your spending patterns and how much you have left over at the end of every month. There are also online tools to help you while budgeting or your bank or building society may have an online tool which takes information directly from your transactions. Alternatively you can talk to us.

Protect what matters

Spring-cleaning your protection insurance is also important as you'll want to make sure you have the right cover for your current circumstances when you need it.

If you're renting a property you will want to protect your belongings. If you have just bought a home you'll need to make sure both your home and possessions are adequately covered. You may even want to consider accidental damage cover or home emergency cover.

If you've recently had a baby, or you have others who depend on your income, make sure you have cover in place to provide financial security for those who depend on you should you become ill or die. Life insurance and critical illness insurance give you the peace-of-mind that you or your family could 'weather a financial storm'.

Invest in an ISA

An Individual Savings Account (ISA) is a tax-efficient way of saving. In the current tax year (April 2016 to April 2017) the government allows you to put up to £15,240 into an ISA and it's important to take advantage of this.

You can save your money in one cash ISA or one stocks and shares ISA, or split the allowance across both types. A cash ISA means you don't pay tax on saving accounts interest. A stocks and shares ISA means you don't pay tax on any income or capital gains you've made on your investments – but obviously there's more risk involved in the latter. 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 stocks and shares ISA and any income from it may fall as well as rise and is not guaranteed. You may get back less than you invest.

Get trusted advice

Discussing your financial needs with an expert can make managing your finances simpler. We can help you establish a financial plan that's designed around your specific needs, make sure it stays on track, and provide ongoing advice that will help you achieve your goals.

If you would like to have a chat about your budget, protection or investment needs, please call us today.

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Pension planning for the self-employed

There are 4.5 million self-employed people in the UK – that's one in seven of the UK workforce – but only 18% of them contribute to a pension.

The explanation for this low number might be that saving for a pension when you're self employed isn't as straightforward as it is for an employed person. For instance, the latter might automatically benefit from a workplace scheme and employer contributions.

Don't rely on the State Pension

Whether you're employed or self-employed you're entitled to the full basic State Pension, but don't expect this alone to give you the income you'll need to retire in comfort.

In fact, many people over estimate how much they will receive from the basic state pension, which is currently just £115.95 a week plus any means-tested benefits. This rises to a maximum flat rate of £155.65 from April 2016 – but only for those who've paid 35 years of National Insurance – giving an income just over £8,000 per year.

As State support is unlikely to enable you to continue your current standard of living into retirement, it's imperative for the self-employed to find other ways of providing the additional income they will need.

Start saving early

It's stating the obvious, but the sooner you start saving into a pension the bigger your potential retirement fund. You'll also have more time to benefit from the tax relief that's available.

To highlight the difference saving early makes, a 25 year-old male who was looking to retire at 68 and saving £400 a month would have an estimated pension pot of £20,100 a year. A 45 year old male retiring at 68 would have to save £1,000 a month to have an estimated pension pot of £19,700.

Minimise the amount of tax you pay

One of the main benefits of paying into a pension is the tax relief the savings attract. For example, if you're a basic rate taxpayer paying £80 into your pension each month, HMRC will effectively add an extra £20 in tax relief.

The maximum amount you can save each year that attracts tax relief (otherwise known as the annual allowance) is £40,000. If you wish to withdraw funds whilst continuing to pay into a defined contribution pension scheme, the annual allowance is reduced to £10,000.

Importantly, if your income is low and you're not able to save the full £40,000 in one tax year, you can carry forward any unused allowance and use it against earnings in the next tax year. Please note:

- You must have been a member of a registered pension scheme during the years you want to carry forward
- You can't receive tax relief on contributions over and above your earnings in tax year
- You can only carry forward unused allowance from the three previous tax years

What type of pension is right?

The self-employed can choose from a range of different pension products, including stakeholder pensions, personal pensions and Self Invested Personal Pensions (SIPPs). Each has its advantages and disadvantages – we can advise on which is right for you.

Perhaps the most flexible pensions are stakeholder schemes. They allow you to save as little as £20 per month and the charges are relatively low, which is helpful if you have irregular income levels.

Talk to us

If you're self-employed and need advice about your pension planning, please get in touch to discuss your options.

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