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Financial Viewpoint

Your latest newsletter from Prosperity Financial Services Ltd

Prosperity Financial Services Ltd

The Budget 2016: Headlines

Mr Osborne's third Budget in the space of a year included a number of re-announcements from his Autumn Statement, but there were a few surprises.

Lifetime ISAs

From April 2017, adults under 40 will qualify for a new Lifetime ISA. The maximum annual contribution will be £4,000 to which the government will add a 25% bonus (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. Withdrawals can be made at any time for other purposes, but you'll forfeit the bonus element plus any interest or growth, and face a 5% charge.

At the same time the total amount you can save each year in an ISA will be increased from £15,240 to £20,000.

Personal allowance

The Personal Allowance (the amount of income you can earn before you start paying Income Tax) will increase to £11,500, and the higher rate threshold will rise to £45,000 in April 2017.

The Dividend Allowance

This was a surprise announcement in last year's Summer Budget and also begins in 2016/17. The allowance will mean that the first £5,000 of dividends you receive in a tax year will not be subject to any further tax, regardless of your marginal tax rate. The existing 10% dividend tax credit disappears from 6 April 2016.

Capital Gains Tax

From 6 April 2016 most rates will be cut by 8% so gains will generally be taxable at 10% to the extent they fall in the £32,000 wide basic rate band (2016/17) and 20% if they fall into the higher or additional rate bands. However, for gains on residential property (eg. Buy to Let) and carried interest the 2015/16 tax rates of 28% and 18% will continue to apply. The capital gains tax annual exemption for 2016/17 will remain unchanged at £11,100.

National Insurance

From April 2018 employers will need to pay National Insurance contributions on pay-offs (for example, termination payments) above £30,000 where Income Tax is also due.

Class 2 National Insurance contributions (NICs) for self-employed people will be scrapped from April 2018 and they will only need to pay one type of National Insurance on their profits, Class 4 NICs.

After April 2018, Class 4 NICs will also be reformed so self-employed people can continue to build benefit entitlement.

New tax allowances for money earned from the sharing economy

From April 2017, there will be two new tax-free £1,000 allowances – one for selling goods or providing services, and one on income from property you own.

People who make up to £1,000 from occasional jobs – such as sharing power tools, providing a lift share or selling goods they have made – will no longer need to pay tax on that income.

In the same way, the first £1,000 of income from property – such as renting a driveway or loft storage – will be tax free.

Corporation Tax

The main rate of Corporation Tax has already been cut from 28% in 2010 to 20%, the lowest in the G20. It will be cut again to 17% in 2020, benefitting over 1 million businesses.

Business rates

From April 2017, small businesses that occupy property with a rateable value of £12,000 or less will pay no business rates.

There will be a tapered rate of relief on properties worth up to £15,000. This means that 600,000 businesses will pay no rates.

Stamp duty rates for commercial property

New rates and tax bands are 0% for the portion of the transaction value up to £150,000; 2% between £150,001 and £250,000, and 5% above £250,000.

Buyers of commercial property worth up to £1.05 million will pay less in stamp duty.

Stamp duty rates for leasehold rent transactions will also change, with a new 2% stamp duty rate on leases with a net present value over £5 million.

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.

If you'd like to know more of the details behind the Budget headlines, please get in touch.

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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. Please seek advice or check with your provider before making withdrawals.

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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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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Are you considering remortgaging?

With continuing uncertainty over the future of interest rates, you may be considering remortgaging to a lower rate of interest to save money.

But before you're tempted to a new lender offering an attractive introductory rate, it's worth considering the bigger picture.

Should I stay or should I go?

Moving to a new deal could save you money. However, if you change your mortgage before the end of your current deal, you may have to pay an early repayment charge. It's also worth factoring in legal, valuation and administration costs that may be associated with signing up to a new mortgage deal.

In some circumstances, you may find that over the long term, the costs of switching outweigh the costs of taking on what looks like a better deal.

Tougher lending rules

As part of the Mortgage Market Review (MMR) in April 2014, the Financial Conduct Authority introduced new rules around mortgage lending. For instance, the lender must now take greater steps to ensure you can afford your mortgage not only now, but in the future if interest rates were to rise.

That means if you took out your current mortgage a few years ago, you may be asked for more information this time around. This may include details of how much you typically spend on things like travel, clothing, entertainment and childcare.

Changing the type of deal

When looking at new deals, you may want to consider a different type of mortgage arrangement to your current deal.

For instance, you may decide that you would benefit from the option of payment holidays, or a more flexible repayment arrangement. If you have significant savings, you may want to switch to an offset or current account mortgage, where you use your savings to reduce the proportion of your loan on which you pay interest.

Updating your protection

When changing your mortgage, remember to review your protection arrangements as part of the process. This could protect you financially if you become unable to meet your monthly repayments, should the unexpected happen.

Reviewing your protection needs is all the more important if you don't have cover in place already, or if your circumstances have changed since you last reviewed your cover.

With so many areas to consider, it makes sense to seek professional mortgage advice. We can help you weigh up the financial benefits of remortgaging, choose the most appropriate deal, handle your mortgage application from start to finish, and ensure your loan is properly protected.

If you'd like help choosing the right mortgage, please get in touch.

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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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

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.

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

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!

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

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Simple steps to tax planning

Professional advice and careful planning can help you to make the most of legitimate opportunities to reduce the amount of tax you pay.

Your Accountant, or tax specialist, will be your first port of call when it comes to tax, but it's also an important consideration in your day to day financial planning. Here are some areas where you can make sure you're not paying too much tax.

Pay As You Earn (PAYE) and National Insurance (NI)

Check your PAYE tax code

Always check your tax code when it's issued – HMRC don't always get it right. You can ask them to correct any errors that might otherwise cause you to pay more tax, or pay tax earlier than you would throughyour self-assessment tax return.

National Insurance contributions (NICs)

If you have more than one job you may overpay NICs during the tax year. You can claim this back from HMRC.

Married or civil partnership

Transferable personal allowance

Married couples and registered civil partners can share some of their personal allowance. This means that the unused allowance of one partner can be used by the other, resulting in an overall tax saving for both.

More than one property?

Couples getting married or entering into a civil partnership who own separate properties must nominate one as their main home for Capital Gains Tax purposes within two years of the marriage / registered civil partnership.

Inheritance tax (IHT)

Make sure you have an up to date will

A will is a key part of estate planning – not just because it sets out what you want to happen to your wealth after your death, but also because it covers a number of other important aspects. If you die without a will, the rules of intestacy determine how your estate will be distributed and there could be an unnecessary IHT bill for the loved ones you leave behind.

Consider leaving part of your estate to charity

Any amounts you give to a UK registered charity (during your lifetime, or as a bequest) are exempt from IHT. In addition, broadly speaking, if you leave 10% or more of your taxable estate to charity, then the IHT rate levied on your estate is cut to 36%.

Could you make monetary gifts from your spare capital?

You can gift up to £3,000 free of any IHT each tax year. And if you forget to make your £3,000 gift one year, you can carry forward to the next tax year and gift up to £6,000.

Using the IHT marriage exemption for gifts

Gifts made to someone who is getting married or registering a civil partnership are exempt within limits based on your relationship to the parties. A maximum of £5,000 applies if you are a parent.

Pensions

Are you taking advantage of your annual allowance for making pension contributions?

Your annual allowance for the tax year 2016/17 is £40,000, however, those earning more than £150,000 will have their allowance reduced on a tapering basis down to £10,000.

Could you carry forward any unused annual pension allowances?

You can carry forward unused allowances from the three previous tax years and use these to cover pension contributions greater than the current year's annual allowance.

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

Get in touch today for advice on how to maximise tax efficiency in your financial planning.

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