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Financial Viewpoint

Buying for the first time?
Getting onto the property ladder may seem like a daunting process, but there is help available.

Inflation: this time it's personal
Why is it that retirees and students face significantly higher levels of inflation than the official rate?

Surviving the loss of a key person
The loss of a key person from a small or medium-sized business can have a dramatic effect.

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

Time for an upgrade
Products like critical illness insurance have changed, so it's important to make sure your cover hasn't become outdated.

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

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

Buying for the first time?

For first time buyers, getting onto the property ladder may seem like a daunting process, but there is help available.

If you want to discuss how we can help you to get on to the property ladder, please get in touch.

With demand outstripping supply in many areas, the average UK house price has been pushed beyond the reach of many of the UK's estimated 335,750 first time buyers. A report from The Land Registry (based on data from November 2016) shows an annual price increase of 6.7%, taking the value of the average UK property to £217,928.

When you consider that first-time buyers would typically put down around 20% against their first home, it's no wonder that finding a sufficient deposit is becoming increasingly difficult – especially for those currently renting. In fact, one of the major lenders reported the average first-time deposit has more than doubled since 2007 to more than £32,000.

If you're struggling to save a large deposit you may be able to find a mortgage rate of 90% or 95% – provided you can meet the lender's affordability criteria.

The bank of mum and dad

Meanwhile research by the Social Mobility Commission has found an increasing proportion are turning to their parents for help buying their first home. In fact, over a third of first-time buyers in England (34%) are relying on the bank of mum and dad, compared to one in five in 2010.

The 'bank of mum and dad' has been a useful financial foot-up for many, but what about parents who want to help their kids but don't have savings?

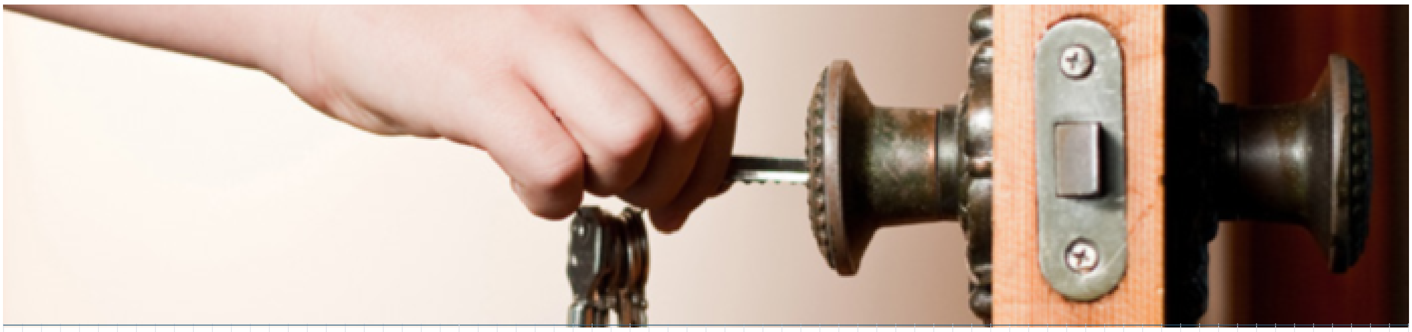
Government help

Although the Help to Buy: mortgage guarantee scheme ended in December 2016 the Help to Buy: Equity Loan is still available. The Government lends you up to 20% of the cost of your newly-built home, so you'll only need a 5% cash deposit and a 75% mortgage to make up the rest. Equity loans are available to first time buyers as well as homeowners looking to move. The home you want to buy must be newly built with a maximum price tag of £600,000.

Other initiatives to help first-time buyers include The Help to Buy: ISA which helps you boost your savings by 25%. For every £200 you save you receive a government bonus of £50. The maximum government bonus you can receive is £3,000.

Sound mortgage advice can take the complexities out of the home-buying process and maximise your chances of getting an affordable mortgage.

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



At a glance:

335,750
first time buyers in the UK

£217,928
average value of a UK property

x2
first-time buyer deposits doubled since 2007

34%
of first time buyers rely on parents

OW0673 Exp. 31/12/17

Inflation: this time it's personal

Much is made about the impact of inflation on the 'real' value of your income and investments. That is, the impact inflation has on your ability to continue affording your lifestyle.

For advice on savings and investments please talk to us.

The magic number

The Bank of England Monetary Policy Framework has an inflation target of 2%. The remit is not to achieve the lowest possible inflation rate as inflation below the target of 2% is judged to be just as bad as inflation above the target. However, this magic number masks a wide variation in the levels of inflation experienced by different groups of people as it is calculated using a basket of goods and services that's meant to reflect the spending habits of the 'average' household.

Research by the UK Office for National Statistics (ONS) highlights that those who are retired, or who have lower disposable incomes, face significantly higher levels of inflation than the rate used to calculate increases in the state pension and other benefits.

In fact, retirees and students experienced the highest rates of personalised inflation with the difference widening as the rate of inflation increases. For example, in 2003 the official inflation rate was 1.4%, while that of the lowest earners was 1.5%. In 2008 the official inflation rate was 3.6%, but 4.4% for the lowest earners.

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

The effect of inflation on savings

Inflation is an economic fact of life but this analysis shows that in retirement you are likely to be faced with potentially higher levels of inflation than you're used to. Whilst the state pension currently features a 'triple-lock', this has not always been the case and may not hold in the future. And it only protects you from the 'average' level of inflation. Further, if you rely on your personal pension for 'the little luxuries' or even to maintain your basic expectations of a comfortable lifestyle, you will not be able to 'grow' this income through wage rises or by changing jobs as you may have been used to as an employee.

If the returns you get on your money are unable to at least match inflation, then your assets will effectively lose value each year. Depending on your personal circumstances, you may need an investment strategy with the potential to provide adequate real returns to address these inflationary issues. The road ahead is far from clear, but that's all the more reason to pay close attention to how your savings are invested.

OW0675 Exp. 31/07/17

Article correct at time of going to print.

Surviving the loss of a key person

If something happened to you, your co-owners or employees, could your business survive?

According to research by Legal and General, if a business suffered the loss of a key person:

- 40% of businesses would cease trading in less than a year of the death or serious illness of a key person
- 63% of sole traders would cease to trade immediately
- 46% of new businesses (less than two years old) would cease to trade immediately

The loss of a key person within a small or medium-sized business can cause unexpected costs and disruption. Not only would the business have to fund the cost of recruiting and training a replacement, but it would also risk suffering from a:

- loss of profits
- loss of important business contacts
- loss of knowledge and expertise
- Customers and suppliers losing confidence in the business

Business protection insurance can help mitigate or even avoid these risks altogether

As a business owner, you should know there are three main types of business protection: Key Person Insurance, Shareholder Protection Insurance and Business Loan Protection.

- *Key Person Insurance* – provides a lump sum to the business on the death of an important member of the business.
- *Shareholder Protection Insurance* – provides a lump sum that will allow remaining shareholders to buy the shares of a deceased shareholder.
- *Business Loan Protection* – provides a lump sum to help a business pay any outstanding business loans.

Deciding on the right type of cover depends on the circumstances involved and the events the business wants to insure the key person against.

People are the biggest asset to any business and Business Protection Insurance is designed to keep your business trading should the worst happen.

For further information or advice on setting up a business protection policy please get in touch.

OW0625 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

Time for an upgrade?

Have you upgraded your mobile phone in the past two years? If the answer's yes, your choice may have been driven by a change in your needs or wants. Perhaps you opted for a better deal, a different contract, or a handset with new features that weren't available with your previous model?

We can review your needs and make sure you have the right cover in place. To arrange your review, please get in touch.

When it comes to updating your phone TV or even your car we all want to feel like we're getting a good deal.

The question is: why don't more of us do this with items like the financial products we pay for every month?

Are your current arrangements still right for you?

Take critical illness insurance as an example. If you have a critical illness policy:

- When did you last update it?
- Does it still provide the cover you need?
- Does it continue to provide the benefits and features you need?

When your needs change, it makes sense to update things

Life may have changed since you last bought or reviewed your critical illness insurance cover. You may have had children, moved house, or your income may have changed.

This means that even though you have a critical illness plan in place, it might not offer you the level of cover you'd need if the unexpected happened. However, it might also provide cover for certain conditions which may not be available on a new plan.

Insurance innovation

It's not just mobile phone companies that compete to offer the most innovative products – insurance companies are constantly updating their products to reflect customers' changing needs too.

Given that more of us are living longer and surviving serious illnesses like cancer it is perhaps unsurprising that products like critical illness insurance have changed in recent years. For instance, many insurers have introduced greater flexibility and extended their cover to cater for a wider range of illnesses. Some have even introduced completely new products offering partial pay-outs, or for an additional cost, allow you to claim for non-critical illnesses and injuries.

Protect your loved ones

Critical illness insurance can help you cover mortgage or rent payments, treatment, or any home alterations you may need to make as a result of an unexpected critical illness – so it's important your cover remains up-to-date.

OW0634 Exp. 20/04/18

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	2018/19	2019/20	2020/21
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.

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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.*

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