

## YOUR WINDOW ON FINANCIAL MATTERS

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## PENSIONERS: THE NEW GENERATION RENT?

**We generally associate renting with the carefree 20 to 30-something age group who may be choosing to rent whilst saving up for a deposit on their first home, or simply prefer the freedom to move around that renting offers them. However, that view may now be rather outdated.**

One in every 12 private rental sector tenants is a pensioner, according to a survey from estate agents Countrywide. The typical retiree pays £810 per month in rent, which is around 12% less than the average tenant. Unsurprisingly, 75% of them choose to live in one or two-bedroom properties.

While older people have typically been amongst those most likely to own rather than rent, this rise in numbers is explained in part by the increase in the number of couples divorcing later in life. These so-called “silver splitters” are often unable or unwilling because of their age to take out a mortgage and so are moving into rental accommodation after leaving the marital home.

In addition, with house prices remaining high, many people reaching retirement are

selling their family homes and moving into specialist retirement developments where renting is increasingly popular. Those choosing this option tend to prefer renting as it gives them more control, removes the cost and worry of maintaining their own property and spares relatives the problems associated with selling a property when they move into long-term care or die.

The UK’s chronic shortage of readily-affordable housing also inevitably means that many more people of all ages are likely to rent rather than buy. Research has revealed that the number of pensioners who will never have managed to buy their own home is set to rise and it’s estimated that up to a third of 60-year-olds will be renting by 2040. Fears have been expressed that this may have an impact on housing benefit costs because many pensioners may not be able to afford their rent from their pensions.

Figures from the former Council of Mortgage Lenders (now part of the new trade body UK Finance) show that half of those born in 1960 were homeowners by the age of 30, but barely a third of those born in 1980 have achieved this. The figure for those born in 1990 is likely to drop even further, with only a quarter likely to be able to buy before they are 30.

## IS BEING LOYAL TO YOUR MORTGAGE LENDER COSTING YOU MONEY?

With interest rates at their lowest levels for some years, borrowers are often content to stick with their existing mortgage deal. However, new research from Citizens Advice reveals that being a long-standing loyal customer of your mortgage provider might be costing you money. What’s more, they calculated that 1.2m mortgage holders could be better off by shopping around for a new deal.

Their conclusions are based on homeowners who remain on their lender’s standard variable rate after their two-year fixed term mortgage deal has come to an end. The penalty for staying with their existing lender can be around £439 a year. For first-time buyers, who are likely to have a bigger mortgage outstanding payable over a longer period, the figure based on the same scenario is even higher at £1,359 a year.

As the monthly mortgage repayment is often a family’s major outgoing, it’s a good idea to review your mortgage from time to time. If you’d like some advice please contact us.

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# SETTING UP COMPANIES LEAVES LANDLORDS OUT OF POCKET

In 2015, then Chancellor George Osborne announced measures that he hoped would 'level the playing field' for first-time buyers by reducing the many tax concessions available to buy-to-let landlords, deterring more from entering that market and encouraging some to sell their rental properties.

Landlords accustomed to claiming relief worth 40% or 45% will find their relief restricted to the basic rate of 20% once the changes are fully implemented in 2020. In the 2017-18 tax year, the deduction from property income is being restricted to 75% of finance costs, with the remaining being available as a basic-rate reduction. In addition, the 10% wear-and-tear allowance has been revoked, meaning landlords are only able to deduct costs they have incurred.

Some landlords who foresaw their rental yields falling because of these tax changes



chose to set up limited companies and to transfer their rental properties into them.

## LIMITED COMPANY DRAWBACKS

The main benefit of holding properties within a limited company is that profits are taxed at 19%. Limited companies aren't affected by the restrictions that took effect from April, so mortgage interest is fully deductible against tax.

However, recent research suggests that only landlords who own four or more properties stand to gain from a limited company structure. This is in part because limited company mortgage products are only available through a small number of

lenders, meaning that the rates charged are often higher than those available to personal borrowers, and more liable to change with market conditions. Plus, many lenders operate under significantly different criteria when lending to limited company borrowers.

Whilst some people have considered buying a property as an individual and then moving it into a limited company, this can have unintended tax consequences. Doing this could give rise to a major capital gains tax liability and create a problem with stamp duty.

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# MORTGAGES – BANK OF ENGLAND TIGHTENS THE RULES

In a move that demonstrates the Bank of England's determination to prevent lenders getting too complacent about current low interest rates, strict new rules on mortgage affordability have been announced.

## NEW TESTS TO BE APPLIED

The rules, often referred to as "stress tests", were set out in the Bank's Financial Stability Report. Lenders will be forced to apply an interest rate stress test that would look at whether a borrower could still comfortably afford to make mortgage repayments at the end of an introductory period if the rate were then to rise by 3 percentage points.

When an introductory deal ends, it's usual to move to a lender's standard variable rate (SVR). The SVR is usually pegged to a percentage above bank base rate, and can be subject to change. SVRs can currently be as high as 5.75%, so this could mean

that some lenders are forced to check whether a borrower's finances could cope with a rate as high as 8.75%.

This could mean that someone with a 25-year mortgage of £200,000 paying around £700 a month would need to be able to prove they could still afford their mortgage if the monthly repayments doubled to £1,400.

In the same scenario, the previous stress test would have required a check at 5% which would mean the borrower being able to afford £1,100 per month. This means that under the new test they must be able to afford an additional £300 per month.

## WHAT THE CHANGES MIGHT MEAN IN PRACTICE

However, as many lenders have been operating under strict mortgage criteria for some years now, the general view is that this may not be the stumbling block to new mortgages it might appear. The Bank has estimated that if these rules had

been in operation in 2016, it would only have reduced mortgage approvals by less than 0.5%.

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# LONG OR SHORT-TERM INCOME PROTECTION – WHICH IS RIGHT FOR YOU?

Experts have long expressed their concerns for those who don't have protection policies, fearing that millions of households could face real financial hardship if the main breadwinner was unable to work due to a serious illness, accident or unemployment. For those new to insurance, short-term policies can be a cost-effective way to get some cover in place.

## SHORT-TERM POLICIES

This type of policy, sometimes referred to as accident, sickness and unemployment insurance, is designed to pay out a monthly income for one or two years. It covers a percentage of your monthly income to help you pay mortgage and household bills.

If you claim on your policy, there is a waiting period before it starts to pay out, and you can choose how long you want this to be when you take the policy out. This is usually referred to as the 'deferred period' and can be from a few days up to two years. The longer the deferred period, the lower the premiums are likely to be.

## LONG-TERM POLICIES

These provide a regular income if you are unable to work due to illness or disability (but not if you are made redundant) until you are well enough to return to work, or until you reach the end of the policy term, or die. Here, the premiums are likely to be higher because they cover a wider range of illnesses, including debilitating strokes and heart attacks not usually covered by short-term policies.

So clearly there is a choice, depending on how much you can afford in premiums, the length of time you want the policy for, and the risks you want to cover. Short-term

policies often don't require a medical so can be quick and easy to arrange and have lower premiums, especially if you take the policy out when you're younger. Longer-term policies often provide protection right up to retirement, and offer much wider cover, but are likely to be more expensive.



# WHAT DOES IT COST TO MOVE?

Moving can be an exciting but expensive time. Drawing up a budget will help you work out how much cash you will need for the fees you can expect to pay. The exact figure will depend on which rung of the housing ladder you're on, whether you're buying and selling, and which part of the country you live in.

There are costs involved with arranging a mortgage and your adviser will talk you through these in detail and confirm them in writing.

You'll need a solicitor or a conveyancer to carry out the legal work. Typically, they will charge between £500 and £1,500, and will provide an up-front estimate of their fees. If you're selling a property at the same time, you may be able to negotiate a package deal to cover both.

## THE COST OF SELLING

If you're buying, you don't have to pay estate agents' fees, but if you're selling you



can expect to pay a percentage fee which can range between 0.75% and 3%, plus VAT, of the agreed selling price of your home, depending on the type of contract you opt for. Alternatively, you can adopt the DIY approach and put your property onto a website, in which case your costs will be lower, but you'll need to do a lot of the work yourself, including arranging viewings.

You should also consider getting a survey done to ensure you aren't buying somewhere that could end up costing you a lot of money in repairs. Depending on the type you choose, you could be paying anything from £250 for a basic report to around £1,000 for a more detailed structural survey.

Then there's stamp duty (Lands & Building Tax or LBTT in Scotland). This is payable on properties bought for over £125,000 in England and Wales and £145,000 in Scotland, and goes up in bands. For example, it would be £5,000 on a £300,000 property in England and Wales (0% on the first £125,000, 2% on the next £125,000 and 5% on the last £50,000). Don't forget you may also need to book a removal firm, so there are a whole myriad of costs to budget for.

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# PROPERTY MARKET OVERVIEW

Over the last ten years, the average UK house price has risen 10% from August 2007, to £219,266 in July 2017. The average deposit has increased too, from £68,663 in 2012 to £96,109 in 2017. However, after several years of continued growth, the UK property market is now showing signs of slowing down.

The housing market is notoriously sensitive to economic confidence, and many experts are predicting that against the backdrop of the ongoing Brexit negotiations, conditions for households could remain challenging for the next couple of years. Inflation is likely to eat into budgets and interest rates may have to rise. This may well signal a period of lower house price growth.

However, the post-Brexit house price crash that many commentators predicted, including the International Monetary Fund, has so far failed to materialise.

## SLOWDOWN IN GROWTH

Over the last few months, the number of families moving has started to slow, leaving fewer properties available for first-time buyers, according to figures from Lloyds. Its data shows movers for the first six months of 2017 at 171,300, down 2% on the first half figures for 2016.

The UK's biggest mortgage lender, Halifax, reported in August that annual house price growth had slowed to its lowest rate in four years, and the official surveyors' body, the Royal Institution of Chartered Surveyors, reported that market activity was back to levels last seen in 2011.

London has seen the biggest falls. Many had assumed that with a lower pound, more foreign buyers would have been



active in the market, however uncertainty over Brexit has caused European buyers to stay away. Another factor in the capital's property slowdown is the lack of landlords entering the buy-to-let market, due largely to the introduction of the new tax rules on mortgage interest and increased stamp duty.

## GOING UP AND DOWN

With estate agents continuing to report a lack of new stock coming onto the market, particularly family homes, more and more homeowners are considering their options. Some choose to extend upwards into loft space, while others are going underground and opting for basement extensions. Research from the Halifax that analysed planning data for England, Scotland and Wales for January 2012 to December 2016 showed planning applications for basements had risen by 183%.

The flatter trend in price growth could be a silver lining for those who have been kept out of the housing market by the seemingly relentless rise in prices, and means that

more first-time buyers are able at last to find a home they can afford to live in.

## INSURING MUSICAL INSTRUMENTS

For many people, enjoying music is an important part of their lives. Owning a musical instrument or other related equipment like DJ gear can be a significant investment. Theft, loss or damage can often be a musician's worst nightmare.

Whatever type of musical instrument you own, from a grand piano to a classic electric guitar, it's important to have it properly insured.

Whilst many household insurance policies cover valuable items up to £1,500, this may not be sufficient to cover your instrument, or insure against the specific risks that you might want to include, like replacement hire if your instrument was lost or stolen, or public liability insurance if you're asked to play in public.

There are many specialised insurance policies on offer that protect against a range of potential risks, and offer features like unlimited professional use, theft, fire and accidental damage, damage in transit, cover for accessories and depreciation after repair. You can also get cover for theft from an unattended vehicle, and combined personal accident and public liability.

If you'd like advice about the right policy, do get in touch.

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