VIEWPOINT

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financial advice

Buy to Let mortgage market changes
Could the changes to stamp duty and mortgage tax relief affect a landlord's profits?

The matter of trusts
Making sure your life cover goes to the right people at the right time in the right way.

Thinking of fixing your mortgage?
The pros and cons of moving off your Standard Variable Rate.

Buy to Let Mortgage market changes

The UK's Buy to Let market is in a state of flux, with an extra 3% Stamp Duty on the purchase of additional properties and changes to the way a landlord's income is taxed.

If you'd like to find out more about Buy to Let mortgages, please get in touch.

Landlords used to be able to deduct all finance costs from their rental income, with net profits taxed at their marginal rate. Starting in April 2017 tax relief available for buy to let related finance costs will gradually reduce each year. Phased over 4 years it will finally be restricted in 2020/21 to a basic rate of tax, currently equivalent to 20%.

In September 2016, The Prudential Regulation Authority (PRA) – those responsible for the prudential regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms – announced expectations of firms' underwriting standards to apply to the Buy to Let market.

What you need to know

The PRA changes mean that landlords:

- face tougher affordability assessments which take into account borrower's costs including tax liabilities, verified personal income and possible future interest rate increases.
- must provide evidence that rental income covers their mortgage payments by a minimum of 145% at an interest rate of 5.5% for all products other than longer term (five years plus) fixed rates.
- with four or more properties will have their whole portfolio assessed for affordability by the lender – even where other Buy to Let mortgages are held with different lenders.

With all of these changes many landlords may find their portfolios are less profitable.

Incorporation

According to research by the National Landlords Association (NLA), one in four landlords are considering setting up limited companies to negate the tax changes. If you hold a property in a company, your profits are liable for Corporation Tax at 20%, however, if you hold an investment property personally, your rental earnings are combined with your other earnings (such as income from your job) and taxed as Income Tax up to 45%.

At first glance a company structure could look more tax efficient, especially if you are a higher rate tax payer. But before you consider incorporation you should take into account the cost of commercial mortgages.

There's no doubt the changes in the Buy to Let sector can cause some confusion but we can help find the most appropriate solution for you.

This information does not constitute tax advice. For more details on how this will affect your circumstance you should consult with an independent tax adviser.

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

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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The matter of trusts

Taking out a life insurance policy gives you valuable peace of mind: you know you've protected your family against financial hardship, should the worst happen.

But how can you make sure your policy will pay out quickly, to those who'll need it most, if you died unexpectedly? The answer might be to write your policy in trust.

What is a 'trust'?

A trust is a legal document that allows you to specify what will happen to your money after your death. If your life insurance policy is written in trust, any payout will go to the trustees you've chosen, who will then ensure the funds are distributed to the people you'd like to benefit from the policy (the beneficiaries).

Why is a trust important?

Putting your life insurance policy in trust gives you control over who will benefit and helps them avoid Inheritance Tax (IHT). It also helps to ensure they receive the money quickly.

Control

According to reports, only 6% of life insurance policies in the UK are set up in trust. As a consequence, the payouts become subject to the delays caused by the processing of a Will and, where there is no Will, the complex laws of intestacy come into play. This could mean the benefits of the policy will form part of your estate, which may not go to the people of your choosing.

With your life insurance in trust, you can specify who you want the beneficiaries to be. This is especially important if you are unmarried or in a civil partnership.

Inheritance Tax

A life insurance policy that has been written in trust does not form part of your legal estate and is not subject to IHT. This allows the entire policy payout to pass to the people you intended to benefit from it. Even if your partner is the named beneficiary of your policy (and therefore the claims payout would be exempt from IHT under the current rules), it can still be worthwhile putting your cover in trust to speed up the policy payout.

Faster payment

Using a trust should help ensure that the money paid out from your life insurance can be paid to the people of your choice more quickly, rather than waiting for lengthy legal processes, such as probate. This can be a welcome relief for those left behind during what is likely to be a very stressful and emotional time.

Setting up a trust

Trusts are usually easy to set up, but it's important to select the right type of trust and complete the documentation carefully.

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

The Financial Conduct Authority does not regulate Trust Advice.

If you're thinking of putting a life policy in trust, please talk to us first. We can tell you if it's the right choice for you, which type of trust is most appropriate for your circumstance – and help you put the trust in place.

Thinking of fixing your mortgage?

If you think an increase in your mortgage repayments could have a negative impact on your lifestyle or financial wellbeing, you may want to consider fixing your mortgage.

Don't be drawn into trying to second guess what will happen with interest rates over the coming years. We can help you come to the most appropriate decision for your next mortgage.

With a fixed rate mortgage, your payments are set at a certain level for an agreed period, regardless of whether your lender changes its Standard Variable Rate (SVR). Such an increase typically occurs when the Bank of England Base Rate starts to climb.

Fixed rate mortgages can offer protection from rate rises for an agreed period, but there are several considerations you'll need to think about before making your decision.

Predictable repayments – but you won't benefit from rate cuts

With a **tracker** mortgage, your monthly payment fluctuates in line with a rate that's equal to, higher, or lower than a chosen Base Rate (usually the Bank of England Base Rate). The rate charged on the mortgage 'tracks' that rate, usually for a set period of two to three years.

Tracker rates might be more appealing if you don't have a fixed budget and can tolerate higher mortgage payments if rates rise, whilst being able to benefit from reduced monthly mortgage payments if rates go down.

But with a **fixed rate** mortgage, the rate (and therefore your repayments) will stay the same for an agreed period. A fixed rate mortgage makes budgeting much easier because your payments will not change – even if interest rates go up. However, it also means you won't benefit if rates go down.

Longer fixed terms will be more expensive

If you choose a fixed rate mortgage, you'll need to decide how long you want your fixed rate to last. Two-year fixed rate mortgages typically offer the lowest initial interest rate. If you want to fix your interest rate for longer, you will probably pay more for that longer-term security. This may be worthwhile in return for predictable repayments, or you might choose to take the lower rate for a shorter timeframe if you expect that your financial position will improve by the time the deal ends.

A change in circumstances could cost you

Do you have any *known* changes on the horizon that will have an impact on your mortgage?

With a fixed rate mortgage, you could face an early repayment charge if you repay all or a certain percentage of the mortgage during the fixed rate period.

If you have no known changes and want to benefit from a longer period of security, then a longer term fixed rate of five years may appeal. It might cost more initially, but you'll benefit from knowing that your budget is fixed for that period.

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

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