moneyworks

The essential consumer guide to making your money work harder.

Summer 2019

Don't get left high and dry?

The pension freedoms mean we now have much greater flexibility in how we use our pension.

A long-term solution

Figures show a rising preference for 40-year mortgages, but what are the pros and cons?

Opportunities knock in new tax year

It was a low-key start to the 2019/20 tax year, but it still presents opportunities to pay less tax.

Mind the gap

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PORTFOLIO
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Welcome

With the Brexit finish line still a long way off, we can only contemplate what the long-term future holds for the British economy and our savings. But as that uncertainty rages, it is worth taking stock of what you can control and aim to ensure your finances and investments are in the strongest possible position moving forward.

In this issue of **moneyworks**, we look at the importance of talking about your financial future and particularly addressing the subject of inheritance tax (IHT). With IHT revenue now at record highs, we report on how you can minimise the tax you pay and aim to ensure your loved ones are not left facing a huge bill when you are no longer here.

For many first-time buyers, getting a foot on the property ladder remains an illusive dream with new figures revealing it now takes more than 10 years to save up for that first deposit. With that in mind we look at why the 40-year mortgage is becoming an increasingly popular route and what the pros and cons are.

Elsewhere we report on the perils of withdrawing all your pension too soon and the tax implications that come with doing so. Finally, we highlight the opportunities available to save money following the new tax year and why speaking to a financial advisor now could help you minimise your tax bills.

Please get in touch if there is any subject you would like us to address and we look forward to bringing you more financial news and views over the coming months.

Best wishes

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

A good time to remortgage?

There could be significant savings to be had by re-mortgaging right now. That's because April 2019 research from Yorkshire Building Society (YBS) discovered first-time borrowers, whose fixed rate deal is due to mature, could be almost £300 a month better off.

Using the example of YBS' product range from 2017 and now, plus the fact house prices have risen 3% over the past two years, somebody on a two-year fixed mortgage could see a significant drop in their repayments each month.

The mutual have calculated that someone may go from a 90% Loan To Value (LTV) at a rate of 2.04% in 2017, to 85% LTV and a rate of 1.67% today which could potentially save £77 a month.

If you're at the end of a five-year fix, you could save even more. House prices have risen by 22% since April 2014, meaning someone may get an LTV of 75% and save £274 a month (based on a new YBS rate of 1.93%.

https://bit.ly/2HdSmhf (Moneyfacts)

Women facing a retirement struggle

It's been well documented women find it more difficult to save for retirement than men – and April 2019 research by SunLife provides another stark reminder.

It found a quarter of women homeowners over 55 have no private pension. This is in contrast to male homeowners over 55, where only one in 20 are without a pension. SunLife also discovered one in five women over 55 believe they are worse off than they expected to be.

Women may also find support from the state pension is less than they'd have hoped. The revamp of the state pension means you need to have 35 qualifying years' worth of national insurance contributions and/or credits to get the full amount – something women are less likely to have built up, due to career breaks to raise a family or care for others.

https://bit.ly/2JbV0Y7 (FT Adviser)
https://bit.ly/2WDlCEG (Moneywise)

Look before you leap

Despite the pension freedoms giving you more flexibility on how you can use your pension to fund retirement, many people understandably still want the security of a guaranteed income through an annuity. But April 2019 research from Hargreaves Lansdown suggests 70% of over 55s don't realise they might qualify to receive a higher level of income.

That's because they're unaware of enhanced annuities. If you have any health issues or bad habits like smoking, you can receive more income from your pension pot – regardless of how long you live for.

Separate March 2019 research from Just Group found up to two in three people going into retirement, who purchase an annuity, get an inferior deal. Given in most cases an annuity decision can't be undone it's wise to speak to an adviser first.

https://bit.ly/2vkL9Gv (Pensions Age, April 2019)
https://bit.ly/2JcH6oB (FT Adviser, March 2019)

It's good to talk

The average age we wait to discuss a will with our family is 74 – according to January 2019 research from Octopus Investments.

Delving deeper into the reasons for waiting so long to have a conversation, 45% admit they haven't got around to it, and 19% state they don't like talking about death.

This lack of clarity is affecting the generation who are likely to receive the inheritance, with 41% of potential beneficiaries revealing they haven't had a conversation with their parents about their will. 48% don't know the value of what they will inherit.

There are compelling reasons for families to have these difficult discussions, not least making sure there are plans in place that everyone is aware of for when the inevitable happens.

https://bit.ly/2HT8sk2 (What Investment, January 2019)

You may have to pay an early repayment charge to your existing lender if you remortgage. Your home may be repossessed if you do not keep up repayments on your mortgage. The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account. The Financial Conduct Authority does not regulate Will writing and taxation and trust advice.

Mind the gap

Inheritance tax revenue is at record high levels,[1] and more estates are paying it than you might realise.

Traditionally, there's a perception inheritance tax is something only the very wealthy have to pay. But that's no longer the reality.

With the rules not significantly changing for over a decade, coupled with the value of people's estates rising, more people are finding their estate is above the threshold point where inheritance tax applies. And that means it has become a middle class problem.

In fact, as a percentage of their estate, the wealthiest in society are actually paying less than people with a lower level of wealth. Canada Life analysis[2] found estates worth £10 million or more pay 10% inheritance tax on average. Estates worth £2 to £3 million generally pay double that percentage – 20% on average.

There are many reasons for this disparity. Wealthier estates often have more overseas assets, for example. But Canada Life still found that a key reason many wealthier estates pay less tax is because of a greater willingness to plan.

Understanding the rules

If the value of all your assets – your home, car, savings and investments, jewellery and antiques – puts you above your personal threshold, inheritance tax is charged against everything above it, at a rate of 40%.

The main thresholds are unchanged since 2009, despite plenty of political rhetoric. It's £325,000 if you're single or divorced, or £650,000 if you're married, in a civil partnership or widowed. A main residence nil rate band has been introduced, currently worth £150,000 per person, rising to £175,000 next April. This allowance can be used to pass on your main property, but only if you leave it to a direct descendent like your children or grandchildren.

If you total up the value of all your possessions, it will give you a rough idea of whether you're above your personal inheritance tax threshold. But even then, future price rises could push you above the mark before you die.

It's your loved ones who normally have to pay inheritance tax. In most cases, they'll have to find the money to settle it before they can receive the inheritance.

With the right plans in place, your family might not have to pay inheritance tax. Or at the very least a reduced amount. However, Canada Life has also found 80% of over-45s think the rules are too complicated.[3] It is leading to a rise in people seeking financial advice.

Planning your legacy

It's not just the wealthiest people in society who should gain from planning their legacy. By speaking to a qualified adviser, you too can benefit from a thorough review of your situation – and advice that's appropriate for your circumstances.

With the government inheritance tax receipts rising by £160 million[4] in the year to March 2019 alone, can you afford to delay considering if you need to make plans?

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The Financial Conduct Authority does not regulate taxation & trust advice.

1 https://bit.ly/2VtbKRd (HM Revenue & Customs, page 19)
1 https://bit.ly/2Zt5yq1 (FT Adviser)
2 https://bit.ly/2uMz2ld (Accountancy Daily)
3 https://bit.ly/2Hd5L97 (Canada Life)
4 https://bit.ly/2UydH9D (Money Marketing)
4 https://bit.ly/2GIMlKf (Moneywise)

Don’t get left high and dry?

The pension freedoms mean we now have much greater flexibility in how we use our pension, but it can cause an unintended tax bill if you start accessing it early.

It’s your money, and you should be in control of how you get to use it. That was the logical thinking behind the Government’s 2015 pension freedoms revolution. Whereas previously you had to use at least 75% of your defined contribution pension to arrange a retirement income, there are no longer restrictions over how you use your savings, once you reach 55.

But there’s been a sting in the tail for nearly one million over 55s who have used the pension freedoms to dip into their pension early – an unexpected tax trap. If you are intending to continue paying into a pension over the final few years before you actually retire, accessing your pension early significantly reduces how much you can continue contributing tax-free.

It’s known as the Money Purchase Annual Allowance (MPAA). Once you first take money, the MPAA means the annual allowance for continuing to pay into a pension, tax-free, reduces from £40,000 to just £4,000.

Look before you leap

Research from Just Group[1] found that 980,000 over-55s, who have used the pension freedoms between 2015 and 2019, have been caught out by MPAA. And experts believe a large reason for this is a lack of awareness of the rules. The MPAA isn’t a new thing – prior to the 2015 freedoms, the annual allowance was £10,000 – but as fewer people used their pension early, it was less of a consideration.

Falling foul of the MPAA can have huge consequences. With the ability access to take up to 25% of your pension completely tax-free from 55, it’s understandable some people might want to dip into their pot early, with the intention of continuing to pay in until they retire. But if you plan to save in more than £4,000 a year, it might be wise to consider your options.

The importance of a careful strategy

The MPAA rules are another compelling reason why it’s so important to carefully plan your retirement.

The pension freedoms are rightfully proving popular. Over the first three years after they were introduced, HMRC figures show over 1.3 million accessed their pension flexibly.[2] However, there are a range of tax considerations that – if you’re not careful – can hurt your plans.

That’s why it can pay to have a considered strategy. After all, it’s highly like you’ll need to rely on your pension savings to fund your retirement for many years.

Sitting down with a financial adviser, many years before you’re even thinking about retiring, can help you to plan ahead. They can look at whether you’re on track to have enough money to realise your retirement ambitions, including the way your pension is invested. And when it comes to using your pension savings, they can talk you through the tax considerations and help you to develop a suitable strategy.

The value of your investment can go down as well as up and you may not get back the full amount invested.

Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits. Accessing pension benefits is not suitable for everyone. You should seek advice to understand your options at retirement.

Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

The Financial Conduct Authority does not regulate taxation advice.

1 https://bit.ly/2VuFH3c (International Investment)
2 https://bit.ly/2LwV0E9 (This is Money)

A long-term solution

Figures show a rising preference for 40-year mortgages, but what are the pros and cons?

Most homeowners will at some stage dream about the day they become mortgage-free – but the stark reality is that millions of us won't reach that milestone until after we retire.[1]

There are a wide range of reasons for this, not least the well-documented difficulties simply getting onto the property market itself. But with stricter affordability rules in place these days, one of the key factors is that more people are taking out a mortgage with a longer-term.

Traditionally, mortgages had a maximum term of 25 years – at which point they'd be fully paid off. But March 2019 research from Moneyfacts shows that 40-year terms are becoming the norm.[2]

51% of all residential mortgages that were available in March had a 40-year term. It's a sharp increase on five years before, when 40-year mortgages accounted for 36% of all residential mortgages. Amazingly, 25-year mortgages now make up only 3% of the market.

Affordable repayments

The big advantage of a longer mortgage term is that it reduces your monthly costs, making them more affordable. For many people, a 40-year mortgage is the only way they would be able to secure a mortgage.

However, it will mean you end up paying much more overall for your home compared to a 25-year mortgage, as you'll be charged interest for an additional 15 years. And it will of course mean you're much older when you eventually become debt-free. Separate January 2019 Moneyfacts research found a sharp increase in the number of lenders allowing you to mortgage or remortgage onto a property that lasts until you're aged 80-84.[3]

March 2018 research by Keepmoat[1] found the average age of a first-time buyer is over 30. If they take out a 40-year mortgage, that means they won't become mortgage-free until they're in their 70s – well after they might have hoped to retire.

Planning your future

If you're set to have a mortgage for longer than you might have hoped, it could impact on your ability to save for retirement. And in some cases, it might even cause you to have to work for longer.

For this reason it might be a good idea to take some time out and plan your finances with an expert adviser. If your current fixed rate mortgage deal is due to come to an end in the near future – or you're on a variable rate, and not sure whether to stay with it – assessing your repayment and mortgage term options could help you look ahead with confidence.

An expert adviser can consider your situation and future goals, and use their extensive knowledge of the mortgage market to help you make informed decisions.

Beyond your mortgage, another reason to speak to an adviser is to help you think about your retirement plans at the same time. You can benefit from their insight on building a thorough financial plan – so you can look forward to the future with confidence.

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

1 https://ind.pn/2zmhAXl (Independent)
2 https://bit.ly/2TXNMfl (Moneyfacts)
3 https://bit.ly/2Usmkmp (Moneyfacts)
4 https://ind.pn/2DOhlOU (Independent)

Opportunities knock in new tax year

It was a low-key start to the 2019/20 tax year, but it still presents opportunities to pay less tax.

With the ongoing Brexit uncertainty, it's perhaps to be expected there are few rule changes for the 2019/20 tax year. Nevertheless it can help to consider the benefits of your new allowances.

Pay less tax on your savings and investments

For the third year in a row, the annual ISA allowance remains at £20,000. It's a really useful way to keep more of your returns, because ISA gains are free from income and capital gains tax.

The sooner you make the most of your annual ISA allowance, the more tax-efficient your savings and investments can be. If you have long-term goals especially, the tax benefits of a stocks and shares ISA can really add up over time.

However, if you don't use your 2019/20 ISA allowance before 5 April 2020, it will be lost.

Gain more from pension tax relief

One of the great benefits of saving into a pension is tax relief. It allows you to receive at least 20% extra on what you pay into a defined contribution pension (higher and additional rate tax payers' could benefit further).

The amount you can have in a pension over your lifetime, without incurring a tax charge, has risen to £1,055,000 for the 2019/20 tax year.

You can save up to £40,000 in a pension this tax year (or up to 100% of your net relevant earnings) and benefit from tax relief. And if you've not made the most of your last three annual allowances, you can carry them forward.

Don't get caught out by Capital Gains Tax

When you come to sell an asset such as an investment, a buy-to-let property or an inherited home, you might have to pay capital gains tax (CGT) on the profit.

CGT applies on gains you make above your annual allowance – which has been increased by £300 to £12,000 for the 2019/20 tax year. As anything above your allowance could incur CGT of up to 28%, this rise in your allowance could prove valuable.

The CGT annual allowance isn't carried over. So if you plan to sell any investments, it might be worth making use of your allowance before the end of the tax year.

Pay less tax on your earnings

The personal allowance – which is the amount you can earn before you start to pay income tax – has risen once again. This time from £11,850 to £12,500.*

This has also pushed up the thresholds of higher and additional rate taxpayers in England and Wales. It means you can earn £50,000 before moving to the higher rate band, and £150,000 before edging to the additional rate band.

That said, it's worth remembering the personal allowance reduces by £1 for every £2 of income you have over £100,000. And if you make more than £125,000 this year, you will lose the entire personal allowance.

The Scottish parliament has the power to set its own income tax rates, beyond the £12,500 personal allowance, which for the 2019/20 tax year is calculated as in the below table.**

Starter rate	£12,501 to £14,549	19%
Basic rate	£14,550 to £24,944	20%
Intermediate rate	£24,945 to £43,430	21%
Higher rate	£43,431 to £150,000	41%
Top rate	Over £150,000	46%

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* https://bit.ly/2OgclNy (GOV.UK)

** https://bit.ly/2F7ggdM (GOV.UK)

And finally...

The waiting game

It's no secret getting on the property market is tough. And if you have family members yet to become first-time buyers, it could take 10 years before they can save for a deposit on their own.

That's according to April 2019 research from Hamptons International. It found that first-time buyers who can't rely on the bank of Mum and Dad for support will take an average of 10 years and three months to save enough for a 15% deposit. Their findings are based on the saver earning the average UK salary, and dedicating 22% of that income towards their target. If they earn or save less, it could take even longer.

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

https://bit.ly/2WV4AS8 (Hamptons)

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