Wise Words

the latest financial news from Aaron Tawny

Restricting Relief for Buy-To-Let Landlords From 2016

Chancellor George Osborne announced a number of measures in his 2015 Budget in July aimed at curbing the tax breaks landlords enjoy on their Buy-to-Let properties.

From April next year the 'wear and tear allowance' will be scrapped. The allowance means landlords can currently lower their tax bill to pay for upkeep of their property, regardless of whether they have made any changes.

From April 2016, the tax relief will only apply to the costs they actually incur while doing so.

A much bigger change arrives a year later. From April 2017 landlords will no longer be able to deduct finance costs from their property income to arrive at their property profits. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

The Treasury defines finance costs as mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans.

While private landlords can currently claim tax relief on monthly interest payments at up to the 45% top level of tax, from April 2017 this will start to be reduced to 20%.

Landlords will be able to obtain relief as follows:

- In 2017 to 2018 the deduction from property income (as is currently allowed) will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction
- In 2018 to 2019, 50% finance costs deduction and 50% given as a basic rate tax reduction
- In 2019 to 2020, 25% finance costs deduction and 75% given as a basic rate tax reduction
- From 2020 to 2021 all financing costs incurred by a landlord will be given as a basic rate tax reduction

Important update regarding NS&I Premium Bonds

NS&I has made some changes to how you can buy Premium Bonds, from August this year, NS&I Premium Bonds will no longer be on sale at Post Office branches – they will only be available direct from NS&I.

NS&I has been withdrawing its accounts and investments from sale at Post Office branches for many years now, and encouraging its clients to deal with NS&I directly. Premium Bonds are the last of NS&I's investments to be sold through the Post Office, and more clients are choosing to invest directly with NS&I, so this is a natural next step.

It's easy for clients to invest directly. In fact, over 80% of Premium Bonds sales came into NS&I directly last year. This equates to over 3 million transactions.

You can continue to buy Premium Bonds online by visiting nsandi.com, over the phone via their call centre on **0500 500 000**, or by sending an application form and cheque in the post. Application forms can be downloaded from their website or requested from their call centre.

Clarification of proposed changes to Dividend Taxation

HM Treasury has provided further details of its planned changes to dividend taxation from 2016/17. The proposals, described in the summer Budget, are intended to deter small businesses from incorporating so that directors can be remunerated through tax-efficient dividends rather than salaries. The main point is a general increase in the dividend tax rate, taking it from 0% to 7.5% for basic rate taxpayers, from 25% to 32.5% for higher rate taxpayers, and from 30.56% to 38.1% for additional rate taxpayers.

However an additional measure mentioned in the Budget was that the existing, notional, 10% dividend tax credit would be replaced with a tax-free dividend allowance of £5,000 per year for all taxpayers. The exact meaning of this was not made clear in the Budget statement, and some assumed it meant that taxpayers would be granted an extra £5,000 basic rate band for dividends.

The Treasury has now clarified the position and has issued a factsheet with some worked examples.

To give one example, if a business owner's only income in 2016/17 is £43,000 of dividends, it will be taxed as follows (the personal allowance next year is £11,000 and the basic rate band £32,000 so higher rate tax starts once income exceeds £43,000):

- First £11,000 tax-free (covered by the personal allowance)
- Next £5,000 is also tax-free, covered by the new 'dividend allowance' (but forms part of the £32,000 basic rate band)
- The next £27,000 (the remainder of the basic rate band) is taxed at the new 7.5% rate, so that £2,025 tax is due, compared to nil under the current system of tax credits

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Dividends within your allowance will still count towards your basic or higher rate bands and may therefore affect the rate of tax that you pay on dividends you receive in excess of the £5,000 allowance.

Consider another example where someone has earned income of £40,000, and dividends of £9,000 (outside of an ISA). This would be treated as follows:

- Earned income is first in the order of taxation - £11,000 is tax-free as covered by the Personal Allowance, and the other £29,000 of earned income falls entirely in the basic rate band (with £3,000 of the basic rate band unused)
- The £5,000 tax free dividend allowance uses this £3,000 first, leaving £2,000 of the tax-free allowance to use part of the higher rate band
- The remaining £4,000 of dividends fall into the higher rate band and are taxed at 32.5%

Had the dividend allowance been a genuinely separate allowance, as some people had thought, the £5,000 of tax-free dividends would be taken out of the equation and in the example above the £4,000 of taxable dividends would have just been added on top of the earned income and £3,000 would have been in the basic rate band (and taxed at 7.5%) and £1,000 in higher rate (taxed at 32.5%).

The workings of the dividend allowance explain the statement in the Government factsheet that 'Dividends within your allowance will still count towards your basic or higher rate bands and may therefore affect the rate of tax that you pay on dividends you receive in excess of the £5,000 allowance'.

What affects Fixed Mortgage rates?

The pricing of fixed mortgage rates is dependent on several factors, but mostly whether banks can get their hands on cheap money to lend out. They usually get this from savers or by borrowing from other banks. They do this on money markets, buying money at a certain rate – the "Swap" rate – for a certain time period.

> Despite expectations that the first rate rise would happen last summer, Economists now believe rates will remain at 0.5% until well into next year.

These Swap rates react to expectations of future interest rates and inflation, which affect the price of mortgages.

2 and 5 year Swap rates were driven down for much of 2013 so the price of fixed rate mortgages fell. But those Swap prices increased towards the end of 2013 and in early 2014, and with them, the average cost of new fixed mortgage deals.

But these have now dropped sharply and deals are as cheap as they've ever been - and are still falling.

How have fixed rates changed?

The Government's £80bn Funding for Lending Scheme, launched in 2013, handed cheap money to Banks and Building Societies to lend on and they have done this mostly as mortgage lending. The scheme has also pushed down Swap rates, as has the Bank of England's pledge to keep rates low for several years.

Despite expectations that the first rate rise would happen last summer, Economists now believe rates will remain at 0.5% until well into next year.

In the meantime, banks have been competing aggressively for mortgage customers by slashing their rates, particularly for 5 and 10 year loans. Both have fallen to new record lows.

We advise clients to look beyond some of the eye catching rates as the very lowest rates can come with hefty arrangement fees. However lenders are catering for all types of borrower and will usually have a range of rate and fee combinations to suit every homeowner.

Levels of Protection are changing for Depositors and Policyholders

The Prudential Regulation Authority (PRA) has announced changes to depositor and policyholder protection provided by the Financial Services Compensation Scheme (FSCS).

The new limit has been set at £75,000. However, HM Treasury has put in place legislation to maintain the existing limit of £85,000 until 31 December 2015 for depositors who were previously protected by the FSCS and continue to be protected (including individuals and small companies). This transitional measure helps to ensure that depositors have suitable time to plan for and adjust to the change and will protect most depositors from experiencing a sudden change in the amount of compensation available in the event of the failure of a Bank, Building Society or Credit Union.

The Directive also extends deposit protection to some categories of depositors that were not previously protected by the FSCS, such as large corporates. The new limit of £75,000 will apply to these newly protected depositors.

Other changes

From 3 July 2015, depositors with temporary high balances will be covered up to £1 million for six months from the date on which the money is transferred into their account, or the date on which the depositor becomes entitled to the amount, whichever is later. This is to ensure that depositors are protected when they deposit funds over the limit as a result of specified events, including following a house sale or funds received from a 'life event' such as a divorce settlement or inheritance, for a period of time until they have had sufficient time to spread the risk between institutions to appropriately protect these funds.

For insurance policyholders, such as Investment Bonds, the PRA has changed the insurance limits for FSCS compensation to increase protection for policyholders in the event of an insurer failing. This increases the limit to 100% of cover for all long term policies, for professional indemnity insurance and claims arising from death or incapacity. This reflects the potential for significant adverse consequences to policyholders, and the wider financial system, of cover being disrupted. The limits for all other types of insurance remain the same.

Solar panels -
could they stop you selling or mortgaging your house?

Some mortgage companies are refusing to lend to homeowners who have solar panels on their roof, which are leased to the utility company together with the roof space for a term of 25 years.

If you paid for your panels to be installed, then this is not an issue. However, for those who have leased their roof space, the road ahead for mortgages may prove troublesome.

The reason mortgage companies have given for not lending to these properties is that the lease runs for 25 years and so will be passed to a buyer. More important, from the lender's perspective, is that the solar panels might restrict a mortgage company should it repossess a property. The mortgage company must show that it has tried and failed to sell the property before the lease company will remove the panels. Lenders are also concerned that the solar panels may devalue a property and poor maintenance is also a concern.

It is very important that home owners are aware of the possible consequences if they are considering installing solar panels under a leasing arrangement.

The Council of Mortgage Lenders has produced a guide to help panel providers and mortgage companies standardise the process. The installers must get consent from all relevant parties including the lender and the installation must be carried out to an accredited standard. Under the lease, the utility company must be committed to maintenance which must be of a high standard preventing the home owner from being financially liable. Finally, the lease must give the lender the right to cancel the arrangement, if they repossess the property.

In addition to these guidelines, many lenders have their own rules for lending on these properties. For example, the Halifax will only lend if a property owner had the solar panels installed from one of seventy five approved firms.

Yorkshire Building Society requires evidence that the roof was checked by a Structural Engineer before the installation and that the installer is registered with the Microgeneration Certification Scheme.

Therefore, it is very important that home owners are aware of the possible consequences if they are considering installing solar panels under a leasing arrangement. Buyers also need to consider the risks of purchasing a property with this arrangement in place. It is really important to take legal advice and instruct solicitors to review the lease to ensure that it complies with the guidelines.

We would recommend our clients make themselves fully aware of the legal, financial and practical implications of leasing solar panels before proceeding.

For more information on this subject call us on 01536 512724

Tax-free savings Income band starting from 0%!!

With effect from 6th April 2015 the 10% starting rate of tax for savings income was replaced by a new 0% rate and the band increased from £2,880 to £5,000. This means that, in 2015/16, those with a total income of less than £15,600 (£10,600 personal allowance for 2015/16 plus the new 0% starting rate band) will pay no tax on their savings (the total income figure is £15,660 for those born before 6th April 1938).

Non-savings income (i.e. earned income and pension income) is always taxed before savings income so the new tax-free £5,000 starting rate band can only apply to those earning less than the total of their personal allowance and the 0% starting rate band.

The rules around completion of form R85 changed from 6th April 2015 so that any saver who is unlikely to be liable to tax on any of their savings income in the tax year can complete an R85 (one form for each Bank/Building Society) and register to receive interest without tax deducted. Where tax is likely to be due on some savings income a form R85 can't be completed. The overpaid tax will have to be claimed back from HMRC using form R40 or under self-assessment.

What is classed as 'savings income'?

For the purpose of the 'starting rate for savings' income falling within the definition of 'savings income' includes:

- Interest from Bank and Building Society accounts
- Interest distributions from authorised Unit Trusts and Open-Ended Investment Companies (OEIC)
- Income which is not interest, such as the profit on Government or company bonds which are issued at a discount or repayable at a premium
- The interest element of purchased life Annuity payments
- Gains from policies of life insurance (onshore and offshore)

Bank and Building Society interest (UK) is currently automatically paid net of 20% tax (although this changes from 6th April next year). Interest from offshore bank accounts is paid gross. Interest on all registered Gilts and Corporate bonds held by private investors is payable gross. Interest from fixed interest funds (OEICs/Unit Trusts) is paid net of 20% tax.

EIOPA launches consultation on pan-European pension product

The European Insurance and Occupational Pensions Authority (EIOPA) has published a consultation paper on the creation of a standardised Pan-European Personal Pension product (PEPP). The proposal calls for a harmonised legal framework that would 'ensure a level playing field between all providers; remove existing barriers to cross-border business and, thus, facilitate cross-border offering of PEPPs to consumers; as well as facilitate a multi-pillar approach to pension saving'.

Latest Pension Freedoms figures

Nearly a quarter of a million payments worth £1.8 billion were made to customers from Pension pots in April and May, according to figures published by the ABI. In the same period £1.3 billion was put in to buying nearly 22,000 regular income products, with over 50% of this going into Income Drawdown products rather than Annuities. In 2012, when Annuity sales were at their peak, over 90% of the total value of sales were Annuities. Less than 10% of total sales were Income Drawdown sales. This data publication coincided with 100 days since the Pension reforms came into force, and shows the choices savers have been making about their retirement.

The new ABI data shows:

- Savers have taken out over £1billion in 65,000 cash withdrawals from their Pension pots. The average pot taken was £15,500. These cash lump sum payments take advantage of the new form of withdrawal, Uncrystallised Funds Pension Lump Sum (UFPLS)
- Savers have taken out £800m worth in payments from Income Drawdown policies in 170,000 withdrawals
- Savers have put in £630m to buy 11,300 Annuities and a further £720m to buy 10,300 Income Drawdown policies. This compares to nearly £1.2 billion a month in sales of Annuities at the peak in 2012, when only £0.1 billion per month was put into Income Drawdown products
- The average Annuity was purchased with £55,750 and the average fund put into Drawdown was £69,900
- The data also shows that many customers are shopping around for the best deal, with nearly half (45% of sales) choosing a different provider when buying an Annuity and over half (52% of sales) switching when buying an Income Drawdown product

Date set for Autumn Statement

Chancellor George Osborne will deliver his Autumn Statement alongside the Government's spending review on 25th November. The Autumn Statement could feature an update on Pensions tax relief, which the Government has been consulting on in recent months to see whether there may be a case for reforming Pensions tax relief to strengthen incentives to save and offer savers greater simplicity and transparency, or whether it would be best to keep with the current system.

Landlords & Tenants -

Don't get caught out with a £5,000 fine: New rules you need to know

Under new rules, Landlords will be required by law to install working smoke and carbon monoxide alarms in their properties – or face fines of up to £5,000. The measure will take effect from October 2015. The changes require landlords to install smoke alarms on every floor of their property, and test them at the start of every tenancy.

But it is up to Tenants to maintain the alarms while they are living at the property with regular tests. This is not required by law, but rules make clear that it is not the landlord's responsibility to continue to check alarms are working.

Landlords would also need to install carbon monoxide alarms in high risk rooms – such as those where a solid fuel heating system is installed. This would bring private rented properties into line with existing building regulations that already require newly-built homes to have hard-wired smoke alarms installed.

Enforcement - The regulations state that where a Local Authority has reasonable grounds to believe a landlord has not installed or checked an alarm adequately, it will serve a warning notice calling for action within 28 days.

If the Landlord still fails to carry out his or her duty, the Local Authority may get permission from the Tenant to enter and install the necessary smoke or carbon monoxide alarm.

> The changes require landlords to install smoke alarms on every floor of their property, and test them at the start of every tenancy.

The Landlord will be liable to a penalty fee of up to £5,000. He or she may appeal during the process.

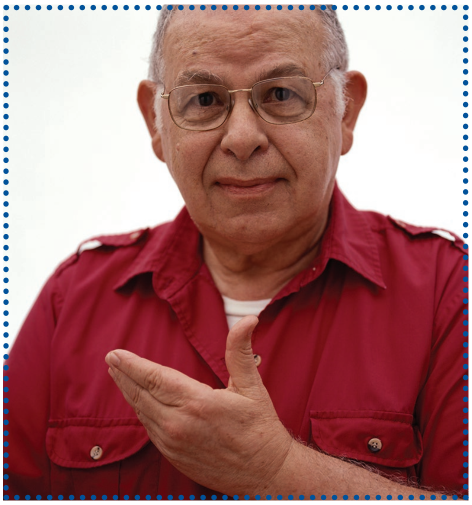
Paid too much or too little tax? Here's what to do

Anyone who has overpaid or underpaid their tax during the 2014/15 tax year, will be notified by HMRC by the end of this month by way of a P800 tax calculation. This year, HMRC is attempting to make the process as easy as possible - they will tell affected individuals how they're collecting any underpayment (normally via a tax code adjustment wherever possible), or they'll provide a cheque in respect of any overpayments (within 14 days of receipt of the completed P800). There is no need to contact HMRC unless the individual thinks the details used are wrong.

Further details are available at: **www.gov.uk/tax-overpayments-and-underpayments**

Updated State Pension fact sheets from Department for Work & Pensions (DWP)

The DWP has published updated versions of a number of State Pension related fact sheets.



- Introduction to the new State Pension
- How the new State Pension is calculated
- National Insurance and your State Pension
- Self-employment and the State Pension
- Deferring your State Pension
- The current State Pension scheme
- Topping up your State Pension – The current State Pension
- State Pension through your spouse or civil partner
- Your new State Pension explained
- New State Pension – effect of being contracted out – this is a new guide to the effect of contracting out on the new single tier state pension

If you would like to look at these go to:

www.gov.uk/government/publications/state-pension-fact-sheets

Too many Carers missing out on NI credits

Nearly 200,000 carers could boost their future State Pension simply by signing up for Carer's Credit.

Minister for Pensions, Baroness Altmann, is calling on all Carers to check they are getting what they are entitled to – and urging everybody to spread the word to Carers they may know. Currently only an estimated 5% of those eligible are signed up to receive these additional NI contributions. Signing up for Carer's Credit for a year means a Carer could receive over £200 extra per year in State Pension when they retire.

Currently only 11,000 people have signed up for the credit, which contributes to their NI record, yet around 200,000 are thought to be eligible. It is designed for those who are caring for others for 20 hours or more per week and do not qualify for Carer's Allowance.

Regulator calls on 1.8 million Employers to act now

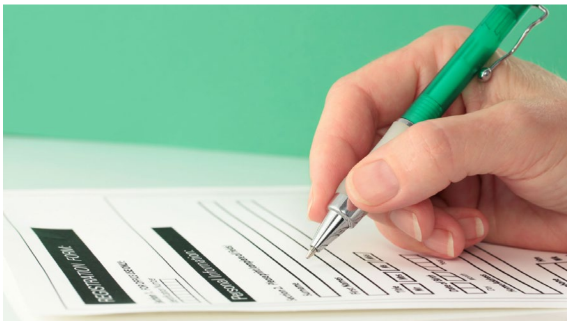
The Pensions Regulator has issued a warning to hundreds of thousands of small and micro employers to check when they must meet new Workplace Pension duties. The call to action from The Pensions Regulator follows research showing almost two thirds of small and micro employers still do not know the exact date they need to start complying with Automatic Enrolment laws. The research, published twice a year, tracks awareness of Automatic Enrolment amongst Employers and intermediaries, and how they are preparing to act.

The regulator estimates that, over the next two years, around 1.8 million small and micro employers will need to act as a result of Automatic Enrolment duties. At Aaron Tawny all Employers we are currently working with that are due to stage before the end of the year, are on track for their staging date. We are also in the planning stages with those who are due to stage in 2016 and beyond.

Don’t leave it to chance - ACT NOW

Pension flexibility - forms for claiming repayment of tax

Printable versions of the P50Z, P53Z, P55 and P53 forms are now available from HMRC. These forms reclaim overpaid tax on payments taken under the new pension flexibility rules:



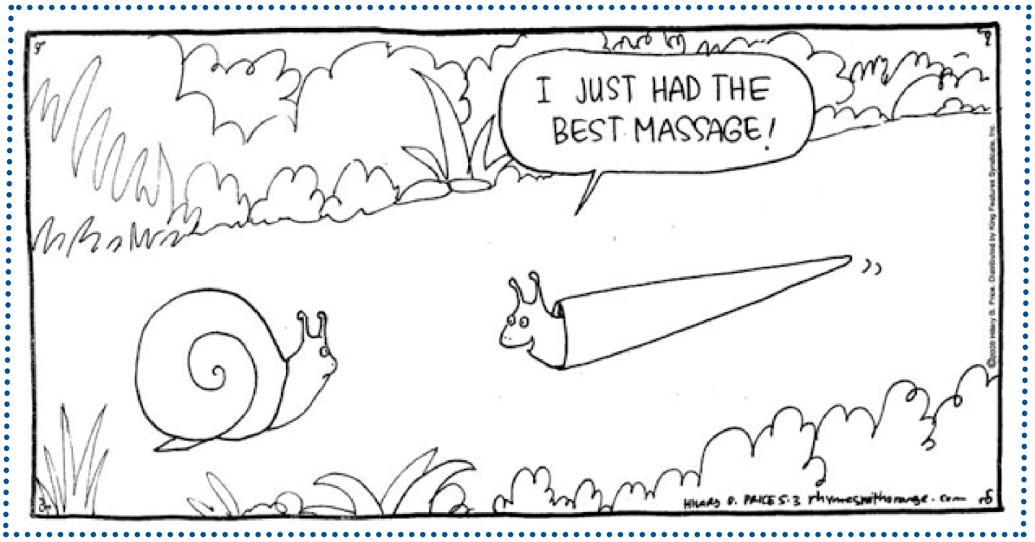
- **P50Z** - Individuals should only use this form if they have flexibly accessed the whole of their pension pot and have no continuing source of income (other than State Pension)
- **P53Z** - Individuals should only use this form if they have flexibly accessed the whole of their pension pot but have a continuing source of income, e.g. employment or pension
- **P55** - Individuals should only use this form if they have flexibly accessed some of their pension pot, are not taking regular payments and the pension provider is unable to make any refund
- **P53** – Use this form if you access funds under the ‘Small pot’ rule, not via Pension flexibility.

Something Lite – Budget cuts gone too far!!

To surprise her husband, an executive's wife stopped by his office.

When she opened the door, she found him with his secretary sitting in his lap.

Without hesitating, he dictated, "And in conclusion, gentlemen, budget cuts or no budget cuts, I cannot continue to operate this office with just one chair."



We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate to hear your feedback, whether good or bad.

If you would like to receive the newsletter via email, please email us at: enquiries@atawny.co.uk

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- ☐ Fixed Rate Mortgages
- ☐ Pension Flexibility
- ☐ Protection offered to Depositors
- ☐ Workplace Pensions

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