Wise Words
the latest financial news from Aaron Tawny

How to sell your house this summer

If you're planning to put your home up for sale, there's a lot to think about right now.

In 2023, with expectations of slowing demand and house price falls, it has never been more important to focus on the fundamentals of selling a house. Here are some things you should think about before the 'For Sale' sign goes up.

Photo by Tom Swinnen at Pexels

Buyers aplenty

The overall market might seem to indicate waning demand. However, to sell a house, you only need to find one keen buyer – and there are plenty still out there!

Focus on what you can control

With house prices forecast to fall, some potential sellers are rushing to the market and others are holding off until conditions stabilise. It is important, though, not to become fixated on market movements.

Instead, focus on the things you can control. Making your house as marketable as possible before listing will help you maximise your chances of achieving a good price. Some easy ways to add value and ensure a speedy sale include:

- Removing clutter before viewings. Your house shouldn't look empty, but prospective buyers need to be able to picture themselves living there
- Making minor repairs can reassure buyers they won't have too much work to do when they move in. Small details can make a big difference
- Controlling the smells of your home can make a big difference to a viewing experience. A fresh scent might not seal the deal on its own, but it won't put buyers off!

Ask the experts

Are you looking to move this year? Have you considered your mortgage options? Get in touch today to see how we can help get you moving this spring.

First-time buyer struggling to get a foot on the property ladder?

How a guarantor-backed mortgage could help

After more than 10 years, the current Help to Buy scheme in England is coming to an end (it is set to continue in Wales, albeit in a different iteration).

Introduced in 2013 in an attempt to kick-start a sluggish housing market still struggling to recover from the effects of the financial crisis, the scheme went onto help in the purchase of more than 375,000 properties, of which 316,085 were bought by first time buyers.

Despite criticisms of the scheme, what can't be denied is that it has helped many people take their first steps on the property ladder when ordinarily they wouldn't have been able to during a decade which has seen house prices soar by more than 70% with the average house price shooting up from £167,716 in January 2013 to £289,818 at the end of January 2023.

Introducing guarantor-backed residential mortgages

So, with house prices at near record levels, where can first-time buyers turn to?

A guarantor-backed mortgage could be suitable for those looking to buy their first home, but who may not have a high enough income to qualify for a mortgage on their own. The guarantor is someone, usually an immediate family member, who agrees to cover mortgage repayments if the borrower can't pay them for any reason.

The guarantor won't own a share of the property and won't appear on the deeds, but they will be liable for the repayments if the main applicant falls behind.

If you would like more information or have any questions about guarantor-backed mortgages, please contact us.

Equity release – continues to rise

An increasing number of older homeowners are choosing to release equity with cost-of-living pressures still the main reason for tapping into the value of their home.

Equity release allows over-55s to access some of the value of their home as tax-free cash. In total, homeowners used equity release to borrow £6.2bn in 2022, a 29% yearly rise. Since 2017, the market has more than doubled.

It's not only higher amounts being borrowed; there are now more individual equity release plans too. In 2022, 93,421 people chose to release wealth from their property, up 23% from a year earlier. The number of new equity release plans taken out also rose by a fifth.

Everyday spending

Cost-of-living pressures continue to be the main prompt for people choosing to release equity. With household budgets stretched, equity release is a convenient choice for many older homeowners trying to meet rising bills.

Last year, more than half of new customers opted for lump sum plans, up from 43% in 2021. The average lump sum received was £128,382 in the final quarter.

Greater flexibility

The popularity of equity release reflects recent improvements for consumers. For example, in March 2022, new regulation was introduced to guarantee that all new plans with Equity Release Council approval give customers the right to make voluntary, penalty-free partial repayments to reduce interest costs.

The best for you

When considering equity release, it is important to weigh up your options and make sure it is suitable for your unique needs. Get in touch today to see how we can help.

Transferring wealth, your way

With the coming years set to see record flows of assets pass down the generations, the thorny issue of wealth transfer has inevitably become an increasingly important financial topic.

Seeking professional advice is a crucial step that can ease any inheritance planning anxieties and facilitate the transfer of assets in the way that you want.

'Great wealth transfer'

The next three decades are set to witness the largest ever intergenerational transfer of wealth as baby boomers pass on assets to their heirs. Analysts have dubbed it the 'great wealth transfer,' with trillions set to cascade down the generations.

Developing strong relationships is key to the success of intergenerational financial planning...

Photo by Anastasia Shuraeva at Pexels

Intergenerational mismatch

A third of baby boomers are reluctant to pass wealth to someone whose attitude to money differs from their own; additionally, Gen Z were found to be much more likely to adopt a short-term financial outlook than their forebears. Researchers fear this disparity in attitudes could therefore impact older generations' wealth transfer decisions.

Bridging the divide

While such differences could create intergenerational conflict, we can help alleviate any issues by building cross-generational connections and ensuring any asset transfer is conducted in a way that meets your specific needs. Developing relationships with your beneficiaries to ensure younger generations will receive financial decision-making support can create invaluable peace of mind for both you and your heirs.

Inheritance options

A range of options are available for people looking to transfer wealth, with lifetime gifting amongst the popular methods of passing on money. Complexities with Inheritance Tax and rules in establishing trusts, though, mean sound advice is critical in order to adopt the most efficient approach.

Here to support you

All the evidence suggests developing strong relationships is key to the success of intergenerational financial planning. So get in touch, and with our support, you and your family can work towards determining and achieving your inheritance planning objectives.

Lifetime Allowance (LTA) changes create new funding opportunities

This tax year the Lifetime Allowance (LTA) charge has been changed to 0%. The plan is to abolish the Lifetime Allowance (LTA) from April 2024 but the draft legislation for this will arrive further down the line. This would remove a huge barrier to pension saving and creates a fantastic opportunity to revisit your retirement funding plans.

Those of you who have stopped funding as a condition of enhanced or fixed protection, or simply because you want to stay below LTA to avoid any future LTA charges, can resume funding with impunity. Paired with an increase in the annual allowance, the incentives to maximise pension savings are compelling.

While there will be no LTA charges levied from the 2023/24 tax year, LTA protections may still be important to retain rights to higher levels of tax free cash. They may also reduce tax charges on certain lump sum death benefit payments.

Any new pension funding will not cause these protections to be lost provided the protection was registered by 15 March 2023 and not lost by 5 April 2023. It may also mean for some that they will be free to join their employer's auto-enrolment scheme, which previously they had to decline to retain their LTA protection.

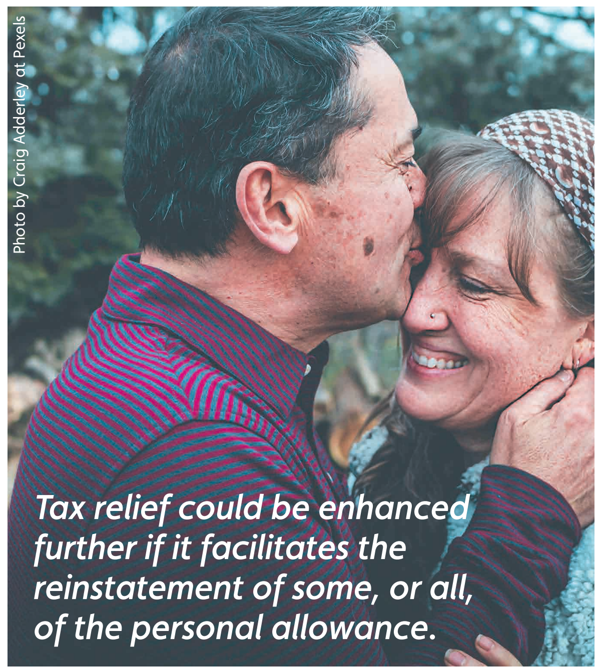


Photo by Craig Adderley at Pexels

The changes

Assuming the Finance Bill measures are passed into legislation unchanged (currently on its way through the parliamentary process), the annual allowance increase from £40,000 to £60,000, could mean an extra £8,000 tax relief for higher rate taxpayers, increasing to £9,000 for additional rate taxpayers. Tax relief could be enhanced further if it facilitates the reinstatement of some, or all, of the personal allowance.

The new annual allowance will not be tapered until income exceeds the 'adjusted income' threshold of £260,000. The minimum tapered annual allowance also moves up to £10,000 (from £4,000 in 2022/23) and will only apply to earners with adjusted income of £360,000 or more.

This represents a significant increase in the amount of allowance available. For example, someone with adjusted income of £312,000 last year was only entitled to the minimum allowance of £4,000. This year they could pay up to £34,000 for the same level of income.

And those who are subject to the new minimum tapered annual allowance will still receive tax relief of £4,500 - an increase of £2,700 on last year.

The money purchase annual allowance (MPAA) also goes up from £4,000 to £10,000. This may be good news for those who have started to draw down income from their pension pot but continue to work in some capacity, as it may reduce or eliminate any tax penalty incurred as a result of being a member of their employer's auto-enrolment scheme.

continued overleaf...

Lifetime Allowance (LTA) changes create new funding opportunities...continued

The opportunity – how much?

Wealthier clients with either enhanced or fixed protection will have stopped making contributions many years ago. This year will be the first opportunity they have to bolster their pension savings. As they can carry forward the unused annual allowances from the last three tax years (£40,000 per year) plus the higher allowance of £60,000 for this year, means that up to £180,000 could be paid in tax efficiently (assuming no tapering). However, tax relief at the highest rates may only be achieved by spreading the unused allowance over more than one tax year.

The same opportunity arises to those who had simply decided to stop contributions because they were concerned that the value of their savings may exceed the LTA.

With the additional rate tax threshold dropping to £125,140 this year, the option of making larger payments may be particularly attractive to those who would otherwise be paying tax at 45% for the first time.

In addition to tax relief, such large contributions may also reduce threshold income to below the £200,000 limit so that the annual allowance is not tapered. Similarly, reducing Adjusted Net Income (ANI) to below £125,140 will restore some or all of the personal allowance (personal allowance is fully restored if ANI isn't over £100,000). Both indirectly increase the effective rate of tax relief for saving into a pension.

Business owners

The main rate of corporation tax is 25% for the current tax year, up from 19% last year. Alongside the National Insurance (NI) savings, the higher rate of relief on employer pension contributions will be more attractive to directors as a means of taking profits from their business. Provided they are not part of any contractual sacrifice arrangements, such payments don't count towards threshold income, though would increase adjusted income.

Another change for this year which may facilitate a higher tax efficient contribution for those who are self-employed are the new basis period rules under which they are assessed to income tax. In a nutshell, the transitional provisions for 2023/24 could increase taxable profits, and therefore relevant UK earnings. This is as a result of aligning self-employed profits to the tax year from April 2024 and any spike in profits this year may be spread over the next five tax years.

Why save into a pension?

When saving for retirement, a pension will in most cases provide better net returns than an ISA, purely based on the tax mechanics. Both enjoy tax free growth, but ignoring this, the pension outcomes will depend on three factors – tax relief on the way in, the tax rate on income withdrawn, and the availability of tax free cash.

While certain individuals can now resume funding their pensions without the concerns of losing protection or incurring an LTA charge, new savings may not attract any further tax free cash. Despite this, a pension will still be a favourable option provided tax rate when benefits are taken is not greater than the rate of tax relief received when contribution are made.

The table looks at a sample of pension returns on a gross contribution of £1,000 where the rate of tax relief on payments in is greater or equal to the income tax on withdrawals, and with and without tax free cash:

% tax rate in/out	Net cost	Return with TFC	Return, no TFC
45/40	£550	£700	£600
45/20	£550	£850	£800
40/40	£600	£700	£600

continued overleaf...

Lifetime Allowance (LTA) changes create new funding opportunities...continued

% tax rate in/out	Net cost	Return with TFC	Return, no TFC
45/20	£600	£850	£800
20/20	£800	£850	£800

This confirms that where tax free cash is available, there is a positive return even where the tax rate on withdrawal equals the rate of tax relief given on contributions.

The same is true even where no tax free cash is available if the tax rate on withdrawal is less than the rate of tax relief given.

Where the tax rate on withdrawal is the same as the rate of tax relief on the contribution and there is no tax free cash available, we get a neutral outcome. This scenario mirrors the returns from an Individual Savings Account (ISA).

But an argument in favour of a pension being the preferred choice for retirement savings is that pensions are generally Inheritance Tax (IHT) free, and therefore more attractive when transferring wealth to the family.

Pension savings can also be passed on via inherited drawdown, which means that chosen beneficiaries can continue to hold their inheritance in a tax favoured wrapper. Only a spouse or civil partner can 'inherit' an ISA.

Where pension savings are inherited on death after reaching age 75, they will be taxed at the beneficiary's marginal rate of income tax, which may be lower than the member's own tax rate. If the member dies before age 75, there may be no income tax at all.

Auto-enrolment has helped workers save £114 billion into pensions

Workers have saved more than £114 billion into their pension pots since pensions automatic enrolment was implemented over ten years ago, according to data published by the Department for Work and Pensions (DWP).

The data showed that more than 10.7 million employees were paying into a workplace pension in 2021. The proportion of young people saving into a pension has more than doubled since the introduction of pensions auto-enrolment in 2012, according to the statistics.

The government says it intends to continue work to further boost the amount of people in a workplace pension. It says it will explore how auto-enrolment can *'go even further to help more people save more, sooner'* by abolishing the Lower Earnings Limit for pension contributions and reducing the eligible age to 18.

The proportion of young people saving into a pension has more than doubled since the introduction of pensions auto-enrolment in 2012

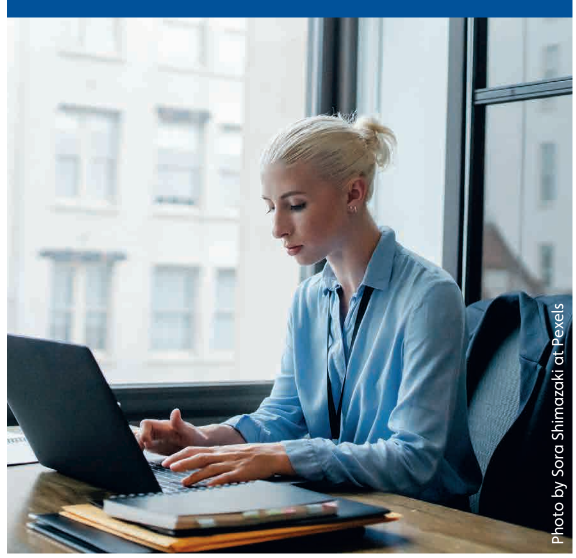
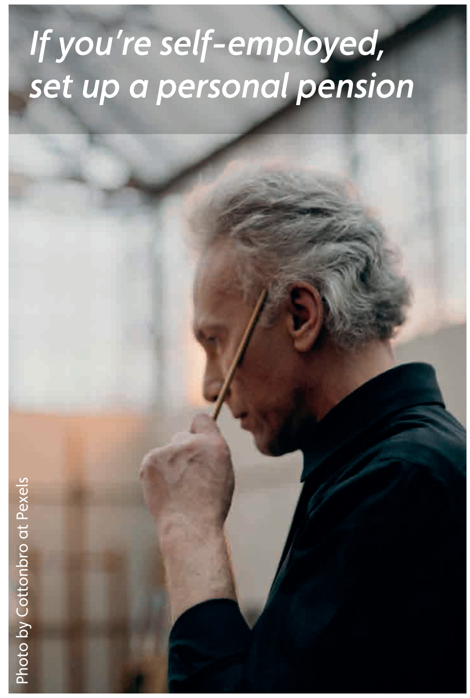


Photo by Sora Shimazaki at Pexels

Over 50 and re-joining the workforce? Remember your pension

It's estimated that the number of people aged 50 to 64 who are economically inactive sits at 3.6 million, which is 300,000 higher than pre-pandemic. There is no doubt that the UK's economic growth will, in part, be reliant on getting the over-50s back into work.



If you retired early but are now having second thoughts and considering re-joining the workforce, here are a few essential pension tips:

- Find out if your new employer has a waiting period before auto-enrolling you into its workplace pension scheme. You could choose to opt into the scheme earlier to benefit from additional contributions
- Check how much you can save in your pension. As announced in the Budget, tax relief on pensions has changed.
- Check whether your employer will match any additional contributions you make over the typical minimum level
- Your employer may offer you the option to exchange some of your salary in return for a pension contribution, which the employer then pays into your pension scheme along with their pension contribution. This can prove to be extremely tax-efficient
- Decide how you want your contributions to be invested and select a realistic retirement date
- If you're self-employed, set up a personal pension
- Don't forget to review your other pension pots and investments to take account of your changed circumstances and ensure you have sufficient to be able to retire comfortably when the time comes.

How much can I save into my Pension?

Savers will be able to invest up to £60,000 of their income into their pension each year, thanks to recent pension reforms announced in the March Budget, as part of a wider package of reforms designed to tempt early retirees back into the workforce.

What type of income can I invest into my pension?

Pensions are a desirable means of investing because your contributions benefit from preferential tax treatment, which can help your pot grow faster.

Only some types of income qualify for tax relief, which the Government calls "relevant UK earnings". These include:

- Employment income
- Taxable redundancy payments
- Benefits in kind which are taxable
- Profit related to pay
- Statutory sick pay, statutory maternity pay
- Permanent health insurance payments paid by the employer while you are still in employment
- A UK furnished holiday lettings business
- An EEA furnished holiday lettings business
- Patent income and royalties

A pension - the best (retirement) gift for your child?

With the cost of children's birthday presents and parties often totalling hundreds of pounds – could there be a better way to provide for your child or grandchild?

Investing in a pension for your child can provide numerous long-term benefits and go some way to helping them secure a financially stable future. Setting up a pension for your child can also help teach them about the importance of saving and investing for the future.

Who can set up a child's pension?

A parent or legal guardian can set up the pension; this can be done as soon as the child is born.

Who can contribute?

If you're a grandparent keen to help out, the good news is that anyone can contribute into the pension, as well as godparents, relatives or friends. As a parent, you manage the pension savings plan until the child turns 18.

What happens when they turn 18?

Whilst they gain control at 18, they won't be able to access the money until they reach the normal minimum pension age.

How much can you contribute?

Under current rules you can pay up to £2,880 in total from all sources into a children's pension each year. This will then receive basic rate tax relief, so the government will boost this to £3,600. The majority of people setting up a children's pension won't pay this much in, instead choosing to make smaller contributions, which will still build up over time and benefit from tax relief.

Why choose a children's pension?

It may seem odd thinking about a pension for your child when they are so young, but not only will it help your child later on in life when they think about retirement, but also help with the amount they might contribute into their pension during their lifetime, potentially freeing up more money to fund other life events.

What about a Junior ISA (JISA)?

Another worthwhile tax-efficient children's saving option is a Junior Individual Savings Account (JISA). One key difference between children's pensions and JISAs is that with the latter, your child can access the money when they turn 18. With any pension, the money can only be used to save for retirement. Children born up to January 2011 may have a Child Trust Fund (CTF) and cannot have a JISA unless the CTF is first transferred to a JISA and the CTF is closed.

The early bird

Investing in a pension plan for your child can provide them with the financial security they need to achieve their goals in the future. By starting early, they can benefit from compound interest and reinvested dividends, tax benefits, and the potential to grow their savings over time.

The risks of living without home contents insurance

One in five 18 to 24-year-olds plan to cancel their home contents insurance at renewal to save money.

Risky game

As well as highlighting current cost-of-living concerns, this statistic reveals a worrying picture for young people who plan to abandon protection.

Home contents insurance can be a shrewd financial investment because it protects you from the worst-case scenario of having to replace costly contents, maybe all at once.

Cost effective

With policies starting from just over £1 a week, the expense is low in proportion to the peace of mind that home contents insurance provides.

Indeed, the average price paid for home insurance has fallen to its lowest levels in at least a decade, according to the Association of British Insurers (ABI).

Get advice

Before you 'opt out' of your home contents insurance, it is helpful to think of the bigger picture and develop a plan to balance all your financial commitments.

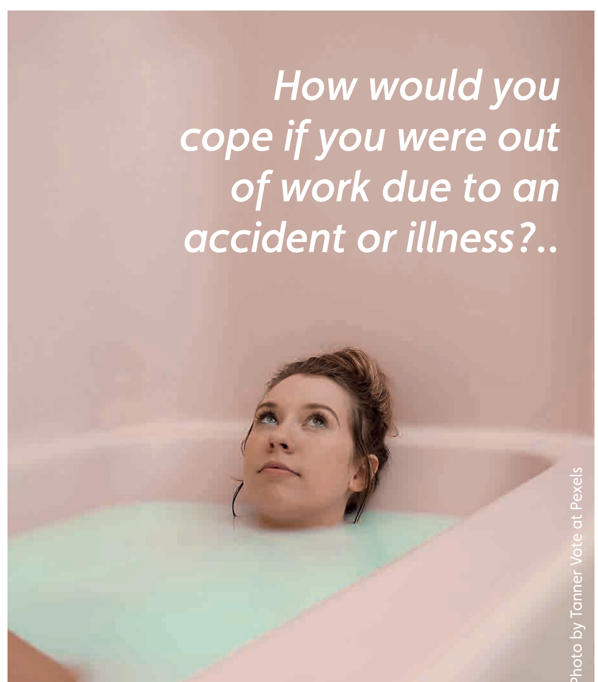
Protecting your ability to earn an income

Something to consider? As we ease into summer, it can highlight how important it is to protect your household income.

No matter your occupation, employed or self-employed – there is a solution for you and your circumstances as you can protect your ability to earn an income.

Especially while the cost of living continues to rise, how would you cope if you were out of work due to an accident or illness - and the knock-on effect this could have? A simple monthly premium could provide you with a flow of income should you become unstuck – protecting your household cashflow.

This goes for both homeowners and renters, as there are policies out there to protect people in all situations.



The income protection market is everchanging and Aaron Tawny is here to simplify things for you or someone you know. If this would be helpful to you, get in touch and we can enlighten you further on 01536 512724.

KEEPING IT LITE

A man and his wife and his mother-in-law went on vacation to the Holy Land. While they were there the mother-in-law passed away.

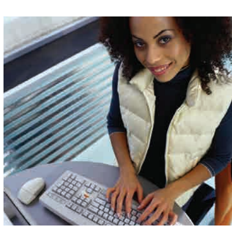
The undertaker told them "You can have her shipped home for £5,000 or you can bury her here in the Holy Land for £150".

The man thought about it and told him he would just have her shipped home.

The undertaker asked, "Why would you spend £5,000 to ship your mother-in-law home when it would be wonderful to have her buried here and you could spend only £150?"

The man replied, "A man died here 2000 years ago, he was buried here, 3 days later he rose from the dead. I just can't take that chance".

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



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