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NEWSLETTER

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It's plain sailing...

Buy-to-let market faces tough new rules

Last year's Autumn Statement saw the introduction of a number of new measures, which could have a significant effect on the booming buy-to-let property market.

The Chancellor announced during his speech to the Commons a number of new measures that could affect property investors. Chief among these proposals is the introduction of a three per cent surcharge on stamp duty land tax (SDLT) for buy-to-let properties and second homes that will come into effect from April 2016.

This will see residential property investors charged significantly more when purchasing new homes.

Under the new rules a house bought for £275,000 as a second residence or as a buy-to-let investment would incur SDLT charges of £12,000 on the purchase of the property, which is £8,250 more than would currently be paid.

Alongside this new measure, George Osborne also announced that from April 2019, capital gains tax (CGT) on properties sold will now be due within 30 days of the transaction.

This is a significant departure from the current rules, which requires payment of CGT before the end of the tax year; usually a period of 10 to 22 weeks.

These new proposals follow on from additional changes made earlier in the year during the Summer Budget, which will see mortgage interest tax relief for buy-to-let investors decrease over the next five years.

The deductions from property income for loan interest will be restricted to 75 per cent for 2017/18; 50 per cent for 2018/19; 25 per cent for 2019/20 and 0 per cent for 2020/21 and beyond.

Individuals will be able to claim a basic rate reduction from their income tax liability on the loan interest, calculated at 20 per cent.

Commenting on the Chancellor's announcement, Richard Lambert, CEO of the National Landlords Association, said: "The Chancellor's political intention is crystal clear; he wants to choke off future investment in private properties to rent.

"The exemption for corporate investment makes this effectively an attack on the small private landlords who responded to the housing crisis by putting their own money into providing homes by the party that they put their faith in at the election.

"If it's the Chancellor's intention to completely eradicate buy-to-let in the UK then it's a mystery to us why he doesn't just come out and say so."

Savers need to be aware of changes to FSCS limit

Around one million savers with more than £85,000 in one bank or building society could be at risk following changes to the Financial Services Compensation Scheme (FSCS).

On 1 January 2016 the FSCS, which protects savers' money if their bank or building society goes bust, changed its compensation limit to bring it in line with the limit set by the rest of Europe.

Under the new rules, the compensation limit has been slashed from £85,000 to £75,000 for single accounts, and £170,000 to £150,000 for joint accounts.

The limit is set every five years in line with the European Union Deposit Guarantee Schemes Directive, which was set at €100,000 last year.

However, because the euro has tumbled in value during the last five years the €100,000 cut-off has gone from being worth £85,000 to nearer £72,000.

Savers with money in a fixed-rate bond or ISA have already missed the opportunity to avoid early exit penalties which can be as high as a year's interest, but are still advised to move any money above the £75,000 limit to another account operated by an alternative financial institution.

Savers have been advised to pick a new provider and ask them to arrange the transfer for them to prevent them losing tax perks on the money. The change won't affect the amount of money that savers can save and funds left in the original account will carry on earning the same rate of return.

The new limit will protect more than 95 per cent of people in the UK; with around 93 per cent of consumers having £50,000 or less in savings.

Any money held with National Savings & Investments will continue to be 100 per cent protected by the Government.

UK state pension amongst worst in the world, says OECD

A new report from the international think tank Organisation for Economic Co-operation and Development (OECD) has revealed that the UK's state pension is one of the least generous in the world.

The report from the OECD shows that only two OECD countries pay poorer pensions; Mexico and Chile. In comparison, countries like Turkey, Russia and Greece pay significantly bigger retirement incomes, according to the report, Pensions at a Glance 2015.

The study compared pension income to the salaries that people earned while they were working. It found that for those earning an average salary in the UK, the replacement rate was only 38.3.

This means that the average pensioner in the UK will receive just over a third of what they earned when working when they take their state pension.

The basic state pension is currently worth £115.95, but will rise to £119.30 in April 2016, as a result of the triple-lock, where pensions rise by whatever is highest; earnings, inflation or 2.5 per cent.

From April, those on the new flat-rate pension will be able to get up to £155.65, but they will need to have 35 years of National Insurance Contributions (NICs) to claim the full amount.

When private and workplace pensions are taken into account, the UK scores much better. Based on average salaries, the UK comes 15th out of 34 OECD countries for generosity. The UK's replacement rate for all types of pension is 71.1.

In this respect, pensioners in the UK are better off than their peers in France (67.7) and Germany (64.7) and this figure is expected to improve with the introduction of the workplace pension scheme under the Government's on-going auto-enrolment scheme.

Market Report

23 December 2015

Global Review

The Federal Reserve finally raised interest rates in the US on 16th December ending the near zero interest rate policy introduced in June 2009 in response to the Global Financial Crisis. Having prevaricated on the decision throughout the year the shift in policy was welcomed by markets as a sign that the US economy was on a sustainable path to recovery and re-established the credibility of the Federal Reserve. Equity markets had been moving sideways over the quarter but made ground with clarity on the likely path of interest rates in 2016.

In contrast, financial markets were disappointed with the European Central Bank's decision not to materially increase the size of its stimulus package after strong hints in October. With both China and Japan taking steps to boost their economies, the lack of action by the ECB was a surprise as growth across Europe continues to lag other developed economies. The emerging economies have also struggled on fears of the impact of higher US interest rates and falling commodity prices.

UK

The FTSE 100, an index of the UK's largest companies, has failed to make gains year-to-date with mining and energy stocks the main detractors. Commodity prices have fallen across the board with oil now trading at lows last seen in 2009 following OPECs decision to maintain current production levels despite weaker demand. The falling prices of resources have been a major contributor to stubbornly low inflation in the UK with the latest measure confirming CPI at -0.1% in October.

The Consumer Price Index has been at or very close to zero for nine consecutive months and expectations of a first interest rate rise in the UK have been pushed out to mid-2016. The Bank of England's Monetary Policy Committee voted once again in November to keep the cost of borrowing at 0.5% as economic growth in the third quarter fell short of estimates. Whilst this was the eleventh straight quarter of expansion in the UK, globally growth has been weak and this continues to influence the Bank as they err on the side of caution.

US

After postponing an expected rate rise in September due to the uncertain global outlook, the Federal Reserve were left with little room for manoeuvre following very strong domestic employment numbers in October. The creation of 271,000 jobs during the month, 90,000 more than forecast, dropped the unemployment rate to 5% and proved to be the signal for the Fed to act in December. Wage growth has also started to accelerate with the hourly earnings rate rising by 2.5% over the last year. This is expected to provide a further boost to already solid consumer spending which accounts for two-thirds of economic activity.

Whilst headline inflation is a still just 0.2%, the Fed will also be conscious of the potential for this to accelerate as the weakness in commodity prices falls out of the numbers. Core inflation, which strips out energy and food prices, increased by 1.9% in October after rising by the same margin in September. With growing strength in the labour market and economic growth expected to accelerate in 2016, the Fed needed to act as a hedge against inflation. The Bank will want to stay within their 2% inflation target and not risk having to raise interest rates faster than expected as this will unsettle markets and stall the recovery.

Europe

Economic growth in the eurozone of just 0.3% in the third quarter again fell short of expectations. This was a slowdown from the 0.4% recorded in the previous quarter as the German economy, the eurozone's largest, contracted following weakness in exports, particularly to the emerging markets. Headline inflation also remained at just 0.1% in November as core inflation fell to 0.9% suggesting the eurozone is uncomfortably close to deflation.

With the European Central Bank declaring that it would do "what it must" to ensure inflation returned to the 2% target and further referencing its current asset-purchase programme, action was expected in December. However, markets were left disappointed by news of an extension rather than an increase in the size and scope of quantitative easing measures. Having rallied on hopes of increased stimulus, markets retreated as the Bank's rationale for limited change left investors unconvinced.

Japan

The Bank of Japan has also resisted calls to increase its own asset-purchase programme. However, the current stimulus package is approaching $80bn a month, compared to $65bn a month from the ECB, and is set to rise as redemptions from those assets already held are reinvested. The Bank currently hold one third of all Japanese government bonds with a value of $2.3tn and forecasts predict this will rise to one half of all issues by the end of 2017. As a result the availability of Government bonds is becoming tighter and this is leaving fewer opportunities for investors to park money. This drives investors to look for alternatives, an intended consequence of the asset-purchase programme.

Rather than increasing the already substantive quantitative easing programme the Government is focusing on reforms, particularly within the labour market. The latest initiative is a rise in the minimum wage as more recent job creation, taking the unemployment rate down to a twenty year low, has focused on low pay and part-time work. Prime Minister Abe has campaigned for higher wages as a key requirement for boosting demand and combating weak inflation.

Asia

The Chinese Government held its latest Plenary Session in October to discuss a new five-year plan for the economy. As economic output expanded by 6.9% year-on-year in the third quarter, the Central Committee agreed to push ahead with current reforms and a focus on increasing the GDP per capita to $10,000. By increasing the wealth of consumers and reforming the financial sector the aim is to shift from a Government-led to a more domestic consumption driven economy.

The promise of reform by India's Prime Minister Modi led to a wave of optimism that saw domestic equities gain 25% in 2014. However, political opposition has made implementing these reforms difficult and markets have drifted lower in 2015. The political impasse has also been a drag on economic performance with GDP falling from 7.5% in the first quarter to 7.0% in the second. Modi will be hoping that success in the upcoming state elections will reaffirm his mandate and provide renewed impetus for his reform agenda.

It's finally here! - the 'Help To Buy' ISA

We've had to wait some time but at long last the Help to Buy ISA – first announced in last year's Budget, has finally arrived.

However, there are some questions to ask: what exactly is it, how does it work and how can you get involved? Here is an overview to give you a better understanding of how it may be of benefit to you.

What is the Help to Buy ISA?

The scheme officially launched on 1 December. If you are saving for your first home, the 'Help to Buy ISA' is a scheme designed to enhance the amount you are able to save to put towards a deposit for your first home, with the extra boost being provided by the Government. If you save money into a dedicated Help to Buy ISA, the Government will top it up by 25%. Essentially, this means that for every £200 you save, you will receive a Government bonus of £50, up to a maximum bonus of £3,000.

You can save up to £200 per month in the ISA, and to kick-start the account, you are allowed to make an initial lump sum deposit of £1,200. You will need to have saved at least £1,600 in the account in order to receive the bonus. However, as the minimum that can be applied for is £400, to benefit from the full £3,000 bonus you will need to save £12,000 of your own money. Based on the current monthly deposit allowance, it would take just over four years to achieve this.

The accounts are available from a range of banks and building societies to individual first-time buyers and not individual households, which means that both you and your partner could open a Help to Buy ISA and eventually receive a joint bonus of up to £6,000, which could go a long way to boosting your deposit. However, it is worth noting that the bonus will not be applied until you buy your first home and your solicitor or conveyancer will apply for the bonus, which will be added to the money you are putting towards your first home.

Am I eligible?

Most first-time buyers in the UK will qualify to take part in the scheme, but for clarification, to qualify for a Help to Buy ISA, you must:

- be 16 or over
- have a valid National Insurance number
- be a UK resident
- be a genuine first-time buyer and not own a property anywhere else (either in the UK or abroad)
- not have another active cash ISA in the same tax year, however, if you have already saved into a cash ISA in the current tax year and now want to open a Help to Buy ISA, you can transfer up to £1,200 of your active cash ISA balance into your Help to Buy ISA, but anything above this amount should be moved into either a stocks & shares ISA (you're allowed a stocks & shares ISA and a Help to Buy ISA in the same tax year, subject to current tax guidelines and allowances) or a non-ISA savings account.

Furthermore, to qualify for the Government bonus, the property you are buying must:

- be in the UK
- cost no more than £250,000 (or up to £450,000 if you are buying in London)
- not be a second home or a buy-to-let property
- not be rented out after you buy it
- be purchased with a mortgage.

You can use the Help to Buy ISA together with other Help to Buy schemes, including the equity loan and mortgage guarantee elements, so it's perfectly possible to save for your home with Government support and go on from that to buy your property with the same kind of help.

Getting digital with online Personal Tax Accounts

Many UK taxpayers are now able to manage their tax affairs following the launch of Personal Tax Accounts.

More than a million customers completing their self-assessment have been provided with an online Personal Tax Account (PTA) that provides a clear view of the tax paid and benefit entitlement, which will enable users to update their tax details as they occur in real time.

The launch of PTAs is a step towards a fully digital tax service. Two million businesses are already using digital accounts and every business will have access to one by April 2016.

Financial Secretary to the Treasury, David Gauke said: "This Government is determined to revolutionise how we deliver public services and the tax system is no exception. By 2020 HMRC will be a world-leading tax administration that is efficient, effective and easier for customers to use, enabled by £1.3 billion of extra investment announced in November's Autumn Statement."

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